



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

(H Share Stock Code: 00719)
(A Share Stock Code: 000756)

2017 INTERIM REPORT



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Important

The board of directors ("Board"), the supervisory committee ("Supervisory Committee"), the directors ("Directors"), the supervisors ("Supervisors") and the senior management ("Senior Management") of Shandong Xinhua Pharmaceutical Company Limited (the "Company") hereby confirm that there are no false representations, misleading statements or material omissions contained in this interim report ("Report") and they, jointly and severally, accept the responsibility for the truthfulness, accuracy and completeness of the contents of this Report.

The financial report of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2017 (the "Reporting Period") has not been audited.

The Company would not distribute cash dividend, pay out stock dividend, or convert capital reserve into share capital for the Reporting Period.

The chairman (Mr. Zhang Daiming), financial controller (Mr. Hou Ning) and the chief of financial department (Mr. He Xiaohong) of the Company hereby declare that the financial report of the Company for the Reporting Period is true, accurate and complete.

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

Company Information

Chinese Name of the Company	:	山東新華製藥股份有限公司
English Name of the Company	:	SHANDONG XINHUA PHARMACEUTICAL COMPANY LIMITED
Legal Representative	:	Mr. Zhang Daiming
Secretary to the Board	:	Mr. Cao Changqiu
Telephone Number	:	86-533-2196024
Facsimile Number	:	86-533-2287508
E-mail Address of the Secretary to the Board	:	cqcao@xhzy.com
Registered Address	:	Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, the People's Republic of China (the "PRC")
Office Address	:	No. 1 Lutai Ave., Hi-tech Industry Development Zone, Zibo City, Shandong Province, the PRC
Postal Code	:	255086
Website of the Company	:	http://www.xhzy.com
E-mail Address of the Company	:	xhzy@xhzy.com
PRC newspaper for information disclosure	:	Securities Times
Website designated by the China Securities Regulatory Commission (the "CSRC") for the publication of the interim report:	:	http://www.cninfo.com.cn
Listing Information:		
H Shares	:	The Stock Exchange of Hong Kong Limited (the "SEHK")
Stock Short Name	:	Shandong Xinhua
Stock Code	:	00719
A Shares	:	Shenzhen Stock Exchange
Stock Short Name	:	Xinhua Pharm
Stock Code	:	000756

Key Financial Data and Financial Indicator prepared in accordance with CASBE

Unit: RMB Yuan

Item	Six months ended	Six months ended	Change as
	30 June 2017 (unaudited)	30 June 2016 (unaudited)	compared to the same period last year (%)
Operating income	2,403,274,161.26	1,998,500,412.91	20.25
Total profits	147,562,389.11	67,886,265.86	w117.37
Income tax expense	33,522,526.85	15,298,546.67	119.12
Net profits	114,039,862.26	52,587,719.19	116.86
Minority interest income	7,264,909.40	6,720,573.51	8.10
Net profit attributable to shareholders of listed company	106,774,952.86	45,867,145.68	132.79
Net profit attributable to shareholders of listed company after deduction of non-recurring profit and loss	87,258,441.96	44,711,687.66	95.16
Net cash flow from operating activities	9,557,583.42	83,830,656.73	(88.60)
Basic earnings per share (RMB/Share)	0.23	0.10	130.00
Diluted earnings per share (RMB/Share)	0.23	0.10	130.00
Ratio of weighted average return on net assets	5.19%	2.40%	Increase by 2.79 percentage points
		As at 31 December 2016 (the "End of Last Year")	Change as compared to the End of Last Year
	As at 30 June 2017 (unaudited)	(audited)	(%)
Total assets	4,997,677,442.42	4,722,785,963.84	5.82
Total liabilities	2,776,656,691.70	2,643,478,538.19	5.04
Minority shareholder's equity	96,974,277.64	90,887,601.32	6.70
Net assets attributable to the shareholders of listed company	2,124,046,473.08	1,988,419,824.33	6.82

Key Financial Data and Financial Indicator prepared in accordance with CASBE

After deduction of extraordinary profit and loss items and amounts

Unit: RMB Yuan

Extraordinary items	Amount	Note (if applicable)
Profit or loss from disposal of non-current assets	13,048,772.22	Profit and loss of disposal of fixed assets
Government subsidies recognised in current profit and loss, (excluding those closely related to the Company's normal operation and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume)	7,401,375.80	Received and amortized government subsidies that are recorded into current profits and losses
Profit or loss from change in fair value of held-for-trading financial assets and held-for-trading financial liabilities, and investment gain from disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets, other than effective hedging business relating to the normal operations of the Company	50,054.83	Notice of deposit income
Reversal for impairment provision of receivables subject to separate impairment test	8,053,420.75	Reversal of depreciation reserves
Other non-operating income and cost except the above items	(2,795,099.80)	
Impact on minority interest income	1,700,768.53	
Effect of income tax	4,541,244.37	
Total	<u>19,516,510.90</u>	

Items by fair value

Unit: RMB Yuan

Items	Amount as at 1 January 2017	Profit or loss from change in fair value	Cumulative Change of fair value recorded in equity	Provision impairment	Amount as at 30 June 2017
Financial assets:					
Including: 1. Financial assets which are measured by fair value and whose changes are included into profits and losses	-	-	-	-	-
Including: Derivative financial assets	-	-	-	-	-
2. Available-for-sale financial assets	186,274,784.00	-	168,941,710.90	-	219,980,272.00
Subtotal of financial assets	<u>186,274,784.00</u>	<u>-</u>	<u>168,941,710.90</u>	<u>-</u>	<u>219,980,272.00</u>
Total	<u>186,274,784.00</u>	<u>-</u>	<u>168,941,710.90</u>	<u>-</u>	<u>219,980,272.00</u>

Key Financial Data and Financial Indicator prepared in accordance with CASBE

Other comprehensive income items

Unit: RMB Yuan

Items	Six months ended 30 June 2017	Six months ended 30 June 2016
1. Gains (losses) arising from available-for-sale financial assets	33,705,488.00	(15,757,552.00)
Less: Impact of income tax arising from available-for-sale financial assets	5,055,823.20	(2,363,632.80)
Net profit or loss transferred from amounts previously recognized in other comprehensive income	-	-
Subtotal	28,649,664.80	(13,393,919.20)
2. Exchange difference arising from transaction of financial statements denominated in foreign currencies	471,823.09	82,892.31
Less: net profit or loss transferred from amounts incurred by disposal of foreign operation	-	-
Subtotal	471,823.09	82,892.31
Total	<u>29,121,487.89</u>	<u>(13,311,026.89)</u>

Changes in Share Capital Structure and Information on Shareholders

1. CHANGES IN SHARE CAPITAL STRUCTURE

Unit: share

Class of shares	30 June 2017		1 January 2017	
	Number of shares (share)	Percentage of the total share capital (%)	Number of shares (share)	Percentage of the total share capital (%)
1. Total number of conditional tradable shares				
State-owned shares	8,925	0.002	8,925	0.002
Shares owned by domestic legal persons	–	–	–	–
Conditional tradable shares owned by senior management (A shares)	–	–	–	–
Others	8,925	0.002	8,925	0.002
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
2. Total number of unconditional tradable shares				
Renminbi-denominated ordinary shares (A shares)	457,303,905	99.998	457,303,905	99.998
Overseas listed foreign shares (H shares)	307,303,905	67.198	307,303,905	67.198
	<u>150,000,000</u>	<u>32.80</u>	<u>150,000,000</u>	<u>32.80</u>
3. Total number of shares	<u>457,312,830</u>	<u>100.00</u>	<u>457,312,830</u>	<u>100.00</u>

Changes in Share Capital Structure and Information on Shareholders

2. SHAREHOLDERS INFORMATION

(1) As at 30 June 2017, the Company had on record a total of 21,582 shareholders (the "Shareholders"), including 47 holders of H Shares and 21,535 holders of A Shares.

(2) As at 30 June 2017, the ten largest Shareholders were as follows:

Unit: share

Name of shareholders	Nature of shareholders	% of the total issued shares	Number of shares held as at the end of the Reporting Period (Long position)	Number of conditional tradable shares held	Number of shares being charged or frozen
山東新華醫藥集團有限責任公司 (Shandong Xinhua Pharmaceutical Group Co. Ltd. ("SXPGC"))	State-owned shares	34.46	157,587,763	-	-
HKSCC (Nominees) Limited	Others	32.56	148,883,598	-	Unknown
招商銀行股份有限公司－匯添富醫療服務靈活配置混合型證券投資基金 (China Merchants Bank Co., Ltd. – Hui Tian Fu Medical Services Flexible Configuration Hybrid Securities Investment Fund)	Others	2.39	10,942,617	-	-
中銀基金－建設銀行－中國人壽－中國人壽委託中銀基金公司混合型組合 (Bank of China Investment – CCB – China Life Insurance – China Life Insurance entrusted BOC Investment Company Hybrid Portfolio)	Others	2.10	9,603,857	-	-
中銀基金公司－中行－中國銀行股份有限公司 (Bank of China Investment Company – BOC – Bank of China Limited)	Others	1.43	6,550,210	-	-
平安資產－郵儲銀行－如意10號資產管理產品 (Pingan Asset – Postal Savings Bank – Ruyi 10 Asset Management Products)	Others	0.77	3,500,057	-	-
中國工商銀行股份有限公司－匯添富醫藥保健混合型證券投資基金 (The Industrial and Commercial Bank of China Co., Ltd. – Hui Tian Fu Healthcare Hybrid Securities Investment Fund)	Others	0.60	2,743,174	-	-
中國對外經濟貿易信托有限公司－外資信托·銳進40期兆天證券投資集合資金信托計劃 (China Foreign Economy and Trade Trust Co., Ltd – Foreign Trade and Trust · Ruijin 40 Zhaotian Security Investment Collection Fund Trust Plan)	Others	0.55	2,511,400	-	-
華夏成長證券投資基金 (Huaxia Growth Security Investment Fund)	Others	0.52	2,372,006	-	-
中國銀行股份有限公司－博時醫療保健行業混合型證券投資基金 (Bank of China Limited – Bo Shi Healthcare Industry Hybrid Securities Investment Funds)	Others	0.44	2,000,000	-	-

Changes in Share Capital Structure and Information on Shareholders

- (3) As at 30 June 2017, the ten largest shareholders of the unconditional tradable shares of the Company were as follows:

Unit: share

Name of shareholders	Number of unconditional listed shares as at the end of the Reporting Period (Long position)	Class of shares
山東新華醫藥集團有限責任公司 (Shandong Xinhua Pharmaceutical Group Co. Ltd.)	157,587,763	RMB-denominated ordinary Shares (A share)
HKSCC (Nominees) Limited	148,883,598	Overseas listed foreign shares (H 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 (China Merchants Bank Co., Ltd. – Hui Tian Fu Medical Services Flexible Configuration Hybrid Securities Investment Fund)	10,942,617	RMB-denominated ordinary Shares (A share)
中銀基金－建設銀行－中國人壽－中國人壽委托中銀基金公司混合型組合 (Bank of China Investment – CCB – China Life Insurance – China Life Insurance entrusted BOC Investment Company Hybrid Portfolio)	9,603,857	RMB-denominated ordinary Shares (A share)
中銀基金公司－中行－中國銀行股份有限公司 (Bank of China Investment Company – BOC – Bank of China Limited)	6,550,210	RMB-denominated ordinary Shares (A share)
平安資產－郵儲銀行－如意10號資產管理產品 (Pingan Asset – Postal Savings Bank – Ruyi 10 Asset Management Products)	3,500,057	RMB-denominated ordinary Shares (A share)
中國工商銀行股份有限公司－匯添富醫藥保健混合型證券投資基金 (The Industrial and Commercial Bank of China Co., Ltd. – Hui Tian Fu Healthcare Hybrid Securities Investment Fund)	2,743,174	RMB-denominated ordinary Shares (A share)
中國對外經濟貿易信托有限公司－外貿信托•銳進40期兆天證券投資集合資金信托計劃 (China Foreign Economy and Trade Trust Co., Ltd – Foreign Trade and Trust•Ruijin 40 Zhaotian Security Investment Collection Fund Trust Plan)	2,511,400	RMB-denominated ordinary Shares (A share)
華夏成長證券投資基金 (Huaxia Growth Security Investment Fund)	2,372,006	RMB-denominated ordinary Shares (A share)
中國銀行股份有限公司－博時醫療保健行業混合型證券投資基金 (Bank of China Limited – Bo Shi Healthcare Industry Hybrid Securities Investment Funds)	2,000,000	RMB-denominated ordinary Shares (A share)

Note:

- i. As of 30 June 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. Well Bring owns 13,686,000 H shares of the Company (being overseas listed foreign shares), representing approximately 2.99% of the issued share capital of the Company. As such, Hualu Holdings is deemed to be interested in the abovementioned shares held by SXPGC and Well Bring.

Changes in Share Capital Structure and Information on Shareholders

- ii. A description of any related parties or acting-in-concert relations of the above shareholders under the applicable PRC laws and regulations:

To the best knowledge of Directors, they 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 whether there is any association amongst the shareholders of H Shares of the Company or if any of them are persons acting in concert as defined in the Administration Measures for Takeover.

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

- iii. Save as disclosed, the only domestic shareholder directly holding more than 5% of the total issued shares of the Company is SXPGC.
- iv. Save as disclosed above and so far as the Directors are aware, as at 30 June 2017 no other person (other than the Directors, supervisors, chief executives of the Company (if any)), had an interest or short position in the Company’s shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (“SFO”)), or an interest as recorded in the register required to be kept under section 336 of the SFO or was otherwise a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the SEHK (“the Listing Rules”)) of the Company.

3. THERE WAS NO CHANGE OF CONTROLLING SHAREHOLDER (AS DEFINED UNDER THE LISTING RULES) OF THE COMPANY DURING THE REPORTING PERIOD.

Directors, Supervisors and Senior Management of the Company

Changes in Directors, Supervisors and Senior Management of the Company and the number of shares in the Company (“Shares”) held by them were as follows:

Name	Position	Number of Shares as at 30 June 2017	Number of Shares as at 1 January 2017
Directors:			
Mr. Zhang Daiming	Chairman	11,900 ^{note}	11,900 ^{note}
Mr. Ren Fulong	Non-executive Director	Nil	Nil
Mr. Du Deping	Executive Director, General Manager	Nil	Nil
Mr. Xu Lie	Non-executive Director	Nil	Nil
Mr. Zhao Bin	Non-executive Director	Nil	Nil
Mr. Chan Chung Kik, Lewis	Independent non-executive Director	Nil	Nil
Mr. Du Guanhua	Independent non-executive Director	Nil	Nil
Mr. Li Wenming	Independent non-executive Director	Nil	Nil
Supervisors:			
Mr. Li Tianzhong	Chairman of Supervisory Committee	Nil	Nil
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil
Ms. Hu Yanhua	Employee Supervisor	Nil	Nil
Mr. Wang Jianping	Employee Supervisor	Nil	Nil
Mr. Xiao Fangyu	Independent Supervisor	Nil	Nil
Other senior management:			
Mr. Wang Xiaolong	Deputy General Manager	Nil	Nil
Mr. Dou Xuejie	Deputy General Manager	Nil	Nil
Mr. Du Deqing	Deputy General Manager	Nil	Nil
Mr. He Tongqing	Deputy General Manager	Nil	Nil
Mr. Hou Ning	Financial Controller	Nil	Nil
Mr. Zheng Zhonghui	Deputy General Manager (appointed with effect from 27 February 2017)	Nil	Nil
Mr. Cao Changqiu	Secretary to the Board	Nil	Nil
Total		<u>11,900 Shares</u>	<u>11,900 Shares</u>

Note:

All relevant Shares are A Shares with a long position. Such Shares accounts for approximately 0.003% of the total issued shares of the Company.

Directors, Supervisors and Senior Management of the Company

Save as disclosed above and so far as the Directors are aware, as at 30 June 2017, no Director, chief executive or Supervisor of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (as defined in Part XV of the SFO (Chapter 571 of the Laws of Hong Kong)) 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.

POSITION HELD IN THE SHAREHOLDING COMPANY

Name	Name of the Shareholding Company	Position	Beginning date	Termination date	Remuneration received from shareholding company
Mr. Zhang Daiming	SXPGC	Chairman	6 July 2010	–	No
Mr. Ren Fulong	SXPGC	Director and general manager	6 July 2010	–	No
Mr. Xu Lie	SXPGC	Director	13 January 2011	–	No
Mr. Li Tianzhong	SXPGC	Deputy general manager	16 October 2009	–	No

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making process for remuneration of Directors, Supervisors and Senior Management

The Directors' and the Supervisors' remuneration are subject to the approval in the general meetings of the Company, whereas the remuneration of the Senior Management is subject to the approval of the Board.

Basis for determining the remuneration of Directors, Supervisors and Senior Management

The remuneration of Directors, Supervisors and Senior Management is determined with reference to state policies, the Company's economic footing, individual performance and the general remuneration standard of society.

Payment of remuneration to Directors, Supervisors and Senior Management

RMB1,552,962.20 was paid during this Reporting Period.

Staff and remuneration information (As of 30 June 2017)

Staff remuneration of the Group (the Company and its subsidiaries) was determined with reference to state policies, the Company's performance in the corresponding period and the general remuneration standard of the society.

As at 30 June 2017, the number of staff employed by the Group was 6,312, and the total amount of their salaries and wages for the half year was RMB224,833,000.

The number of retired staff with cost bearable by the Company is zero.

During the reporting period, the Company did not distribute any bonus and has no share option scheme under the meanings of Chapter 17 of the Listing Rules.

Directors, Supervisors and Senior Management of the Company

Professional portfolio

Class of professional portfolio	Number of Staff
Production staff	3,421
Engineering & Technical staff	599
Administration staff	556
Finance staff	92
Product R&D staff	175
Procurement staff	43
Sales staff	1,023
Quality inspection staff	403
Total	<u>6,312</u>

Education Level

Education level by category	Number of Staff
Universities or above	1,045
Tertiary institutions other than universities	1,647
Intermediate institutions	1,283
Senior high schools and technical schools	1,802
Junior high schools or below	535
Total	<u>6,312</u>

Staff Training

The Company has formulated and implemented staff education and training plan in 2017. The training programme implemented or to be implemented in 2017 include training of staff safety skills and expertise, training of production facility and equipment and environmental protection knowledge, quality control training, management skill upgrading training and strategic training for mid-level and senior management. In addition, the Company enhanced vocational training and provided trainings for staff by different levels.

To all Shareholders:

We hereby report to the Shareholders the operation results of Shandong Xinhua Pharmaceutical Company Limited ("the Company") for the first half of 2017.

In the first half of 2017, the operating income of the Company and its subsidiaries (collectively known as the "Group") prepared under the CASBE was RMB2,403,274,000, representing an increase of 20.25% as compared to the same period last year. The Group recorded its net profit attributable to the Shareholders as RMB106,775,000, representing an increase of 132.79% as compared with the same period last year.

The Board proposes no interim dividends be declared for the first half of 2017.

BUSINESS REVIEW

In the first half of 2017, despite the impacts of the increasing constraints on production and rising procurement costs of raw materials, the Group had proactively seized market opportunities and vigorously developed technologies, thus achieving continuous improvement in products and rapid growth in key indicators.

1. Accelerating the implementation of the strategies of large-scale preparation and internationalization, with remarkable effects in structural adjustment

By proactive seizure of market opportunities and enhancement of marketing and sales efforts, the Group recorded rapid growth in various business segments. Active pharmaceutical ingredients brought in revenues of RMB1,050,000,000, representing an increase of 14.46% as compared with the same period last year; preparations brought in revenue of RMB1,067,000,000, representing an increase of 23.57% as compared with the same period last year and becoming the largest business segment of the Company; medical intermediates and other products brought in revenue of RMB286,000,000, representing an increase of 31.54% as compared with the same period last year.

The sales of new products saw breakthroughs. Taking the chance of the introduction of Jiening (介寧) Aspirin Enteric-coated Sustained Release Tablets and Baochang (保暢) Calcium Polycarbophil Tablets onto the national list of medicines covered by medical insurance for 2017, the Group enhanced its effort in exploring markets for preparations, thus attaining a 60% increase in the sales income of Jiening, a double in the sales income of Baochang, a 20% increase in the sales income of Kuxin (庫欣) Cefuroxime Axetil Dispersible Tablets, and a 25% increase in the sales income of Xindaluo (新達羅) series in the first half of 2017 as compared with the same period last year. The Group actively participated in the tenders of provinces and cities, and achieved fruitful results.

As the Group expedited its collaboration with international business partners, the income from export of preparations and CMO(contract manufacturing outsourcing) contracts reached RMB55.43 million in the first half of 2017, representing a 200.4% increase from the same period last year. Projects with international collaboration had proceeded smoothly.

The Group actively promoted innovation in its business model and the use of E-commerce platforms. During the first half of 2017, the E-commerce recorded a rapid growth in sales, with the trial operation of Xinhua Pharmaceuticals E-commerce Innovation Park marking the official launch of the incubator of E-commerce, whereby business relationships with various reputable enterprises were first built up. Sales on E-commerce platforms have grown rapidly.

2. Increasing research and development input and speeding up key research projects to achieve technological advancements

In the first half of the year, the Company continued to increase its investment in research and development activities, while proceeding with the evaluation of product consistency at an orderly pace. The Group passed the European Good Manufacturing Practice (GMP) inspection and subsequently obtained the sales license for L-Dopa. The Company also obtained 3 approval documents for Oxiracetam capsules and other products to be applied in clinical trials and 1 production approval for Vitamin E+Vitamin C chewing tablets. In this period, the Group was granted 5 patents, of which 1 was for invention, 1 for utility model and 3 for design, and with 4 new projects put into production.

In the first half of the year, the Company collaborated to establish a post-doctoral research station with Shenyang Pharmaceutical University (瀋陽藥科大學), a platform for "consistency evaluation of solid dispersion system of insoluble drugs" (難溶性藥物固體分散體系一致性評價) with Tsinghua University, and "technological center for advanced production engineering of antipyretic and analgesic drugs" (解熱鎮痛藥先進製造工程技術中心) with Qingdao University of Science and Technology.

The Group has witnessed evident advance in technology in the first half of 2017: the Group concluded 33 projects in relation to technology and quality resulting in RMB8.92 million savings in regard of the consumption of raw materials and RMB9.6 million savings in regard of energy consumption.

3. Working to satisfy the Company's development requirements, and accelerating the key project works

In the first half of the year, the Company finished equipment installation, testing of machinery through jogging control, interior decontamination in its modern medicine international cooperation center, which is expected to be put into operation within the year. At the center, the single-layer warehouse was ready for use, and the multi-layer warehouse was under installation. The interior decontamination, equipment installation, tubing and preparation of apparatus and meters for the improvement project of hormone series technology had entered the final stage, and the whole project would be ready for a test operation within the year.

4. Proactively safeguarding production lines

In the first half of the year, the Group undertook spring and summer seasonal inspections on various production lines and key posts thereof and had finished upgraded safety measures. The Group has also carried out thorough treatment of the emission of volatile organic compounds (VOC) and other environmental issues in securing stable production of high quality products.

Meanwhile, the Group passed 98 on-site quality reviews by clients, passed the GMP accreditation for 4 products in 2 manufacturing branches, submitted GMP accreditation materials for 5 veterinary drugs in 1 manufacturing branch, made timely arrangements to be in compliance with Directive 2011/62/EU for exports to the European Union, and proceeded with the annual registration of new products outside the PRC as planned.

With proper measures on safety, environmental protection and quality assurance in place, the Group saw no occurrence of accidents of a general nature or in relation to safety, environmental protection and quality assurance during the Reporting Period.

PROSPECTS

With the deepening supply side reform by the state, and the implementation of a series of major policies, the domestic economy shows a stable and favourable trend. Meanwhile, the development of the general healthcare industry, the nationwide public healthcare insurance, the population aging, two-child policy and improving income and living standards of the residents lay solid foundations for the growth of the pharmaceutical sector.

As the Company's modern medicine international cooperation center is going into use, a number of international projects will be launched. The Company's participation in tendering in various parts of the country for contracts of basic drugs will see its effect in time. These will present valuable opportunities for the pharmaceutical preparations business for the Company. New products of active pharmaceutical ingredients, which are to be put into production in phases, will turn into new growth drivers. Under stringent national regulations, law-abiding enterprises with prominent advantages are bound to be blessed with more development opportunities.

However, as the national reforms continue, and that the manufacturing regulations grow more stringent, the prices of chemical raw materials and raw and auxiliary materials of preparations are on a rising trend, and these materials may not be supplied in a timely manner, thus posing a challenge for cost control. Moreover, investments in research and development, safety, environmental protection, quality assurance and employment are on the rise, and so are other overheads. The Company is under increasing pressure to control costs.

The Company is facing challenges and more uncertainties as a manufacturing enterprise, since the authorities are pressing ahead with structural adjustment and industrial upgrading.

As such, in the second half of the year the Group will focus on the following aspects:

1. Making full use of our comprehensive advantages to enhance our market status

The Group will continue to forge ahead with the macro-strategy in relation to preparations, by working out implementation schemes, improving success rates in tendering activities, securing significant sales growth in regions where contracts were awarded for successful tenders, and unswervingly cultivating key products. The launch of the pharmaceutical E-commerce Park will be an opportunity for the Company to consolidate its efforts in E-commerce, unleash its development vitality and step up its E-commerce practice.

The Group will enhance its advantages in active pharmaceutical ingredients, by expanding the market shares for major products, offering sales incentives for new products, accelerating advertising activities for new products, and cultivating new growth drivers.

The Group will secure stable development for medical intermediates. The focal point is to perfect the capacities related to active pharmaceutical ingredients, further solidify basic management, and secure stable production activities, with active market development.

2. Continuously increasing investment in science and technology to speed up development of new products and attain technological advancements

The Group will continue to increase its investment in research and development, monitor the progress of products pending review and approval, and proactively forge ahead with international registration of products. In particular, the Group will make sure adequate money and energy are invested in the orderly conducting of consistency evaluation. Based on the framework strategic cooperation agreements entered into between the Group and research institutions, active and substantive cooperation is expected to be unfolded.

Efforts will be made on technology development to reduce manufacturing costs. The Group will offer more incentives for employees to reduce costs and improve effectiveness, ensuring that all technological issues are solved as planned at the start of the year.

3. Vigorously pushing ahead key projects for earliest application

Production lines, facilities and public utilities will be installed in the modern medicine international center as soon as possible. The Group will strive to pass domestic GMP accreditation, and put the supporting warehouse and multi-layer warehouse into use after equipment installation and commissioning as soon as possible. The Group will try to secure the successful manufacturing of the hormone series products after upgrading relevant technologies. The Group plans to pass domestic GMP inspection in the fourth quarter and at the same time, make preparations for accreditation in Europe and America. The Group will also finish the upgrading project related to medical intermediates for the subsidiary in Shouguang, and the construction of Xincat quality inspection building.

4. Accelerating international cooperation projects and implementation of internationalisation strategy

The Group will deploy adequate production capacity for such products as Redoxon and Saridon commissioned by Bayer, products commissioned by Perrigo to be exported to the United Kingdom, Centrum effervescent tablets commissioned by Pfizer, and ensures timely supplies. Enhanced efforts will be put in speeding up the implementation of international projects, and product registration directed towards European and American markets, introducing more preparations into such markets as soon as possible. The modern medicine international cooperation centre will provide the Group a platform to showcase its advantages in quality, brand, customer resources, and thus bring about more international projects. This will in turn help more Xinhua products enter standardised markets in an accelerated pace.

5. Completing the allotment and placing of A shares as soon as possible and conducting capital operation actively

The Group will seek to complete the allotment and placing of A Shares as soon as possible to optimise its capital structure. It will actively study and work out an equity incentive scheme to attract and retain talents, and motivate the initiatives of its key employees. Moreover, it will research on the possibilities of merger and acquisition based on the strategic positioning of the Company.

6. Further strengthening management to safeguard production activities

The Group will firmly erect the principle of safe and green development, overcome various challenges to maintain stability in production activities. For key products, overhauls of the production lines will be reasonably scheduled, adequate production capacity will be deployed, and preparatory work will be done in advance for delivery.

The Group will put strict safety and environmental protection measures in place, raise the employees' awareness of work safety, strengthen safety inspection according to seasonal features and production conditions and complete the annual plan for safety measures. To ensure clean production, the Group aim at enhancing its input in environmental protection, pollution prevention with forward-thinking measures and make sure that relevant facilities are functioning effectively. It is also important to ensure the quality and safety of our products, by further improving quality control, and proceeding with accreditation of new products and relevant preparatory works as planned.

By order of the Board

Zhang Daiming

Chairman

Zibo, Shandong, the PRC
11 August 2017

Management Discussion and Analysis

The Group is mainly engaged in the development, production and sale of chemical bulk drugs, preparations, medical intermediates and pharmaceutical business. The profit of the Group derives mainly from its principal operations.

1. LIQUIDITY AND ANALYSIS OF FINANCIAL RESOURCES AND CAPITAL STRUCTURE UNDER THE LISTING RULES PUBLISHED BY THE SEHK

As at 30 June 2017, the current ratio was 103.28% (current assets/current liabilities \times 100%), the quick ratio was 75.55% ((current assets – net balance of inventory)/current liabilities \times 100%), the turnover ratio of account receivables (annualized revenue/average trade and bill receivables \times 100%) and the rate of inventory turnover (annualized operating costs/average inventories \times 100%) were 1,129.24% and 658.25% respectively.

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

The main sources of funds for the Group were loans and operating profit. As at 30 June 2017, the Group's total loans was RMB1,614,296,000 (including contract amount with fixed interest rate RMB600,000,000, contract amount with floating interest rate RMB1,014,296,000), which can all be repaid as scheduled. As at 30 June 2017, the monetary fund of the Group amounted to RMB575,212,000 (including deposits for bank acceptance bills of RMB33,616,000). The cash and cash equivalents of the Group are stated in RMB, USD and EUR. The details of the Group's loans are described in Note "VI. 16 and 28" to the financial statements.

As at 30 June 2017, the Company and Shandong Zibo Xincat Pharmaceutical Co., Ltd., a subsidiary of the Company, charged the monetary funds of RMB23,625,000 and RMB9,991,000 respectively for arrangement of bank's acceptance bills. Besides, RMB164,348,000 worth of the Company's fixed asset was charged as security for loans. Save as disclosed, the Group did not have other assets charged.

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

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

As at 30 June 2017, the number of employees of the Group was 6,312. The total salaries for employees in the first half of 2017 amounted to RMB224,833,000.

As at 30 June 2017, the asset-liability ratio of the Group was 55.56% (total liabilities/total assets \times 100%).

The current bank deposits of the Company serve mainly as working capital for projects and production operation of the Company.

The assets and liabilities of the Group were mainly recorded in Renminbi. For the first half of 2017, the revenue from the Group's exports was US\$105,150,000, which exposed the Group to the risks associated with the fluctuation of exchange rate. Therefore, the Group has taken the following measures to lower the risks from the fluctuation of exchange rates: (1) the Group has increased its export prices; (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 should exceed the range agreed by both parties.

