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山東新華製藥股份有限公司

Shandong Xinhua Pharmaceutical Company Limited

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

(Stock Code: 00719)

2018 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “**Board**”) and directors (“**Directors**”) of Shandong Xinhua Pharmaceutical Company Limited (the “**Company**”) hereby announce the unaudited results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2018 (the “**Reporting Period**”). The following financial information has been prepared in accordance with China Accounting Standards for Business Enterprises (“**CASBE**”) as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

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

I. COMPANY INFORMATION

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

English Name of the Company: SHANDONG XINHUA PHARMACEUTICAL
COMPANY LIMITED

Legal Representative: Mr. Zhang Daiming

Secretary to the Board: Mr. Cao Changqiu

Telephone Number: 86-533-2196024

Facsimile Number: 86-533-2287508

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

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

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

Postal Code: 255086

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

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

PRC newspaper for information disclosure: Securities Times

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

<http://www.cninfo.com.cn>

Listing Information:

H Shares: The Stock Exchange of Hong Kong Limited (the “SEHK”)

Stock Short Name: Shandong Xinhua

Stock Code: 00719

A Shares: Shenzhen Stock Exchange

Stock Short Name: Xinhua Pharm

Stock Code: 000756

II. SUMMARY OF PRINCIPAL FINANCIAL DATA (PREPARED IN ACCORDANCE WITH CASBE)

Unit: Renminbi Yuan (“RMB”)

Item	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)	Change as compared to the same period last year (%)
Operating income	2,687,680,140.23	2,403,274,161.26	11.83
Total profits	163,340,602.00	147,562,389.11	10.69
Income tax expense	29,495,994.75	33,522,526.85	(12.01)
Net profits	133,844,607.25	114,039,862.26	17.37
Minority interest income	10,480,791.91	7,264,909.40	44.27
Net profit attributable to shareholders of parent company	123,363,815.34	106,774,952.86	15.54
Net profit attributable to shareholders of parent company after deduction of non-recurring profit and loss	120,200,530.53	87,258,441.96	37.75
Net cash flow from operating activities	136,331,240.88	9,557,583.42	1,326.42
Basic earnings per share	0.26	0.23	13.04
Diluted earnings per share	0.26	0.23	13.04

Return on equity 4.90% 5.19% Decreased by 0.29 percentage points

	As at 30 June 2018 (unaudited)	As at 31 December 2017(the “End of Last Year”) (audited)	Change as compared to the End of Last Year (%)
Total assets	5,671,642,001.29	5,273,647,124.63	7.55
Total liabilities	2,994,519,647.01	2,694,193,743.82	11.15
Minority shareholder’s equity	141,296,760.40	99,429,604.22	42.11
Total of equity assigned to the shareholders of parent company	2,535,825,593.88	2,480,023,776.59	2.25

III. CHANGES IN SHARE CAPITAL STRUCTURE AND INFORMATION ON SHAREHOLDERS

1. Share capital structure

Class of shares	30 June 2018		1 January 2018	
	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	21,049,516	4.400	21,049,516	4.400
State-owned shares	-	-	-	-
Shares owned by domestic legal persons	21,040,591	4.398	21,040,591	4.398
Conditional tradable shares owned by senior management (A shares)	8,925	0.002	8,925	0.002
Others	-	-	-	-
2. Total number of unconditional tradable shares	457,303,905	95.600	457,303,905	95.600
Renminbi-denominated	307,303,905	64.242	307,303,905	64.242

ordinary shares (A shares)				
Overseas listed foreign shares (H shares)	150,000,000	31.358	150,000,000	31.358
3. Total number of shares	478,353,421	100.00	478,353,421	100.00

2. Shareholders information

- (1) As at 30 June 2018, the Company had on record a total of 29,804 shareholders (the “Shareholders”), including 43 holders of H Shares and 29,761 holders of A Shares.
- (2) As at 30 June 2018, the ten largest Shareholders were as follows:

Unit: share

Name of Shareholders	Nature of shareholders	% of the total share capital (%)	Number of shares held
山東新華醫藥集團有限責任公司 (Shandong Xinhua Pharmaceutical Group Co. Ltd. *) (“SXPGC”)	State-owned shares	32.94	157,587,763
HKSCC (Nominees) Limited	Others	31.13	148,907,598
巨能資本管理有限公司—山東聚贏產業基金合夥企業(有限合夥) Ju Neng Capital Management Company Limited – Shandong JuYing Industrial Fund Partnership (Limited Partnership)	Others	3.75	17,930,905
全國社保基金一零七組合 National Social Security Fund 107 Portfolio	Others	0.69	3,309,367
深圳前海瑞豐基金管理有限公司—深圳前海瑞豐價值1號私募投資基金 Shenzhen Qianhai Ruifeng Fund Management Co., Ltd. --Shenzhen Qianhai Ruifeng Value No. 1 Private Equity Investment Fund	Others	0.69	3,294,919
山東新華製藥股份有限公司—第一期員工持股計劃 Shandong Xinhua Pharmaceutical Company Limited - Phase I of Employee Stock Ownership Scheme	Others	0.65	3,109,686
廈門國際信託有限公司—廈門信託—鯤凌17號集合資金信託計劃 Xiamen International Trust Co.,	Others	0.43	2,071,840