2. ANALYSIS OF FINANCIAL SITUATION AND OPERATING RESULTS IN ACCORDANCE WITH CABSE

Principal Financial Indicators

RMB Yuan

Item	Six months ended 30 June 2017	Six months ended 30 June 2016	Year-on-year increase (%)
Operating revenue	2,403,274,161.26	1,998,500,412.91	20.25
Operating cost	1,743,223,368.05	1,540,700,405.16	13.14
Sales expenses	264,204,922.60	190,013,019.85	39.05
Administrative expenses	205,450,952.80	154,128,143.32	33.30
Financial expenses	36,124,129.67	27,453,462.70	31.58
Tax and surcharges	32,208,204.39	15,371,596.63	109.53
Income and expenses	33,522,526.85	15,298,546.67	119.12
Research and development input	96,515,407.67	39,983,826.82	141.39
Net cash flow from operating activities	9,557,583.42	83,830,656.73	(88.60)
Net cash flow from investing activities	(108,144,178.17)	(88,232,736.33)	22.57
Net cash flow from financing activities	148,424,596.13	(66,730,755.41)	(322.42)
Net increase in cash and cash equivalents	48,503,461.08	(70,336,001.78)	(168.96)

As at 30 June 2017, total assets of the Group were RMB4,997,677,000, increasing by 5.82% as compared with the beginning of the year. The increase in total assets was mainly due to profits from operation in the Reporting Period. As at 30 June 2017, total liabilities of the Group were RMB2,776,657,000, increasing by 5.04% as compared with the beginning of the year, mainly attributable to the increased borrowings in preparation for production operation, projects, and research and development projects of the Company.

As at 30 June 2017, total equity attributable to the shareholders of the Company was RMB2,124,046,000, increasing by 6.82% as compared with the beginning of the year. The increase was mainly attributable to the profits generated in the Reporting Period.

As at 30 June 2017, the Group's notes receivable increased by 73.81% as compared with the beginning of the year, mainly attributable to the receipt of more notes from increased scale of sale during this Reporting Period; accounts receivable increased by 47.91% as compared with the beginning of the year, mainly attributable to increased scale of sale and some of the payments have not yet fallen due during the Reporting Period. The number of projects under construction increased by 29.16% as compared with the beginning of the year, mainly attributable to the increased investment in projects during the Reporting Period.

Management Discussion and Analysis

Operating income of the Group amounted to RMB2,403,274,000 for the first half year, representing an increase of 20.25% as compared with the same period last year; operating profit of the Group amounted to RMB129,907,000, increasing by 89.23% as compared with the same period last year. The increase of operating income and operating profit are mainly attributable to active market exploration and enhanced marketing and sales efforts, with relatively rapid growth in the sales of bulk drugs and preparation products.

The Group's sales expenses amounted to RMB264,205,000 for the first half of 2017, representing an increase of approximately 39.05% as compared with the same period last year, and the increase was mainly attributable to active market exploration, especially for the preparation products.

The Group's administrative expenses amounted to RMB205,451,000 for the first half of 2017, representing an increase of approximately 33.30% as compared with the same period last year. The increase was mainly attributable to the increase of expenses in research and development.

The Group's financial expenses amounted to RMB36,124,000 for the first half of 2017, representing an increase of approximately 31.58% as compared with the same period last year, and the increase was mainly attributable to increase of exchange loss.

The Group's taxes and surcharges were approximately RMB32,208,000 for the first half of 2017, increasing by 109.53% as compared with the same period last year. The main reason was that the property tax, land use tax and other taxes were moved to taxes and surcharges for computation in accordance with the interpretation of the Ministry of Finance on relevant issues in the Accounting Treatment Regulations of Value-added Tax, whereas the figures of the same period last year have not been so adjusted.

The Group's income tax was approximately RMB33,523,000 for the first half of 2017, increasing by 119.12% as compared with the same period last year. The increase was mainly attributable to substantial growth in profits from operating business in the Reporting Period.

For the first half of 2017, the Group's research and development input was RMB96,515,000, increasing by 141.39% as compared with the same period last year. The increase was due to the fact that the Company has always attached great importance to the enhancement of its potentiality and bolstered its research and development efforts.

Net cash flow from operating activities of the Group for the first half of 2017 was RMB9,558,000, representing a decrease by RMB74,273,000 as compared with the same period last year. The decrease was mainly attributable to increased scale of sale and increased receivables as part of the payments have not yet fallen due.

For the first half of 2017, net cash outflow from investment activities of the Group was negative RMB108,144,000, representing a decrease by RMB19,911,000 as compared with the same period last year. The main reason was the increase of investment in construction projects.

For the first half of 2017, net cash flow from financing activities of the Group was RMB148,425,000, increasing by RMB215,155,000 as compared with the same period last year. The increase was mainly attributable to the increase of loan.

For the first half of 2017, the Group's net increase in cash and cash equivalents was RMB48,503,000, increasing by RMB118,839,000, attributable mainly to the increase of net cash flow from financing activities.

Management Discussion and Analysis

The Group's main business classified by industry, by product and by geographical location in accordance with CASBE is as follows (RMB):

	Operating income	Operating costs	Gross profit rate (%)	Change in operating income as compared to the same period last year (%)	Change in operating costs as compared to the same period last year (%)	Change in gross profit rate as compared to the same period last year
By industry						
Chemical bulk drugs	1,049,851,436.87	724,063,162.72	31.03	14.46	3.68	Increase by 7.17 percentage points
Preparations	1,067,395,251.96	784,023,429.33	26.55	23.57	20.76	Increase by 1.71 percentage points
Medical intermediates and other products	286,027,472.43	235,136,776.00	17.79	31.54	21.77	Increase by 6.60 percentage points
Total	2,403,274,161.26	1,743,223,368.05	27.46	20.25	13.14	Increase by 4.56 percentage points
By product						
Antipyretic and analgesic active pharmaceutical ingredients	614,890,720.51	484,104,846.13	21.27	22.92	16.98	Increase by 4.00 percentage points
Other products	1,788,383,440.75	1,259,118,521.92	29.59	19.37	11.74	Increase by 4.81 percentage points
Total	2,403,274,161.26	1,743,223,368.05	27.46	20.25	13.14	Increase by 4.56 percentage points
By geographical location						
PRC (including Hong Kong)	1,663,245,696.61	1,161,591,486.82	30.16	26.15	20.73	Increase by 3.13 percentage points
America	333,989,164.92	295,014,108.19	11.67	(6.02)	(1.90)	Decrease by 3.71 percentage points
Europe	173,615,603.92	155,170,741.34	10.62	11.99	19.25	Decrease by 5.44 percentage points
Others	232,423,695.81	131,447,031.70	43.45	37.04	(11.02)	Increase by 30.55 percentage points
Total	2,403,274,161.26	1,743,223,368.05	27.46	20.25	13.14	Increase by 4.56 percentage points

Management Discussion and Analysis

An analysis of profit as compared to 2016 is as follows:

Items	Amount (RMB)		Percentage of the total profit (%)	
	Six months ended 30 June 2017	Six months ended 30 June 2016	Six months ended 30 June 2017	Six months ended 30 June 2016
Operating profits	129,907,340.89	147,166,513.10	88.04	92.00
Net amount of non-operating income and expenses	17,655,048.22	12,801,979.11	11.96	8.00
Total profits	147,562,389.11	159,968,492.21	100.00	100.00

There is no significant change in the composition of profits in the Reporting Period as compared to last year.

Operations and results analysis of principal subsidiaries and companies in which the Company has interest

- (1) The total registered capital of Zibo Xinhua-Perrigo Pharmaceutical Company Limited is US\$6,000,000, and the Company holds 50.1% of its equity interest. This subsidiary is mainly engaged in producing and selling Ibuprofen. As at 30 June 2017, the total assets of the subsidiary were RMB83,235,000, and equity attributable to shareholders of the subsidiary was RMB72,498,000. For the first half of 2017, the operating income and the net profit of the subsidiary were RMB72,303,000 and RMB3,769,000 respectively, representing an increase of 17.60% and a decrease of 15.19% respectively as compared with the same period last year. The decrease was mainly attributable to the increase of raw materials procurement cost during the current period.
- (2) The total registered capital of Shandong Xinhua Pharmaceutical Trade Co., Ltd. is RMB48,499,000, and the Company holds 100% of its equity interest. This subsidiary is mainly engaged in such businesses as prepared Chinese herbal medicine for decoction, traditional Chinese medicine, pharmaceutical raw materials, preparations, antibiotics, biochemical medicine, biological products (excluding vaccine), health food, drugs and products for birth control and cosmetics. As at 30 June 2017, the total assets of the subsidiary were RMB366,252,000, and equity attributable to shareholders of the subsidiary was RMB1,465,000. In the first half of 2017, the operating income of the subsidiary was RMB822,186,000, representing an increase of 19.52% as compared with the same period last year, the net profit of the subsidiary was RMB3,825,000, representing an increase of 14.86% as compared with the same period last year. The increase was due to the fact that the subsidiary actively exploited the market, and expanded marketing efforts, thus increasing its sales as compared with the same period last year.
- (3) The total paid-up capital of Xinhua Pharmaceutical (Shouguang) Company Limited is RMB230,000,000, and the Company holds 100% of its equity interest. This subsidiary is mainly engaged in producing and selling chemical products. As at 30 June 2017, the total assets of the subsidiary were RMB752,621,000, and equity attributable to shareholders of the subsidiary was RMB403,709,000. In the first half of 2017, the operating income and the net profit of the subsidiary were RMB385,813,000 and RMB29,332,000 respectively, representing an increase of 27.00% and an increase of 94.74% respectively as compared with the same period last year. The increase was attributable to increased sales volume and higher prices of the chemical products.

- (4) The Company holds 60% of equity interests in Shandong Zibo Xincat Pharmaceutical Co., Ltd. The paid-up capital of Zibo Xincat was RMB84,930,000, and it was mainly engaged in producing and selling drugs. As at 30 June 2017, the total assets of the subsidiary amounted to RMB190,862,000 and shareholders' equity amounted to RMB128,448,000. In the first half of 2017, it achieved an operating revenue of RMB148,111,000, representing an increase of 21.49% as compared with the same period last year. It recorded a net profit of RMB10,568,000, representing an increase of 5.46% as compared with that of last year, mainly due to its main products' price hike.

3. DIVIDEND DISTRIBUTION DURING THE REPORTING PERIOD

The Board did not propose distribution of half-year dividend for the six months ended 30 June 2017 (2016 interim dividend: Nil).

Review of Major Events

Save as disclosed herein:

1. The Company has generally complied with the relevant PRC regulatory requirements of corporate governance regarding listed companies.
2. The annual general meeting for year 2016 did not recommend distribution of a final dividend for year 2016.
3. The Board did not recommend distribution of interim dividend or conversion of capital reserve into share capital for the six months period ended 30 June 2017.
4. Save for the contingent liabilities disclosed under Note XIII to the financial statements, the Group was not involved in any material litigation or arbitration, whether pending or threatened during the Reporting Period.
5. There was no material purchase or disposal of assets or asset reorganization of the Company during the Reporting Period and no such incident took place before the Reporting Period and continued into the Reporting Period. The Company has not planned for any material investment in the coming year.

6. Material related parties transactions:

Related parties transactions that were entered into during the Reporting Period are set out in Note XI – Relationship with Related Parties and Transactions to the Financial Statements of this Report compiled in accordance with the CASBE.

7. During the Reporting Period, there were no material entrustment, subcontracting or lease of assets between the Company and other companies.
8. The specific illustration and independent opinions of the independent non-executive directors in respect of the use of funds by related parties and foreign guarantee provided are as follows:

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

There were no guarantees provided in favour of any controlling shareholders, non-legal entities or individuals which were prejudicial to the interests of the Company and its Shareholders, in particular the minority shareholders of the Company. As of 30 June 2017, the Company had no overdue debt arising from foreign guarantee nor liability arising from any guarantee due to the default of a guaranteed party.

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

Nil

10. Purchase, Sales and Redemption of Shares:

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

Review of Major Events

11. Entrusted Management of Funds

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

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

Stock code	Stock short name	Initial investment amount	Proportion of equity interest in investee	Book value at end of the Reporting Period	Profit/loss over the Reporting Period	Change in shareholder's equity over the Reporting Period	Accounting classifications	Share source
601601	China Pacific Insurance	7,000,000.00	0.06%	169,350,000.00	-	25,925,000.00	Financial assets available for sale	Purchase
601328	BANKCOMM	14,225,318.00	0.01%	50,630,272.00	-	2,724,664.80	Financial assets available for sale	Purchase
Total		<u>21,225,318.00</u>	<u>-</u>	<u>219,980,272.00</u>	<u>-</u>	<u>28,649,664.80</u>		

13. There was no penalty on and remedial measures required of the Company during this Reporting Period.

14. On 26 April 2017 the Company received the approval of the non-public Issuance of the Shares of Shandong Xinhua Pharmaceutical Company Limited "CSRC Permission [2017] 459" from the China Securities Regulatory Commission. At present, the Company is proceeding with the issuance. For details, please refer to the announcements and disclosures published in cninfo website, as well as HKExnews and the Company's website on 26 April 2017 and before.

Review of Major Events

15. Performance of other social responsibilities

The Company is on the List of Key Pollutant-discharging Units announced by the Ministry of Environmental Protection.

Name of company or subsidiary	Name of major pollutants and special types of pollutants	Discharge mode	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration	Implemented standards for discharge of pollutants	Total amount of discharge	Approved total amount of discharge	Excessive discharge
Shandong Xinhua Pharmaceutical Company Limited	Chemical oxygen demand (COD)	Continuous	3	No. 1 factory: No. 13, Huagong Road, Zibo Hi-tech Industry Development Zone; No. 2 factory: No. 229, Changguodong Road, East Chemical Industrial Zone, Zhangdian District, Zibo City; General factory: No. 14, Dong Yi Road, Zhangdian District, Zibo City.	No. 1 factory: COD concentration less than 400 mg/L; No. 2 factory: COD concentration less than 450 mg/L; General factory: COD concentration less than 250 mg/L.	Wastewater Quality Standards for Discharge to Municipal Sewers (GB/T31962-2015) (《污水排入城镇下水道水质标准》), COD less than or equal to 500 mg/L.	No. 1 factory: Total amount of COD less than 400 tons/year; No. 2 factory: Total amount of COD less than 350 tons/year; General factory: Total amount of COD less than 12 tons/year.	1,050 tons/year of COD	None
Shandong Xinhua Pharmaceutical Company Limited	Ammonia nitrogen	Continuous	3	No. 1 factory: No. 13, Huagong Road, Zibo Hi-tech Industry Development Zone; No. 2 factory: No. 229, Changguodong Road, East Chemical Industrial Zone, Zhangdian District, Zibo City; General factory: No. 14, Dong Yi Road, Zhangdian District, Zibo City.	No. 1 factory: ammonia nitrogen concentration less than 35 mg/L; No. 2 factory: ammonia nitrogen concentration less than 40 mg/L; General factory: ammonia nitrogen concentration less than 20 mg/L.	Wastewater Quality Standards for Discharge to Municipal Sewers (GB/T31962-2015) (《污水排入城镇下水道水质标准》), ammonia nitrogen less than or equal to 45 mg/L.	No. 1 factory: Total amount of ammonia nitrogen less than 20 tons/year; No. 2 factory: Total amount of ammonia nitrogen less than 15 tons/year; General factory: Total amount of ammonia nitrogen less than 1 ton/year.	95 tons/year of ammonia nitrogen	None
Shandong Xinhua Pharmaceutical Company Limited	Sulfur dioxide	Interval	1	No. 2 factory: No. 229, Changguodong Road, East Chemical Industrial Zone, Zhangdian District, Zibo City.	Sulfur dioxide concentration less than 300 mg/m ³	The Integrated Emission Standard for Air Pollutants (GB16297-1996) (《大气污染物综合排放标准》), sulfur dioxide less than or equal to 550 mg/m ³ .	Total amount of sulfur dioxide less than 40 ton/year.	70 tons/year of sulfur dioxide	None

Construction and operation of pollution prevention & treatment facilities

(1) Waste water treatment

The company built three sewage treatment facilities with treatment capacity of 12,000 tons/day to fully meet the requirement of reaching the wastewater discharge standards.

The production wastewater produced by each production workshop is first pretreated by specified facilities at the workplaces: we separate, recycle and reuse organic substances from waste water rich in organic substances through methods like absorption and filtration, separation by extraction and evaporative fractionation; recycle ammonia nitrogen from wastewater rich in ammonia nitrogen through stripping process recycle inorganic salts from highly saline wastewater by means of MVR and double effect evaporation. Then the production wastewater after pretreatment is discharged into the production wastewater collection tank (pool) of the workplaces, where the wastewater will be monitored and sampled by the company's environmental protection unit. If the sampled wastewater reaches the internal control indicators of the Company, the Company's environmental management personnel will open the production wastewater inlet valve to let the wastewater flow towards and mix with domestic sewage and be transported to sewage treatment systems of No. 1 factory, No. 2 factory and General factory for biochemical treatment, after which the wastewater will be discharged into the water purification plant of Everbright Water (Zibo) Limited.

The three outlets of the Company were equipped with standardised online monitoring facilities, which are operated by authorized qualified entities. Online monitoring data of wastewater discharge will be uploaded real-time to the Environmental Automatic Monitoring and Control System of Shandong Province and will be published and managed real-time by Environmental Protection Office of Shandong Province.

(2) Waste gas control and treatment

We mainly apply source point control:

First, we have adopted "double pipe" technology to rid of foul smell arising from chemical raw materials and products loading, unloading, and transporting.

Second, we use the closed exhaust elastic breathing bag (referred to as breathing bag) technology to reduce the acid gas and volatile organic gas emissions.

Third, we turn the exhausting in the reaction process into closed circulation to prevent gas emissions.

Fourth, we have applied such technologies as carbon fiber adsorption/resolving and condensation recovery to recycle organic solvent in the exhaust gas.

Fifth, we use water absorption, alkali absorption or joint absorption and other technologies to recover soluble medium in the exhaust gas.

Sixth, we use photoelectric/photo-oxidative catalytic purification, low-temperature plasma technologies to destroy the molecular structure of organic gases in order to control chemical odor and improve the surrounding environment.

Review of Major Events

Seventh, we use LDAR technology to monitor seven categories of components including various kinds of containers and pipes that can produce leakage points of VOC easily, and we will repair leakage points where VOC leak exceeds a certain concentration so as to control the pollution of dynamic or static seal points to the environment.

Eighth, we use important exhaust gas treatment facilities like VOC monitor and VOC monitor for factory boundary, to monitor on real-time basis the chemical odor and the results of waste gas treatment.

(3) Hazardous Wastes Treatment

First, the company has built three incineration facilities to dispose of hazardous wastes by itself.

Second, in accordance with the requirements of the Procedures of Joint Management of Hazardous Wastes Transfer in Zibo City (《淄博市危險廢物轉移聯單管理工作程序》), we commission qualified units to dispose of part of the hazardous waste to strictly follow the transfer processing system and transferring plan approval system.

16. There were no research, communication or interview activities organised in respect of the Company during the Reporting Period.
17. For the year ended 31 December 2014, SHINEWING (HK) CPA Limited and ShineWing Certified Public Accountants (Special General Partnership) served as the international auditor and the domestic auditor of the Company, respectively. At the Annual General Meeting held on 24 June 2015, the appointment of ShineWing Certified Public Accountants (Special General Partnership) as the auditor of the Company was approved by shareholders and there has since been no separate appointment of international auditor and domestic auditor of the Company. ShineWing Certified Public Accountants has since been the only independent auditor after the appointment, and has audited the financial statements the Company in accordance with CASBE. Details of the above were set out in the announcements dated 7 May 2015 and 24 June 2015 and the circular dated 8 May 2015 of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Directors confirmed that the Company was in compliance with the Corporate Governance Code (the “Code”) and did not deviate from the Code during the Reporting Period. The Code includes the provisions contained in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

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

The audit committee along with the management of the Company has reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting, including review of the unaudited interim accounts for the six months ended 30 June 2017.

The audit committee agreed to the accounting standards, principles and methods adopted by the Group for the unaudited interim accounts for the six months ended 30 June 2017, and agreed that adequate disclosure had been made.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of a sufficient number of independent non-executive Directors and at least one independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive Directors, including one with financial management expertise. Details of their biographies were set out in the 2016 Annual Report of the Company.

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

During the Reporting Period, the Company has adopted a code of conduct regarding transactions by Directors on terms no less exacting than the required standards set out in the Model Code. After having made specific enquiries to the Directors and the Supervisors, the Company confirmed that during the Reporting Period all Directors and Supervisors had complied with the required standard set out in the Model Code in relation to directors’ securities transactions and there had been no non-compliance with the Model Code.

Consolidated Balance Sheet

30 June 2017

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current assets:			
Monetary funds	VI (1)	575,212,117.79	561,331,585.33
Financial assets measured at fair value and with their variance recorded into current profits and losses		-	-
Notes receivable	VI (2)	185,985,199.19	107,005,175.90
Accounts receivable	VI (3)	507,897,346.60	343,392,085.04
Prepayments	VI (4)	20,986,606.51	29,151,280.72
Interest receivable		-	-
Dividends receivable		-	-
Other accounts receivable	VI (5)	54,556,940.88	46,590,419.30
Inventories	VI (6)	499,815,794.90	559,487,133.74
Assets classified as held for sale		-	-
Non-current assets due within one year		-	-
Other current assets	VI (7)	17,186,139.33	63,631,331.50
Total current assets		1,861,640,145.20	1,710,589,011.53
Non-current assets:			
Financial assets available for sale	VI (8)	223,180,272.00	189,474,784.00
Investments held to maturity		-	-
Long-term accounts receivable		-	-
Long-term equity investment		-	-
Investment real estate	VI (9)	73,275,758.23	75,635,320.09
Fixed assets	VI (10)	2,114,531,021.85	2,120,995,100.52
Projects under construction	VI (11)	354,436,432.95	274,420,412.04
Project materials		-	-
Disposal of fixed assets		-	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible assets	VI (12)	344,328,302.00	283,274,940.35
Development expenditure		-	-
Goodwill	VI (13)	-	-
Long-term expenditures to be amortized		-	-
Deferred income tax assets	VI (14)	26,285,510.19	25,630,317.07
Other non-current assets	VI (15)	-	42,766,078.24
Total non-current assets		3,136,037,297.22	3,012,196,952.31
Total assets		4,997,677,442.42	4,722,785,963.84

Consolidated Balance Sheet (Continued)

30 June 2017

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current liabilities:			
Short-term borrowing	VI (16)	614,000,000.00	910,000,000.00
Financial liabilities measured at fair value with their variance recorded into current profits and losses		-	-
Notes payable	VI (17)	110,122,168.35	254,077,627.50
Accounts payable	VI (18)	492,793,206.92	433,116,202.88
Accounts received in advance	VI (19)	38,186,870.33	67,393,449.91
Payroll payable	VI (20)	42,839,917.68	66,078,587.82
Taxes and dues payable	VI (21)	21,111,207.92	17,694,627.36
Interest payable	VI (22)	4,739,594.18	3,902,110.16
Dividends payable	VI (23)	5,310,599.53	5,310,599.55
Other payables	VI (24)	218,560,745.25	163,347,304.20
Liabilities classified as held for sale		-	-
Non-current liabilities due within one year	VI (25)	249,466,855.80	344,854,126.83
Other current liabilities	VI (26)	5,319,000.00	4,732,000.00
Total current liabilities		1,802,450,165.96	2,270,506,636.21
Non-current liabilities:			
Long-term borrowing	VI (27)	670,000,000.00	100,000,000.00
Bonds payable		-	-
Including: Preferred stocks		-	-
Perpetual bond		-	-
Long-term payables	VI (28)	80,829,282.30	64,938,492.33
Long-term payroll payable		-	-
Special payables	VI (29)	84,960,000.00	84,960,000.00
Estimated liabilities		-	-
Deferred income	VI (30)	129,544,304.97	118,317,680.77
Deferred income tax liabilities		5,311,438.47	1,194,228.88
Other non-current liabilities	VI (31)	3,561,500.00	3,561,500.00
Total non-current liabilities		974,206,525.74	372,971,901.98
Total liabilities		2,776,656,691.70	2,643,478,538.19

Consolidated Balance Sheet (Continued)

30 June 2017

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Owners' equity:			
Capital Stock	VI (32)	457,312,830.00	457,312,830.00
Other equity instruments		-	-
Including: Preferred stocks		-	-
Perpetual bond		-	-
Capital reserve	VI (33)	513,092,452.66	513,092,452.66
Less: Treasury stock		-	-
Other comprehensive income	VI (34)	168,272,917.58	139,421,221.69
Special reserve	VI (35)	-	-
Surplus reserve	VI (36)	221,217,539.36	221,217,539.36
General risk reserve		-	-
Undistributed profits	VI (37)	764,150,733.48	657,375,780.62
Total of equity attributable to the shareholders of parent company		2,124,046,473.08	1,988,419,824.33
Minority shareholders' equities		96,974,277.64	90,887,601.32
Total of shareholders' equity		2,221,020,750.72	2,079,307,425.65
Total of liabilities and shareholder's equity		4,997,677,442.42	4,722,785,963.84

Parent Company's Balance Sheet

30 June 2017

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current assets:			
Monetary funds		443,846,427.86	411,793,216.01
Financial assets measured at fair value and with their variance recorded into current profits and losses		—	—
Notes receivable		82,378,387.33	23,918,803.51
Accounts receivable	XVII (1)	504,531,369.78	395,066,300.16
Prepayments		12,207,165.32	13,248,155.73
Interest receivable		—	—
Dividends receivable		—	—
Other accounts receivable	XVII (2)	404,821,953.49	385,582,110.35
Inventories		289,721,343.41	337,586,564.54
Assets classified as held for sale		—	—
Non-current assets due within one year		—	—
Other current assets		10,139,171.02	22,396,162.44
Total current assets		1,747,645,818.21	1,589,591,312.74
Non-current assets:			
Financial assets available for sale		223,180,272.00	189,474,784.00
Investment held to maturity		—	—
Long-term accounts receivable		—	—
Long-term equity investment	XVII (3)	468,244,841.06	468,244,841.06
Investment real estate		73,275,758.23	75,635,320.09
Fixed assets		1,552,676,579.95	1,541,339,434.25
Projects under construction		325,623,169.23	252,406,424.32
Project materials		—	—
Disposal of fixed assets		—	—
Productive biological assets		—	—
Oil and gas assets		—	—
Intangible assets		191,639,886.58	194,518,915.58
Development expenditure		—	—
Goodwill		—	—
Long-term expenditures to be amortized		—	—
Deferred income tax assets		—	—
Other non-current assets		—	—
Total non-current assets		2,834,640,507.05	2,721,619,719.30
Total assets		4,582,286,325.26	4,311,211,032.04

Parent Company's Balance Sheet (Continued)

30 June 2017

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current liabilities:			
Short-term borrowing		614,000,000.00	910,000,000.00
Financial liabilities measured at fair value with their variance recorded into current profits and losses		-	-
Notes payable		87,192,168.35	260,882,903.73
Accounts payable		389,358,237.34	292,294,044.83
Accounts received in advance		18,457,051.80	31,909,634.37
Payroll payable		35,221,100.74	55,727,887.54
Taxes and dues payable		8,736,434.67	7,406,061.94
Interest payable		4,739,594.18	3,902,110.16
Dividends payable		5,310,599.53	5,310,599.55
Other payables		187,858,118.35	137,174,275.14
Liabilities classified as held for sale		-	-
Non-current liabilities due within one year		249,466,855.80	344,854,126.83
Other current liabilities		5,319,000.00	4,732,000.00
Total current liabilities		1,605,659,160.76	2,054,193,644.09
Non-current liabilities:			
Long-term borrowing		670,000,000.00	100,000,000.00
Bonds payable		-	-
Including: Preferred stocks		-	-
Perpetual bond		-	-
Long-term payables		80,829,282.30	64,938,492.33
Long-term payroll payable		-	-
Special payables		84,960,000.00	84,960,000.00
Estimated liabilities		-	-
Deferred income		129,544,304.97	118,317,680.77
Deferred income tax liabilities		5,296,991.54	945,930.51
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		974,192,078.81	372,723,603.61
Total liabilities		2,579,851,239.57	2,426,917,247.70

Parent Company's Balance Sheet (Continued)

30 June 2017

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Owners' equity:			
Capital Stock		457,312,830.00	457,312,830.00
Other equity instruments		-	-
Including: Preferred stocks		-	-
Perpetual bond		-	-
Capital surplus		527,841,785.86	527,841,785.86
Less: Treasury stock		-	-
Other comprehensive income		168,941,710.90	140,292,046.10
Special reserve		-	-
Surplus reserve		214,775,900.23	214,775,900.23
Undistributed profits		633,562,858.70	544,071,222.15
Total shareholders' equity		2,002,435,085.69	1,884,293,784.34
Total liabilities and shareholder's equity		4,582,286,325.26	4,311,211,032.04

Consolidated Income Statement

From January to June 2017

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Amount in the period	Amount in the previous period
I. Gross revenue		2,403,274,161.26	1,998,500,412.91
Including: Operating revenue	VI (38)	2,403,274,161.26	1,998,500,412.91
II. Total operating cost		2,273,416,875.20	1,929,863,877.24
Including: Operating costs	VI (38)	1,743,223,368.05	1,540,700,405.16
Taxes and surcharges	VI (39)	32,208,204.39	15,371,596.63
Selling expenses	VI (40)	264,204,922.60	190,013,019.85
Administration expenses	VI (41)	205,450,952.80	154,128,143.32
Financial expenses	VI (42)	36,124,129.67	27,453,462.70
Assets impairment loss	VI (43)	(7,794,702.31)	2,197,249.58
Add:			
Incomes from changes in fair value (losses to be listed with brackets)		-	-
Investment incomes (losses to be listed with brackets)	VI (44)	50,054.83	12,981.57
Including: Income from investment into associates and joint ventures		-	-
Other incomes		-	-
III. Operating profits (losses to be listed with brackets)		129,907,340.89	68,649,517.24
Add:			
Non-operating income	VI (45)	21,892,417.22	6,464,006.72
Including: Gains from disposal of non-current assets	VI (45)	13,662,119.97	1,229,732.89
Less:			
Non-operating expenditure	VI (46)	4,237,369.00	7,227,258.10
Including: Losses from disposal of non-current assets	VI (46)	613,347.75	424,844.28
IV. Total profits (total loss to be listed with brackets)		147,562,389.11	67,886,265.86
Less: Income tax expense	VI (47)	33,522,526.85	15,298,546.67
V. Net profits (net loss to be listed with brackets)		114,039,862.26	52,587,719.19
Net profit attributable to shareholders of parent company		106,774,952.86	45,867,145.68
Minority interest income		7,264,909.40	6,720,573.51

Consolidated Income Statement (Continued)

From January to June 2017

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Amount in the period	Amount in the previous period
VI. Net amount of other comprehensive income after tax		29,121,487.89	(13,311,026.89)
Net amount of other comprehensive income after tax attributable to the owners of parent company	VI (48)	28,851,695.89	(13,263,822.99)
(I) Other comprehensive income not subject to reclassification to profit or loss subsequently		-	-
1. Changes in net liabilities or net assets subject to remeasurement of defined benefit plans		-	-
2. Share of other comprehensive income of the investees which cannot be reclassified to profit or loss under equity method		-	-
(II) Other comprehensive income to be reclassified to profit or loss subsequently	VI (48)	28,851,695.89	(13,263,822.99)
1. Share of other comprehensive income of the investees which can be reclassified to profit or loss under equity method subsequently		-	-
2. Profit and loss of change in fair value of financial assets available for sale	VI (48)	28,649,664.80	(13,393,919.20)
3. Profit and loss of held-to-maturity investment reclassified to available-for-sale financial assets		-	-
4. Effective part of cash flow hedging profit and loss		-	-
5. Conversion difference of foreign currency statement	VI (48)	202,031.09	130,096.21
6. Others		-	-
Net amount of other consolidated income after tax attributable to the minority shareholders		269,792.00	(47,203.90)
VII. Total comprehensive income		143,161,350.15	39,276,692.30
Total comprehensive income attributable to the shareholders of parent company		135,626,648.75	32,603,322.69
Total comprehensive income attributable to the minority shareholders		7,534,701.40	6,673,369.61
VIII. Earnings per share:			
(I) Basic earnings per share	XIX (2)	0.23	0.10
(II) Diluted earnings per share	XIX (2)	0.23	0.10