Ltd. – Xiamen Trust – Kun Ling No. 17 Collective Fund Trust Plan			
中國農業銀行股份有限公司—安信消費醫藥主題股票型證券投資基金 Agricultural Bank of China Limited—An Xin Consumer Medicine-themed Stock Securities Investment Fund	Others	0.34	1,611,012
李松青 Mr. Li Songqing	Others	0.28	1,353,228
林穗賢 Mr. Lin Huixian	Others	0.27	1,305,434

(3) As at 30 June 2018, 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	Class of shares
山東新華醫藥集團有限責任公司 SXPGC	157,587,763	RMB-denominated ordinary Shares
HKSCC (Nominees) Limited	148,907,598	Overseas listed foreign shares
全國社保基金一零七組合 National Social Security Fund 107 Portfolio	3,309,367	RMB-denominated ordinary Shares
深圳前海瑞豐基金管理有限公司—深圳前海瑞豐價值1號私募投資基金 Shenzhen Qianhai Ruifeng Fund Management Co., Ltd.—Shenzhen Qianhai Ruifeng Value No. 1 Private Equity Investment Fund	3,294,919	RMB-denominated ordinary Shares
廈門國際信託有限公司—廈門信託—鯤凌17號集合資金信託計劃 Xiamen International Trust Co., Ltd. – Xiamen Trust – Kun Ling No. 17 Collective Fund Trust Plan	2,071,840	RMB-denominated ordinary Shares
中國農業銀行股份有限公司—安信消費醫藥主題股票型證券投資基金 Agricultural Bank of China Limited—An Xin	1,611,012	RMB-denominated ordinary Shares

Consumer Medicine-themed Stock Securities Investment Fund		
李松青 Mr. Li Songqing	1,353,228	RMB-denominated ordinary Shares
林穗賢 Mr. Lin Huixian	1,305,434	RMB-denominated ordinary Shares
中海信托股份有限公司—中海—浦江之星353號集合 資金信托 Zhonghai Trust Co., Ltd.—Zhonghai-Pujiang Star No. 353 Collective Fund Trust	1,121,500	RMB-denominated ordinary Shares
中國建設銀行股份有限公司—安信價值精選股票型證 券投資基金 China Construction Bank Corporation—An Xin Value-selected Stock Securities Investment Fund	1,001,100	RMB-denominated ordinary Shares

Notes:

- i. As of 30 June 2018, SXP GC 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 SXP GC and Well Bring.
- 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 of their knowledge, the Directors are not aware as to whether there is any Association Relationship (as defined in the Rules Governing Listing of Stocks On Shenzhen Stock Exchange) amongst the ten largest Shareholders, 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 ten largest shareholders of unconditional tradable shares and the ten largest shareholders of the Company or if any of them are persons acting in concert as defined in the Administration Measures for Takeover.
- iii. Save as disclosed, the only domestic Shareholder directly holding more than 5% of the total issued shares of the Company is SXP GC.
- iv. Save as disclosed above and so far as the Directors are aware, as at 30 June 2018 no other person (other than the Directors, supervisors of the Company (the “**Supervisors**”), chief executive (if any) or members of senior management of the Company) had an interest or short position in the Company’s shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (“**SFO**”) and as recorded in the register required to be kept under section 336 of the SFO, or was

otherwise a substantial shareholder (as defined under the Listing Rules) of the Company.

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

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

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

Name	Position	Number of Shares as at 30 June 2018	Number of Shares as at 1 January 2018
Directors:			
Mr. Zhang Daiming	Chairman	11,900 (note 2)	11,900
		134,529 (note 3)	134,529
Mr. Ren Fulong	Non-executive Director	44,843 (note 3)	44,843
Mr. Du Deping	Executive Director, General Manager	116,591 (note 3)	116,591
Mr. Xu Lie	Non-executive Director	62,780 (note 3)	62,780
Mr. Zhao Bin	Non-executive Director	Nil	Nil
Mr. Chan Chung Kik, Lewis	Independent non-executive Director (resigned with effect from 29 June 2018)	Nil	Nil
Mr. Du Guanhua	Independent non-executive Director	Nil	Nil
Mr. Li Wenming	Independent non-executive Director	Nil	Nil
Mr. Lo Wah Wai	Independent non-executive Director (has been appointed with effect from 29 June 2018)	Nil	Nil
Supervisors:			
Mr. Li Tianzhong	Chairman of Supervisory Committee	71,748 (note 3)	71,748
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil
Ms. Hu Yanhua	Employee Supervisor	26,905 (note 3)	26,905
Mr. Wang Jianping	Employee Supervisor	Nil	Nil
Mr. Xiao Fangyu	Independent Supervisor	Nil	Nil
Other Senior Management:			
Mr. Wang Xiaolong	Deputy General Manager	62,780 (note 3)	62,780
Mr. Dou Xuejie	Deputy General Manager	26,905 (note 3)	26,905
Mr. Du Deqing	Deputy General Manager	62,780 (note 3)	62,780
Mr. He Tongqing	Deputy General Manager	89,686 (note 3)	89,686
Mr. Hou Ning	Financial Controller	89,686 (note 3)	89,686
Mr. Zheng Zhonghui	Deputy General Manager (appointed with effect from 27 February 2017)	17,937 (note 3)	17,937
Mr. Cao Changqiu	Secretary to the Board	1,793 (note 3)	1,793
Total		820,863 (note 3)	820,863

Notes:

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

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

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

(4) Save as disclosed above and so far as the Directors are aware, as at 30 June 2018, no Director, Senior Management or Supervisor had any interest or short position in the shares, underlying shares and / or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO (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.

V. CHAIRMAN'S STATEMENT

To all Shareholders:

We hereby report to the Shareholders the operation results of the Company for the first half year of 2018.

In the first half year of 2018, the operating income of the Company and its subsidiaries prepared under the CASBE was RMB2,687,680,000, representing an increase of 11.83% as compared with the same period last year. The Group recorded its profit attributable to the Shareholders as RMB123,364,000, representing an increase of 15.54% as compared with the same period last year.

The Board did not propose interim dividends be declared for the first half year of 2018.

Business Review

In the first half of the year, the Group has overcome the impact of increasing prices of raw materials, increasing pressure on production constraints including safety and environmental protection, intensifying competition and other factors. By capturing market opportunities, proactively adjusting product structure, and making breakthroughs in key tasks, the Company maintained a sound development in its production and operation.

1. Putting key emphasis on marketing, with remarkable effects in structural adjustment

By proactive seizure of market opportunities and full development of its comprehensive advantages, the Group recorded a growth of 11.79% in the revenue of its active pharmaceutical ingredients, among which, export income reached US\$128 million, representing an increase of 21.96% year-on-year. Preparations brought in revenue of RMB725 million, representing an increase of 18.54% as compared with the same period last year, of which, revenue from six strategic varieties of preparations including Rabeprazole and Glimepiride totalled RMB148

million, representing an increase of 52% as compared with last year.

By vigorously boosting its internationalization strategy, the Group achieved a revenue of RMB87.53 million for its international cooperation products in the first half of the year, representing a year-on-year increase of 57.23%. The Group entered into an agreement with Perrigo (the United States) and both sides jointly made an additional investment of approximately RMB95 million in the establishment of international cooperation projects on 5 billion pieces of solid preparation. Other key international cooperation projects progressed smoothly.

The Group entered into a framework cooperation agreement with Alibaba Group, which will facilitate the in-depth cooperation in such fields as the sales of chemical raw material, large enterprise platform procurement, internet + medicine (medical), and new retail unmanned stores. In the first half of the year, the revenue from e-commerce was RMB55.22 million, representing about sevenfold year-on-year increase.

2. Proactively working on research and development to maintain development momentum

In the first half of the year, four new APIs passed technical evaluation and have been qualified for direct marketing. The Company made substantial progress in the research on nine new APIs products and eight new preparation products. The Company has launched a cooperation and development in the major innovative drug of anti-senile dementia with Shenyang Pharmaceutical University.

The Company made great efforts to promote consistency evaluation. In the first half of the year, seven products under ten approval numbers have successfully passed the BE test, of which, the materials for three products were submitted to Center for Drug Evaluation, CFDA for evaluation, application for clinical exemption was successfully made for one product, and two products were in the BE test and pre-BE test respectively. The Company initiated the re-evaluation for the injections of five products. Four APIs re-evaluation products have been successfully submitted for registration and filing.

The Company and its subsidiary Xincat Pharmaceutical have respectively passed the accreditation as national and provincial high-tech enterprises. At the same time, the Company passed the evaluation of the National Enterprise Technology Center once again, and the “Key Laboratory of New Drug Research and Development for Neurodegenerative Diseases in Zibo City” jointly established by the Company and Shandong University of Technology was listed as a key laboratory in Zibo City, Shandong Province. In the first half of the year, the Company applied for a total of 15 patents, including 10 patents for invention.

3. Accelerating the construction and reconstruction projects

The Company has completed the GMP certification information declaration for its modern medicine international cooperation center (phase I), and will apply for the MHRA inspection in the second half of the year. The phase II project made steady progress.