Parent Company's Income Statement

From January to June 2017

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Amount in the period	Amount in the previous period
I. Operating Income	XVII (4)	1,268,969,116.79	1,056,046,594.73
Less: Operating Costs	XVII (4)	936,536,355.09	863,900,418.23
Business taxes and surcharges		19,452,219.14	8,551,303.12
Selling expenses		24,149,694.53	21,474,227.22
Administration expenses		164,473,392.18	114,965,139.68
Financial expenses		35,531,679.13	28,347,083.99
Assets impairment loss		(1,068,037.72)	2,736,091.86
Add: Incomes from changes in fair value (losses to be listed with brackets)		—	—
Investment incomes (losses to be listed with brackets)	XVII (5)	2,691,554.92	17,869,379.21
Including: Income from investment into associates and joint ventures		—	—
Others incomes		—	—
II. Operating profit (loss to be listed with brackets)		92,585,369.36	33,941,709.84
Add: Non-operating income		15,986,249.44	6,216,455.74
Including: Gains from disposal of non-current assets		7,881,207.83	1,228,762.02
Less: Non-operating expenditure		2,464,429.56	2,649,487.04
Including: Losses from disposal of non-current assets		293,192.31	221,999.89
III. Total profit (total loss to be listed with brackets)		106,107,189.24	37,508,678.54
Less: Income tax expense		16,615,552.69	3,111,900.46
IV. Net profit (net loss to be listed with brackets)		89,491,636.55	34,396,778.08
V. Net amount of other comprehensive income after tax		28,649,664.80	(13,393,919.20)
(I) Other comprehensive income not subject to reclassification to profit or loss subsequently		—	—
1. Changes in net liabilities or net assets subject to remeasurement of defined benefit plans		—	—
2. Share of other comprehensive income of the investees which cannot be reclassified to profit or loss under equity method		—	—
(II) Other comprehensive income to be reclassified to profit or loss subsequently		28,649,664.80	(13,393,919.20)
1. Share of other comprehensive income of the investees which can be reclassified to profit or loss under equity method subsequently		—	—
2. Profit and loss of change in fair value of financial assets available for sale		28,649,664.80	(13,393,919.20)
3. Profit and loss of held-to-maturity investment reclassified to available-for-sale financial assets		—	—
4. Effective part of cash flow hedging profit and loss		—	—
5. Conversion difference of foreign currency statement		—	—
6. Others		—	—
VI. Total comprehensive income		118,141,301.35	21,002,858.88
VII. Earnings per share			
(I) Basic earnings per share		—	—
(II) Diluted earnings per share		—	—

Consolidated Cash Flow Statement

From January to June 2017

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Amount in the period	Amount in the previous period
I. Cash flow from operating activities:			
Cash received from sales of goods and rendering services		1,544,119,974.47	1,398,389,931.87
Refunds of taxes received		15,184,383.69	15,770,184.11
Other cash received from operating-related activities	VI.49(1)	74,408,057.43	20,332,148.58
Subtotal of cash inflows from operating activities		1,633,712,415.59	1,434,492,264.56
Cash paid for goods purchased and labor services received		945,934,708.77	800,382,046.83
Cash paid to and for employees		288,591,684.50	250,469,800.01
Cash paid for taxes and surcharges		153,655,602.87	114,853,614.66
Other cash paid related to operating activities	VI.49(1)	235,972,836.03	184,956,146.33
Subtotal of cash outflows from operating activities		1,624,154,832.17	1,350,661,607.83
Net cash flow from operating activities		9,557,583.42	83,830,656.73
II. Cash flow generated from investing activities:			
Cash received from redemption of investments		-	-
Cash received from returns on investments		50,054.83	12,981.57
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		8,383,694.00	1,062,041.90
Net cash received from disposal of subsidiaries and other business entities		-	-
Other cash received related to investing activities	VI.49(1)	30,000,000.00	-
Subtotal of cash inflows from investing activities		38,433,748.83	1,075,023.47
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		146,577,927.00	89,307,759.80
Cash paid for investments		-	-
Net cash paid for acquisitions of subsidiaries and other business entities		-	-
Other cash paid related to investing activities		-	-
Subtotal of cash outflow from investing activities		146,577,927.00	89,307,759.80
Net cash flow from investing activities		(108,144,178.17)	(88,232,736.33)

Consolidated Cash Flow Statement (Continued)

From January to June 2017

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Amount in the period	Amount in the previous period
III. Cash flows from financing activities:			
Cash received from capital contributions		-	-
Including: Cash received from subsidiaries' absorption of investments from minority shareholders		-	-
Cash received from acquisitions of loans		1,024,000,000.00	100,000,000.00
Cash received from bond issues		-	-
Other cash received related to financing activities	VI.49(1)	72,000,000.00	90,000,000.00
Subtotal of cash inflows from financing activities		<u>1,096,000,000.00</u>	<u>190,000,000.00</u>
Cash paid for repayment of debts		875,000,000.00	205,400,000.00
Cash paid for distributing dividends and profits or paying interest		29,912,175.64	33,174,500.71
Including: Dividends and profits paid to minority shareholders by subsidiary		1,448,025.08	21,651,255.26
Other cash paid related to financing activities	VI.49(1)	42,663,228.23	18,156,254.70
Subtotal of cash outflows from financing activities		<u>947,575,403.87</u>	<u>256,730,755.41</u>
Net cash flows from financing activities		<u>148,424,596.13</u>	<u>(66,730,755.41)</u>
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		(1,334,540.30)	796,833.23
V. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the beginning of the period		48,503,461.08	(70,336,001.78)
		<u>493,092,656.71</u>	<u>366,638,884.09</u>
VI. Cash and cash equivalents at the end of the period			
		<u>541,596,117.79</u>	<u>296,302,882.31</u>

Parent Company's Cash Flow Statement

From January to June 2017

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Amount in the period	Amount in the previous period
I. Cash flow from operating activities:			
Cash received from sales of goods and rendering services		791,273,402.60	752,140,011.99
Refunds of taxes received		10,437,486.97	11,285,314.80
Other cash received from operating-related activities		65,431,407.60	13,544,371.44
Subtotal of cash inflows from operating activities		867,142,297.17	776,969,698.23
Cash paid for goods purchased and labor services received		535,976,478.14	546,895,153.78
Cash paid to and for employees		198,404,932.34	175,604,092.20
Cash paid for taxes and surcharges		59,327,132.73	48,609,131.91
Other cash paid related to operating activities		54,758,132.99	43,167,823.59
Subtotal of cash outflows from operating activities		848,466,676.20	814,276,201.48
Net cash flow from operating activities		18,675,620.97	(37,306,503.25)
II. Cash flow generated from investing activities:			
Cash received from redemption of investments		-	-
Cash received from returns on investments		2,691,554.92	23,461,379.21
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		8,383,694.00	1,062,041.90
Net cash received from disposal of subsidiaries and other business entities		-	-
Other cash received related to investing activities		-	-
Subtotal of cash inflows from investing activities		11,075,248.92	24,523,421.11
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		102,047,481.84	79,716,320.75
Cash paid for investments		-	-
Net cash paid for acquisitions of subsidiaries and other business entities		-	-
Other cash paid related to investing activities		15,000,000.00	32,000,000.00
Subtotal of cash outflow from investing activities		117,047,481.84	111,716,320.75
Net cash flow from investing activities		(105,972,232.92)	(87,192,899.64)

Parent Company's Cash Flow Statement (Continued)

From January to June 2017

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Notes	Amount in the period	Amount in the previous period
III. Cash flows from financing activities:			
Cash received from capital contributions		—	—
Cash received from acquisitions of loans		1,024,000,000.00	100,000,000.00
Cash received from bond issues		—	—
Other cash received relating to financing activities		72,000,000.00	90,000,000.00
Subtotal of cash inflows from financing activities		<u>1,096,000,000.00</u>	<u>190,000,000.00</u>
Cash paid for repayment of debts		875,000,000.00	105,400,000.00
Cash paid for distributing dividends and profits or paying interest		28,464,150.56	11,523,245.45
Other cash paid related to financing activities		42,663,228.23	18,156,254.70
Subtotal of cash outflows from financing activities		<u>946,127,378.79</u>	<u>135,079,500.15</u>
Net cash flows from financing activities		<u>149,872,621.21</u>	<u>54,920,499.85</u>
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		(1,021,368.79)	357,655.71
V. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the beginning of the period		61,554,640.47	(69,221,247.33)
		<u>358,666,787.39</u>	<u>191,940,435.73</u>
VI. Cash and cash equivalents at the end of the period			
		<u>420,221,427.86</u>	<u>122,719,188.40</u>

Consolidated Statement of Changes in Owner's Equity

From January to June 2017

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	January-June 2017												
	Equity attributable to the shareholders of parent company											Minority shareholders' equity	Total owner's equity
	Capital Stock	Other equity instruments			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits		
	Preferred stocks	Perpetual bond	Others										
I. Balance at the end of previous year	457,312,830.00	-	-	-	513,092,452.66	-	139,421,221.69	-	221,217,539.36	-	657,375,780.62	90,887,601.32	2,079,307,425.65
Add: changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior period accounting errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business merger under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of current year	457,312,830.00	-	-	-	513,092,452.66	-	139,421,221.69	-	221,217,539.36	-	657,375,780.62	90,887,601.32	2,079,307,425.65
III. Increase/decrease in current period													
(decrease to be listed with "bracket")	-	-	-	-	-	-	28,851,695.89	-	-	-	106,774,952.86	6,086,676.32	141,713,325.07
(I) Total comprehensive income	-	-	-	-	-	-	28,851,695.89	-	-	-	106,774,952.86	7,534,701.40	143,161,350.15
(II) Invested and decreased capital of shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares contributed by the shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by holder of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment included in as share holder's equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution	-	-	-	-	-	-	-	-	-	-	-	(1,448,025.08)	(1,448,025.08)
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Appropriation of general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owners (or shareholders)	-	-	-	-	-	-	-	-	-	-	-	(1,448,025.08)	(1,448,025.08)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal carryover in shareholder's equities	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital surplus converted to capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserve converted to capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve to recover losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in current period	-	-	-	-	-	-	-	4,447,279.86	-	-	-	-	4,447,279.86
2. Amount used in current period	-	-	-	-	-	-	-	(4,447,279.86)	-	-	-	-	(4,447,279.86)
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at end of current period	457,312,830.00	-	-	-	513,092,452.66	-	168,272,917.58	-	221,217,539.36	-	764,150,733.48	96,974,277.64	2,221,020,750.72

Consolidated Statement of Changes in Owner's Equity (Continued)

From January to June 2017

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	2016												Total owner's equity
	Equity attributable to the shareholders of parent company											Minority shareholders' equity	
	Capital stock	Other equity instruments			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits		
	Preferred stocks	Perpetual bond	Others										
I. Balance at the end of previous year	457,312,830.00	-	-	-	513,092,452.66	-	148,383,251.38	-	213,465,177.68	-	552,002,849.22	99,825,757.46	1,984,082,318.40
Add: changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior period accounting errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business merger under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of current year	457,312,830.00	-	-	-	513,092,452.66	-	148,383,251.38	-	213,465,177.68	-	552,002,849.22	99,825,757.46	1,984,082,318.40
III. Increase/decrease of current period (decrease to be listed with "bracket")	-	-	-	-	-	-	(8,962,029.69)	-	7,752,361.68	-	105,372,931.40	(8,938,156.14)	95,225,107.25
(I) Total comprehensive income	-	-	-	-	-	-	(8,962,029.69)	-	-	-	122,271,549.68	10,579,875.25	123,889,395.24
(II) Invested and decreased capital of shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares contributed by the shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by holder of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment included on shareholder's equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution	-	-	-	-	-	-	-	-	7,752,361.68	-	(16,898,618.28)	(19,518,031.39)	(28,664,287.99)
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	7,752,361.68	-	(7,752,361.68)	-	-
2. Appropriation of general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owners (or shareholders)	-	-	-	-	-	-	-	-	-	-	(9,146,256.60)	(19,518,031.39)	(28,664,287.99)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal carryover in shareholder's equities	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital surplus converted to capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserve converted to capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve to recover losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in current year	-	-	-	-	-	-	-	8,359,842.25	-	-	-	-	8,359,842.25
2. Amount used in current year	-	-	-	-	-	-	-	(8,359,842.25)	-	-	-	-	(8,359,842.25)
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at end of current period	457,312,830.00	-	-	-	513,092,452.66	-	139,421,221.69	-	221,217,539.36	-	657,375,780.62	90,887,601.32	2,079,307,425.65

Parent Company's Statement of Changes in Owner's Equity

From January to June 2017

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	Current period										
	Capital Stock	Other equity instruments			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total owner's equity
		Preferred stocks	Perpetual bond	Others							
I. Balance at end of previous year	457,312,830.00	-	-	-	527,841,785.86	-	140,292,046.10	-	214,775,900.23	544,071,222.15	1,884,293,784.34
Add: changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior period accounting errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of current year	457,312,830.00	-	-	-	527,841,785.86	-	140,292,046.10	-	214,775,900.23	544,071,222.15	1,884,293,784.34
III. Increase/decrease in current period (decrease to be listed with "bracket")	-	-	-	-	-	-	28,649,664.80	-	-	89,491,636.55	118,141,301.35
(I) Total comprehensive income	-	-	-	-	-	-	28,649,664.80	-	-	89,491,636.55	118,141,301.35
(II) Invested and decreased capital of shareholders	-	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares contributed by the shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by holder of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment included in shareholder's equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	-	-	-
2. Distribution to owners (or shareholders)	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal carryover in shareholder's equities	-	-	-	-	-	-	-	-	-	-	-
1. Capital surplus converted to capital	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserve converted to capital	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve to recover losses	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in current period	-	-	-	-	-	-	-	4,447,279.86	-	-	4,447,279.86
2. Amount used in current period	-	-	-	-	-	-	-	(4,447,279.86)	-	-	(4,447,279.86)
(VI) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at end of current period	457,312,830.00	-	-	-	527,841,785.86	-	168,941,710.90	-	214,775,900.23	633,562,858.70	2,002,435,085.69

Parent Company's Statement of Changes in Owner's Equity (Continued)

From January to June 2017

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Unit: RMB Yuan

Item	2016										
	Capital Stock	Other equity instruments			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total owner's equity
		Preferred stocks	Perpetual bond	Others							
I. Balance at the end of previous year	457,312,830.00	-	-	-	527,841,785.86	-	149,605,380.50	-	207,023,538.55	483,446,223.64	1,825,229,758.55
Add: changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior period accounting errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of current year	457,312,830.00	-	-	-	527,841,785.86	-	149,605,380.50	-	207,023,538.55	483,446,223.64	1,825,229,758.55
III. Increase/decrease in current year (decrease to be listed with "bracket")	-	-	-	-	-	-	(9,313,334.40)	-	7,752,361.68	60,624,998.51	59,064,025.79
(I) Total comprehensive income	-	-	-	-	-	-	(9,313,334.40)	-	-	77,523,616.79	68,210,282.39
(II) Invested and decreased capital of shareholders	-	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares contributed by the shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by holder of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment included in share holder's interest	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution	-	-	-	-	-	-	-	-	7,752,361.68	(16,898,618.28)	(9,146,256.60)
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	7,752,361.68	(7,752,361.68)	-
2. Distribution to owners (or shareholders)	-	-	-	-	-	-	-	-	-	(9,146,256.60)	(9,146,256.60)
3. Others	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal carryover in shareholder's equities	-	-	-	-	-	-	-	-	-	-	-
1. Capital surplus converted to capital	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserve converted to capital	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve to recover losses	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in current year	-	-	-	-	-	-	-	8,359,842.25	-	-	8,359,842.25
2. Amount used in current year	-	-	-	-	-	-	-	(8,359,842.25)	-	-	(8,359,842.25)
(VI) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at end of current period	457,312,830.00	-	-	-	527,841,785.86	-	140,292,046.10	-	214,775,900.23	544,071,222.15	1,884,293,784.34

Notes to the Interim Financial Statements

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

I. COMPANY PROFILE

The Company was established in 1993, through the reorganization of Shandong Xinhua Pharmaceutical Factory. The Company was listed in Hong Kong and issued its H Shares of the People's Republic of China to the Public in December 1996. The Company was also listed in Shenzhen and issued its A Shares of the People's Republic of China to the Public in July 1997. The Company became a foreign invested joint stock company in November 1998, with approval from Ministry of Foreign Trade and Economic Cooperation of the People's Republic China.

As of 30 June 2017, the Company's registered capital is RMB457,312,830.00 and the capital structure is as follows:

Class of shares	Number of shares	Proportion of total share capital (%)
I. Total number of shares subject to conditions of trading	8,925	0.002
Senior management A shares subject to conditions of trading	8,925	0.002
II. Total number of shares subject to conditions of trading	457,303,905	99.998
RMB common stocks (A share)	307,303,905	67.198
Overseas listed foreign shares (H share)	150,000,000	32.80
III. Total number of shares	457,312,830	100.00

The Company is mainly engaged in the development, manufacturing and sale of Pharmaceutical raw materials, preparations and chemicals products.

The Company's controlling shareholder is Shandong Xinhua Pharmaceutical Group Co., Ltd. (hereinafter referred to as the "Shandong Xinhua Group"). The ultimate controller is Hualu Holdings Co., Ltd. (hereinafter referred to as the "Hualu Holdings"). The Company's authority is the general meeting of shareholders, which exercises resolution rights of significant events such as the Company's business policy, financing, investment, profit distribution according to the law. The board of directors takes responsibility for the general meeting of shareholders, and executes the Company's business decision-making right in accordance with the law; the managers take charge of organization and implementation of issue approved by the general meeting of shareholders and the board of directors, and are in charge of the management of production and operations.

The Company's registered address is Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo, Shandong Province.

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements consist of 14 companies, including Shandong Xinhua Pharmaceutical Trade Co., Ltd., Xinhua Pharmaceutical (Shouguang) Co., Ltd. and Shandong Zibo Xincat Pharmaceutical Company Limited. Compared with previous period, no change occurred to the scope of consolidation in current period.

See relevant contents of "VII. Changes in Consolidation Scope" and "VIII. Interests in Other Entities" in the Notes for details.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

III. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. Basis of preparation

On a going-concern basis, the financial statements of the Group have been prepared based on transactions and items that have actually-occurred, and in accordance with the Accounting Standards for Business Enterprises – Basic Principles, the Application Guidance to Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and thereafter and the disclosure requirements in the Preparation Rules of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Rules on Financial Reporting (revised in 2014) issued by the China Securities Regulatory Commission, Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies Ordinance of Hong Kong, and accounting policies and accounting estimates described in “Significant accounting policies and accounting estimates” of the Notes.

2. Going concern

The Group has evaluated its continuing operating capacity within 12 months since the end of the reporting period and has not found any events or conditions that may cast significant doubts about the going concern capacity. Accordingly, the financial statements are prepared on a going concern basis.

IV. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Specific accounting policies and accounting estimates notes: The specific accounting policies and accounting estimates formulated by the Group according to the actual production and operation characteristics include the business cycle, the recognition and measurement of bad debt provision or receivables, the measurement of inventories, the measurement of net realizable value of inventories, the classification and depreciation method of fixed assets, the amortization of intangible assets, the conditions for capitalization of R&D expenses, the recognition and measurement of income, etc.

1. Declaration on compliance with CASBE

The financial statements of the Company have met the requirements of CASBE and truly and fully reflected the financial conditions, operating results and cash flow of the Company and the Group in the 6 months ending 30 June 2017.

2. Accounting period

The accounting period runs from 1 January to 31 December (in Gregorian calendar).

3. Bookkeeping base currency

Bookkeeping base currency of the Company and its domestic subsidiaries is RMB, and that of foreign business is local currency.

The currency adopted by the Group for preparation of the financial statements is RMB.

Notes to the Interim Financial Statements (Continued)

*(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))*

4. Accountant arrangement methods for business combination under common control and not under common control

The assets and liabilities acquired by the Group, as the merging party, in the business merger under the control of the same entity are calculated based on the book value in the ultimate controlling party's consolidated statements of the merged party on the merging date. Capital reserve is adjusted for the difference between the book value of the acquired net assets and the book value of the merger consideration paid. In case where the capital reserve is not sufficient for off-setting, retained earnings are adjusted.

The identifiable assets, liabilities and contingent liabilities of the acquiree acquired from the business merger not under common control are calculated based on the fair value on the acquisition date. The merging costs are the cash or non-cash assets paid, liabilities issued or assumed, the fair value of equity securities issued by the Group on the acquisition date for acquiring control rights on the acquiree, as well as all costs directly related to the business merger (for business merger completed step by step through multiple transactions, the merging costs are the sum of costs of all individual transactions). Where the merging costs are greater than the fair value of identifiable net assets acquired from the acquiree during business merger, the difference thereof is recognized as business goodwill. Where the merging costs are less than the fair value of identifiable net assets acquired from the acquiree during business merger, the fair value of all identifiable assets, liabilities and contingent liabilities acquired from the business merger, as well as the fair value of non-cash assets of the consideration or the issued equity securities etc., are rechecked. Where the merging costs are, after rechecking, still less than the fair value of net identifiable assets acquired from the acquiree during business merger, the difference is included into current non-business income.

5. Compilation method of consolidated financial statements

The Group's consolidation scope includes all subsidiaries and structured entities.

The scope of consolidation of consolidated financial statements is determined on the basis of control. Control refers to investor's power over the investee. The investor is entitled to variable returns through participating in relevant activities of the investee, and is able to affect the amount of its return through utilizing its power over the investee. Changes in the relevant elements of the control definition as a result of changes in the relevant facts and circumstances will result in a reassessment of the Group.

During preparation of consolidated financial statements, in the event that accounting policy or accounting period adopted by subsidiaries are not in line with that of the Company, financial statements of subsidiaries shall be adjusted according to the accounting policy and accounting period of the Company.

All significant internal transactions, balances and unrealized profits shall be offset during preparation of consolidated financial statements. The portion of subsidiary owners' equity which does not belong to the parent company and the portion of minority equity in the current net profits and losses, other comprehensive income and total comprehensive income must be respectively listed under "minority interest, minority interest income, other comprehensive income attributable to the minority shareholders, and total comprehensive income attributable to the minority shareholders" in the consolidated financial statements.

For the subsidiary acquired in the business merger under common control, its business performance and cash flow are included into the consolidated financial statements from the beginning of the current period of the merger. During the preparation and comparison of consolidated financial statements, related items in the financial statements of the previous year are adjusted, and it is deemed that the entity of financial statements formed after the merger has existed since the beginning of control by the ultimate controlling party.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

For the subsidiary acquired in the business merger not under the control of the same entity, its business performance and cash flow are included into the consolidated financial statements since the date when the Group acquires the control rights. During the preparation of consolidated financial statements, financial statements of the subsidiary are adjusted based on the fair values of identifiable assets, liabilities and contingent liabilities identified on the acquisition date.

6. Cash and cash equivalents

Cash shown in the cash flow statement of the Group refers to the cash on hand and deposits that are available for payment at any time. Cash equivalent in the cash flow statement refers to the investments which have a holding period of not more than 3 months, and are of strong liquidity and readily convertible to known amounts of cash with low risk of value change.

7. Foreign currency transactions and conversion of foreign currency financial statements

(1) *Foreign currency transaction*

The foreign currency amount in a foreign currency transaction of the Group is converted into RMB amount based on the spot exchange rate on the first day of transaction month. Monetary items calculated in foreign currency in the balance sheet shall be translated into RMB at the spot exchange rate on the balance sheet date; the exchange difference shall be included into current profit and loss, after disposal of the balance of exchange that is formed by foreign currency loans borrowed for acquiring or producing assets which meet capitalized terms. Foreign currency non-monetary items calculated at fair value are converted into RMB by using the spot rate on the date when the fair value is determined. The generated conversion difference is included into current profits and losses or other comprehensive income directly as the change of fair value. Foreign currency non-monetary items measured at historical cost are still converted based on the spot exchange rate of the transaction date, with the RMB amount unchanged.

(2) *Conversion of financial statements in foreign currency*

The asset and liability items in the foreign currency balance sheet shall be translated as per the spot exchange rate on the balance sheet date; the owner's equity items, except for the items of "undistributed profit", shall be translated as per the spot exchange rate on the transaction date; the income and expenditure items in the profit statement shall be translated as per the spot exchange rate on the transaction date. The above translation balance of foreign currency financial statements shall be included into other comprehensive income items. Foreign currency cash flow is translated as per the spot exchange rate on the date when the said cash flow occurs. The amount of influence of exchange rate change on cash and cash equivalents shall be listed in the cash flow statement separately.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

8. Financial assets and financial liabilities

(1) Classification of financial assets: the financial assets owned by the Group are classified into four categories according to the investment purposes and economic nature, including the financial assets measured at fair value with their variance included in current profits and losses, financial assets available for sale, receivables and investments held to maturity.

- 1) Financial assets measured at fair value with their variance included in current profits and losses refer to the financial assets mainly held for sale in the short term.
- 2) Financial assets available for sale refer to non-derivative financial assets designated as available for sale, and financial assets not identified to item under “others” at the time of initial recognition.
- 3) Receivables refer to non-derivative financial assets which have no quotation in the active market, but have fixed or determinable recoverable amount, including notes receivable, accounts receivable, interests receivable, dividends receivable, and other accounts receivable.
- 4) Investment held to maturity refers to non-derivative financial assets which have fixed maturity date, fixed or fixable recovery amount which the management has clear attention and ability to hold to maturity.

(2) Recognition and measurement of financial assets: Financial assets are recognized at fair value in the balance sheet when the Group becomes a party to a financial instrument contract. For financial assets that are measured at fair value with their variance recorded in profit and loss for the current period, related transaction expenses at the time of acquisition should be included in the current loss and profit; the related transaction expenses of other financial assets should be included in the initial recognition amount.

Financial assets measured at fair value with their variance included in current profits and losses and financial assets available for sale are subject to subsequent measurement at fair value. Receivables and investments held to maturity are listed at amortized cost by effective interest method.

The changes in fair value of financial assets measured at fair value with their variance included in current profits and losses are included in profit and loss from fair value changes; interests or cash dividends gained during holding of the assets are recognized as investment gain; at the disposal, the difference between the fair value and the initial booking amount is recognized as investment profit and loss and profit and loss from fair value changes is adjusted at the same time.

Besides the impairment loss and the exchange gain or loss formed from foreign monetary financial assets, changes of fair value of the salable financial assets will be put into shareholders' equity, the accumulated amount of fair value changes which was directly put into equity won't be transferred into current profit and loss until the derecognition of this financial assets. The interests of available-for-sale debt instrument investments calculated based on actual interest rate method during the holding period, and the cash dividends declared to be distributed by the investees and related to available-for-sale equity instrument investments, shall be included into the current profits and losses as investment income.

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- (3) Impairment of financial assets: In addition to the financial assets measured at fair value with their variance included in current profits and losses, the Group will check the book value of other financial assets on the balance sheet date, and the provision for impairment shall be determined if there is objective evidence that a financial asset has decrease in value.**

For the stock investment, bonds investment and other financial assets available for sale which have quotation in the active market, the Group will recognize the fair value according to the quotation of such assets in the active market at the end of the period, which decreases up to 50% or above when compared with the costs recognized in accordance with the sum of fair value and relevant transaction expenses for payment of consideration when acquiring such assets; and if the assets continue to decrease for 12 months or longer as of the balance sheet date, the Group will recognize the accumulated provision for impairment which should be provision for impairment according to the difference between the costs and the fair value at the end of the period.

When the financial assets measured by amortized cost have decrease in value, the provision for impairment shall be determined according to the balance between the value of expected future cash flow (excluding the future credit loss which has not happened yet) and the book value. If there is objective evidence showing the value of this financial asset has recovered, and it is objectively related to the matters occurring after the loss is confirmed, the impairment loss confirmed before shall be reversed and calculated as current profit and loss.

When the financial assets available for sale have decrease in value, the cumulative loss recognized directly as stockholders' equity before due to the decrease of fair value shall be transferred out and recognized as the impairment loss. For available-for-sale debt instrument investments for which the impairment loss has been confirmed, if the fair value of periods following has increased and it is objectively related to the matters occurring after the loss is confirmed, the impairment loss confirmed before shall be reversed and calculated as current profit and loss. For available-for-sale equity instrument investments for which the impairment loss has been confirmed, the increase fair value of the following periods shall be directly recognized as stockholders' equity.

- (4) Transfer of financial assets: Financial assets meeting one of the following conditions shall be derecognized: ① the contract right to collect the financial asset cash flow has been terminated; ② the financial assets have been transferred and the Group has substantially transferred all the risks and rewards on the financial asset ownership to the transferee; ③ the financial assets have been transferred, even if the Group has neither transferred nor retained the risks and rewards on the financial asset ownership, the control over the financial assets is waived.**

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Where the Company neither transfers nor retains any risks and rewards on the financial asset ownership, if the control over the financial assets is not waived, relevant financial assets should be recognized according to the extent to which they are involved in the transferred financial assets, and relevant liabilities should be recognized correspondingly. "Continuing involvement in the transferred financial assets" refers to the risk level the enterprise will be faced with due to the change in value of such financial assets.

If the entire transfer of the financial assets meets derecognition conditions, the difference between the book value of transferred financial assets and the sum of consideration received from the transfer and accumulated amount of changes in fair value previously recognized in other comprehensive income should be included in current profits and losses.

Where the partial transfer of the financial assets meets derecognition conditions, the book value of the transferred financial assets should be amortized between the derecognized and non-derecognized portions as per their relative fair values respectively; and the difference between the sum of consideration received from the transfer and accumulated amount of changes in fair value previously recognized in other comprehensive income and amortized to the derecognized portion, and the aforesaid book value amortized should be included in current profits and losses.

(5) *Financial liabilities: Financial liabilities of the Group are classified, at the time of initial recognition, as financial liabilities measured at fair value with their variance included in current profits and losses and other financial liabilities.*

Financial liabilities at fair value through profit or loss include tradable financial liabilities and financial liabilities at fair value through profit or loss designated at the initial recognition. For such financial liabilities, subsequent measurement should be performed based on fair value. Profits or losses arising from the changes of fair value as well as the dividend and interests expenditure related to the said financial liabilities should be included into the current profits and losses.

Other liabilities are subsequently measured at amortized cost using the effective interest rate method.

Where the current obligation of financial liability has been terminated entirely or partially, the portion of the financial liability or obligation that has been terminated shall be derecognized. The difference between the book value of the derecognized part and the paid consideration shall be included in current profits and losses.