In the first half of the year, the Company completed ten key projects including automation, continuity, and intellectualization upgrading and reconstruction projects, greatly improving the automation of its production system and the control over quality, safety and energy conservation. Another ten key automation reconstruction projects are under implementation.

4. Strengthening basic management to ensure steady production and market demand

The Company proceeded with 6S management in depth and comprehensively improved the basic management. In the first half of the year, the “three production line projects” operated smoothly, with no general or above safety, environmental and quality accidents occurred.

The Company has formulated a special work plan on safety, organized the signing of safety target responsibility letter and the examination for safety policy objectives, and carried out comprehensive and professional inspections. The Company also increased the investment in safety and improved the safety automation protection of equipment to ensure safe and stable production.

The Company completed 20 environmental protection measure projects in the first half of the year, and 23 projects are being implemented. The Company strengthened VOCS online detection, fulfilled the real-time monitoring of each point, and intensified odour control, thus effectively guaranteeing the market demand.

In the first half of the year, the Company passed 67 quality reviews and 75 market quality sampling inspections, and all products were qualified. The Company made timely arrangements to be in compliance with Directive 2011/62/EU for exports to the European Union. The Company’s eight products have passed GMP certification for veterinary drugs. The Company successfully obtained the production license for vitamin C plus zinc and the production license for effervescent granules.

Prospects

As the State has been speeding up the implementation of various reforms, the Company is embracing a good environment for development and reform. The continuous deepening of reform of pharmaceutical and healthcare system provides additional opportunities for accelerated development. As the Company improved its basic management, its comprehensive strengths will be enhanced continuously. In view of the continuous promotion of the greater preparations strategy, the key preparation products continued to maintain rapid growth, and the Company was powered by an increasing inner drive. Through implementation of a series of incentive measures, staff cohesiveness continued to improve and the internal impetus of the Company’s development continued to grow.

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

1. Paying attention to the overall layout to further improve the comprehensive competitiveness of the Company

The Company will accelerate the implementation of its greater preparations strategy. The Company will devote greater effort to the cultivation of its strategic preparation products to strive to achieve a rapid growth in the sales throughout the year; fully taking advantage of self-produced APIs and regional advantages of preparation brands, the Company will strengthen the “branded generics” with the objective of creating a reputable brand for its antipyretic, and will especially prepare the varieties of consistency evaluation in advance to create favourable conditions for the development of preparations.

The Company will accelerate the development of new APIs products. On the basis of grasping the sales of the leading APIs, the Company will specially make efforts in the market development of specialty APIs and new APIs products, and strive to cultivate new kinetic energy. At the same time, the Company will actively apply for and build fixed production bases for small varieties of APIs which are in short supply in the country.

The Company will accelerate the implementation of its internationalization strategy, and carefully do a good job in the linkage between the production and marketing of the international cooperation projects that have been put into production. The Company will do its best to pass the MHRA certification work for its medicine international cooperation center (phase I) and accelerate the technology transfer and market development and research of the ANDA project.

Relying on the planning and layout of e-commerce innovation park, the Company will further integrate B2B, B2C, O2O and other resources, increase cooperation with strategic partners such as Jingdong.com and Alibaba, accelerate the implementation of “healthy city” projects, and launch cross-border e-commerce business to strive to build a new Xinhua medical and healthy platform and generate a revenue of over RMB100 million for its e-commerce business.

2. Focusing on scientific and technological innovation to accelerate the transformation of scientific research achievements

The Company will accelerate the consistency evaluation and do well the declaration work of product research materials to CDE in the second half of the year to strive to have seven varieties successfully declared to Center for Drug Evaluation, CFDA. At the same time, the Company will carry out the consistency evaluation on injections, the re-evaluation and filing of APIs, the promotion of new products and new projects and others, especially the research and development of antipyretic and analgesic products.

3. Scientifically planning project construction to speed up the automation reconstruction of existing production lines

In the second half of the year, the Company will complete the overall planning and construction plan of the headquarters to strive to make its modern medicine international cooperation center (phase I) to put into service as soon as possible. The Company will also complete the civil construction and the purchase and installation of some equipment of its modern medicine international cooperation center (phase II) within the year. In addition, it will complete the technological transformation project of pharmaceutical intermediates and start the preparatory work for series of pharmaceutical intermediate products.

The Company will highlight key points to speed up the technological transformation of production lines, and improve the continuity and automation of production.

4. Strengthening internal management to consolidate the foundation for development

The Company will increase the investment in safety, implement the automation and chain transformation of safety device, carry out the risk assessment of dangerous process response and consolidate safety infrastructure construction to ensure the completion of annual safety objectives.

The Company will further strengthen environmental protection work, introduce advanced technology and strengthen online monitoring. It will also accelerate the implementation of key environmental protection projects and increase the investigation of hidden dangers to provide strong support for production organizations.