(6) *Determination methods for fair value of financial assets and financial liabilities:*

- 1) When an active market exists for the financial instruments, the market quotation in an active market is used to determine its fair value. In the active market, financial assets held by the Group or financial liabilities to be assumed by the Group should take the current bid price as the fair value of corresponding assets or liabilities; the financial assets to be acquired by the Group or financial liabilities assumed by the Group should take the current offer price as the fair value of corresponding assets or liabilities. Where the financial assets or financial liabilities have no current bid and offer price, but the economic environment after the latest transaction date has not undergone significant changes, the market quotation of the latest transaction should be used to determine the fair value of the financial assets or financial liabilities. Where the economic environment after the latest transaction date has undergone significant changes, the current price or interest rate of similar financial assets or financial liabilities should be referred, and the market quotation of the latest transaction should be adjusted to determine the fair value of the financial assets or financial liabilities. In case the Group has sufficient evidence indicating that the market quotation of the latest transaction is not the fair value, the said market quotation shall be adjusted properly to determine the fair value of the said financial assets or financial liabilities.

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- 2) When an active market does not exist, the fair value of financial instruments is determined through valuation techniques; Valuation techniques include reference to the prices used by the well-briefed parties which transact out of free will in the latest market transactions, reference to the current fair value of other financial assets which are similar in nature, discounted cash flow technique, and option pricing model.

9. Bad debt provision for receivables

The Group recognizes bad debt loss of receivables when the following conditions are met: the debtors are dissolved, bankrupt, insolvent, in serious shortage of cash flows or suspended its business due to natural disasters and unable to settle the debts in the foreseeable period; or debtors are defaulted for repayment; or there are other evidences indicating the debts cannot be recovered or are not likely to be recovered.

The Company applies the allowance method for the accounting of potential bad debt loss and performs the impairment test separately or integrally at the end of period, with accrued bad-debt provision included in current profit and loss. As for receivables for which there is authentic evidence showing that they are impossible to be recovered, the Group will recognize them as bad debt loss after approval through specified procedures and write off the drawn bad debt provision.

(1) **Receivables with significant individual amount and single accrued bad-debt provision**

Criteria or amount standard for determining whether the individual amount is significant	Regard receivables with an individual amount of over RMB5 million as significant receivables
Drawing method for account receivables with significant individual amount and drawn bad debt provision on single item	The provision of bad debts is drawn according to the difference between the present value of future cash flows and the book value of receivables

(2) **Account receivables with bad debt provision drawn by combination of credit risk features**

Basis for determining combinations

Account age combination	Dividing the combinations by taking the account age of receivables as credit risk features
Combination of relationship with transaction object	Dividing the combinations based on current accounts of related parties
Combination of special account nature	Mainly including the tax to be deducted, the export tax rebate receivable and other special accounts

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Method for bad-debt provision withdrawn by combination

Account age combination	Drawing of bad debt provision by aging analysis
Relationship with transaction object	Drawing of bad debt provision by other methods
Combination of special account nature	Drawing of bad debt provision by other methods

1) Drawing proportion of bad debt provision for receivables by aging analysis:

Account Age	Drawing Proportion of Account receivables (%)	Drawing Proportion of Other Account receivables (%)
Within 1 year	0.50	0.50
1-2 years	20.00	20.00
2-3 years	60.00	60.00
Over 3 years	100.00	100.00

2) Drawing of bad debt provision for receivables by other methods:

Relationship with transaction object	Do not draw bad debt provision for receivables from related parties
Combination of special account nature	Do not draw bad debt provision for the tax to be deducted, the export tax rebate receivable and other accounts receivable with special account nature

(3) Account receivables with insignificant amount but drawn bad debt provision on single item

Reason for drawing of bad debt provision on single item	Receivables with insignificant amount and bad debt provision drawn by combination not reflecting risk features of the receivables
Drawing method for bad debts provision	The provision of bad debts is drawn according to the difference between the present value of future cash flows and the book value of receivables

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10. Inventories

The inventories of the Group mainly include raw materials, development cost, low value consumables, products in process, and commodities in stock.

The inventories implement the perpetual inventory system, and are valued by the actual cost when acquired. The actual costs of requisitioned or issued inventories are determined by the weighted average method. Low value consumables and packaging materials are amortized by one-off write-off method.

Ending inventories are valued by the cost or net realizable value, whichever is lower. For estimated irrecoverable part of cost due to inventory damage, obsolescence of all or partial inventories, or sale price lower than the cost, provisions for decline in value of inventories are withdrawn. Provisions for decline in value of inventories for goods in stock and bulk raw materials are drawn based on the difference between the cost of single inventory item and its net realizable value; for other numerous raw and auxiliary materials with low prices, provisions for decline in value of inventories are drawn based on their categories.

For merchandise inventory directly available for sale such as commodities in stock, products in process, and materials available for sale, its net realizable value is determined as per the estimated selling price deducting estimated selling expenses and relevant taxes; for material inventory available for production, its net realizable value is determined as per the estimated price of finished product deducting estimated cost till the completion date, estimated selling expenses, and related taxes.

11. Long term equity investments

The Group's long-term equity investments are mainly investments into subsidiaries, associates, and joint ventures.

The Group's criterion for joint control is that all parties or group of parties jointly control the arrangement, and policies of relative activities of the arrangement must be subject to unanimous consent of parties which jointly control such arrangement.

The Group's recognition basis for significant influence is that the Company holds the voting share of the invested entity directly or indirectly through subsidiaries, which is more than 20% (included) but less than 50%. If there is clear evidence that the Group can not participate in decision making related to production and operation of the invested entity in that case, no significant influence can be formed.

When control over the invested entity exists, the invested entity becomes a subsidiary of the Group. As to long-term equity investments acquired in business merger under common control, the portion of book value of net assets in the ultimate controller's consolidated statements of the merged party on the merger date shall be recognized as the initial investment cost of long-term equity investment. Where book value of net assets of the merged party on the merger date is negative, the long-term equity investment cost is determined as zero.

For long-term equity investment acquired via business merger under different control, the merger cost is taken as the initial investment cost.

Apart from aforementioned long-term equity investment acquired through business merger, as to long-term equity investment acquired by cash payment, the actually paid amount is taken as the investment cost; as to long-term equity investment acquired through issuing equity securities, the fair value of the issued equity securities is taken as the investment cost; as to long-term equity investment invested by investors, the value specified in investment contract or agreement is taken as the initial investment cost; as to long-term equity investment acquired through debt restructuring and exchange of non-monetary assets, the initial investment cost is determined as per provisions of relevant accounting rules.

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The Group uses the cost method to calculate investments in subsidiaries and equity method to calculate investments in joint ventures and associates.

For long-term equity investments subsequently calculated by the cost method, when more investments added, the book value of the long-term equity investment cost is increased based on the fair value of cost paid for added investments and related transaction expenses. Cash dividend or profit declared by the invested entity is recognized as current investment profit in accordance with the amount to enjoy.

For long-term equity investments subsequently calculated by the equity method, the book value of long-term equity investment is increased or decreased accordingly with variance of owner's equity of the invested entity. When determining the portion of net profit and loss to enjoy in the invested entity, the Group will adjust the net profits of invested entity based on the fair value of identifiable assets in the invested entity when investments acquired, by offsetting internal profit and loss incurred in transactions with joint ventures and associates and by calculating the portion attributable to the investing enterprise based on the shareholding proportion, with net profit of invested entity adjusted and recognized.

For the disposal of long-term equity investment, the difference between the book value and actually obtained price shall be included in current investment profit. For the long-term equity investment calculated by equity method which has been included in the owner's equity due to other changes in owner's equity (excluding the net profit or loss) of the invested unit, when disposed, the part which has been included in the owner's equity of such investment shall be transferred to current investment profit according to corresponding proportion.

For loss of joint control or significant influence on the invested unit due to disposal of partial equity investment or other reasons, the residual equity after disposal is calculated as per the financial assets available for sale, and the difference between the fair value and book value of residual equity on the date when losing the joint control or significant influence is included into the current profits and losses. For other comprehensive incomes from original equity investment recognized by the equity method is subject to the accounting treatment on the same basis as that adopted by the invested unit for directly handling related assets or liabilities when the equity method is not used anymore.

For loss control of invested unit due to disposal of partial long-term equity investment, the residual equity after disposal, if capable of realizing joint control or applying significant influence on invested unit, is changed to use the equity method for calculation, the difference for disposal of book value and consideration is included in the investment income, and the residual equity is adjusted as it is calculated by the equity method since it is acquired; the residual equity after disposal, if unable to realize joint control or apply significant influence on invested unit, is changed to accounting treatment based on related regulations of financial assets available for sale, the difference for disposal of book value and consideration is included in the investment income, and the difference between the fair value and book value of the residual equity on the loss-control date is included in current investment profit and loss.

Various transactions of the Group from step-by-step equity disposal to loss of controlling power do not belong to the package deal, and every transaction is separately subject to accounting treatment. Any transaction categorized as package deal is subject to the accounting treatment oriented for subsidiary disposal and loss of controlling power. However, before the loss of controlling power, the difference between the disposal price and book value of long-term equity investment of the corresponding disposed equity for every transaction is recognized as other comprehensive income, which is not transferred into current profit and loss until the controlling power is lost.

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12. Investment real estate

The Group's investment real estate includes land use right and buildings which have already been rented.

Entry value of investment property of the Group shall be its cost. Cost of purchased investment property includes purchase price, relevant taxes and other expenditures that can directly be attributed to this asset; cost for self-constructing investment property shall be composed of necessary expenditure for making this asset reach usable status.

The Group shall conduct follow-up measurement of investment real estate by cost model and shall withdraw the depreciation or amortization as per estimated service life and net residual rate by straight line method. The estimated service life, net residual rate and annual rate of depreciation (amortization) of investment real estate are as follows:

Category	Period of Depreciation (Year)	Estimated Residual Rate (%)	Annual Rate of Depreciation (%)
Land Use Right	40–50	0	2.00–2.50
Premises and buildings	20	5	4.75

When investment real estate is converted for self-use, such real estate shall be changed into fixed assets or intangible assets since the date of conversion. When real estate for self-use is converted for gaining rental income or capital increase, fixed assets or intangible assets shall be changed into investment real estate since the date of conversion. When conversion occurs, book value prior to conversion shall be entry value after conversion.

If an investment real estate is disposed or withdrawn permanently from use and no economic benefit can be obtained from the disposal, the recognition of the investment real estate shall be terminated. The amount of disposal income from selling, transferring, discarding or damaging of investment real estate shall be deducted by the book value and relevant taxes thereof and then included in current profits and losses.

13. Fixed assets

Fixed assets refer to tangible assets held for commodity production, manpower supply, renting or operation management with a service life of over one year; and meanwhile, economic interests related to the fixed assets are likely to flow into the enterprise, and the cost of fixed assets can be measured reliably.

Fixed assets are classified into premises and buildings, machinery equipment, transportation equipment, electronic equipment and others.

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Valuation of fixed assets: Fixed assets shall be initially measured according to the actual cost as obtained, wherein, the cost of outsourcing fixed assets shall include the purchase price, VAT, import tariff, relevant taxes and other necessary expenditures directly attributable to the fixed assets to the expected conditions for use; the cost of self-built fixed assets consists of the necessary expenses for building the assets to the expected conditions for use; the fixed assets invested by investors shall be taken as entry value as per the value agreed in the investment contract or agreement; however, if the value agreed in the contract or agreement is not fair, it shall be accounted at fair value; for the fixed assets for financial lease, the fair value of leased assets on the lease commencement date and the present value of minimum leasing payment shall be entry value, whichever is lower.

Depreciation method of fixed assets: except for the fixed assets fully depreciated but still in use, the Group calculates depreciation for all fixed assets. Straight line method shall be adopted for calculating depreciation based on single item per month. The depreciation expenses shall be separately included into the costs or current expenses of related assets by purposes. The expected net residual rate of fixed assets of the Group is 5%. The expected net residual rate, period of depreciation and annual rate of depreciation are as follows:

Category	Period of Depreciation (Year)	Annual Rate of Depreciation (%)
Premises and buildings	20	4.75
Machinery equipment	10	9.50
Transportation equipment	5	19.00
Electronic equipment and others	5	19.00

Treatment for subsequent expenditure of fixed assets: if the subsequent expenditures is related to fixed assets, including repairing expenditure, renovation and reformation expenditure, meet the recognition conditions of fixed assets, they shall be included in the cost of fixed assets, and the book value of replaced parts shall be derecognised; the expenditures which do not conform to the recognition conditions of fixed assets shall be included in current profits and losses when occurred.

At the end of the year, recheck and properly adjust the estimated service life, expected net residual value and depreciation method of the fixed assets. Any change shall be handled as changes in accounting estimates.

The depreciation policies of fixed assets acquired by financial lease shall be consistent with those of self-owned fixed assets. For fixed assets, if it can be reasonably confirmed that the ownership can be granted when the lease term expires, the depreciation shall be drawn within the estimated service life of the acquired leasing assets; otherwise, the depreciation shall be drawn within the lease term or the service life of leasing assets, whichever is shorter.

If a fixed asset is disposed of or if no economic benefit will not be obtained from the use or disposal, the recognition of such fixed asset is terminated. The amount of disposal income from selling, transferring, discarding or damaging of fixed assets shall be deducted by the book value thereof and relevant taxes and then included in current profits and losses.

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14. Projects under construction

Valuation for projects under construction: measurement shall be made according to the actual cost. Self operating projects shall be measured as per direct material, direct salary, direct construction cost, etc.; contracted projects shall be measured as per payable project cost, etc.; and the cost of equipment installation works shall be determined according to value of installed equipment, installation cost, commissioning expenditure, etc. Costs of projects under construction also include borrowing costs and exchange gain or loss that should be capitalized.

Time-point for carrying forward the projects under construction to fixed assets: starting from the date when the projects under construction reach the expected conditions for use, the projects shall be carried forward to fixed assets based on the estimated value and according to project budget, construction cost or actual cost, and depreciation shall be withdrawn from the next month. The original value difference of fixed assets shall be adjusted after the completion settlement formalities have been handled.

15. Borrowing costs

Borrowing costs include borrowing interest, amortization of discount or premium, auxiliary expenses and balance of exchange caused by foreign currency loans. The borrowing costs for construction or production, which can be directly included in assets satisfying capitalization conditions, shall begin capitalization when the expenditures of the assets and the borrowing costs occur and construction or production activities necessary for making the assets available for predicted use or selling begin. The construction or production assets which satisfy capitalization conditions shall stop capitalization when the assets are available for predicted use or selling. Other borrowing costs should be determined as expenditures when incurred.

The amount of which interest of special loan actual occurring in current period deducts the interest income from unused loan capital which is deposited in banks, or deducts investment income from temporary investment of the loan capital shall be capitalized. The capitalized amount of general loan shall be determined as per the weighted average of which the accumulative asset expenditures exceed special loan asset expenditures multiplied capitalization rate of general loan used. The capitalization rate shall be calculated with the weighted average interest rate of general loans.

The assets in compliance with capitalization conditions refer to the fixed assets, investment real estate and inventory that require considerable long time (usually referred as more than one year) of construction or production to reach the their intended usable and marketable condition.

If assets satisfying capitalization conditions are suddenly suspended in acquisition or construction for more than three months continuously, the capitalization of the borrowing costs shall be suspended until the restart of acquisition or construction of the assets.

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16. Intangible assets

- (1) Valuation methods of intangible assets: intangible assets of the Group mainly included land use right, software license and non-patented technology. Intangible assets through purchase shall be calculated as actual cost as per actually paid amount and other relevant expenditures. Intangible assets invested by investors shall be confirmed as actual cost as per value as defined in the investment contract or agreement; however, if the value as defined in the investment contract or agreement is not fair, its actual cost shall be confirmed as per fair value.
- (2) Amortization methods and period of intangible assets: land use right of the Group shall be amortized evenly according to its transfer years from the starting date of transferring; software license and non-patented technology of the Group shall be amortized evenly by stages according to the shortest one among the expected service life, the benefit period under contract and the effective period stated by law. The land use right shall be amortized as per the benefit and transfer period, and the software license shall be amortized as per the expected benefit period (5 years). The amortized amounts shall be included into current profits and losses or relevant asset costs according to beneficiaries.
- (3) The anticipated service life and the amortization method of intangible assets with limited life shall be reviewed at the end of each year. Any change shall be handled as changes in accounting estimates. The Company shall review the expected service life of intangible assets with uncertain service life in each accounting period. If any evidences indicate that the service life of intangible assets is limited, the service life shall be estimated and amortized within the expected service life.

17. Research and development

The expenditures for in-house research & development projects are classified as those for research stage and those for development stage according to natures of the expenditures and whether a great uncertainty lies in the conversion of the R&D activities into intangible assets.

For independently researched and developed intangible assets, the expenditures in research stage shall be included in the current profits and losses when incurred; and the expenditures in development stage which meet the following conditions shall be determined as that of intangible assets: 1) it is technically feasible to finish and use or sell the intangible assets; 2) there is an intent to finish and use or sell the intangible assets; 3) there is a market for the product manufactured by using the intangible assets or a market for the intangible assets itself; 4) there are enough technologies, financial resources and other resources to finish the development of intangible assets, and it is able to use or sell the intangible assets; 5) the expenditures in development stage of the intangible assets can be measured reliably.

The expenditures in development stage which do not meet the above conditions shall be included in current profits and losses when incurred. The expenditures for development stage which have been included in profits and losses cannot be recognized as assets later. The capitalized expenditures for development stage are included in the balance sheet as development expenditures and are converted into intangible assets upon the date when the R&D project is ready for its intended use.

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18. Impairment of long-term assets

The Group shall check long-term equity investments, fixed assets, projects under construction, intangible assets determined by service life, etc. on each balance sheet date. When the following signs exist, it indicates that asset impairment may occur, and the Group will perform the impairment test. For the intangible assets with undetermined goodwill and benefit period, no matter there is an impairment sign or not, the impairment test shall be performed at the end of each period. If it is hard to test the recoverable amount of a single asset, the test shall be performed based on asset group or asset group combination.

If the impairment test shows that the book value of the assets is greater than its recoverable value, the difference between the two is recognized as loss from impairment. Such loss from impairment, once recognized, shall not be reversed in later accounting period. The recoverable amount of assets is the net amount of fair value of assets deducting disposal fees, or present value of expected future cash flow of the assets, whichever is higher.

19. Goodwill

Goodwill is the excess of the stock investment cost or the business merger cost under different control over the fair value of the identifiable net assets that should be enjoyed or acquired from the invested entity or the acquiree in the business merger on the date when it is acquired or purchased.

The goodwill related to subsidiaries shall be separately listed in the consolidated financial statements, and the goodwill related to associated ventures and joint ventures shall be included in the book value of long-term equity investments.

20. Payroll

Payroll of the Group includes short-term remuneration, post-employment welfare and dismissal welfare.

Short-term remunerations mainly include salaries, welfare, etc. During the accounting period when the employees provide service for the Group, the actual short-term remunerations are recognized as liabilities, and included in current profits or losses or relevant asset cost based on different beneficiaries.

Post-employment welfare includes basic endowment insurance, unemployment insurance and classified as defined contribution plan and defined benefit plan depending on the risk and obligation the Company bears. As for the defined contribution plans, the contributions which are made for individual subjects in exchange for the staff's services rendered in the accounting period shall be recognized as liabilities on the balance sheet date and included in current profits and losses or relevant asset costs according to the beneficiaries. There is no defined benefit plan in the Group.

When the Group cannot unilaterally withdraw the dismissal welfare provided due to the labor relationship termination plan or the redundancy offer, or when the costs or expenses (whichever is earlier) related to reorganization concerning the dismissal welfare payment are recognized, the liabilities of the employee compensation arising from dismissal welfare shall be recognized and included in current profits and losses.

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21. Estimated liabilities

Where the business related to external security, trade acceptance discount, pending litigations or arbitrations, product quality assurance, etc. meets the following conditions, the Group will recognize it as liabilities: 1) current obligation borne by the Group; 2) great possibility of economic benefit outflow because of performing the obligations; 3) reliable measurement for the amount of the obligations.

Metering method for estimated liabilities: estimated liabilities are initially measured at the best estimate required to be paid when performing relevant current obligations, with comprehensive consideration of such factors as risks, uncertainties and time value of money related to contingencies. Where the time value of money is of great influence, the best estimate is recognized through the discount of relevant future cash outflows. As of the balance sheet date, the book value of the estimated liabilities is reviewed and adjusted (if any change) to reflect current best estimate.

22. Method for recognition of revenue

The operating income of the Group is mainly derived from goods sales, rendering labor services and transfer of right to use assets. When economic benefits related to transaction can flow into the Group, and relevant revenue can be measured reliably and meet the recognition criteria of special revenue of the following various operating activities, relevant revenue can be recognized.

- (1) Recognition principle for sales revenue: the revenue from commodity sales is recognized under the following conditions: major risks and rewards concerning the ownership of commodity have been transferred to the buyer; neither continuous management right usually related to the ownership is retained nor effective control over sold goods is effected; the amount of the revenue can be measured reliably; relevant economic benefits may flow to the enterprise; and relevant costs incurred or to be incurred can be measured reliably.
- (2) Recognition principles for rendering of labor services: the labor service revenue can be recognized when the total labor service revenue and total cost can be measured reliably, relevant economic benefits may flow into the Group, and completion of labor service can be measured reliably. If the labor services that are started and completed in the same year, and the revenue of labor service is recognized upon completion; if the start and completion of labor service occur in different accounting years, and under the condition that the result of rendering labor transaction can be estimated reliably, the relevant revenue of labor service shall be recognized through percentage-of-completion method on the balance sheet date, and the percentage of completion shall be recognized according to the percentage of the occurred cost in the estimated total cost.
- (3) Recognition principle for revenue from transfer of the right to use assets: the revenue from transfer of the right to use assets can be recognized when the economic benefits related to transaction flow into the Group and the amount of revenue can be measured reliably.

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(Unless otherwise indicated, all figures are stated in RMB)

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23. Government subsidy

Government subsidy refers to monetary or non-monetary assets acquired by the Group from the government for free. The government subsidies shall be recognized when all the attached conditions can be satisfied and the government subsidies can be received by the Group.

As the monetary assets, the government subsidies shall be measured based on the actually received amounts; the subsidies paid according to fixed quota standards, or when concrete evidence shows that relevant conditions specified in fiscal support policies can be met and the fiscal support funds can be received based on estimates at the end of period, shall be measured based on the receivable amounts; as the non-monetary assets, the government subsidies shall be measured based on the fair value; if the fair value cannot be estimated reliably, it shall be measured based on nominal amount (RMB1).

Government subsidy to the Group is divided into asset-related government subsidy and revenue-related government subsidy. The asset-related government subsidies refer to those obtained by the Group and used for the acquisition or construction of long-term assets or obtainment of such assets by other forms. The revenue-related government subsidies refer to those other than the asset-related government subsidies. If no assistance object is specified in the government documents, the Group shall determine based on the above principles.

Asset-related government subsidies shall be recognized as deferred revenues, and shall be distributed equally within the service life of related assets and included into current profits and losses. Revenue-related government subsidies used to compensate for related costs or losses during future periods shall be recognized as deferred income, and it shall be included in current profits and losses during the period when it is recognized; those used to compensate for the incurred related costs or losses shall be included in current profits and losses directly.

24. Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities shall be recognized by calculating the difference (temporary difference) between the tax base and book value thereof. As to taxable income with deductible loss and tax deduction that can be deducted in the future as specified by tax laws, corresponding deferred tax assets shall be recognized as per temporary differences. Deferred income tax assets and liabilities shall be measured at applicable tax rate during the anticipated period for withdrawing such assets or during the period for paying off such liabilities on the balance sheet date.

The Group recognizes the corresponding deferred income tax assets arising from deductible temporary differences to the extent that the amount of taxable income to be offset by the deductible temporary difference is likely to be obtained by the Group. For recognized deferred tax assets, if it is predicted that the amount of taxable income cannot be sufficient to deduct the deferred tax assets in future period, the book value of deferred tax assets shall be written down. If it is possible to obtain sufficient amount of taxable income, the amount that has been written down shall be returned.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

25. Lease

Lease can be divided by the Group into finance lease and operating lease at the start of lease.

Finance lease is a kind of lease in which all risks and rewards regarding the ownership of the said assets are actually transferred. At the commencement of the lease term, as the Lessee, the Group shall deem the lower of the fair value of the leased asset and the present value of the minimum lease payments as the entry value of fixed assets acquired by finance lease, and the minimum lease payment as the entry value of long-term account payable. The difference between the two entry values is deemed as unrecognized financing charges.

Operating lease refers to the lease other than finance lease. As the Lessee, the Group shall include the rents in relevant asset costs or current profits and losses by using the straight-line method within each period of the lease term, while as the Lessor, the Group shall recognize the rents as revenues by using the straight-line method within each period of the lease term.

26. Accounting of income tax

The accounting of income tax of the Group will be conducted by using balance sheet liability method. Income tax expenses include current income taxes and deferred income taxes. Other current income taxes and deferred income taxes or revenues are included in current profits and losses, except for the current income taxes and deferred income taxes that are related to the transactions and items directly included in shareholders' equity and the book value of deferred income taxes generated by business merger for goodwill adjustment.

Current income tax refers to the amount that is determined by calculation for transactions and events occurring in that phase and shall be paid by enterprises to the tax department according to the tax laws, i.e. income tax payable; deferred income tax refers to the difference between the due amount of deferred income tax assets and liabilities that shall be recognized by using the balance sheet liability method at the end of the phase and the original amount that has been recognized.

27. Other important accounting policy and accounting estimate

(1) **Safety production costs**

The Company, in accordance with the relevant rules from management approach of enterprise safety production cost extraction and use (CQ [2012] NO.16) issued by Ministry of Finance of the People's Republic of China and State Administration of Work Safety at 14 February 2012, extracted and used, accounted safe production costs.

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(Unless otherwise indicated, all figures are stated in RMB)

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The Company was involved in the production and storage of dangerous goods and the provision of safety production cost is based on the actual operating revenue for the previous year on a monthly basis in accordance with the following standards:

No.	Sales of the previous year	Proportion of provision
1	Less than RMB10 million	4%
2	RMB10 million to RMB100 million (include) part	2%
3	RMB100 million to RMB1,000 million (include) part	0.5%
4	More than RMB1,000 million	0.2%

The Company shall collect the safety production cost according to the stipulated standards and the collected safety production cost shall be recognized in profit or loss for the current period, and recorded in special reserves accordingly, which is listed separately under the owner's equity.

(2) Segment information

The group determines the operating segments on the basis of internal organization structure, management requirements and internal reporting system. The operating segment refers to the constituent part within the Group, which simultaneously satisfies the following conditions:

- this part can generate income and incur expenses in daily activities;
- the senior management of the Group can evaluate the operating results of this part at regular intervals so as to decide to allocate resources to it and evaluate its performance;
- the Group can access the relevant accounting information of this part such as financial position, operating results and cash flow, etc.

The Group determines the reporting segment based on the operating segments. Inter-segment earnings are measured based on the actual price of the transaction.

28. Important accounting policy and accounting estimate change

(1) Changes in accounting policies

There were no changes in accounting policies during January to June 2017.

(2) Changes in important accounting estimate

There were no changes in accounting estimates during January to June 2017.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

V. TAXES

1. Main taxes and rates

Tax Category	Taxation Basis	Tax Rate
Value-added tax	Difference after output tax deducts from input tax of purchased goods	6%, 13%, 17%
Business tax (<i>Note</i>)	Operating Income	5%
Urban construction tax	Taxable amount of turnover tax	7%
Educational surcharges	Taxable amount of turnover tax	3%
Local educational surcharges	Taxable amount of turnover tax	2%
PRC enterprise income tax	Taxable income	15%, 25%
USA federal and state tax	Taxable income	Federal tax:15%–35% state tax:8.84%
Netherlands corporation income tax	Taxable income	36.50%–52%

Note: According to the Notice by the Ministry of Finance and the State Administration of Taxation about nationwide implementation of value-added tax instead of business tax Pilot Program, the Group was levied value-added tax on taxable income from 1 May 2016.

Description of taxpaying subjects and income tax rates of different enterprises:

Taxpaying Subject	Income Tax Rate
The Company	15%
Shandong Zibo Xincat Pharmaceutical Company Limited	15%
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	36.50%–52%
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	Federal tax rate: 15%–35%; state tax rate: 8.84%
Other 10 subsidiaries	25%

2. Tax preference

(1) **Income Tax**

According to the reply in LKZ [2015] No. 33 document of the Department of Science & Technology of Shandong Province, Shandong Province Finance Bureau, Shandong Provincial Office, SAT, and Shandong Local Taxation Bureau, the Company is recognized as a high-tech enterprise. On 31 October 2014, the Company obtained the certificate of high-tech enterprise (No. GR201437000377), with a validity period of 3 years. According to Law of the PRC on Enterprise Income Tax, the Company enjoys the preferential tax policy of levying enterprise income tax at a tax rate of 15%. The new certificate for 2017 is under application, the Company is still withholding income tax at the 15% income tax rate.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

According to the reply in LKZ [2015] No. 33 document of the Department of Science & Technology of Shandong Province, Shandong Province Finance Bureau, Shandong Provincial Office, SAT, and Shandong Local Taxation Bureau, Shandong Zibo Xincat Pharmaceutical Company Limited (hereinafter referred to as the "Xincat Pharmaceutical"), a subsidiary of the Company, is recognized as a high-tech enterprise. On 31 October 2014, Xincat Pharmaceutical obtained the certificate of high-tech enterprise (No. GR201437000570), with a validity period of 3 years. According to Law of the PRC on Enterprise Income Tax, Xincat Pharmaceutical enjoys the preferential tax policy of levying enterprise income tax at a tax rate of 15%. The new certificate for 2017 is under application, the Company is still withholding income tax at the 15% income tax rate.

(2) Value-added tax

Export commodities of the Group enjoy the preferential policy of value-added tax exemption, offset and refund.

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENT

In the following notes to the financial statements, unless otherwise indicated, the term of 'beginning of the period' refers to 1 January 2017, 'end of the period' refers to 30 June 2017. 'Current period' refers to period from 1 January to 30 June 2017. 'Previous period' refers to period from 1 January 2016 to 30 June 2016, and all figures are stated in RMB.

1. Currency funds

Item	Balance at the end of the period	Balance at the beginning of the year
Cash	127,230.10	144,462.73
Bank deposit	541,468,887.69	492,948,193.98
Other monetary funds	33,616,000.00	68,238,928.62
Total	575,212,117.79	561,331,585.33
Including: total amount deposited abroad	7,900,063.09	16,577,235.55

The Group's ending balance of other monetary funds includes a bank acceptance deposit of RMB33,616,000.00 (balance at the beginning of year: RMB68,238,928.62)

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

2. Notes receivable

(1) Category of notes receivable

Category	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance bill	<u>185,985,199.19</u>	<u>107,005,175.90</u>
Total	<u><u>185,985,199.19</u></u>	<u><u>107,005,175.90</u></u>

(2) Notes receivable which have been pledged at the end of the period

As at 30 June 2017, the Group had no notes receivable which had been pledged.

(3) Notes receivables which have been endorsed and not yet due as of date of balance sheet at the end of the period

Item	Derecognized amount at the end of the period	Not derecognized amount at the end of the period
Bank acceptance bill	<u>614,303,579.44</u>	<u>–</u>

(4) Due to the drawer did not perform and transferred the Notes receivables to the Accounts receivable at the end of the period.

As of 30 June 2017, the Group had no notes receivable which had been transferred to the accounts receivable due to the the default of the drawers.

(5) The aging of the notes receivable of the Group was within one year at the end of the period.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

3. Account receivables

(1) Classification of account receivables

Item	Balance at the end of the period				
	Book balance		Provision for Bad Debt		Book value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
Account receivables with significant individual amount and accrued bad debt provision on single item	-	-	-	-	-
Account receivables with provision for bad debts accrued on combination	-	-	-	-	-
Account age combination	554,728,685.65	97.99	58,203,012.02	10.49	496,525,673.63
Combination of relationship with transaction object	11,371,672.97	2.01	-	-	11,371,672.97
Combination of special account nature	-	-	-	-	-
Combination sub-total	566,100,358.62	100.00	58,203,012.02	10.28	507,897,346.60
Account receivables with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	<u>566,100,358.62</u>	<u>100.00</u>	<u>58,203,012.02</u>	<u>-</u>	<u>507,897,346.60</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

Item	Book balance		Provision for Bad Debt		Book value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
Account receivables with significant individual amount and accrued bad debt provision on single item	-	-	-	-	-
Account receivables with provision for bad debts accrued on combination	-	-	-	-	-
Account age combination	392,859,084.94	98.03	57,377,517.25	14.61	335,481,567.69
Combination of relationship with transaction object	7,910,517.35	1.97	-	-	7,910,517.35
Combination of special account nature	-	-	-	-	-
Combination sub-total	400,769,602.29	100.00	57,377,517.25	14.32	343,392,085.04
Account receivables with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	<u>400,769,602.29</u>	<u>100.00</u>	<u>57,377,517.25</u>	<u>-</u>	<u>343,392,085.04</u>

1) *Aging analysis of accounts receivable (including accounts receivable of related parties) based on transaction date is as follows:*

Account Age	Balance at the end of the period		
	Account Receivables	Provision for Bad Debt	Proportion of Provision (%)
Within 1 year	509,879,276.11	2,432,974.16	0.48
1-2 years	227,418.39	45,483.68	20.00
2-3 years	672,774.85	403,664.91	60.00
Over 3 years	<u>55,320,889.27</u>	<u>55,320,889.27</u>	<u>100.00</u>
Total	<u>566,100,358.62</u>	<u>58,203,012.02</u>	<u>-</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Account Age	Balance at the beginning of the year		
	Account Receivables	Provision for Bad Debt	Proportion of Provision (%)
Within 1 year	344,447,524.80	1,682,685.02	0.49
1-2 years	599,123.90	119,824.78	20.00
2-3 years	369,865.36	221,919.22	60.00
Over 3 years	<u>55,353,088.23</u>	<u>55,353,088.23</u>	<u>100.00</u>
Total	<u>400,769,602.29</u>	<u>57,377,517.25</u>	-

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

- 2) *In combination, account receivables with provision for bad debt based on aging analysis:*

Item	Balance at the end of the period			Balance at the beginning of the year		
	Account Receivables	Provision for Bad Debt	Proportion of Provision (%)	Account Receivables	Provision for Bad Debt	Proportion of Provision (%)
Within 1 year	498,507,603.14	2,432,974.16	0.50	336,537,007.45	1,682,685.02	0.50
1-2 years	227,418.39	45,483.68	20.00	599,123.90	119,824.78	20.00
2-3 years	672,774.85	403,664.91	60.00	369,865.36	221,919.22	60.00
Over 3 years	<u>55,320,889.27</u>	<u>55,320,889.27</u>	<u>100.00</u>	<u>55,353,088.23</u>	<u>55,353,088.23</u>	<u>100.00</u>
Total	<u>554,728,685.65</u>	<u>58,203,012.02</u>	-	<u>392,859,084.94</u>	<u>57,377,517.25</u>	-

- 3) *In combination, account receivables with provision for bad debts accrued by other method:*

Name of Combination	Balance at the end of the period	Amount of Bad Debts
Combination of relationship with transaction object	<u>11,371,672.97</u>	-
Total	<u>11,371,672.97</u>	-

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

4) Aging analysis of account receivables past due but not impaired:

Item	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	8,438,136.83	3,092,633.86
1-2 years	215,069.75	507,150.99
2-3 years	235,974.90	102,060.44
Total	<u>8,889,181.48</u>	<u>3,701,845.29</u>

As at 30 June 2017, accounts receivable of RMB8,889,181.48 (amount as at the beginning of the year: RMB3,701,845.29) were past due. The Company has extended credit terms to specific customers and plans to enhance its efforts to collect accounts receivable from them in future. Based on these customers' financial position, the Group was of the view that the overdue amount is recoverable in part or in full, thus no provision for impairment is individually or fully provided.

(2) Provision for bad debts reversed (or recovered) in current period

Bad debt provision for the current period amounted to RMB772,074.02; and the amount of provision for bad debts recovered or reversed during the current period was RMB53,420.75, among which items with significant amounts are set out below:

Organization Name	Amount Reversed (or Recovered) in Current Period	Recognition Basis for Bad Debt Provision	Reasons for Reversals (or Recovery) in Current Period
Hunan Livestock Industry and Commerce parent company	53,420.75	Full provision on the basis of considering debt paying ability	Recovery of monetary fund
Total	<u>53,420.75</u>		

(3) Account receivables actually written off in the current Period

There were no account receivables actually written off in the current Period.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

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(4) Account receivables with top five ending balance collected as per the borrowers

Organization Name	Balance at the end of the period	Account Age	Proportion in Total Ending Balance of Account Receivables (%)	Balance at the end of the period of Bad Debt Provision
Shandong Xin Kang Qi Pharmaceutical Co., Ltd.	40,589,520.51	Over 3 years	7.17	40,589,520.51
Mitsubishi Corporation	24,801,569.21	Within 1 year	4.38	124,007.85
Zibo Central Hospital	19,156,964.44	Within 1 year	3.38	95,784.82
F. Hoffmann-La Roche AG	18,026,509.04	Within 1 year	3.18	90,132.55
The People's Hospital of Gaoqing County	13,873,075.49	Within 1 year	2.45	69,365.38
Total	<u>116,447,638.69</u>		<u>20.56</u>	<u>40,968,811.11</u>

4. Prepayments

(1) Age of prepayment

Item	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	20,947,106.51	99.81	27,790,956.69	95.33
1-2 years	39,500.00	0.19	1,345,351.30	4.62
2-3 years	-	-	5,273.40	0.02
Over 3 years	-	-	9,699.33	0.03
Total	<u>20,986,606.51</u>	<u>100.00</u>	<u>29,151,280.72</u>	<u>100.00</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
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(2) Prepayments with top five ending balance collected as per the prepaid party

Organization Name	Balance	Account Age	Proportion (%)	Reasons for Non-settlement
Shandong Hualu Hengsheng Chemical Limited Liability Company	1,637,868.83	Within 1 year	7.80	Goods not yet reached
Shandong Jinling Chemical Co., Ltd.	1,575,266.46	Within 1 year	7.51	Goods not yet reached
Zibo Huarun Gas Co., Ltd.	1,441,429.63	Within 1 year	6.87	Goods not yet reached
Zibo Power Supply Company of State Grid Shandong Electric Power Company	1,302,596.10	Within 1 year	6.21	Goods not yet reached
Liaocheng Meishan New Material Technology Co., Ltd	971,874.19	Within 1 year	4.63	Goods not yet reached
Total	<u>6,929,035.21</u>		<u>33.02</u>	

5. Other accounts receivables

(1) Classification of other receivables

Item	Balance at the end of the period				Book value
	Book balance		Provision for Bad Debt		
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
Other receivables with significant individual amount and bad debt provision accrued on single item	6,600,000.00	9.29	3,300,000.00	50.00	3,300,000.00
Other receivables with bad debt provision accrued on combination	-	-	-	-	-
Account age combination	29,424,760.07	41.41	13,203,070.67	44.87	16,221,689.40
Combination of relationship with transaction object	-	-	-	-	-
Combination of special account nature	35,035,251.48	49.30	-	-	35,035,251.48
Combination sub-total	64,460,011.55	90.71	13,203,070.67	20.48	51,256,940.88
Other receivables with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	<u>71,060,011.55</u>	<u>100.00</u>	<u>16,503,070.67</u>	<u>-</u>	<u>54,556,940.88</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Item	Book balance		Balance at the beginning of the year Provision for Bad Debt		Book value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
Other receivables with significant individual amount and bad debt provision accrued on single item	6,600,000.00	9.29	3,300,000.00	50.00	3,300,000.00
Other receivables with bad debt provision accrued on combination	-	-	-	-	-
Account age combination	38,249,611.12	53.81	21,185,439.04	55.39	17,064,172.08
Combination of relationship with transaction object	-	-	-	-	-
Combination of special account nature	26,226,247.22	36.90	-	-	26,226,247.22
Combination sub-total	64,475,858.34	90.71	21,185,439.04	32.86	43,290,419.30
Other receivables with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	71,075,858.34	100.00	24,485,439.04	-	46,590,419.30

1) *Aging analysis of accounts receivable (including accounts receivable of related parties) based on transaction date is as follows:*

Account Age	Balance at the end of the period		
	Account Receivables	Provision for Bad Debt	Proportion of Provision (%)
Within 1 year	37,500,023.39	78,756.04	0.21
1-2 years	10,211,528.12	75,600.00	0.74
2-3 years	1,670,000.73	370,255.32	22.17
Over 3 years	21,678,459.31	15,978,459.31	73.71
Total	71,060,011.55	16,503,070.67	-

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

Account Age	Balance at the beginning of the year		
	Account Receivables	Provision for Bad Debt	Proportion of Provision (%)
Within 1 year	28,520,964.15	82,930.52	0.29
1-2 years	10,321,115.56	90,456.85	0.88
2-3 years	2,520,486.14	298,759.18	11.85
Over 3 years	29,713,292.49	24,013,292.49	80.82
Total	71,075,858.34	24,485,439.04	-

2) *Other receivables with significant individual amount and provisions for bad debt accrued on single basis at the end of the period*

Organization Name	Ending Balance	Amount of Bad Debts	Proportion of Provision (%)	Reasons for Provision
Nanjing Huadong Pharmaceutical Co., Ltd.	6,600,000.00	3,300,000.00	50.00	Consider possibility of recovery
Total	6,600,000.00	3,300,000.00	-	

3) *In combination, other receivables with provisions for bad debt accrued by aging analysis:*

Item	Balance at the end of the period			Beginning Balance		
	Amount	Provision for Bad Debt	Proportion of Provision (%)	Amount	Provision for Bad Debt	Proportion of Provision (%)
Within 1 year	15,751,208.55	78,756.04	0.50	16,586,102.36	82,930.52	0.50
1-2 years	378,000.00	75,600.00	20.00	452,284.29	90,456.85	20.00
2-3 years	617,092.21	370,255.32	60.00	497,931.98	298,759.18	60.00
Over 3 years	12,678,459.31	12,678,459.31	100.00	20,713,292.49	20,713,292.49	100.00
Total	29,424,760.07	13,203,070.67	-	38,249,611.12	21,185,439.04	-

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

- 4) In the combination, other receivables with provision for bad debts accrued by other method:

Name of Combination	Ending balance	Amount of Bad Debts
Combination of special account nature	<u>35,035,251.48</u>	—
Total	<u><u>35,035,251.48</u></u>	<u>—</u>

- 5) The Group has no specific credit terms for other receivables. Therefore, the Group has no other receivables that were past due but not individually provided for impairment as at 30 June 2017 and as at the beginning of the year.

(2) Provision for Bad debts reversed (or recovered) in current period

Significant amount of provision for bad debts reversed or recovered at the end of the period.

Organization Name	Amount Reversed (or Recovered) in Current Period	Original Reason for provision for bad debts	Reason for Reversals (or Recovery) in Current Period
Hou town project area	8,000,000.00	Full provision on the basis of considering debt paying ability	Recovery of monetary fund
Total	<u><u>8,000,000.00</u></u>		

(3) Other receivables actually written off in the current period

There were no other receivables to be written off in the current period.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(4) Classification of other receivables by nature

Nature	Balance at the end of the period	Balance at the beginning of the year
Guarantee deposit and security deposit for bid	8,002,837.15	7,237,785.54
Petty cash	2,186,836.92	3,077,626.00
Tax receivable and to be deducted	8,068,177.28	7,445,844.37
Finance lease deposit	26,000,000.00	18,000,000.00
Claim	6,600,000.00	6,600,000.00
Land compensation receivable	–	8,000,000.00
Advance investment funds	2,400,000.00	2,400,000.00
Others	17,802,160.20	18,314,602.43
Total	<u>71,060,011.55</u>	<u>71,075,858.34</u>

(5) Top five other receivables based on balance at the end of the period by Top five borrowers

Organization Name	Amount	Account Age	Proportion (%)	Ending Balance of Bad Debt Provision	Nature or Contents
Pingan International Financial Leasing Co., Ltd.	26,000,000.00	Within 2 years	36.59	–	Security deposit
Nanjing Huadong Pharmaceutical Co., Ltd.	6,600,000.00	Within 3 years	9.29	3,300,000.00	Claim
The Second People's Hospital of Lijin County	5,000,000.00	Within 1 year	7.04	25,000.00	Deposit for tendering
State-owned Assets Management Company of Zibo Hi-tech Industrial Development Zone	2,400,000.00	Over 3 years	3.38	–	Prepayment of investment
Maternal and Child Health Hospital of Gaoqing County	1,000,000.00	Within 1 year	1.41	5,000.00	Deposit for tendering
Total	<u>41,000,000.00</u>		<u>57.71</u>	<u>3,330,000.00</u>	

(6) Receivable borrowings due from employees for current period

As at 30 June 2017, there were no receivable borrowings due from employees.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

6. Inventory and Provision for inventory falling price

(1) Classifications of inventories

Item	Balance at the end of the period			Balance at the beginning of the year		
	Book Balance	Provision for Inventory Falling Price	Book Value	Book Balance	Provision for Inventory Falling Price	Book Value
Raw materials	64,688,983.50	3,255,130.86	61,433,852.64	67,817,242.14	3,443,544.14	64,373,698.00
Products in process	85,547,175.42	6,162,393.74	79,384,781.68	113,214,372.81	7,196,708.54	106,017,664.27
Goods in stock	271,769,905.44	10,221,669.25	261,548,236.19	310,032,864.46	11,115,304.59	298,917,559.87
Development cost	83,781,389.30	–	83,781,389.30	76,271,249.69	–	76,271,249.69
Low-value consumables	11,827,838.60	–	11,827,838.60	12,067,265.42	–	12,067,265.42
Specialty approved reserved supplies	1,839,696.49	–	1,839,696.49	1,839,696.49	–	1,839,696.49
Total	519,454,988.75	19,639,193.85	499,815,794.90	581,242,691.01	21,755,557.27	559,487,133.74

(2) Provision for inventory falling price

Classification of inventories	Balance at the beginning of the year	Withdrawal in Current Period	Decrease in Current Period		Balance at the end of the period
			Other Transfer-out	Write-off	
Raw materials	3,443,544.14	(188,413.28)	–	–	3,255,130.86
Products in process	7,196,708.54	(1,034,314.80)	–	–	6,162,393.74
Goods in stock	11,115,304.59	638,320.12	–	1,531,955.46	10,221,669.25
Total	21,755,557.27	(584,407.96)	–	1,531,955.46	19,639,193.85

For method of provisions for decline in value of inventories, see the note “IV. Important Accounting Policy and Accounting Estimate 10. Inventory”.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(3) *Withdrawing of provisions for inventory falling price*

Item	Recognition Methods for Net Realizable Value	Reasons for Withdrawing or Write-off in Current Period
Raw materials	Expected net realizable value is lower than the book cost	Produced and sold
Products in process	Expected net realizable value is lower than the book cost	Completed and sold
Goods in stock	Expected net realizable value is lower than the book cost	Sold

7. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the year	Nature
Enterprise income tax prepayment	1,885,989.03	5,342,076.10	Enterprise income tax prepayment
Input taxes of VAT to be deducted	12,149,411.51	25,305,128.78	Input taxes under deduction
Private placement fee	3,150,738.79	2,984,126.62	Intermediary organization service fee
Product "Rijiyuelei" of Bank of China	—	30,000,000.00	Product "Rijiyuelei" of Bank of China
Total	<u>17,186,139.33</u>	<u>63,631,331.50</u>	

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

8. Financial assets available for sale

(1) Financial assets available for sale

Item	Balance at the end of the period		
	Book Balance	Provision for Impairment	Book Value
Equity instrument available-for-sale	–	–	–
Measured by fair value	219,980,272.00	–	219,980,272.00
Measured by cost	33,200,000.00	30,000,000.00	3,200,000.00
Total	253,180,272.00	30,000,000.00	223,180,272.00

Item	Balance at the beginning of the year		
	Book Balance	Provision for Impairment	Book Value
Equity instrument available for sale	–	–	–
Measured by fair value	186,274,784.00	–	186,274,784.00
Measured by cost	33,200,000.00	30,000,000.00	3,200,000.00
Total	219,474,784.00	30,000,000.00	189,474,784.00

(2) Analysis of financial assets available for sale is as follows:

Item	Balance at the end of the period	Balance at the beginning of the year
Listed		
China (excluding Hong Kong)	219,980,272.00	186,274,784.00
Unlisted		
China (excluding Hong Kong)	3,200,000.00	3,200,000.00
Total	223,180,272.00	189,474,784.00

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(3) Financial assets available for sale measured at fair value at the end of the period

Item	Available-for-sale Equity Instrument (Measured at Fair Value)
Cost of equity instrument	21,225,318.00
Fair value at the end of the period	219,980,272.00
Amount of changes in fair value accumulatively included in other comprehensive income	168,941,710.90
Amount of impairment provision provided	—
	—

(4) Financial assets available for sale which are measured as per the cost at the end of the period

Invested Entity	Book balance			Balance at the end of the period
	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	
Ruiheng Pharmaceutical Technology Investment Company	3,200,000.00	—	—	3,200,000.00
Tiantong Securities	30,000,000.00	—	—	30,000,000.00
Total	33,200,000.00	—	—	33,200,000.00

Invested Entity	Provision for Impairment			Balance at the end of the period	Shareholding Ratio in Investees (%)	Cash Bonus in Current Year
	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period			
Ruiheng Pharmaceutical Technology Investment Company	—	—	—	—	2.91	—
Tiantong Securities	30,000,000.00	—	—	30,000,000.00	—	—
Total	30,000,000.00	—	—	30,000,000.00	—	—

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

(5) Provision for impairment of financial assets available for sale

Classification of Financial assets available for sale	Available-for-sale Equity Instrument (Measured at Fair Value)	Available-or-sale Equity Instrument (Measured by Cost)	Total
Amount of impairment provision provided at the beginning of the year	–	30,000,000.00	30,000,000.00
Amount of impairment provision provided at the end of the period	–	30,000,000.00	30,000,000.00

9. Investment real estate

(1) Investment real estate measured by cost

Item	Premises and Buildings	Land Use Right	Total
I. Original book value			
1. Balance at the beginning of the year	107,041,862.42	14,121,724.63	121,163,587.05
2. Increased amount in the current period	–	–	–
(1) Purchase	–	–	–
(2) Fixed assets/transferred from projects under construction	–	–	–
3. Decreased amount in the current period	–	–	–
4. Balance at the end of the period	107,041,862.42	14,121,724.63	121,163,587.05
II. Accumulated depreciation and accumulated amortization			
1. Balance at the beginning of the year	43,443,005.43	2,085,261.53	45,528,266.96
2. Increased amount in the current period	2,194,864.86	164,697.00	2,359,561.86
(1) Withdrawing or amortization	2,194,864.86	164,697.00	2,359,561.86
(2) Transferred to fixed assets	–	–	–
3. Decreased amount in the current period	–	–	–
4. Balance at the end of the period	45,637,870.29	2,249,958.53	47,887,828.82
III. Provision for impairment			
IV. Book value			
1. Book value at the end of the period	61,403,992.13	11,871,766.10	73,275,758.23
2. Book value at the beginning of the year	63,598,856.99	12,036,463.10	75,635,320.09

The amount of depreciation and amortization for investment property recognized as profits or losses is RMB2,359,561.86 (amount of previous period: RMB2,318,602.20) in the current period.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(2) All investment real estates of the Company are located in the territory of China and in the medium-term (10–50 years) phase.

(3) Investment real estates with certificate of title not settled

At the end of the period, the Investment real estates include the house property with the book value of RMB44,072,964.68 (amount at the beginning of the year: RMB45,623,535.91) and its certificate of title is under application. Since the above house property is handled in accordance with relevant legal procedures, the board of directors of the Company can make sure that transfer of the property title will not have any substantial legal obstacles or affect normal use of such house buildings by the Group, and will not exert significant impact on normal operation of the Group and not be required to draw provisions for impairment of investment real estates, and will not incur significant additional costs.

Item	Book Value	Reasons for Unsettlement of the Certificate of Title
13–22/F, Xinhua Mansion in the Headquarters	31,435,239.98	Under application
No. 1 Scientific Research Centre in the Headquarters	8,071,032.33	Under application
Comprehensive office building (block B) in the General Factory	4,566,692.37	Under application
Total	<u>44,072,964.68</u>	

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

10. Fixed assets

(1) Detail list of fixed assets

Item	Premises and Buildings	Machinery Equipment	Transportation Equipment	Electronic Equipment and Others	Total
I. Original book value					
1. Balance at the beginning of the year	1,367,077,024.08	2,241,116,417.70	28,314,854.15	71,320,764.04	3,707,829,059.97
2. Increased amount in the current period	45,280,522.42	84,524,418.25	13,097.75	1,568,642.70	131,386,681.12
(1) Purchase	7,014,330.89	48,315,553.54	13,097.75	1,286,591.42	56,629,573.60
(2) Transferred from projects under construction	38,266,191.53	36,208,864.71	-	282,051.28	74,757,107.52
3. Decreased amount in the current period	2,139,459.24	17,429,170.35	488,371.00	1,065,438.10	21,122,438.69
(1) Disposal or scrapping	2,139,459.24	17,429,170.35	488,371.00	1,065,438.10	21,122,438.69
(2) Transferred to investment real estate	-	-	-	-	-
4. Balance at the end of the period	1,410,218,087.26	2,308,211,665.60	27,839,580.90	71,823,968.64	3,818,093,302.40
II. Accumulated depreciation					
1. Balance at the beginning of the year	427,070,570.44	1,090,061,872.61	19,729,010.83	49,924,346.73	1,586,785,800.61
2. Increased amount in the current period	35,722,717.11	91,745,850.48	1,093,242.25	5,085,586.28	133,647,396.12
(1) Provision	35,722,717.11	91,745,850.48	1,093,242.25	5,085,586.28	133,647,396.12
(2) Other increase	-	-	-	-	-
3. Decreased amount in the current period	1,271,045.35	14,160,281.99	463,952.45	1,018,759.06	16,914,038.85
(1) Disposal or scrapping	1,271,045.35	14,160,281.99	463,952.45	1,018,759.06	16,914,038.85
(2) Transferred to investment real estate	-	-	-	-	-
4. Balance at the end of the period	461,522,242.20	1,167,647,441.10	20,358,300.63	53,991,173.95	1,703,519,157.88
III. Provision for impairment					
1. Balance at the beginning of the year	-	45,882.19	-	2,276.65	48,158.84
2. Increased amount in the current period	-	-	-	-	-
(1) Provision	-	-	-	-	-
3. Decreased amount in the current period	-	5,036.17	-	-	5,036.17
(1) Disposal or scrapping	-	5,036.17	-	-	5,036.17
4. Balance at the end of the period	-	40,846.02	-	2,276.65	43,122.67
IV. Book value					
1. Book value at the end of the period	948,695,845.06	1,140,523,378.48	7,481,280.27	17,830,518.04	2,114,531,021.85
2. Book value at the beginning of the year	940,006,453.64	1,151,008,662.90	8,585,843.32	21,394,140.66	2,120,995,100.52

The amount of depreciation and amortization for fixed assets recognized as losses is RMB133,647,396.12 (amount of previous period: RMB117,727,083.06) in current period.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(2) All buildings of the Group are located in the territory of China and in the medium-term (10–50 years) phase.

(3) Fixed assets acquired by finance lease

At the end of the period, the fixed asset with a book value of RMB164,348,106.741 (original book value: RMB295,475,313.38) is rented by financial lease. The specific analysis is as follows:

	Original Book Value	Accumulated Depreciation	Provision for Impairment	Book Value
Machinery equipment	295,475,313.38	131,127,206.64	–	164,348,106.74
Total	<u>295,475,313.38</u>	<u>131,127,206.64</u>	<u>–</u>	<u>164,348,106.74</u>

(4) Fixed assets whose title certificates are not obtained yet

At the end of the period, the fixed assets include the house property with the original book value of RMB513,396,528.96 (amount at the beginning of the year: RMB490,805,390.74) and its certificate of title is under application. Since the above house property is handled in accordance with relevant legal procedures, the directors of the Company can make sure that transfer of the property title will not have any substantial legal obstacles or affect normal use of such house buildings by the Group, and will not exert significant impact on normal operation of the Group and not be required to draw provisions for impairment of fixed assets, and will not incur significant additional costs.

Item	Book Value	Reasons for Unsettlement of the Certificate of Title
House property of No. 2 factory	268,573,003.00	Under application
House property in the headquarter park	80,311,823.56	Under application
House property in Shouguang park	72,210,993.79	Under application
House property of No. 1 factory	53,925,849.60	Under application
Xinda pharmacy research and development building	8,714,472.26	Under application
House property in Gaomi park	26,848,603.27	Under application
House property in the parent factory park	<u>2,811,783.48</u>	Under application
Total	<u>513,396,528.96</u>	

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

11. Projects under construction

(1) Detail list of projects under construction

Item	Amount at the end of the period			Amount at the beginning of the year		
	Book Balance	Provision for Impairment	Net Book Value	Book Balance	Provision for Impairment	Net Book Value
Modern medicine center for international cooperation	162,538,617.42	-	162,538,617.42	109,001,392.00	-	109,001,392.00
Modern chemical medicine industrialization center in Hutian Industrial Park	9,234.11	-	9,234.11	53,207,582.18	-	53,207,582.18
New 2,000T/d sewage treatment system project of the Ministry of Environmental Protection	2,114,073.47	-	2,114,073.47	48,623.43	-	48,623.43
Utilities project in Hutian Industrial Park	3,567,592.56	-	3,567,592.56	2,725,905.71	-	2,725,905.71
Hormone series products project in Hutian Industrial Park	67,760,510.74	-	67,760,510.74	34,538,304.47	-	34,538,304.47
Caffeine expansion, transformation project	13,438,185.60	-	13,438,185.60	6,715,011.11	-	6,715,011.11
Industrial park project (phase III) in the eastern zone of Xinhua Shouguang Pharmaceuticals Co., Ltd.	6,216,046.20	-	6,216,046.20	5,956,191.53	-	5,956,191.53
GMP renovation project	2,878,180.70	-	2,878,180.70	6,112,542.51	-	6,112,542.51
Xincat-Quality Control complex building	2,353,254.26	-	2,353,254.26	269,399.16	-	269,399.16
Others	93,560,737.89	-	93,560,737.89	55,845,459.94	-	55,845,459.94
Total	354,436,432.95	-	354,436,432.95	274,420,412.04	-	274,420,412.04

At the end of the period, the investment in projects under construction largely increased, because the investment of Modern medicine center for international cooperation, Modern chemical medicine industrialization center in Hutian Industrial Park, Hormone series products project in Hutian Industrial Park and etc. have increased in current period.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(2) Changes in major projects under construction

Name of Project	Amount at the beginning of the year	Increase in Current Period	Decrease in the period		Amount at the end of the period
			Transferred to Fixed Assets/ Investment real estate	Other Decreases	
Modern medicine center for international cooperation	109,001,392.00	53,537,225.42	-	-	162,538,617.42
Modern chemical medicine industrialization center in Hutian Industrial Park	53,207,582.18	961,651.93	54,160,000.00	-	9,234.11
New 2,000T/d sewage treatment system project of the Ministry of Environmental Protection	48,623.43	2,065,450.04	-	-	2,114,073.47
Utilities project in Hutian Industrial Park	2,725,905.71	841,686.85	-	-	3,567,592.56
Hormone series products project in Hutian Industrial Park	34,538,304.47	33,222,206.27	-	-	67,760,510.74
Caffeine expansion, transformation project	6,715,011.11	6,723,174.49	-	-	13,438,185.60
Industrial park project (phase III) in the eastern zone of Xinhua Shouguang Pharmaceuticals Co., Ltd.	5,956,191.53	6,216,046.20	5,956,191.53	-	6,216,046.20
GMP renovation project	6,112,542.51	28,498.20	3,262,860.01	-	2,878,180.70
Xincat-Quality Control complex building	269,399.16	2,083,855.10	-	-	2,353,254.26
Others	55,845,459.94	49,093,333.93	11,378,055.98	-	93,560,737.89
Total	274,420,412.04	154,773,128.43	74,757,107.52	-	354,436,432.95

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Name of Project	Budget	Proportion of Project Investment in Budget (%)	Engineering Schedule (%)	Accumulated Amount of Capitalization of Interest	Including: Amount of Capitalized Interest in Current Period	Capitalization Rate of Interest in Current Period (%)	Financial Resource
Modern medicine center for international cooperation	400,000,000.00	38.00	95.00	-	-	-	Self-provided
Modern chemical medicine industrialization center in Hutian Industrial Park	50,000,000.00	109.00	98.00	-	-	-	Self-provided
New 2,000T/d sewage treatment system project of the Ministry of Environmental Protection	31,100,000.00	64.00	100.00	-	-	-	Self-provided
Utilities project in Hutian Industrial Park	57,000,000.00	96.00	95.00	-	-	-	Self-provided
Hormone series products project in Hutian Industrial Park	80,000,000.00	70.00	90.00	-	-	-	Self-provided
Caffeine expansion, transformation project	46,000,000.00	30.00	90.00	-	-	-	Self-provided
Industrial park project (phase III) in the eastern zone of Xinhua Shouguang Pharmaceuticals Co., Ltd.	121,000,000.00	38.00	40.00	-	-	-	Self-provided
GMP renovation project	41,800,000.00	84.00	96.00	-	-	-	Self-provided
Xincat-Quality Control complex building	35,000,000.00	7.00	15.00	-	-	-	Self-provided
Total	861,900,000.00	-	-	-	-	-	

- (3) No impairment was incurred on the projects under construction of the Group at the end of the period. No provision for impairment of projects under construction was drawn.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

12. Intangible assets

(1) Intangible assets

Item	Land Use Right	Software License	Non-patented Technology	Others	Total
I. Original book value					
1. Balance at the beginning of the year	345,176,466.90	8,674,544.13	23,496,005.93	2,774,800.00	380,121,816.96
2. Increased amount in the current period	66,186,663.24	598,290.59	-	-	66,784,953.83
(1) Purchase	66,186,663.24	598,290.59	-	-	66,784,953.83
3. Decreased amount in the current period	-	-	-	65,040.00	65,040.00
(1) Disposal	-	-	-	-	-
(2) Others	-	-	-	65,040.00	65,040.00
4. Balance at the end of the period	411,363,130.14	9,272,834.72	23,496,005.93	2,709,760.00	446,841,730.79
II. Accumulated amortization					
1. Balance at the beginning of the year	65,683,806.86	6,576,957.78	22,366,271.97	2,219,840.00	96,846,876.61
2. Increased amount in the current period	3,946,129.94	378,016.78	1,123,461.46	218,944.00	5,666,552.18
(1) Provision	3,946,129.94	378,016.78	1,123,461.46	218,944.00	5,666,552.18
(2) Other increase	-	-	-	-	-
3. Decreased amount in the current period	-	-	-	-	-
(1) Disposal	-	-	-	-	-
(2) Others	-	-	-	-	-
4. Balance at the end of the period	69,629,936.80	6,954,974.56	23,489,733.43	2,438,784.00	102,513,428.79
III. Provision for impairment					
IV. Book value					
1. Book value at the end of the period	341,733,193.34	2,317,860.16	6,272.50	270,976.00	344,328,302.00
2. Book value at the beginning of the year	279,492,660.04	2,097,586.35	1,129,733.96	554,960.00	283,274,940.35

* "Others" are client sources purchased from American Midwest Co., Ltd. by the subsidiary of the Company (the American subsidiary).