The Company will continue to carry out the technical improvement activities for all employees. Focusing on reducing raw material consumption, improving yield and quality and reducing pollutant emissions and others, the Company will implement 37 key technical quality projects throughout the year. It will further strengthen on-site and process supervision to ensure to successfully pass customer audits, various on-site inspections and certification audits.

VI. MANAGEMENT DISCUSSION AND ANALYSIS

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

Analysis of financial situation and operating result in accordance with CASBE

Total assets of the Group as at 30 June 2018 were approximately RMB5,671,642,000, representing an increase of 7.55% 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 2018, borrowing amount was approximately RMB2,994,520,000, representing an increase of 11.15% as compared with the beginning of the year, The main reasons are due to the appropriate increase in bank borrowing, notes payable and accounts payable;

As at 30 June 2018, total equity attributable to the shareholders of the Company was approximately RMB2,535,826,000, increasing by 2.25% as compared with the beginning of the year. The increase was mainly attributable to the business profits generated in the Reporting Period.

As at 30 June 2018, Notes receivable and accounts receivable of the group are RMB 616,718,000 . the Group's notes receivable increased by 41.49% as compared with the beginning of the year, mainly because of the expansion of scale of sale and that some of the payments for the sale have yet not fallen due during the Reporting Period.

As at 30 June 2018, the Group's prepayments was RMB31,556,000, representing an increase of 38.36% over the beginning of the year. The increase was mainly due to the increase in the prepaid procurement amount for maintaining normal production operations during the Reporting Period.

As at 30 June 2018, the short-term borrowing of the Group was RMB235,835,000, representing an increase of 55.32% compared with the beginning of the year. The main reason for the increase was the appropriate increase in the bank borrowings for supplementing liquidity during

the Reporting Period.

As at 30 June 2018, the Group's payroll payable was RMB36,452,000, representing a decrease of 46.75% from the beginning of the year. The decrease was mainly due to the payment of payroll payable for the beginning of the year during the Reporting Period.

As at 30 June 2018, the taxes and dues payable of the Group was RMB26,265,000, representing an increase of 118.92% compared with the beginning of the year. The main reason for the increase was the significant increase in value-added tax and income tax payable during the Reporting Period.

As at 30 June 2018, the Group's deferred income tax liabilities was RMB24,049,000, representing an increase of 40.73% from the beginning of the year. The main reason for the increase was that the Company deducted the depreciation expense of machinery and equipment with a unit value of newly purchased not more than RMB 5 million in the calculation of taxable income during the Reporting Period, according to the Ministry of Finance and the State Administration of Taxation [2018] No. 54 document.

Operating income of the Group amounted to RMB2,687,680,000 for the first half year, representing an increase of 11.83% as compared with the same period last year; operating profit of the Group amounted to RMB166,134,000, increasing by RMB11.13% 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 expense amounted to RMB336,145,000 for the first half of 2018, representing an increase of approximately 27.23% as compared with the same period last year, and the increase was mainly attributable to active market exploration, Strengthen the preparation strategy brand construction, marketing cost increases.

The Group's financial expenses amounted to RMB20,039,000 for the first half of 2018, representing a decrease of approximately 44.53% as compared with the same period last year, and the decrease was mainly attributable to the increase of exchange gains.

Net cash flow from operating activities of the Group for the first half of 2018 was approximately RMB136,331,000, representing an increase by RMB126,774,000 as compared with the same period last year. The main reason is that the fund operation management is continuously strengthened in this report period. Through reasonable allocation of funds, the net cash flow generated by the operation activities increases significantly compared with the same period last year.

For the first half of 2018, net cash outflow from investment activities of the Group was RMB119,123,000, representing a decrease by RMB10,979,000 as compared with the same period last year. The main reason was the increase of investment in construction projects.

For the first half of 2018, net cash flow from financing activities of the Group was RMB123,039,000, decrease by RMB25,386,000 as compared with the same period last year. The increase was repay part of the loan due.

For the first half year of 2018, the Group's net increase in cash and cash equivalents was RMB143,273,000, increasing by RMB94,770,000, attributable mainly to the increase of net cash flow from financing activities.