The amount of depreciation and amortization for intangible assets recognized as profits or losses is RMB5,666,552.18 (amount of previous period: RMB6,189,594.68) in the current period.

(2) All land use rights of the Group are located in the territory of China and in the medium-term (10–50 years) phase.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

(3) The following land use right certificates of the Group are in progress:

At the end of the period, the net value of the land use rights without land use right certificates in the intangible assets of the Group is RMB4,006,527.78 (Amount at the beginning of the year: RMB4,080,494.44) and relevant land use right certificates are under application. As the above purchased assets are handled in accordance with relevant legal agreements, the directors of the Company think that transfer of the property title will not have any substantial legal obstacles and thus will not exert significant impact on normal operation of the Group and not be required to draw provisions for impairment of intangible assets, and will not incur significant additional costs.

Item	Book Value	Reasons for Unsettlement of the Certificate of Title
Eastern chemical industrial area of high-tech industrial development zone in Zibo High-tech Zone	4,006,527.78	Under application

13. Goodwill

(1) Original value of goodwill

Invested Entity	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the Period
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	2,715,585.22	-	-	2,715,585.22

(2) Provision for impairment of goodwill

Invested Entity	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the Period
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	2,715,585.22	-	-	2,715,585.22

For goodwill impairment test methods and drawing methods of provision for impairment, see “IV. Significant Accounting Policies and Accounting Estimate – 18 Impairment of Non-financial Assets” for details.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

14. Deferred income tax assets and liabilities

(1) Deferred income tax assets without offset

Item	Balance at the end of the period		Balance at the beginning of the year	
	Deductible Temporary Difference	Deferred Income Tax Assets	Deductible Temporary Difference	Deferred Income Tax Assets
Provision for impairment of financial assets available for sale	30,000,000.00	4,500,000.00	30,000,000.00	4,500,000.00
Provision for bad debt	71,749,069.59	16,817,257.11	80,956,970.55	19,112,607.08
Provisions for inventory falling price	21,612,951.13	3,609,624.05	20,634,561.01	3,365,026.52
Salaries unpaid	59,203,376.46	9,587,683.72	61,342,819.30	10,122,544.43
Estimated liabilities and others	21,712,982.47	3,256,947.37	13,837,225.27	2,075,583.79
Deferred incomes	30,591,504.33	4,588,725.65	33,768,847.07	5,065,327.06
Unrealized internal profits from purchase and sales with subsidiaries	32,647,899.87	7,762,627.54	20,799,956.11	4,521,821.27
Provision for impairment of goodwill	2,715,585.22	678,896.31	2,715,585.24	678,896.31
Total	<u>270,233,369.07</u>	<u>50,801,761.75</u>	<u>264,055,964.55</u>	<u>49,441,806.46</u>

(2) Deferred income tax liabilities without offset

Item	Balance at the end of the period		Balance at the beginning of the year	
	Taxable Temporary Difference	Deferred Income Tax Liability	Taxable Temporary Difference	Deferred Income Tax Liability
Assets evaluation increment from business merger not under common control	57,787.72	14,446.93	993,193.48	248,298.37
Profits and losses from changes in fair value of available-for-sale financial assets	<u>198,754,954.00</u>	<u>29,813,243.10</u>	<u>165,049,466.00</u>	<u>24,757,419.90</u>
Total	<u>198,812,741.72</u>	<u>29,827,690.03</u>	<u>166,042,659.48</u>	<u>25,005,718.27</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

(3) Deferred income tax assets and liabilities listed as net amount after offset

Item	Ending Offset Amount of Deferred Income Tax Assets and Liabilities	Balance at the end of the period of Deferred Income Tax Assets or Liabilities after Offset	Beginning Offset Amount of Deferred Income Tax Assets and Liabilities	Balance at the beginning of the year of Deferred Income Tax Assets or Liabilities after Offset
Deferred Income Tax Assets	24,516,251.56	26,285,510.19	23,811,489.39	25,630,317.07
Deferred Income Tax Liability	24,516,251.56	5,311,438.47	23,811,489.39	1,194,228.88

Note: The net amount of deferred income tax assets and liabilities after offset of the Company is listed under the item of deferred income tax liabilities.

(4) Details of the unrecognized deferred income tax assets

Item	Balance at the end of the period	Balance at the beginning of the year
Deductible temporary difference	967,853.42	1,138,631.78
Deductible loss	19,659,941.83	19,659,941.83
Total	20,627,795.25	20,798,573.61

(5) The deductible loss of the unrecognized deferred income tax assets will expire in the following year

Year	Balance at the end of the period	Balance at the beginning of the year	Tips
2017	3,815,140.83	3,815,140.83	-
2018	4,417,099.94	4,417,099.94	-
2019	6,344,809.20	6,344,809.20	-
2020	-	-	-
2021	5,082,891.86	5,082,891.86	-
Total	19,659,941.83	19,659,941.83	-

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

15. Other non-current assets

Item	Balance at the end of the period	Balance at the beginning of the year
Land prepayment	—	42,766,078.24
Total	<u>—</u>	<u>42,766,078.24</u>

16. Short-term borrowing

Category	Balance at the end of the period	Balance at the beginning of the year
Credit loans	<u>614,000,000.00</u>	910,000,000.00
Total	<u>614,000,000.00</u>	<u>910,000,000.00</u>

Note: On 30 June 2017, the interest rate range of short-term borrowing is 4.09%–4.35%.

17. Notes payable

Category	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance bill	<u>110,122,168.35</u>	254,077,627.50
Total	<u>110,122,168.35</u>	<u>254,077,627.50</u>

The aging of the notes payable of the Group is within 180 days and there was no payable notes that have not been paid at the end of the period.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

18. Accounts payable

(1) Classification of accounts payable by nature:

Item	Balance at the end of the period	Balance at the beginning of the year
Loan	492,793,206.92	433,116,202.88
Total	492,793,206.92	433,116,202.88

(2) At transaction date, the account age of payables is analyzed as follows:

Item	Balance at the end of the period	Balance at the beginning of the year
Within 1 year	476,856,576.61	414,778,212.02
1-2 years	10,062,172.34	11,147,066.41
2-3 years	1,467,615.60	1,924,616.11
Over 3 years	4,406,842.37	5,266,308.34
Total	492,793,206.92	433,116,202.88

(3) Accounts payable with significant amount and an age of over 1 year:

Organization Name	Balance at the end of the period	Reasons for not repaying or carrying forward
Jiangsu Saideli Pharmaceutical and Maschinenbau Co., Ltd	1,854,021.64	Outstanding goods payment
Zibo Chihuan pump industry Co., Ltd	1,673,580.34	Outstanding goods payment
Shandong Telier Marketing Planning Co., Ltd Medical branch	445,090.00	Outstanding goods payment
Shandong Zibo Haiya pharmaceutical co. Ltd	315,153.69	Outstanding goods payment
Total	4,287,845.67	

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

19. Accounts received in advance

(1) Accounts collected in advance classified by nature

Item	Balance at the end of the period	Balance at the beginning of the year
Sales income received in advance	38,186,870.33	67,393,449.91
Total	<u>38,186,870.33</u>	<u>67,393,449.91</u>

(2) Accounts from customers with significant amount and an age of over 1 year

Organization Name	Balance at the end of the Report Period	Reasons for Not Repaying and Carrying Forward
General Logistics and Health Department of PLA	530,014.78	State-reserved drugs
Total	<u>530,014.78</u>	

20. Payroll payable

(1) Classification of payroll payable

Item	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the period
Short-term remuneration	66,078,587.82	277,326,813.27	300,565,483.41	42,839,917.68
Post-employment welfare – defined contribution plan	–	27,188,591.42	27,188,591.42	–
Dismissal welfare	–	–	–	–
Total	<u>66,078,587.82</u>	<u>304,515,404.69</u>	<u>327,754,074.83</u>	<u>42,839,917.68</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

(2) Short-term remuneration

Item	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the period
Salary, bonus, allowance and subsidy	59,086,436.13	224,833,206.75	249,378,488.35	34,541,154.53
Employee welfare expenses	781,215.37	9,072,750.73	8,872,750.73	981,215.37
Social insurance premiums	–	12,542,218.96	12,542,218.96	–
Including: Medical insurance premiums	–	9,918,611.35	9,918,611.35	–
Work-related injury insurance premiums	–	1,276,411.59	1,276,411.59	–
Maternity insurance premium	–	1,347,196.02	1,347,196.02	–
Housing funds	–	8,548,528.94	8,551,359.74	(2,830.80)
Labor union expenditure & personnel education funds	6,210,936.32	4,459,138.23	3,349,695.97	7,320,378.58
Termination benefits	–	–	–	–
Labor expenses	–	17,870,969.66	17,870,969.66	–
Total	<u>66,078,587.82</u>	<u>277,326,813.27</u>	<u>300,565,483.41</u>	<u>42,839,917.68</u>

During the reporting period, the Company did not distribute any bonus.

(3) Defined contribution plan

The Group participated in the social insurance plan established by the government agencies. According to the plan, the Group deposited the fees in accordance with the relevant rules of the local government. In addition to the above deposit, the Group no longer undertook further payment obligations. The corresponding expenses recognized in the current profit and loss or related asset costs at the time of occurrence.

The Group should pay for the endowment insurance and unemployment insurance plans as follows

Item	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the period
Basic endowment insurance	–	26,042,540.55	26,042,540.55	–
Unemployment insurance premium	–	1,146,050.87	1,146,050.87	–
Total	–	<u>27,188,591.42</u>	<u>27,188,591.42</u>	–

The endowment insurance, annuity and unemployment insurance premium that the Group planned to pay on 30 June 2017 had been fully paid.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

21. Tax payable

Tax Category	Balance at the end of the period	Balance at the beginning of the year
VAT	5,660,122.76	2,388,669.72
Income tax	4,474,202.50	5,349,002.19
City maintenance and construction tax	1,513,320.92	1,025,790.34
Personal income tax	779,153.65	825,632.06
House property tax	3,231,169.82	2,717,806.58
Land use tax	4,102,375.49	4,181,576.49
Stamp duty	147,369.62	328,128.72
Educational surcharges	1,081,039.44	732,803.25
Local Water Conservancy Fund	122,453.72	145,218.01
Total	21,111,207.92	17,694,627.36

22. Interests payable

Item	Balance at the end of the period	Balance at the beginning of the year
Interest of bank loans	4,033,810.42	3,196,326.40
Interest of finance lease	705,783.76	705,783.76
Total	4,739,594.18	3,902,110.16

23. Dividends payable

Item	Balance at the end of the period	Balance at the beginning of the year
Ordinary stock dividend	5,310,599.53	5,310,599.55
Total	5,310,599.53	5,310,599.55

Such amount represents the accumulated dividends declared in previous years but yet to be received by shareholders.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

24. Other payables

(1) Classification of other payables by nature

Item	Balance at the end of the period	Balance at the beginning of the year
Classifications of engineering equipment amount payable	161,308,751.83	106,927,066.53
Classifications of guarantee deposit and security deposit	29,255,925.81	30,677,849.25
Classifications of power expense, transport costs and consulting fees	12,865,423.40	10,707,522.96
Others	15,130,644.21	15,034,865.46
Total	218,560,745.25	163,347,304.20
Including: more than 1 year	16,404,921.71	15,648,050.48

(2) Other payables with significant amount and age of over 1 year

Organization Name	Balance at the end of the period	Reasons for not repaying or carrying forward
Shandong Zijian Group Co., Ltd	3,643,194.32	Engineering quality guarantee deposit
Shandong Qitai industry Group Co., Ltd	987,064.51	Engineering quality guarantee deposit
Baose Special equipment Co., Ltd	739,200.00	Engineering quality guarantee deposit
Shengan Construction Group Co., Ltd	703,871.05	Engineering quality guarantee deposit
Shandong Wanxin Construction Co., Ltd 5th branch office	251,733.68	Engineering quality guarantee deposit
Total	6,325,063.56	

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

25. Non-current liabilities due within one year

Item	Balance at the end of the period	Balance at the beginning of the year
Long-term loans due within one year	150,000,000.00	275,000,000.00
Finance lease payments due within one year	99,466,855.80	69,854,126.83
Total	<u>249,466,855.80</u>	<u>344,854,126.83</u>

26. Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the year
Deferred income carried forward within one year	5,319,000.00	4,732,000.00
Total	<u>5,319,000.00</u>	<u>4,732,000.00</u>

Note: The deferred income carried forward within one year was the assets-related government subsidies amortized within one year.

27. Long-term loans

(1) Classifications of long-term loans

Category	Balance at the end of the period	Balance at the beginning of the year
Credit loans	670,000,000.00	100,000,000.00
Total	<u>670,000,000.00</u>	<u>100,000,000.00</u>

Note: As at 30 June 2017, the interest rate range of long-term loans is 2.90%–4.51%.

(2) Analysis of long-term loan maturity date

Item	Balance at the end of the period	Balance at the beginning of the year
1–2 years	350,000,000.00	–
2–5 years	320,000,000.00	100,000,000.00
Total	<u>670,000,000.00</u>	<u>100,000,000.00</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

28. Long-term payables

(1) Classifications of long-term payables by nature

Nature	Balance at the end of the period	Balance at the beginning of the year
Financial leasing	<u>80,829,282.30</u>	<u>64,938,492.33</u>
Total	<u><u>80,829,282.30</u></u>	<u><u>64,938,492.33</u></u>

(2) Analysis of long-term payables maturity date

Item	Balance at the end of the period	Balance at the beginning of the year
1–2 years	<u>57,870,832.30</u>	<u>55,108,352.27</u>
2–5 years	<u>22,958,450.00</u>	<u>9,830,140.06</u>
Total	<u><u>80,829,282.30</u></u>	<u><u>64,938,492.33</u></u>

29. Special payables

Item	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the period	Reason
Chemical pharmaceutical technology innovation platforms	13,000,000.00	–	–	<u>13,000,000.00</u>	–
Organic gas recovery and comprehensive air pollution prevention and control project	2,420,000.00	–	–	<u>2,420,000.00</u>	–
Modern medicine center for international cooperation project	62,270,000.00	–	–	<u>62,270,000.00</u>	–
Control of volatile organic compounds project	<u>7,270,000.00</u>	–	–	<u>7,270,000.00</u>	–
Total	<u><u>84,960,000.00</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>84,960,000.00</u></u>	

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

30. Deferred incomes

(1) Classification of deferred income

Item	Balance at the beginning of the year	Increase in Current Year	Decrease in Current Year	Balance at the end of the period
Government subsidy	118,317,680.77	15,600,000.00	4,373,375.80	129,544,304.97
Total	118,317,680.77	15,600,000.00	4,373,375.80	129,544,304.97

(2) Government subsidies

Project	Balance at the beginning of the year	Newly Increased Amount of Subsidy of the Current Period	Amount of Non-business Income of the Current Period	Other Changes	Balance at the end of the Period	Related to Assets/ Related to Income
Compensation for relocation *1	6,603,263.75	-	1,420,375.82	-	5,182,887.93	Related to asset
3,000t Ibuprofen Project *2	1,032,500.00	-	-	295,000.02	737,499.98	Related to assets
Innovation ability construction project of Technology Center *3	2,333,333.32	-	-	250,000.02	2,083,333.30	Related to asset
Aspirin Series Product GMP Transformation Project *4	5,983,583.33	-	-	608,500.02	5,375,083.31	Related to asset
Special funds for MVR energy-saving technical transformation *5	240,000.00	-	-	19,999.98	220,000.02	Related to asset
Cultivation of aspirin famous and excellent medicines *6	8,637,500.00	-	-	787,500.00	7,850,000.00	Related to asset
Aspirin series product technical transformation project *7	566,666.67	-	-	49,999.98	516,666.69	Related to assets
Special funds for MVR energy-saving transformation *8	3,120,000.00	-	-	240,000.00	2,880,000.00	Related to assets
Incinerator and heat recovery project of East Park Area *9	650,000.00	-	-	49,999.98	600,000.02	Related to assets
Organic gas (dichloromethane) recovery and comprehensive air pollution prevention and control project *10	35,610,000.00	-	-	-	35,610,000.00	Related to assets
Modern Medicine International Cooperation Center Project *11	45,700,000.00	10,600,000.00	-	-	56,300,000.00	Related to assets
Analgin series production process automation transformation project *12	606,250.00	-	-	37,500.00	568,750.00	Related to assets
Production equipment system energy saving transformation project *13	444,583.70	-	-	27,499.98	417,083.72	Related to assets

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Project	Balance at the	Newly Increased	Amount of	Other	Balance	Related to Assets/ Related to Income
	beginning of the year	Amount of Subsidy of the Current Period	Non-business Income of the Current Period		at the end of the Period	
New 2,000T/d sewage treatment system project *14	4,670,000.00	-	-	467,000.00	4,203,000.00	Related to assets
Modern Medicine International Cooperation Center (II) project *15	1,200,000.00	-	-	120,000.00	1,080,000.00	Related to assets
Xinhua pharmaceuticals E-Commerce Health Innovation Industrial Park Project *16	920,000.00	-	-	-	920,000.00	Related to assets
Hormone series technological transformation project *17	-	2,000,000.00	-	-	2,000,000.00	Related to assets
Research and industrialization project of calcium polycarbophil and tablet *18	-	3,000,000.00	-	-	3,000,000.00	Related to assets
Total	118,317,680.77	15,600,000.00	1,420,375.82	2,952,999.98	129,544,304.97	

Other changes are government subsidies expected to be carried forward in 2017, which are carried forward and listed in "other current liabilities"

- * 1. According to the "Relocation Plan of Eastern Chemical Park of Zibo City of Shandong Province" released in September 2008, some products of the Company have been listed into the uniform relocation plan. Therefore, Financial Bureau of Zibo City has released the relocation compensation funds according to documents ZCQ [2009] No. 29, ZCQ [2009] No. 33 and ZCQ [2009] No. 55. The actual relocation loss of the Company current year is RMB1,345,375.82, and the non-operating revenue shall be carried forward in an equal amount.
- * 2. According to the LCJZ [2009] No. 157 of Shandong Provincial Department of Finance in 2009, the Company received RMB5.9 million of construction fund subsidy for the 3000t Ibuprofen Project in 2009. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "Deferred incomes".
- * 3. According to the FGBGJ [2011] No. 1247 of National Development and Reform Commission, the Company received the government subsidies of RMB5 million for innovation ability construction project of Technology Center in 2012. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "Deferred incomes".
- * 4. According to the ZFGF [2012] No. 253 of Zibo Development and Reform Commission and Zibo Economic and Information Technology Commission, the Company received the government subsidies of RMB12.17 million for Aspirin Series Product GMP Transformation Project in 2012. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "Deferred incomes".

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*(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))*

- * 5. According to the document numbered ZZBZ [2012] No. 73 of General Office of Zibo Municipal People's Government, the Company received the RMB400,000 from special funds for MVR energy-saving technical transformation in 2012. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "other Deferred incomes".
- * 6. According to the document numbered ZCJZ [2013] No. 41 of Zibo Municipal Bureau of Finance, Zibo Municipal Science and Technology Bureau, document LKZ [2012] No. 187 of Office of Department of Science and Technology of Shandong Province and document ZKF [2012] No. 61 of Zibo Municipal Science and Technology Bureau, the Company received RMB14.25 million of government subsidies in the name of Cultivation of Aspirin Famous and Excellent Medicines in 2013 and RMB1.5 million in 2015 or RMB15.75 million in total. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "Deferred incomes".
- * 7. According to the document ZGXGF [2013] No. 11 of Management Committee of Zibo National High-tech Industrial Development Zone, the Company received RMB1 million for aspirin series product technical transformation project as the subsidies in 2013. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "Deferred incomes".
- * 8. According to the document LFGTZ [2014] No. 553 of Shandong Development and Reform Commission and Shandong Economic and Information Technology Committee, the Company has received the RMB4.8 million for special funds for MVR (mechanical vapour recompression) energy-saving technical transformation development in 2014. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "Deferred incomes".
- * 9. According to the document ZGXF [2014] No. 1 of Working Committee of Zibo National High-tech Industrial Development Zone, the Company received RMB1 million for 7,000t Metamizole Sodium Tablet Project, Incineration Furnace Waste Heat Recovery Project and Comprehensive Waste Heat Recovery Project of East Park Area in 2014. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "Deferred incomes".
- * 10. According to the Circular of Issuing the Budget Index for Provincial Air Pollution Prevention and Control Funds in 2014 (Batch 2) (LCJZ [2014] No. 153) Shandong Provincial Department of Finance and Environment Protection Office of Shandong Province, the Company received RMB4.61 million for organic gas (dichloromethane) recovery and comprehensive air pollution prevention and control project in 2015. According to the approval of Zibo Municipal Government numbered ZCBF [2015] No. 67, the Company received RMB31 million for organic gas (dichloromethane) recovery and comprehensive air pollution prevention and control project in 2015. The total amount is RMB35.61 million, and the related assets are expected to be completed and put into operation in 2017.

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(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

- * 11. According to the document of Reply for Approving the Implementation Scheme for Industrial Upgrade and Efficiency Enhancement in 2015 (LJXZ [2015] No. 193) of Shandong Economic and Information Technology Committee and Shandong Provincial Department of Finance, the Company received RMB3.7 million of government subsidies for Modern Medicine International Cooperation Center Project in 2015. According to the Circular of Releasing the Expenses for Building the Technological Innovation Service Platform of Biopharmaceutical Industry in Zibo (ZGXCF [2015] No. 121) of Zibo National High-tech Industrial Development Zone Finance Bureau, the Company received RMB21 million for Modern Medicine International Cooperation Center in 2015. In order to implement the Several Policies and Suggestions on CPC Zibo Municipal Committee and Zibo Municipal Government for Promoting the Transformation and Upgrade to Build a Major Industrial City (ZF [2015] No. 8), the Company received RMB1 million for the Modern Medicine International Cooperation Center Project in 2015. The Company received RMB20 million for the Modern Medicine International Cooperation Center Project (ZGXCF [2016] No. 125) in 2016. The Company received RMB10 million for the Modern Medicine International Cooperation Center Project (ZGXCF [2016] No. 125) and RMB600,000 for the Modern Medicine International Cooperation Center Project (ZGXCF [2017] No. 1) in 2017. The total amount is RMB56.30 million, and the related assets are expected to be completed and put into operation in 2017.
- * 12. According to document of Notice on Policy Support Project List in the Second Half of 2015 for "Industry Strength City 30 Articles" (ZJXF [2015] No. 48) issued by Zibo Economic and Information Technology Commission and Zibo Municipal Bureau of Finance the Company received RMB0.75 million of government subsidies for analgin series product production process automation transformation project in 2016. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "Deferred incomes".
- * 13. According to document of Notice on Policy Support Project List in the Second Half of 2015 for "Industry Strength City 30 Articles" (ZJXF [2015] No. 48) issued by Zibo Economic and Information Technology Commission and Zibo Municipal Bureau of Finance the Company received RMB0.55 million for production equipment system energy saving transformation project in 2016. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "Deferred incomes".
- * 14. According to the Circular of Issuing Industries Guiding Fund in 2016 for Development of Emerging (ZGXCF [2016] No. 65) issued by Zibo National High-tech Industrial Development Zone Finance Bureau and Bureau of Economic Development, the Company received RMB4.67 million of government subsidies for new 2,000T/d sewage treatment system project in 2016. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "Deferred incomes".
- * 15. According to the Circular of Issuing Planning in 2016 for Province Industry Improving Quality and Effectiveness Special Project (ZJXZZ [2016] No. 5) issued by Zibo Economic and Information Technology Commission and Zibo Municipal Bureau of Finance, the Company received RMB1.20 million of government subsidies for modern medicine center for international cooperation project (II) in 2016. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "Deferred incomes".

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(Unless otherwise indicated, all figures are stated in RMB)
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- * 16. According to document of the Circular of Issuing the Budget Index for Policy and Finance Support Funds in 2016 for "Industry Strength City 30 Articles" (ZCQZ [2016] No. 205) issued by Zibo Municipal Bureau of Finance, the Company received RMB0.92 million of government subsidies for Xinhua pharmaceuticals E-Commerce Health Innovation Industrial Park Project in 2016, and the related assets are expected to be completed in 2017.
- * 17. According to document of the Circular of Issuing the Budget Index for Policy and Finance Support Funds in 2016 for "Industry Strength City 30 Articles" (ZCQZ [2016] No. 205) issued by Zibo Municipal Bureau of Finance, the Company received RMB2 million of subsidies for Hormone series technological transformation project in 2017, and the related assets have not been completed.
- * 18. According to document of the Circular of Issuing the Budget Index for Key Research and Development Plan (innovative industrial cluster) in 2016 (ZCJZ [2016] No. 145) issued by Zibo Municipal Bureau of Finance, the Company received RMB3 million of subsidies for Research and industrialization project of calcium polycarbophil and tablet in 2017, and the related assets have not been completed.

31. Other non-current liabilities

Item	Balance at the end of the period	Balance at the beginning of the year
Specially approved reserving fund	<u>3,561,500.00</u>	<u>3,561,500.00</u>
Total	<u><u>3,561,500.00</u></u>	<u><u>3,561,500.00</u></u>

32. Capital stock

Item	Balance at the beginning of the year	Increase/decrease during the year				Subtotal	Balance at the end of the period
		New Shares Offered	Share Allotment	Capital Reserve Converted into Capital Stock	Others		
Total shares	457,312,830.00	-	-	-	-	-	<u><u>457,312,830.00</u></u>

33. Capital reserves

Item	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the period
Capital stock premium	424,084,320.48	-	-	<u>424,084,320.48</u>
Other capital reserves	<u>89,008,132.18</u>	-	-	<u>89,008,132.18</u>
Total	<u>513,092,452.66</u>	-	-	<u><u>513,092,452.66</u></u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

34. Other comprehensive incomes

Item	Balance at the beginning of the year	Incurred Pre-tax Amount	Amount Incurred in Current Period				Balance at the end of the period
			Less: Amount Included in Other Comprehensive Incomes in Previous Period and Carried over into Profits and Losses in Current Period	Less: Income Tax Expense	After-tax Amount Attributable to the Parent Company	After-tax Amount Attributable to Minority Shareholders	
I. Other comprehensive incomes that cannot be reclassified into losses or profits in future	-	-	-	-	-	-	-
II. Other comprehensive income to be reclassified to profit or loss in future	139,421,221.69	34,177,311.09	-	5,055,823.20	28,851,695.89	269,792.00	168,272,917.58
Profits and losses from changes in fair value of available-for-sale financial assets	140,292,046.10	33,705,488.00	-	5,055,823.20	28,649,664.80	-	168,941,710.90
Translation difference of foreign currency financial statement	(870,824.41)	471,823.09	-	-	202,031.09	269,792.00	(668,793.32)
Total other comprehensive incomes	<u>139,421,221.69</u>	<u>34,177,311.09</u>	<u>-</u>	<u>5,055,823.20</u>	<u>28,851,695.89</u>	<u>269,792.00</u>	<u>168,272,917.58</u>

35. Special reserves

Item	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the period
Safety in production fee	-	4,447,279.86	(4,447,279.86)	-
Total	<u>-</u>	<u>4,447,279.86</u>	<u>(4,447,279.86)</u>	<u>-</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
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36. Surplus reserves

Item	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the period
Statutory surplus reserves	156,421,665.62	—	—	156,421,665.62
Discretionary surplus reserves	64,795,873.74	—	—	64,795,873.74
Total	<u>221,217,539.36</u>	<u>—</u>	<u>—</u>	<u>221,217,539.36</u>

37. Undistributed profits

Item	Amount of current Period	Amount of previous Period	Appropriation or Distribution Proportion (%)
End. balance of previous year	657,375,780.62	552,002,849.22	—
Add: Beginning adjustment for undistributed profit	—	—	—
Among: change of consolidation scope under common control	—	—	—
Beg. balance of current year	657,375,780.62	552,002,849.22	—
Add: net profits attributable to the parent company's shareholders in the current year	106,774,952.86	45,867,145.68	—
Less: appropriation of legal surplus reserves	—	—	—
Appropriation of discretionary surplus reserve	—	—	—
Appropriation of provision for general risk	—	—	—
Common stock dividends payable	—	9,146,256.60	—
Others	—	—	—
End. balance of current year	<u>764,150,733.48</u>	<u>588,723,738.30</u>	—

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(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Details of the declared dividend and paid dividends and proposed dividends in the track record period are as follows:

(a) The year ended 31 December 2016

Pursuant to the resolutions of the board of directors' meeting held on 14 March 2017, and the resolutions of the AGM for the year ended 31 December 2016 held on 16 June 2017, the Company does not make cash dividend distribution nor send bonus shares and not transfer reserve to common shares at the end of 2016.

(b) Six months ended 30 June 2017

Pursuant to the board of directors' meeting held on 11 August 2017, the Company proposed no dividends be declared for the first half of 2017, nor send bonus shares and not transfer reserve to common shares.