The Group's main business classified by industry, by product and by geographical location in accordance with CASBE is as follow (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, 173, 577, 615. 67	852, 207, 304. 84	27. 38	11. 79	17. 70	Decrease by 3.65 percentage points
Preparations	1, 182, 629, 382. 39	782, 936, 942. 63	33. 80	10. 80	(0. 14)	Increase by 7.25 percentage points
Medical intermediates and other products	331, 473, 142. 17	303, 812, 028. 96	8. 34	15. 89	29. 21	Decrease by 9.45 percentage points
Total	2, 687, 680, 140. 23	1, 938, 956, 276. 43	27. 86	11. 83	11. 23	Increase by 0.40 percentage points
By product						
Antipyretic and analgesic active pharmaceutical ingredients	1, 173, 577, 615. 67	852, 207, 304. 84	27. 38	11. 79	17. 70	Decrease by 3.65 percentage points

Tablet, injection, capsule etc.	1,182,629,382.39	782,936,942.63	33.80	10.80	(0.14)	Increase by 7.25 percentage points
Medical intermediates and others	331,473,142.17	303,812,028.96	8.34	15.89	29.21	Decrease by 9.45 percentage points
Total	2,687,680,140.23	1,938,956,276.43	27.86	11.83	11.23	Increase by 0.40 percentage points
By geographical location						
PRC(including Hong Kong)	1,877,197,587.18	1,306,421,716.16	30.41	12.86	12.47	Increase by 0.25 percentage points
America	404,603,284.92	322,686,697.07	20.25	21.14	9.38	Increase by 8.58 percentage points
Europe	150,797,141.32	110,233,275.00	26.90	(13.14)	(28.96)	Increase by 16.28 percentage points
Others	255,082,126.81	199,614,588.20	21.74	9.75	51.86	Decrease by 21.71 percentage points
Total	2,687,680,140.23	1,938,956,276.43	27.86	11.83	11.23	Increase by 0.40 percentage points

An analysis of profit as compared to 2017 was as follows:

Items	Amount (RMB Yuan)		Percentage of the total profit (%)	
	Six months ended 30 June 2018	2017	Six months ended 30 June 2018	2017
Operating profits	166,133,634.82	281,680,867.72	101.71	105.04
Net non-operating income	(2,793,032.82)	(13,506,991.72)	(1.71)	(5.04)
Total profits	163,340,602.00	268,173,876.00	100.00	100.00

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

Liquidity and analysis of financial resources and capital structure

As at 30 June 2018, the current ratio was 108.73%, the quick ratio was 75.01%, the turnover rate of account receivables (annualised revenue/average trade and bill receivables×100%) and the rate of inventory turnover (annualised operating costs/average inventories×100%) were 1,345.51% and 560.45% respectively.

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

The main sources of funds for the Group were loans and operating profits. As at 30 June 2018, the Group's total borrowing was RMB1,311,165,000. The amount of cash the Group had on hand and in bank amounted to RMB904,876,000 (including deposits for, *inter alia*, bank acceptance bills of RMB78,740,000). The group's Banks are in good credit condition and have sufficient bank credit line available.

As at 30 June 2018, the Company and Shandong Zibo Xincat Pharmaceutical Co., Ltd., a subsidiary of the Company, charged the monetary capital of RMB64,440,000 and RMB14,300,000 to the bank for arrangement of bank acceptance bill respectively. Shandong Xinhua Pharmaceutical Trading Co., LTD., a subsidiary, pledged RMB835,000 of accounts receivable to process accounts receivable factoring. Besides, the Company's fixed asset of RMB80,829,000 worth was charged as security for loans. Save as disclosed, the Group did not have other assets charged.

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

The breakdown of the performance results of the Group is listed in the section headed "Analysis of financial situation and operating result in accordance with CASBE".

As at 30 June 2018, the number of employees of the Group was 6,361. The total salaries for employees in the first half of 2018 amounted to RMB263,404,000.

As at 30 June 2018, the asset-liability ratio of the Group was 52.80% (total liabilities / total assets ×100%).

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

The assets and liabilities of the Group were mainly recorded in Renminbi. For the first half year of 2018, the revenue from the Group's exports was approximately US\$128,241,000, 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 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 exceeds the range agreed by both parties.

VII. IMPORTANT

Save as disclosed herein:

1. The Company has generally complied with the relevant PRC regulatory documents in respect of corporate governance applicable to listed companies.

2. The Plan for Profit Distribution and Capital Reserve Capitalisation for Year 2017 has been approved at the Annual General Meeting for year 2017, the first A Share Class Meeting in 2018 and the first H Share Class Meeting in 2018 respectively.
3. In respect of the Plan for Profit Distribution and Capital Reserve Capitalisation for Year 2017, the Company has in July 2018 by way of capitalisation of the capital reserve of the Company (3 capitalisation Shares for every 10 existing Shares) issued a total of 143,506,026 new Shares (comprising 45,000,000 new H Shares and 98,506,026 new A Shares) based on the Company's total issued Shares of 478,353,421 Shares (comprising 150,000,000 H Shares and 328,353,421 A Shares) as at 31 December 2017. As at the date of this announcement, the total issued Shares of the Company are 621,859,447 Shares (comprising 195,000,000 H Shares and 426,859,447 A Shares). For this Reporting Period and the six months ended 30 June 2017, the Board has not recommended any interim dividend or interim conversion of any capital reserve into share capital.
4. The Group was not involved in any material litigation or arbitration, whether pending or threatened during the Reporting Period.
5. There was no material purchase or disposal of assets or assets reorganisation of the Company during the Reporting Period and no such incident took place before the Reporting Period and carried over onto the Reporting Period.
6. During the Reporting Period, there was no material entrustment, subcontracting or lease of assets between the Company and other companies.
7. The specific illustration and independent opinions of the independent non-executive Directors in respect of the use of funds by related parties and external guarantee provided are as follows:

During the Reporting Period, there was no appropriation of the Company's funds onto uses other than its operation 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 2018, there was no overdue debt of which the Company has made foreign guarantees and the Company had no liability arising from any guarantee due to the default of a guaranteed party.