38. Operating revenues and costs

(1) Operating revenues and costs

Item	Amount Incurred in Current Period		Amount Incurred in Previous Period	
	Revenue	Cost	Revenue	Cost
Main operation	2,378,558,347.69	1,708,859,077.50	1,981,388,201.25	1,515,564,517.80
Other operation	24,715,813.57	34,364,290.55	17,112,211.66	25,135,887.36
Total	<u>2,403,274,161.26</u>	<u>1,743,223,368.05</u>	<u>1,998,500,412.91</u>	<u>1,540,700,405.16</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(2) Operating incomes of the top five customers

Total operating revenue from the top 5 customers of the Group is RMB322,264,458.50 in current period (previous period: RMB266,329,145.98, which represents 13.41% of the total operating revenue in current period (previous year: 13.33%), as listed below:

Name of Customer	Amount of Current Period	Proportion to the Total Operating Income (%)
Perrigo Company	78,471,960.75	3.27
Mitsubishi Corporation	75,011,265.43	3.12
Zibo Zhongsheng Pharmaceutical Co.,Ltd	64,457,344.38	2.68
Huarun Weifang Far East Pharmaceutical Co., Ltd.	61,359,809.59	2.55
Bayer Healthcare Co.Ltd	42,964,078.35	1.79
Total	322,264,458.50	13.41

39. Taxes and surcharges

Item	Amount of Current Period	Amount of Previous Period
Business tax	–	207,109.62
City maintenance and construction tax	9,262,407.48	8,165,599.45
Educational surcharges	6,616,005.30	5,832,406.29
Local Water Conservancy Fund	1,230,754.03	1,166,481.27
House property tax [#]	5,589,639.32	–
Land use tax [#]	8,387,170.07	–
Vehicle usage tax [#]	38,004.39	–
Stamp duty [#]	1,084,223.80	–
Total	32,208,204.39	15,371,596.63

[#]Note: In the current year, taxes and surcharges increase mainly due to considering “VAT accounting regulations” issued by Accounting Division of Ministry of Finance of the PRC on 26 January 2017, the taxes and fees recorded in the Administrative expenses in the period are adjusted to the Tax and surcharges, and the comparative data for the previous period are not adjusted.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

40. Selling expenses

Item	Amount of Current Period	Amount of Previous Period
Payroll of employees	54,234,507.82	46,716,597.92
Terminal sales expenses	78,279,759.22	56,923,433.99
Consultation expenses	45,954,076.55	19,554,244.18
Transport charges	27,190,347.55	23,909,339.32
Advertising expenses	11,175,751.45	8,885,339.32
Travel expense	8,388,465.31	8,534,799.46
Market development expense and promotion expense	30,673,825.21	16,397,924.69
Office expenses	892,859.32	885,598.00
Conference expenses	511,969.60	1,038,976.95
E-Commerce	2,114,343.57	1,552,569.48
Others	4,789,017.00	5,614,196.54
	264,204,922.60	190,013,019.85
Total		

41. Management expenses

Item	Amount of Current Period	Amount of Previous Period
R&D expenses	96,515,407.67	41,313,292.52
Payroll of employees	43,951,347.60	33,653,710.54
Taxes	—	15,194,292.98
Depreciation charges	12,387,159.83	9,964,051.67
Amortization of intangible assets	5,648,396.27	5,967,294.27
Warehouse expenses	4,895,720.00	4,556,641.97
Business entertainment expenses	2,782,121.09	2,364,975.43
Office expenses	1,906,192.94	1,866,671.27
Travel expense	1,596,907.88	1,454,095.80
Water, electricity and gas charges	2,425,868.06	1,792,307.28
Royalty fee of trademark	4,725,471.57	5,036,399.98
Annual fee of listing, audit fee, expenses of board of directors	897,365.60	1,185,836.84
Repairing expenses	1,991,626.79	2,239,573.63
Others	25,727,367.50	27,538,999.14
	205,450,952.80	154,128,143.32
Total		

Note: The reasons for the reduction of taxes in management expenses are detailed in the Note of "VI.39. Taxes and surcharges".

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

42. Financial expenses

Item	Amount of Current Year	Amount of Previous Year
Interest expenditure	26,669,349.42	30,703,523.07
Less: interest income	1,535,252.61	2,717,141.42
Add: exchange loss	6,734,347.00	(5,327,398.99)
Add: commission charges	1,623,400.70	2,957,727.41
Add: finance lease expenses	2,632,285.16	1,836,752.63
Total	36,124,129.67	27,453,462.70

43. Assets impairment loss

Item	Amount of Current Period	Amount of Previous Period
Bad debt losses	(7,210,294.35)	(64,857.28)
Inventory impairment loss	(584,407.96)	2,262,106.86
Total	(7,794,702.31)	2,197,249.58

44. Investment income

Resources	Amount of Current Period	Amount of Previous Period
Investment income from holding financial assets available for sale	-	-
Investment income from disposal of financial assets available for sale	-	-
Others	50,054.83	12,981.57
Total	50,054.83	12,981.57

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

45. Non-operating income

(1) Details of non-operating income

Item	Amount of Current Period	Amount of Previous Period	Amount Recognized in Non-recurring Profit and Loss of Current Period
Gains from disposal of non-current assets	13,662,119.97	1,229,732.89	13,662,119.97
Including: gains from disposal of fixed assets	13,662,119.97	1,229,732.89	13,662,119.97
Gains from disposal of intangible assets	-	-	-
Government subsidy	7,401,375.80	4,806,344.55	7,401,375.80
Others	828,921.45	427,929.28	828,921.45
Total	21,892,417.22	6,464,006.72	21,892,417.22

In current period, the non-recurring profit and loss was RMB21,892,417.22 (previous period: RMB6,464,006.72).

(2) Details of government subsidies

Category of subsidies	Amount of Current Period	Amount of Previous Period	Source and Basis	Related to assets/Related to income
Government subsidies received in current period				
Province-ran enterprise talent development projects support funds	1,350,000.00	-	LGZBZ(2016) NO. 44	Related to income
Taishan industry leading talent assistance funding	1,000,000.00	-	LZBZ(2016) NO. 5	Related to income
Special subsidies for the development of municipal foreign trade and economic development	28,000.00	-	ZCQZ(2016) NO. 203	Related to income
Yingcai plans support funds assistance funding	630,000.00	-	Zibo Yingcai plan support funds	Related to income
Patent exploitation assistance funding	36,000.00	-	Zibo patent exploitation assistance funding	Related to income
Science and technology award funds	571,000.00	-	ZGXGF(2016) NO. 5	Related to income

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(Unless otherwise indicated, all figures are stated in RMB)
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Category of subsidies	Amount of Current Period	Amount of Previous Period	Source and Basis	Related to assets/Related to income
Municipal biological medicine and biotechnology innovation subsidy fund	-	100,000.00	ZCQZ(2015) NO. 208	Related to income
"Jinlanling" Training subsidy, Zibo technician workstation subsidy etc.	-	400,000.00	LRSZ(2015) NO.227, NO.119, ZRSZ(2013) NO.82	Related to income
Subtotal	3,615,000.00	500,000.00		
Amortization of other current liabilities	2,365,999.98	2,715,166.32		Related to assets
Amortization of deferred revenue amortization	1,420,375.82	1,591,178.23		Related to assets
Subtotal	3,786,375.80	4,306,344.55		
Total	7,401,375.80	4,806,344.55		

46. Non-operating expenditure

Item	Amount of Current Period	Amount of Previous Period	Amount Recognized in Non-recurring Profit and Loss of Current Period
Losses from disposal of non-current assets	613,347.75	424,844.28	613,347.75
Including: losses from disposal of fixed assets	613,347.75	424,844.28	613,347.75
Economic compensation	-	2,806,014.65	-
Relocation losses	1,420,375.82	1,394,118.05	1,420,375.82
Others	2,203,645.43	2,602,281.12	2,203,645.43
Total	4,237,369.00	7,227,258.10	4,237,369.00

In current period, the amount credited into non-recurring profit and loss was RMB4,237,369.00 (previous period: RMB7,227,258.10).

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(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

47. Income tax expenses

(1) Income tax expenses

Item	Amount of Current Period	Amount of Previous Period
The current income tax calculated in accordance with the tax law and related regulations	29,310,628.71	12,763,098.20
– PRC enterprise income tax	28,802,264.57	12,763,098.20
– Hong Kong profits tax	–	–
– USA income tax (federal and state tax)	508,364.14	–
Deferred income tax expense	(412,443.17)	1,273,157.78
Overstatements (understatements) from previous years	4,624,341.31	1,262,290.69
Total	33,522,526.85	15,298,546.67

Note : As there was no taxable income (previous period: Nil) in Hong Kong for the current period, there was no Hong Kong income tax.

(2) Adjustment process of accounting profit and income tax expense

Item	Amount of Current Period	Amount of Previous Period
Total profit from amalgamation in the period	147,562,389.11	67,866,265.86
Income tax expense calculated in accordance with legal/applicable tax rate	22,134,358.37	10,182,939.91
Effect of different tax rate applicable to subsidiaries	5,835,302.62	3,499,327.84
Overstatements (understatements) from previous years	4,624,341.31	1,262,290.69
Effect of non-assessable income	–	–
Effect of cost, expense and loss nondeductible	–	–
Effect of deductible loss of the unrecognized deferred income tax assets in previous period	(24,159.57)	(42,864.09)
Deductible temporary difference or effect of deductible loss of unrecognized deferred income assets in the current year	952,684.12	396,852.32
Income tax expenses	33,522,526.85	15,298,546.67

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
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48. Other comprehensive incomes

See related details in the Note of "34. Other comprehensive incomes".

49. Cash Flow Statement

(1) Other cash received/paid related to operating/financing activities

1) List of other cash received related to operating activities

Item	Amount of Current Period	Amount of Previous Period
Interest revenue	1,535,252.61	821,308.08
Subsidy income	19,765,000.00	7,670,000.00
Deposit for bank acceptance bill	34,622,928.62	9,845,398.00
Sales deposit	7,853,539.07	-
Recovery of land compensation receivable	8,000,000.00	-
Others	2,631,337.13	1,995,442.50
Total	<u>74,408,057.43</u>	<u>20,332,148.58</u>

2) List of other cash paid related to operating activities

Item	Amount of Current Period	Amount of Previous Period
Office expenses	4,979,528.59	3,629,873.51
Travel expense	10,419,668.85	10,018,613.14
Annual fee of listing, audit fee, expenses of board of directors	1,738,939.34	2,180,709.49
Advertising and market development fees	163,255,121.54	112,536,538.63
Transportation expense	8,210,879.34	11,393,110.19
Business entertainment expenses	2,776,073.33	2,426,112.15
Technology development expenses	11,443,808.81	7,000,636.32
Trademark license fee	5,000,000.00	7,500,000.00
Others	28,148,816.23	28,270,552.90
Total	<u>235,972,836.03</u>	<u>184,956,146.33</u>

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(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

3) Other cash received related to investing activities

Item	Amount of Current Period	Amount of Previous Period
Purchasing financial products "Rijiyuelei" from Bank of China	30,000,000.00	–
Total	30,000,000.00	–

4) Other cash received related to financing activities

Item	Amount of Current Period	Amount of Previous Period
Financial lease payment received	72,000,000.00	90,000,000.00
Total	72,000,000.00	90,000,000.00

5) Other cash paid related to financing activities

Item	Amount of Current Period	Amount of Previous Period
Principal and interest of financial lease payable	34,496,481.06	18,156,254.70
Payment of financial leasing deposit	8,000,000.00	–
Non-public offering expenses	166,747.17	–
Total	42,663,228.23	18,156,254.70

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(2) Supplementary information of consolidated cash flow statement

Item	Amount of Current Period	Amount of Previous Period
1. Reconciliation of net profit to cash flows from operation activities:		
Net Profit	114,039,862.26	52,587,719.19
Add: provision for impairment of assets	(7,794,702.31)	2,197,249.58
Depreciation of fixed assets	135,842,260.98	119,880,988.43
Amortization of intangible assets	5,831,249.18	6,354,291.51
Loss from disposal of fixed assets, intangible assets and other long-term assets (gains to be listed with 「-」)	(13,048,772.22)	(804,888.61)
Losses on retirement of fixed assets (gains to be listed with 「-」)	-	-
Profit or loss from changes in fair value (gains are indicated by 「-」)	-	-
Financial expenses (gains to be listed with 「-」)	36,035,981.58	27,777,928.93
Investment loss (gain to be listed with 「-」)	(50,054.83)	(12,981.57)
Decrease of deferred income tax assets (increases to be listed with 「-」)	(655,193.12)	982,907.51
Increases of deferred income tax liabilities (decreases to be listed with 「-」)	4,117,209.59	(2,073,382.53)
Decrease of inventory (increases to be listed with 「-」)	59,671,338.84	101,278,775.50
Decreases of operational receivables (increases to be listed with 「-」)	(246,337,913.31)	(97,695,000.49)
Increases of operating payables (decreases to be listed with 「-」)	(78,093,683.22)	(126,642,950.72)
Net cash flows from operating activities	<u>9,557,583.42</u>	<u>83,830,656.73</u>
2. Significant investing and financing activities not related to cash receipt and payment:		
Conversion of debt into capital	-	-
Convertible company bonds due within one year	-	-
Fixed assets acquired under finance leases	180,296,138.10	168,449,022.61
3. Net change in cash and cash equivalents:		
End. balance of cash	541,596,117.79	296,302,882.31
Less: beg. balance of cash	493,092,656.71	366,638,884.09
Add: end. balance of cash equivalents	-	-
Less: beg. balance of cash equivalents	-	-
Net increase in cash and cash equivalents	<u>48,503,461.08</u>	<u>(70,336,001.78)</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

51. Monetary items for foreign currency

(1) Monetary items for foreign currency

Item	End. Foreign Currency Balance	Translation Exchange Rate	End. Equivalent Balance in RMB
Currency funds			
Including: USD	8,244,833.52	6.7744	55,853,800.20
EUR	732.46	7.7496	5,676.27
HKD	17,687.86	0.86792	15,351.65
GBP	232,612.34	8.8144	2,050,338.21
JPY	6,217.00	0.060485	376.04
Account receivables			
Including: USD	40,139,282.77	6.7744	271,919,557.20
GBP	800,436.59	8.8144	7,055,368.28
Prepayments			
Including: USD	207,273.31	6.7744	1,404,152.31
Other receivables			
Including: USD	11,721.58	6.7744	79,406.67
Accounts payable			
Including: USD	6,727,885.50	6.7744	45,577,387.53
Accounts received in advance			
Including: USD	1,304,364.74	6.7744	8,836,288.49
EUR	11,018.70	7.7496	85,390.52
Other payables			
Including: USD	88,107.34	6.7744	596,874.36

(2) Oversea business entity

Subsidiaries	Main Premise	Bookkeeping Base Currency	Basis for Currency Choice
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	Rotterdam, Holland	USD	Statutory currency of the business place
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	Los Angeles, USA	USD	Statutory currency of the business place

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

VII. CHANGES IN CONSOLIDATION SCOPE

The scope of the consolidated statements of current period has not been changed.

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of the Group

Name of Subsidiary	Main Premise	Registration Place	Nature of Business	Registered Capital	Proportion of Shareholding		Acquisition Method
				(unit: RMB10,000)	Direct	Indirect (%)	
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry marketing	4,849.89	100.00		Establishment
Shandong Xinhua Pharmaceutical Import and Export Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry marketing	500.00	100.00		Establishment
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry design	600.00	100.00		Establishment
Zibo Xinhua Drug Store Chain Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry marketing	200.00	100.00		Establishment
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	Rotterdam, Holland	Rotterdam, Holland	Medicine chemistry marketing	EUR769,000.00	65.00		Establishment
Zibo Xinhua-Zhongxi Pharmaceutical Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical chemistry manufacturing	USD1,500,000.00	75.00		Establishment
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical chemistry manufacturing	USD6,000,000.00	50.10		Establishment
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Shouguang City, Shandong Province	Shouguang City, Shandong Province	Pharmaceutical chemistry manufacturing	23,000.00	100.00		Establishment
Xinhua (Zibo) Real Estate Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Real Estate Development	2,000.00	100.00		Establishment
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	Gaomi City, Shandong Province	Gaomi City, Shandong Province	Pharmaceutical chemistry manufacturing	1,900.00	100.00		Acquisition
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	Los Angeles, USA	Los Angeles, USA	Medicine chemistry marketing	USD1,500,000.00	100.00		Establishment
Shandong Xinhua Mechanical & Electrical Engineering Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Electric installation	800.00	100.00		Establishment
Shandong Zibo Xincat Pharmaceutical Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical chemistry manufacturing	8,493.00	60.00		M&A

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(2) Important non-wholly-owned subsidiaries

Name of Subsidiary	Shareholding Proportion of Minority Shareholders	Profits and Losses Attributable to Minority Shareholders in Current Period	Net other comprehensive incomes after tax Attributable to Minority Shareholders in Current Period	Total other comprehensive incomes Attributable to Minority Shareholders in Current Period	Dividends to be Assigned to Minority Shareholders in Current Period	End. Balance of Minority Equities
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	35%	1,140,385.40	269,792.00	(63,982.43)	1,448,025.08	5,046,896.73
Zibo Xinhua-Zhongxi Pharmaceutical Co., Ltd.	25%	16,232.80	-	16,232.82	-	3,357,623.05
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	49.90%	1,880,905.30	-	1,880,905.31	-	36,168,380.35
Shandong Zibo Xincat Pharmaceutical Company Limited	40%	4,227,385.90	-	4,227,385.90	-	52,401,377.51
Total		7,264,909.40	269,792.00	6,060,541.60	1,448,025.08	96,974,277.64

(3) Main financial information of important non-wholly-owned subsidiaries

Unit: RMB10,000

Name of Subsidiary	Balance at the end of the period						Balance at the beginning of the year					
	Current Assets	Non-current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Total Liabilities	Current Assets	Non-current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Total Liabilities
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	5,446.94	1.12	5,448.06	3,972.35	-	3,972.35	5,915.26	1.33	5,916.59	4,429.83	-	4,429.83
Zibo Xinhua-Zhongxi Pharmaceutical Co., Ltd.	1,176.13	268.55	1,444.68	101.64	-	101.64	1,057.56	289.38	1,346.94	10.39	-	10.39
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	2,493.00	5,831.00	8,324.00	1,074.00	-	1,074.00	2,561.27	5,274.43	7,835.70	962.86	-	962.86
Shandong Zibo Xincat Pharmaceutical Company Limited	13,235.98	5,850.25	19,086.23	6,241.39	-	6,241.39	13,965.39	5,932.20	19,897.59	8,109.60	-	8,109.60

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Name of Subsidiary	Amount Incurred in Current Period				Amount Incurred in Previous Period			
	Operating revenue	Net Profit	Total Comprehensive Income	Cash Flow Generated in Operating Activities	Operating revenue	Net Profit	Total Comprehensive Income	Cash Flow Generated in Operating Activities
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	6,073.39	325.82	402.91	(614.39)	4,365.62	137.18	123.69	(282.68)
Zibo Xinhua-Zhongxi Pharmaceutical Co., Ltd.	354.19	6.49	6.49	401.21	272.35	5.67	5.67	(47.31)
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	7,230.33	376.93	376.93	482.87	6,148.12	444.44	444.44	765.92
Shandong Zibo Xincat Pharmaceutical Company Limited	14,811.12	1,056.85	1,056.85	1,080.89	12,191.27	1,002.13	1,002.13	3,363.71

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

Major financial instruments of the Group include loan, receivables, payables, financial assets available for sale, tradable financial liabilities, etc. See footnote VI for more details about each financial instrument. The risks concerning these financial instruments, as well as the risk management measures applied to mitigate these risks are stated as follows. The management of the Group manages and monitors the risk exposure, to ensure that the risks mentioned above are controlled to the extent limited.

1. Objectives and policies of risk management

The objective of the risk management activities of the Group is to achieve a proper balance between risk and benefit, so as to minimize the negative effect of risks on the operational performance of the Group and to maximize interest of shareholders and other equity investors. Based on this objective of risk management, the basic strategy of risk management of the Group is to identify and analyze the risks of all kinds the Group faces, so as to set a proper bottom line of risk tolerance for risk management, and to supervise the risks of all kinds in a timely and reliable way, so as to control the risks to the limited range.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(1) Market risk

1) Exchange rate risk

The Group's foreign exchange risk is mainly related to USD, GBP and Euro. Except for the subsidiaries of the Group which uses USD for purchasing and sales transactions, other main business operations are settled in RMB. As of 30 June 2017, except for assets and liabilities with balances in USD, EUR and GBP described as below, all other assets and liabilities of the Group are reported in RMB. The risk associated with the assets and liabilities of such balances in USD may have influence on the Group's business performance.

Item	30 June 2017	31 December 2016
Currency funds – USD	55,853,800.20	69,614,184.55
Currency funds – EUR	5,676.27	18,752.61
Currency funds – HKD	15,351.65	15,821.78
Currency funds – GBP	2,050,338.21	1,014,711.23
Currency funds – JPY	376.04	370.54
Account receivables – USD	271,919,557.20	159,968,372.65
Account receivables – GBP	7,055,368.28	4,216,054.56
Prepayments – USD	1,404,152.31	3,030,792.23
Other receivables – USD	79,406.67	46,766.34
Accounts payable – USD	45,577,387.53	4,598,935.21
Accounts received in advance – USD	8,836,288.49	12,939,932.33
Accounts received in advance – EUR	85,390.52	402,010.64
Other accounts payable – USD	596,874.36	567,011.58

The Group currently has no foreign currency hedging policy, but the management monitors the foreign currency exchange risk and will consider hedging significant foreign currency risks when necessary.

2) Interest rate risk

The Group's interest rate risk arises from bank loans and liabilities with interest of shareholders' loans. Due to financial liabilities with floating interest rate, the Group faces cash flow interest rate risk; due to financial liabilities with fixed interest rate, the Group faces fair value interest rate risk. As of 30 June 2017, the debts bearing interest of the Group mainly come from the RMB denominated floating interest rate loan contract with the total amount of RMB1,014,296,000 and RMB denominated fixed rate contract with the amount of RMB600,000,000.

Risk that change in interest rate causes change in fair value of financial instrument is mainly related to fixed-rate bank loan. The Group's policy lies in keeping the floating interest rate of the fixed-rate loan.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Risk that change in interest rate causes change in cash flow of financial instrument is mainly related to floating-rate bank loan. The Group's policy lies in keeping the floating interest rate of such loans to eliminate risk of fair value resulting from change in interest rate.

3) *Price risk*

The selling prices of the Group are based on the market prices of chemical raw medicine, preparations and chemical product. The Group, therefore, is influenced by the variation of market prices.

(2) Credit risk

As at 30 June 2017, maximum credit risk exposure which may cause financial loss to the Group is mainly because the counterparties fail to perform their obligations so as to lead to losses of financial assets to the Group, including:

The book values of the financial assets that have been recognized in the consolidated balance sheet; for any financial instrument measured at the fair value, the book value indicates its risk exposure, but not the most significant one, which will change along with the fluctuation in the fair value in the future.

In order to minimize the credit risk, the management of the Group has appointed a group of people responsible for the determination of credit limits, credit approval and other monitoring procedures, to ensure that follow-up action is taken to recover overdue debts. In addition, the Group will review the recoverable amount of individual trade debts at the end of the reporting period, to ensure that adequate impairment losses are made for the unrecoverable amount. In view of this, the Group's management believes that the Group's credit risk has been significantly reduced.

The current funds of this Group are deposited in banks with relatively higher credit rating, thus the credit risk of current funds is relatively low.

The Group takes necessary policies to ensure that all the trade debtors have good credit records. Apart from the top five entities with largest amount in "receivables", the Group has no other significant credit concentration risk.

Total amount of the top five entities with largest amount in "account receivables" is RMB116,447,638.69.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(3) Liquidity risk

Liquidity risk is a risk that the Group cannot perform its financial obligations till the due date. For management of the Group's liquidity risk, enough financial liquidity shall be guaranteed to perform the matured debts and thus to avoid unacceptable losses or damages to the Group's credit. As of 30 June 2017, the net current asset of the Group was RMB59,189,979.24. For decreasing the liquidity risk, the Company intends to issue not more than 67 million A-shares through non-public offering, see "Note XV. Events after balance sheet date". So there was no liquidity risk to the Company's operation.

The Group analyzed the debts structure and duration regularly so as to make sure sufficient capital. The management of the Group monitors the utilization condition of bank loans, and ensures adherence to loan agreements. Meanwhile, financing consultation will be performed with the financial authorities to keep a certain credit line and reduce the liquidity risk. As of 30 June 2017, analysis of financial assets (the book balance, undeducted impairment and bad debts) and financial liabilities held by the Group based on the expiration date of undiscounted residual contract obligations:

Item	Within 1 year	1 to 5 years	More than 5 years	Total
Financial assets				
Monetary funds	575,212,117.79	–	–	575,212,117.79
Bill receivables	185,985,199.19	–	–	185,985,199.19
Account receivables	566,100,358.62	–	–	566,100,358.62
Prepayments	20,986,606.51	–	–	20,986,606.51
Other accounts receivables	71,060,011.55	–	–	71,060,011.55
Financial liabilities				
Short-term loans	614,000,000.00	–	–	614,000,000.00
Notes payable	110,122,168.35	–	–	110,122,168.35
Accounts payable	492,793,206.92	–	–	492,793,206.92
Accounts received in advance	38,186,870.33	–	–	38,186,870.33
Other accounts payable	218,560,745.25	–	–	218,560,745.25
Dividends payable	5,310,599.53	–	–	5,310,599.53
Interests payable	4,739,594.18	–	–	4,739,594.18
Payroll payable	42,839,917.68	–	–	42,839,917.68
Non-current liabilities due within one year	249,466,855.80	–	–	249,466,855.80
Long-term loans	–	670,000,000.00	–	670,000,000.00
Long-term payables	–	80,829,282.30	–	80,829,282.30

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

2. Fair value

(1) Financial instruments not measured by fair value

The financial assets and liabilities not measured by fair value include account receivables, short-term borrowing, accounts payable and long-term loans.

The difference between the book value and fair value of the financial assets and liabilities which are not measured by fair value is very small.

(2) Financial instruments measured by fair value

The financial assets measured by the fair value are financial assets available for sale.

The estimation of fair value is made within a specific period of time according to the relevant market information and information about relevant financial instruments. Because these estimates are subjective and the uncertain factors and matters need to be determined, accurate determination cannot be made. If the assumptions used are changed, these estimates may be affected.

Fair value of financial assets and financial liabilities is determined according to the following methods:

Fair values of financial assets and financial liabilities with standard terms and conditions and in active market shall be recognized in reference to current offer or price in active market;

Fair values of other financial assets and financial liabilities (excluding derivatives) shall be determined in accordance with the general pricing model based on discounted future cash flow technique or recognized by using observable current market bargain price;

The fair value of derivative instruments is determined by the open quotation of active market. If there is no open quotation, the fair value of the derivative instruments without the right of option shall be determined based on the applicable income curve by the discount method of future cash flow.

3. Sensitivity analysis

The Group adopts sensitivity analysis method to analyze the potential impact of possible appropriate change in risk variables on current profits & losses or the owners' equity. As any risk variable seldom changes alone and correlation between variables greatly accounts for the final amount influenced by change of a certain risk variable, the following content is conducted under the assumption that change of each variable is independent.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(1) Sensitivity analysis of foreign exchange risk

Assumption for sensitivity analysis of foreign exchange risk: all investment hedging and cash flow hedging in overseas operations are highly effective.

Based on the assumption above, if other variables stay the same, pre-tax impact of potential appropriate change of exchange rate on the current profits & losses and equity is shown as follows:

Item	Change in Exchange Rate	Amount of Current Period		Amount of Previous Period	
		Impact on Net Profits	Impact on the Owner's Equity	Impact on Net Profits	Impact on the Owner's Equity
All foreign currencies	5% appreciated against RMB	17,410,495.24	17,410,495.24	11,065,341.81	11,065,341.81
All foreign currencies	5% depreciated against RMB	(17,410,495.24)	(17,410,495.24)	(11,065,341.81)	(11,065,341.81)

(2) Sensitivity analysis of interest rate risk:

Sensitivity analysis of interest rate risk is based on the following assumption:

Change in market interest rate influences interest revenue or expense of variable-rate financial instrument;

As for fixed-rate financial instrument measured at fair value, market interest rate only influences its interest revenue or expense;

Change in fair value of derivative financial instrument and other financial assets and liabilities is calculated by using discounted cash flow method and in accordance with the market interest rate on the Balance Sheet Date.

Based on the assumption above, if other variables stay the same, pre-tax impact of potential appropriate change of interest rate on the current profits & losses and equity is shown as follows:

Item	Change in Interest Rate	Amount of Current Period		Amount of Previous Period	
		Impact on Net Profits	Impact on the Owner's Equity	Impact on Net Profits	Impact on the Owner's Equity
Floating interest rate loan	Added by 1%	(3,732,214.17)	(3,732,214.17)	(1,637,492.19)	(1,637,492.19)
Floating interest rate loan	Decrease by 1%	3,732,214.17	3,732,214.17	1,637,492.19	1,637,492.19

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

X. DISCLOSURE OF FAIR VALUE

- Amount of assets and liabilities measured at fair value at the end of year and the level of fair value measurement

Item	Ending Fair Value			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
Continuous fair value measurement				
Financial assets available for sale	-	-	-	-
Investment in equity instrument	219,980,272.00	-	-	219,980,272.00
Total assets continuously measured at fair value	219,980,272.00	-	-	219,980,272.00

- Basis for determination of market prices for recurring level 1 fair value measurement items

The items measured by the fair value of Group are the stocks of the Bank of Communications and CPIC, and the fair value at the end of the period is determined based on the closing price on the last trading day of June 2017.

XI. RELATIONSHIP WITH RELATED PARTIES AND TRANSACTIONS

- Relationships of Related Parties

1. Controlling shareholder and ultimate controlling party

- Controlling shareholder and final controlling party (monetary unit: RMB10,000)

Name of Controlling Shareholder and Final Controlling Party	Registration Place	Nature of Business	Registered Capital	Proportion of Shareholding (%)	Proportion of Voting Right (%)
Shandong Xinhua Pharmaceutical Group Co., Ltd.	No. 14, Dongyi Road, Zhangdian District, Zibo, Shandong Province	Investment in the design of building engineering, property development and catering	29,850.00	34.46	34.46
Hualu Holdings Co., Ltd.	22/F, Tower A Quanli Center No. 219 Shun Hai Road Lixia District Jinan City, Shandong Province	Investment in petrochemical, pharmaceutical, environmental protection industry; management and operation and consultation	300,000.00	-	-

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(2) Registered capital of the controlling shareholder and changes

Name of Controlling Shareholder	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the Period
Shandong Xinhua Pharmaceutical Group Co., Ltd.	298,500,000.00	-	-	298,500,000.00

(3) Shares of controlling shareholders and changes

Name of Controlling Shareholder	Amount of Shareholding		Proportions of shares	
	Amount of Current Period	Amount of Previous Period	Proportion of Current Period	Proportion of Previous Period
Shandong Xinhua Pharmaceutical Group Co., Ltd.	157,587,763.00	157,587,763.00	34.46	34.46

There was no change in the shares held by the controlling shareholder and the shareholding proportion of the Company in current period.

2. Subsidiaries

The details of the subsidiaries are described in the content of Note "VIII. Interests in other entities".

3. Other related party

Name of Related Party	Association Relationship	Content of Related Transactions with the Company
Shandong Xinhua Industry & Trade Co., Ltd.	Controlled by the same controlling shareholders	Sales of engines, by-products, purchase of raw materials
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Controlled by the same controlling shareholders	Sales of engines, waste equipment and by-products and purchase of raw material
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	Joint stock company of parent company	Sales of engines, purchase of raw materials
Hualu Holdings Co., Ltd.	Subsidiary of final controlling party	Sales of bulk drugs
Perrigo Company	Subsidiary's participation in shareholding	Sales of bulk drugs
America Eastwest Company Limited	Subsidiary's participation in shareholding	Sales of bulk drugs
Shandong Hualu Hengsheng Chemical Limited Liability Company	Subsidiary of final controlling party	Purchase of raw materials

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

(II) Related Transactions

1 Pricing policy

The price of the products sold by the Group to related party and the price of the raw materials purchased from the related party shall be determined based on the market price.

2. Purchase of materials

Related Party	Content of Related-party Transaction	Amount Incurred in Current Period	Amount Incurred in Previous Period
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Chemical raw material	29,015,446.82	24,643,356.49
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	Raw materials of preparations	3,351,923.09	6,001,089.73
Shandong Hualu Hengsheng Chemical Limited Liability Company	Chemical raw material	46,043,071.03	21,674,310.06
Total		78,410,440.94	52,318,756.28

3. Sales of goods and rendering of service

Related Party	Content of Related-party Transaction	Amount Incurred in Current Period	Amount Incurred in Previous Period
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Sales of engines	1,211,698.72	1,227,134.46
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Sales of by-products	3,865.79	2,833.93
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	Sales of engines	4,177,543.36	2,492,564.31
Perrigo Company	Sales of bulk drugs	72,116,032.87	61,418,780.02
Perrigo Company	Sales of bulk drugs	6,355,927.88	2,147,075.10
Total		83,920,196.83	67,288,387.82

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

4. Payment of interest on loans and underwriting fees

Name of Related Party	Content of Related-party Transaction	Amount of Current Period	Amount of Previous Period
Hualu Holdings Co., Ltd.	Interests on loans	10,770,166.68	16,951,277.79
Hualu Holdings Co., Ltd.	Commission of undertaking	-	750,000.00

5. Acceptance of the guarantee

(1) Loan guarantee

The Company and Export-Import Bank of China, Qingdao Branch has signed the loan agreement with the loan principal of RMB150 million and loan term from 17 September 2015 to 17 September 2017, and Hualu Holdings Co., Ltd., the final controlling party shall provide the guarantee.