8. Disclosures that the Company or Shareholders holding more than 5% of the total number of issued Shares has/have committed to make: Nil
9. Purchase, Sales and Redemption of Shares:

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

10. Entrusted Management of Funds

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

11. Information on the equity interest in financial institutions (RMB)

Stock Code	Stock 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%	159,250,000.00	-	(47,850,000.00)	Investment in other equity instruments	Acquisition
601328	BANKCOMM	14,225,318.00	0.01%	47,178,208.00	-	(3,863,024.00)	Investment in other equity instruments	Acquisition
Total		21,225,318.00	-	206,428,208.00	-	(51,713,024.00)		-

12. There was no penalty or remedial actions imposed on the Company during this Reporting Period.

13. There were no research, communication or interview activities organised in respect of the Company during the Reporting Period.

14. Changes in accounting policies

Content and reason of accounting policy change	Approval	Remarks
"CAS No.22 – Financial Instruments: Recognition and Measurement ", "CAS No.23 – Transfer of Financial Assets" and " CAS No.24 – Hedging Accounting”, as revised by the Ministry of Finance of PRC by CK 【2017】 No.7 and No.8, and "CAS No.37 – Financial Instruments: Presentation" as released by the Ministry of Finance of PRC have come into force since 1 January 2018. In preparing the interim financial reporting of 2018, the Group has implemented the updated accounting standards and made the relevant treatments pursuant to the relevant transitional arrangements.	The relevant accounting policy changes were approved by the third meeting of the ninth Board of Directors of the Company on April 19, 2018.	Note 1
"CAS No.14 –Revenue" as revised by the Ministry of Finance of PRC by CK 【2017】 No.22 has come into force since January 1, 2018. In preparing the interim financial reporting of 2018, the Group has implemented the updated accounting standards and made the relevant treatments pursuant to the relevant transitional arrangements.	The relevant accounting policy changes were approved by the third meeting of the ninth Board of Directors of the Company on April 19, 2018.	Note 2

Note 1 : The above-mentioned changes in accounting policies in respect of financial instruments had no material effect on the Company's retained earnings and other comprehensive income at the beginning of 2018 and retrospective application is not required.

Note 2 : The above changes in accounting policies in respect of income did not cause material changes to the Company's revenue recognition method, have no material impact on the Company's net profit, total assets and net assets during the current period and the preceding period, and are not required to retrospectively apply.

VIII. CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

AUDIT COMMITTEE

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

The audit committee along with the management of the Company has reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting including the unaudited interim accounts for the six months ended 30 June 2018.

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 2018 and that sufficient disclosures have been made.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of a sufficient number of independent non-executive Directors and at least one independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive Directors including one with financial management expertise, of whom the biographical details were set out in the 2017 Annual Report of the Company and the announcements on Juchao website, HKExnews and on the Company’s website dated 17 May 2018.

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 confirms that during the Reporting Period, all Directors and Supervisors have complied with the required standard set out in the Model Code in relation to securities transactions and they did not have any non-compliance with the Model Code.

IX. FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH CASBE

Consolidated Balance Sheet

Unit: RMB Yuan

Assets	Notes	30 June 2018 (unaudited)	31 December 2017 (audited)
Current assets:			
Monetary funds		904,875,827.43	731,126,274.34
Notes receivable and Accounts receivable	3	616,717,514.07	435,871,810.21
Prepayments		31,556,431.76	22,806,947.53
Other accounts receivable	4	35,825,821.08	45,017,383.05
Inventories		670,637,678.24	713,210,692.52
Other current assets		43,672,572.74	61,956,321.18
Total current assets		2,303,285,845.32	2,009,989,428.83
Non-current assets:			
Other equity instrument investment		206,428,208.00	258,141,232.00
Investment real estate		71,837,725.25	73,441,754.87
Fixed assets		2,247,412,338.30	2,152,905,567.58
Projects under construction		497,566,401.65	434,545,877.52
Intangible assets		319,920,868.08	323,563,478.78
Deferred income tax assets		25,190,614.69	21,059,785.05
Total non-current assets		3,368,356,155.97	3,263,657,695.80
Total assets		5,671,642,001.29	5,273,647,124.63

Consolidated Balance Sheet (Continued)