6. Call loan of related parties

Name of Related Party	Loan to/from	Amount	From	To
Hualu Holdings Co., Ltd.	Loan to	100,000,000.00	2015-11-30	2020-11-30

7. Lease of assets

There was no lease of assets with related party in current period.

8. Other transactions

(1) Royalty fee of trademark

Name of Related Party	Content of Related-party Transaction	Amount of Current Period	Amount of Previous Period
Shandong Xinhua Pharmaceutical Group Company Limited	Royalty fee of trademark	4,716,981.00	5,000,000.00

The Company has concluded a supplementary agreement ("Supplementary Agreement") on the trademark license agreement with the parent company, Shandong Xinhua Group on 27 October 2014. The Agreement has a valid period from 1 January 2015 to 31 December 2017. According to the Supplementary Agreement, the Company's royalty fee of the trademark "Xinhua" is changed to RMB10 million (include: tax) and other provisions of the trademark license agreement remain unchanged.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

(2) Rendering of labor service

Name of Related Party	Content of Related-party Transaction	Amount of Current Period	Amount of Previous Period
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	Service labor	55,128.21	326,417.94
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Service labor	—	39,122.57
Total		55,128.21	365,540.51

(III) Balance of transactions with related parties

1. Balance of transactions with related parties of assets

Related Party (Item)	End. Amount		Beg. Amount	
	Book balance	Provision for bad debt	Book balance	Provision for bad debt
Account receivables				
Shandong Xinhua Industry & Trade Co., Ltd.	1,110,088.04	1,110,088.04	1,110,088.04	1,110,088.04
Perrigo Company	11,303,276.08	—	7,804,624.46	—
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	68,396.89	—	105,892.89	—
Total	12,481,761.01	1,110,088.04	9,020,605.39	1,110,088.04
Prepayments				
Shandong Hualu Hengsheng Chemical Limited Liability Company	1,637,868.83	—	1,039,105.38	—
Total	1,637,868.83	—	1,039,105.38	—

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

2. Balance of transactions with related parties of liabilities

Name of Related Party	End. Amount	Beg. Amount
Short-term borrowing		
Hualu Holdings Co., Ltd.	–	600,000,000.00
Accounts payable		
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	8,023,080.94	6,141,624.41
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	844,865.27	949,040.79
Total	<u>7,090,665.20</u>	<u>7,090,665.20</u>
Accounts received in advance		
Perrigo Company	1,254,911.87	–
Long-term loans		
Hualu Holdings Co., Ltd.	<u>100,000,000.00</u>	<u>100,000,000.00</u>

(IV) The remunerations for key management

1. The detail of the remunerations for key management during the period

Item	Amount of Current Period	Amount of Previous Period
Salaries of key management*	<u>1,552,962.20</u>	<u>1,250,416.60</u>

Changes to the directors of current period: There is no change.

Changes to the supervisors of current period: There is no change.

Changes to the senior management of current period: Mr. Zheng Zhonghui was appointed as the Deputy General Manager of the Company on 27 February 2017.

2. No money was paid or payable to urge any director to join the Company, and The Company did not pay the directors at the time of joining the Company. No money was paid or payable to any administrator, director or outgoing director as compensation for losing their post. The Company has determined the remuneration amount for the directors, supervisors and senior administrators according to the Company's remuneration management regulations, which is subject to the approval by the Remuneration Committee of the Board.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

(V) Receivable borrowings due from directors and the companies related with directors

There were no receivable borrowings due from directors and the companies related with directors in the current period.

XII. SHARE PAYMENT

There was no share payment in the current year.

XIII. CONTINGENCIES

1. Contingent liabilities formed by the pending litigation

On 1 January 2011, the subsidiary of the Company, Medical Trading Company and Nanjing Huadong Pharmaceutical Co., Ltd. (hereinafter referred to as the "Huadong Pharmaceutical") signed the "Dealership Agreement on Mailuoning Injection". On 26 October 2011, Medical Trading Company performed the payment liability in the form of bank acceptance bill in accordance with the contract, Huadong Pharmaceutical received the bank acceptance bill endorsed by the Medical Trading Company and then gave such endorsement to Nanjing Jinling Pharmaceutical Factory of Nanjing Jinling Co., Ltd. (hereinafter referred to as the "Nanjing Jinling Pharmaceutical Factory").

On 31 December 2011, the prior endorser of the above bank acceptance bill, Jinan Jinbaisheng Steel Sales Co., Ltd. (hereinafter referred to as the "Baisheng Steel") filed to the Dongqu People's Court of Panzhihua City, Sichuan Province for reporting the loss of bill and for the public exhortation. On 12 March 2012, Dongqu People's Court of Panzhihua City declared the bank acceptance bill is invalid, and then Baisheng Steel discounted the bill and made a payment.

In July 2012, Huadong Pharmaceutical filed a sales contract dispute lawsuit against the Medical Trading Company to the People's Court of Xuanwu District, Nanjing City, requesting the Medical Trading Company to pay the RMB6 million and accrued interest. In August 2012, the bank deposits worth RMB6.5 million of Medical Trading Company were frozen. On 31 December 2012, the People's Court of Xuanwu District, Nanjing City made a civil judgment (2012) XSCZ No. 00948, requesting the Medical Trading Company to make a payment of RMB6 million and accrued interest. On 15 November 2013, the People's Court of Xuanwu District issued the notice of execution (2013) XZZ No. 01685, transferring RMB6.6 million from Medical Trading Company.

On 6 December 2013, Medical Trading Company counter-filed sued to the People's Court of Huaiyi District, Jinan City against Baisheng Steel, Huadong Pharmaceutical and Nanjing Jinling Pharmaceutical Factory, requesting the above three companies to return RMB6.6 million and the accrued interest. On 12 December 2013, the bank deposits worth RMB7 million of Huadong Pharmaceutical were frozen. On 8 May 2017, the freezing period of the above RMB7 million was extended till 7 May 2018. The current case has been into the second instance procedure.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

The Company, after consulting with legal advisor, believed that the bank acceptance bill paid by the Medical Trading Company to Huadong Pharmaceutical is a flawless and legal bill, without the unpaid payments. Huadong Pharmaceutical or Nanjing Jinling Pharmaceutical Factory has no right to declare to Dongqu People's Court of Panzhihua City, Sichuan Province during the public exhortation and failed to appeal to this court after the judgment. It is the negligence of Huadong Pharmaceutical or Nanjing Jinling Pharmaceutical Factory in exercising its legitimate right that causes the invalidity of the bank acceptance bill. Therefore, the dispute over the bill is relatively clear, and it is quite possible that the Company will win the case. The Company has accrued 50% of the abovementioned transferred RMB6.6 million as a provision for bad debts.

2. As of 30 June 2017, the Group has no other significant contingencies except for the above-mentioned contingencies.

XIV. COMMITMENTS

1. Large denominated contracts concluded or ready for performance

Item	Contract Amount	Unpaid Amount
International Cooperation Center Project	166,444,413.32	70,556,345.32
Hormone series products project in Hutian Industrial Park	62,005,801.33	39,332,091.33
Modern chemical medicine industrialization center in Hutian Industrial Park (II)	55,991,848.55	20,763,613.23
Evaluation about consistency of generic drug	48,614,000.00	29,791,400.00
New 2,000T/d sewage treatment system project of ministry of environment	<u>30,935,259.28</u>	<u>5,672,563.93</u>
Total	<u><u>363,991,322.48</u></u>	<u><u>166,116,013.81</u></u>

2. There is no other significant commitment to be disclosed for the Group as of 30 June 2017, except for the commitments above.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

XV. EVENTS AFTER BALANCE SHEET DATE

1. Significant non-adjustment events

Item	Contents	Impact on Financial Position and Business Results	Reasons for Failure of Estimation
Issuance of shares and bonds	The Company intends to issue not more than 77 million A-shares through non-public offering. The non-public offering scheme for A-shares of the Company was adopted by the General Meeting of Shareholders on 29 December 2015, and approved by State-owned Assets Supervision and Administration Commission of Shandong Provincial Government. On 24 March 2016, the Second Extraordinary Meeting of the Eighth Board 2016 adopted that the amount of the proposed non-public offering of shares was revised to no more than 67 million A shares. The revised application for non-public offering of A shares was approved by the China Securities Regulatory Commission on 7 December 2016. The Company received "Approval of the approval of non-public stock issued by Shandong Xinhua pharmaceutical co., LTD (ZJ [2017] NO. 459)" from the China Securities Regulatory Commission on 26 April 2017.	The total amount of non-public offering of shares to raise funds not more than RMB627.12 million, which deducting the issue costs, will totally be used to repay bank loans and supplementary working capital, of which RMB550 million for the repayment of bank loans, the rest used to supplement the working capital.	
Employee stock ownership plan of Phase I	As setup of the employee stock ownership plan of Phase I each unit share corresponds to RMB1.00, the total share is not more than RMB35.048 million copies at the establishment moment and the total amount of the corresponding funds does not exceed RMB35.048 million. The price of subscription company non-public offering shares of the employee stock ownership plan adjusted RMB9.34/share, and the number of subscription company non-public offering shares of the employee stock ownership plan is not more than 3,752,417 copies. According to the Company's non-public offering of 67,143,466 shares, the number of shares to be subscribed by the employee stock ownership plan will not exceed 0.7% of the total share capital of the Company after issuance.		
Compensation by government for part of the relocation of land	24 January 2017, the Company and Zibo City Urban Construction Key Project Headquarters signed the "state-owned land collection Association", the transaction of land is the company's located in No. 14 Dongyi Road, zhangdian District, and the NO. of state-owned land use certificate is ZGY (2001) word No. A00607 land. The levy area is 59,757.69 square meters, and is the industrial secondary land. As of 30 June 2017, the net book value of the land was RMB5.55 million. According to the land valuation report of the number (Zibo) De Yun real estate (2016) (estimated) word No. 0095 with assessment basis for the date of 21 June 2016 issued by Zibo De Yun Land Real Estate Appraisal Co., Ltd., the value of the land RMB37.1095 million.	Expected earnings of approximately RMB31.5595 million	

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

2. Profit distribution

The Company does not make cash dividend distribution, not send bonus shares and not transfer reserve to common shares.

3. The Company does not have any major event after the balance sheet date other than the above disclosed events after the balance sheet date.

XVI OTHER MAJOR MATTERS

1. Lease

(1) Fixed assets acquired under financing lease (Lessee of financing lease)

At the end of current period, the Group's financial leasing of fixed assets of the Group is detailed in the Note VI. 10.

(2) Minimum lease payment (Lessee of financing lease)

Remaining lease term	Balance at the end of the Period	Balance at the beginning of the year
Within 1 year	99,466,855.80	69,854,126.83
1-2 years	57,870,832.30	55,108,352.27
2-3 years	22,958,450.00	9,830,140.06
Total	180,296,138.10	134,792,619.16

As of 30 June 2017, the amount of the financing expenses not recognized by the Group is RMB11,100,248.88 (Amount at the beginning of the year: RMB6,650,361.18).

2. Segment information

(1) Determination basis and accounting policy of reportable segments

The Group determines the operating segments on the basis of internal organization structure, management requirements and internal reporting system and adopts these operating segments as the basis for reporting segments for disclosure purposes. The operating segment refers to the constituent part within the Group, which simultaneously satisfies the following conditions: (1) this part can generate income and incur expenses in daily activities; (2) the management of the Group can evaluate the operating results of this part at regular intervals so as to decide to allocate resources to it and evaluate its performance; (3) the Company can access the relevant accounting information of this part such as financial position, operating results and cash flow, etc. If two or more operating segments share the similar economic characteristics and meet certain conditions, they can be merged into a business unit.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

(2) Financial information of reportable segments in current period

- a. Operating profits, asset and liabilities of segments according to the products and business.

As of 30 June 2017 (unaudited)

Item	Chemical bulk drugs	Reagents	Chemicals and other products	Unallocated Items	Offset Amount	Total
Operating income	1,053,841,607.84	1,268,280,394.26	581,417,464.67	-	(500,265,305.51)	2,403,274,161.26
Where: foreign transaction income	1,049,851,436.87	1,067,395,251.96	286,027,472.43	-	-	2,403,274,161.26
Inter-segment transaction income	3,990,170.97	200,885,142.30	295,389,992.24	-	(500,265,305.51)	-
Operating costs	765,415,272.42	951,030,108.19	499,836,776.78	-	(473,058,789.34)	1,743,223,368.05
Cost offsetting amount	41,352,109.70	167,006,678.86	264,700,000.78	-	(473,058,789.34)	-
Expenses for the period	179,982,034.54	293,404,110.66	32,393,859.87	-	-	505,780,005.07
Total operating profits	-	-	-	160,715,212.46	(30,807,871.57)	129,907,340.89
Total assets	2,680,257,945.13	1,307,006,691.65	948,149,137.96	1,374,943,114.75	(1,312,679,447.07)	4,997,677,442.42
Total liabilities	801,924,592.23	718,660,896.72	408,684,026.32	1,650,754,531.27	(803,367,354.84)	2,776,656,691.70

As of 30 June 2016 (unaudited)

Item	Chemical bulk drugs	Reagents	Chemicals and other products	Unallocated Item	Offset Amount	Total
Operating income	919,977,340.93	1,019,799,135.66	466,048,770.72	-	(407,324,834.40)	1,998,500,412.91
Including: foreign transaction income	917,243,597.27	863,807,066.84	217,449,748.80	-	-	1,998,500,412.91
Inter-segment transaction income	2,733,743.66	155,992,068.82	248,599,021.92	-	(407,324,834.40)	-
Operating costs	701,099,189.29	805,223,485.84	442,971,224.89	-	(408,593,494.86)	1,540,700,405.16
Cost offsetting amount	38,599,832.66	120,125,979.82	249,867,682.38	-	(408,593,494.86)	-
Expenses for the period	133,858,824.84	206,482,846.25	31,252,954.78	-	-	371,594,625.87
Total operating profits	-	-	-	86,614,936.59	(17,965,419.35)	68,649,517.24
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 liabilities	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

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

b. Foreign trade income according to the regions of the income source

The total foreign trade income of the Group in China and other countries and regions are listed below:

Foreign Transaction Income	Amount Incurred in Current Period	Amount Incurred in Previous Period
China (including Hong Kong)	1,663,245,696.61	1,318,496,917.58
Americas	333,989,164.92	355,385,181.96
Europe	173,615,603.92	155,021,413.37
Others	232,423,695.81	169,596,900.01
Total	<u>2,403,274,161.26</u>	<u>1,998,500,412.92</u>

c. Non-current assets according to asset location

The total non-current assets other than financial assets and deferred income tax assets of the Group in China and other countries and regions are listed below:

Total non-current assets	Balance at the End of the Period	Balance at the Beginning of the Year
China (including Hong Kong)	2,886,221,016.04	2,796,436,126.12
Americas	339,337.35	642,464.21
Europe	11,161.64	13,260.91
Total	<u>2,886,571,515.03</u>	<u>2,797,091,851.24</u>

3. There are no other material matters for the Group to disclose by 30 June 2017.

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

XVII. NOTES TO MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS

1. Account receivables

(1) Classification of account receivables

Item	Balance at the End of the Period				
	Book balance		Provision for Bad Debt		Book value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
Account receivables with significant individual amount and accrued bad debt provision on single item	-	-	-	-	-
Account receivables with provision for bad debts accrued on combination	-	-	-	-	-
Account age combination	215,755,672.14	42.54	2,603,853.67	1.21	213,151,818.47
Combination of relationship with transaction object	291,379,551.31	57.46	-	-	291,379,551.31
Combination of special account nature	-	-	-	-	-
Combination sub-total	507,135,223.45	100.00	2,603,853.67	-	504,531,369.78
Account receivables with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	507,135,223.45	100.00	2,603,853.67	-	504,531,369.78

Item	Amount at the beginning of the year				
	Book balance		Provision for Bad Debt		Book value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
Account receivables with significant individual amount and accrued bad debt provision on single item	-	-	-	-	-
Account receivables with provision for bad debts accrued on combination	-	-	-	-	-
Account age combination	129,450,623.49	32.60	2,061,910.97	1.59	127,388,712.52
Combination of relationship with transaction object	267,677,587.64	67.40	-	-	267,677,587.64
Combination of special account nature	-	-	-	-	-
Combination sub-total	397,128,211.13	100.00	2,061,910.97	0.52	395,066,300.16
Account receivables with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	397,128,211.13	100.00	2,061,910.97	-	395,066,300.16

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

- 1) In combination, accounts receivable with provision for bad debt drawn by aging analysis

Item	Balance at the end of the period			Balance at the beginning of the year		
	Amount	Provision for bad debt	Proportion of Provision (%)	Amount	Provision for bad debt	Proportion of Provision (%)
Within 1 year	214,032,635.29	1,041,194.50	0.50	127,668,676.09	638,343.38	0.50
1-2 years	12,500.00	2,500.00	20.00	447,354.76	89,470.95	20.00
2-3 years	375,944.21	225,566.53	60.00	1,240.00	744.00	60.00
Over 3 years	1,334,592.64	1,334,592.64	100.00	1,333,352.64	1,333,352.64	100.00
Total	215,755,672.14	2,603,853.67	-	129,450,623.49	2,061,910.97	-

- 2) In combination, accounts receivable with provision for bad debts drawn by other method

Organization Name	Book balance	Amount of Bad Debts
Combination of relationship with transaction object	291,379,551.31	-

(2) Provision for bad debts reversed (or recovered) in current period

In current period, the provision for bad debt amounted to RMB488,521.95 and the recovered or reversed provision for bad debts was RMB53,420.75.

In which, significant amount of provision for bad debts recovered or reversed in the current period include:

Organization Name	Amount Reversed (or Recovered) Current Period	Recognition Basis for Bad Debt Provision	Reasons for Reversals (or Recovery) in Current Period
Hunan Livestock Industry and Commerce parent company	53,420.75	Full provision on the basis of considering debt paying ability	Recovery of monetary fund
Total	53,420.75		

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

(3) Account receivables with top five ending balance collected as per the borrowers

Organization Name	Amount	Account Age	Proportion in Total Ending Balance of Account Receivables (%)	Balance at the end of the period of Bad Debt Provision
Shandong Xinhua Medical Trade Co., Ltd.	249,216,285.43	Within 1 year	49.14	-
Shandong Xinhua Pharmaceutical (Europe) BV	34,091,951.22	Within 1 year	6.72	-
Mitsubishi Corporation	24,801,569.21	Within 1 year	4.89	124,007.85
F. Hoffmann-La Roche AG	18,026,509.04	Within 1 year	3.55	90,132.55
Bayer medicine and health care CO., Ltd	11,891,048.53	Within 1 year	2.34	59,455.24
Total	338,027,363.43		66.65	273,595.64

2. Other accounts receivables

(1) Classification of other accounts receivables

Item	Book balance		Balance at the end of the period		Book value
	Amount	Proportion (%)	Provision for Bad Debt Amount	Proportion of Provision (%)	
Other receivables with significant individual amount and bad debt provision accrued on single item	-	-	-	-	-
Other receivables with bad debt provision accrued on combination	-	-	-	-	-
Account age combination	9,570,778.98	2.31	9,049,887.72	94.56	520,891.26
Combination of relationship with transaction object	374,629,163.24	90.52	-	-	374,629,163.24
Combination of special account nature	29,671,898.99	7.17	-	-	29,671,898.99
Combination sub-total	413,871,841.21	100.00	9,049,887.72	2.19	404,821,953.49
Other receivables with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	413,871,841.21	100.00	9,049,887.72	-	404,821,953.49

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

Item	Book balance		Balance at the beginning of the year Provision for Bad Debt		Book value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
Other receivables with significant individual amount and bad debt provision accrued on single item	-	-	-	-	-
Other receivables with bad debt provision accrued on combination	-	-	-	-	-
Account age combination	16,198,505.11	4.10	9,007,537.93	55.61	7,190,967.18
Combination of relationship with transaction object	357,840,436.17	90.69	-	-	357,840,436.17
Combination of special account nature	20,550,707.00	5.21	-	-	20,550,707.00
Combination sub-total	394,589,648.28	100.00	9,007,537.93	2.28	385,582,110.35
Other receivables with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	394,589,648.28	100.00	9,007,537.93	-	385,582,110.35

1) *In combination, other accounts receivable of provisions for bad debt drawn by aging analysis:*

Item	Balance at the end of the period			Balance at the beginning of the period		
	Amount	Provision for bad debt	Proportion of Provision (%)	Amount	Provision for bad debt	Proportion of Provision (%)
Within 1 year	217,316.55	1,086.58	0.50	6,938,281.29	34,691.41	0.50
1-2 years	230,000.00	46,000.00	20.00	280,028.62	56,005.72	20.00
2-3 years	301,653.22	180,991.93	60.00	158,385.99	95,031.59	60.00
Over 3 years	8,821,809.21	8,821,809.21	100.00	8,821,809.21	8,821,809.21	100.00
Total	9,570,778.98	9,049,887.72	-	16,198,505.11	9,007,537.93	-

2) *In combination, accounts receivable with provision for bad debts drawn by other method*

Name of Combination	Book balance	Amount of Bad Debts
Combination of relationship with transaction object	374,629,163.24	-
Combination of special account nature	29,671,898.99	-
Total	404,301,062.23	-

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

(2) Provision for bad debts reversed (or covered) in current year

In current period, the provision for bad debt was RMB42,349.79, there were no bad debt provision to be recovered or reversed.

(3) Conditions of other payment receivable classified by the nature

Nature	Balance at the end of the period	Balance at the beginning of the year
Reserve	578,653.22	568,653.22
Tax receivable and to be deducted	6,195,910.06	6,346,617.06
Finance lease deposit	26,000,000.00	18,000,000.00
Advance investment funds	2,400,000.00	2,400,000.00
Inter office accounts	374,648,404.76	357,840,436.17
Others	4,048,873.17	9,433,941.83
Total	<u>413,871,841.21</u>	<u>394,589,648.28</u>

(4) Conditions about other payment receivable of top five balances as at the end of Report Period collected by the borrowers:

Organization Name	Amount	Account Age	Proportion of the Total Amount (%)	Balance at the end of the period of Bad Debt Provision	Nature or Contents
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	230,000,000.00	Over 3 years	55.57	-	Inter office accounts
Xinhua (Zibo) Real Estate Co., Ltd.	69,474,038.86	Over 3 years	16.79	-	Inter office accounts
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	49,450,373.56	Over 3 years	11.95	-	Inter office accounts
Pingan International Financial Leasing Co., Ltd.	26,000,000.00	Within 2 years	6.28	-	Deposit
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	11,966,651.20	Over 3 years	2.89	-	Inter office accounts
Total	<u>386,891,063.62</u>		<u>93.48</u>		

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

3. Long-term equity investments

(1) Classifications of long-term equity investment

Item	Balance at the end of the period			Balance at the beginning of the year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	468,244,841.06	-	468,244,841.06	468,244,841.06	-	468,244,841.06
Total	468,244,841.06	-	468,244,841.06	468,244,841.06	-	468,244,841.06

(2) Investment to subsidiaries

Invested Entity	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the period	Impairment Provision in Current Period	Balance of
						Provision for Impairment at the end of period
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	48,582,509.23	-	-	48,582,509.23	-	-
Zibo Xinhua Drug Store Chain Co., Ltd.	2,158,900.00	-	-	2,158,900.00	-	-
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	230,712,368.00	-	-	230,712,368.00	-	-
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	35,000,000.00	-	-	35,000,000.00	-	-
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd	3,037,700.00	-	-	3,037,700.00	-	-
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	24,877,370.60	-	-	24,877,370.60	-	-
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	4,596,798.56	-	-	4,596,798.56	-	-
Xinhua (Zibo) Real Estate Co., Ltd.	20,000,000.00	-	-	20,000,000.00	-	-
Zibo Xinhua-Zhongxi Pharmaceutical Co., Ltd.	9,008,212.50	-	-	9,008,212.50	-	-
Shandong Xinhua Pharmaceutical Import and Export Co., Ltd.	5,500,677.49	-	-	5,500,677.49	-	-

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Invested Entity	Balance at the beginning of the year	Increase in Current Period	Decrease in Current Period	Balance at the end of the period	Impairment Provision in Current Period	Balance of Provision for Impairment at the end of period
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	9,370,650.00	-	-	9,370,650.00	-	-
Shandong Xinhua Mechanical & Electrical Engineering Co., Ltd.	8,000,000.00	-	-	8,000,000.00	-	-
Shandong Zibo Xincat Pharmaceutical Company Limited	67,399,654.68	-	-	67,399,654.68	-	-
Total	<u>468,244,841.06</u>	<u>-</u>	<u>-</u>	<u>468,244,841.06</u>	<u>-</u>	<u>-</u>

4. Operating revenues and costs

Item	Amount Incurred in Current Period		Amount Incurred in Previous Period	
	Revenue	Cost	Revenue	Cost
Main operation	1,243,179,788.17	910,044,315.96	1,034,370,850.32	839,974,164.31
Other operation	25,789,328.62	26,492,039.13	21,675,744.41	23,926,253.92
Total	<u>1,268,969,116.79</u>	<u>936,536,355.09</u>	<u>1,056,046,594.73</u>	<u>863,900,418.23</u>

5. Investment income

(1) Income from investment

Sources	Amount of Current Period	Amount of Previous Period
Dividend of subsidiaries	2,691,554.92	17,869,379.21
Total	<u>2,691,554.92</u>	<u>17,869,379.21</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

(2) Long-term equity investment profit calculated by cost method

Item	Amount of Current Period	Amount of Previous Period	Reasons for Changes
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd	2,691,554.92	–	Increase in dividends
Shandong Zibo Xincat Pharmaceutical Company Limited	–	17,869,379.21	Outstanding dividends
Total	<u>2,691,554.92</u>	<u>17,869,379.21</u>	

6. Supplementary information to the cash flow statement of parent company

Item	Amount of Current Period	Amount of Previous Period
1. Reconciliation of net profit to cash flows from operation activities:		
Net Profit	89,491,636.55	34,396,778.08
Add: Provision for impairment of assets	(1,068,037.72)	2,736,091.86
Depreciation of fixed assets	97,634,660.98	84,611,378.10
Amortization of intangible assets	3,043,726.00	2,927,390.64
Loss from disposal of fixed assets, intangible assets and other long-term assets (gains to be listed with brackets)	(7,588,015.52)	(1,006,762.13)
Losses on retirement of fixed assets (gains to be listed with brackets)	–	
Profit or loss from changes in fair value (gains are indicated by brackets)	–	
Financial expenses (gains to be listed with brackets)	35,310,879.12	28,461,513.09
Investment loss (gain to be listed with brackets)	(2,691,554.92)	(17,869,379.21)
Decrease of deferred income tax assets (increases to be listed with brackets)	–	
Increases of deferred income tax liabilities (decreases to be listed with brackets)	4,365,507.96	(1,725,806.07)
Decrease of inventory (increases to be listed with brackets)	47,865,221.13	33,379,161.17
Decreases of operational receivables (increases to be listed with brackets)	(189,703,706.31)	(358,184,153.45)
Increases of operating payables (decreases to be listed with brackets)	(57,984,696.30)	154,967,284.67
Net cash flows from operating activities	18,675,620.97	(37,306,503.25)

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)

(Financial report prepared in accordance with CASBE (Unaudited))

Item	Amount of Current Period	Amount of Previous Period
2. Significant investing and financing activities not related to cash receipt and payment:		
Conversion of debt into capital	-	-
Convertible corporate bonds due within one year	-	-
Fixed assets acquired under finance leases	180,296,138.10	168,449,022.61
3. Net change in cash and cash equivalents:		
Balance of cash at the end of the period	420,221,427.86	122,719,188.40
Less: Balance of cash at the beginning of the period	358,666,787.39	191,940,435.73
Add: Balance of cash equivalents at the end of the period	-	-
Less: Balance of cash equivalents at the beginning of the period	-	-
Net increase in cash and cash equivalents	61,554,640.47	(69,221,247.33)

XVIII. APPROVAL OF FINANCIAL REPORTS

The financial report is released after being approved by Board of Directors of the Company on 11 August 2017.

XIX. SUPPLEMENTARY INFORMATION

1. Non-recurring profit and loss statement

Based on provisions in Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public – Non-recurring Profit and Loss (2008) issued by the China Securities Regulatory Commission, the non-operating profit and loss for the Company in the current period is listed below:

Item	Amount of Current Period	Notes
Profits and losses from disposal of non-current assets	13,048,772.22	Profits and losses from disposal of fixed assets
Tax return, reduction and exemption under occasional condition, approval beyond the authority or without official document	-	
Government subsidy included in current profits and losses	7,401,375.80	Received and amortized government subsidies recognized in the current profits and losses
Capital occupation fee charged from non-financial enterprises and included in current profits and losses		

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
(Financial report prepared in accordance with CASBE (Unaudited))

Item	Amount of Current Period	Notes
Profit or loss from change in fair value of held-for-trading financial assets and held-for-trading financial liabilities, and investment gain from disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets, other than effective hedging business relating to the normal operations of the Company	50,054.83	Notice deposit income
Reversal for impairment provision of receivables subject to separate impairment test	8,053,420.75	Reversal of impairment provision
Other non-Operating incomes and expenditures except the above items	(2,795,099.80)	
Subtotal	<u>25,758,523.80</u>	
Effect of income tax	4,541,244.37	
Impact on minority interest income (after-tax)	<u>1,700,768.53</u>	
Total	<u><u>19,516,510.90</u></u>	

2. Return on net assets and earnings per share

Based on provisions in *Explanatory Announcement No. 9 on Information Disclosure for Companies Offering Their Securities to the Public – Calculation and Disclosure of Rate of Return on Equity (ROE) and Earnings per Share (EPS) (Revised in 2010)* issued by the China Securities Regulatory Commission, the weighted average ROE, basic EPS and diluted EPS for the Group in the Report Period is listed below:

Profit for the Reporting Period	Weighted Average ROE (%)	Earnings per share (EPS)	
		Basic EPS	Diluted EPS
Net profit attributable to shareholders of the parent company	5.19	0.23	0.23
Net profit attributable to shareholders of the parent company after deducting non-recurring profit and loss	<u>4.24</u>	<u>0.19</u>	<u>0.19</u>

Documents Available for Inspection and Place for Inspection

DOCUMENTS AVAILABLE FOR INSPECTION AND PLACE FOR INSPECTION

I. Documents Available for Inspection

1. The Company's 2017 interim report signed by the Chairman of the Board.
2. Financial reports signed and stamped by the legal representative, the financial controller and the chief of the accounting department of the Company.

II. PLACE FOR INSPECTION

Office of the secretary to the Board of the Company

Shandong Xinhua Pharmaceutical Co., Ltd.

14 August 2017