Unit: RMB Yuan

Liabilities and Shareholders' Equity	Notes	30 June 2018 (unaudited)	31 December 2017 (audited)
Current liabilities:			
Short-term borrowing		235,835,230.51	151,837,507.11
Notes payable and Accounts payable	5	889,668,443.16	738,293,026.61
Contract liability		135,268,638.54	123,295,214.99
Payroll payable	6	36,452,415.98	68,460,743.73
Taxes and dues payable		26,265,286.98	11,997,561.61
Other payables		355,249,530.78	302,014,632.23
Non-current liabilities due within one year		433,870,832.30	89,621,673.88
Other current liabilities		5,827,410.00	5,319,000.00
Total current liabilities		2,118,437,788.25	1,490,839,360.16
Non-current liabilities:			
Long-term borrowings		618,500,000.00	931,500,000.00

Long-term payables		94,918,449.99	119,501,721.66
Deferred income		135,052,907.02	131,701,917.02
Deferred income tax liabilities		24,049,001.75	17,089,244.98
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		876,081,858.76	1,203,354,383.66
Total liabilities		2,994,519,647.01	2,694,193,743.82
Shareholders' equity:			
Capital Stock		478,353,421.00	478,353,421.00
Capital reserve	7	728,450,324.94	728,450,324.94
Less: Treasury stock		-	-
Other comprehensive income	8	155,741,079.07	199,385,406.07
Special reserve		-	-
Surplus reserve		235,321,577.01	235,509,229.07
Undistributed profits	9	937,959,191.86	838,325,395.51
Total of equity assigned to the shareholders of parent company		2,535,825,593.88	2,480,023,776.59
Minority shareholders' equities		141,296,760.40	99,429,604.22
Total of shareholders' equity		2,677,122,354.28	2,579,453,380.81
Total of liabilities and shareholder's equity		5,671,642,001.29	5,273,647,124.63

Consolidated Income Statement

Item	Notes	Unit: RMB Yuan	
		Six months ended 30 June	
		2018 (unaudited)	2017 (unaudited)
I. Gross revenue		2,687,680,140.23	2,403,274,161.26
Including: Operating revenue	10	2,687,680,140.23	2,403,274,161.26
II. Total operating costs		2,528,121,668.33	2,273,416,875.20
Including: Operating costs	10	1,938,956,276.43	1,743,223,368.05
Taxes and surcharges	11	30,449,981.00	32,208,204.39
Selling expenses		336,144,937.35	264,204,922.60
Administration expenses		112,700,479.79	108,935,545.13
R&D cost		86,133,750.67	96,515,407.67
Financial expenses		20,038,707.52	36,124,129.67
Including: Interest expense		26,822,807.00	29,301,634.58
Interest income		1,550,160.56	1,535,252.61
Assets impairment loss		3,697,535.57	(7,794,702.31)
Add: Other income		5,212,300.00	6,055,999.98
Investment income (losses to be listed with brackets)		807,270.99	50,054.83
Gains from asset disposal (losses to be listed with brackets)		555,591.93	13,534,933.26
Including: Profit from sale of property (losses to be listed with brackets)		-	5,445,014.70
III. Operating profits (losses to be listed with brackets)		166,133,634.82	149,498,274.13

Add: non-operating income	1,232,885.38	2,173,694.77
Less: non-operating expenditure	4,025,918.20	4,109,579.79
IV. Total profits (total loss to be listed with brackets)	163,340,602.00	147,562,389.11
Less: income tax expense	12 29,495,994.75	33,522,526.85
V. Net profits (net loss to be listed with brackets)	133,844,607.25	114,039,862.26
(I) According to operation continuity		
1. Net profit from continued operations (net losses to be listed in brackets)	133,844,607.25	114,039,862.26
2. Net profit from discontinued operations (net losses to be listed in brackets)		
(II) According to ownership		
1. Net profit attributable to shareholders of parent company	123,363,815.34	106,774,952.86
2. Minority interest income or loss	10,480,791.91	7,264,909.40
VI. Net amount of other comprehensive income after tax	(43,570,110.67)	29,121,487.89
Net amount of other comprehensive income after tax attributable to the shareholders of parent company	(43,644,327.00)	28,851,695.89
(I) Other comprehensive income not subject to reclassification to profit or loss	(43,956,070.40)	28,649,664.80
1. Changes in fair value of other equity instruments investment	(43,956,070.40)	28,649,664.80
(II) Other comprehensive income to be reclassified to profit or loss	311,743.40	202,031.09
1. Conversion difference of foreign currency statement	311,743.40	202,031.09
Net amount of other consolidated income after tax attributable to the minority shareholders	74,216.33	269,792.00
VII. Total comprehensive income	90,274,496.58	143,161,350.15
Total comprehensive income attributable to the shareholders of parent company	79,719,488.34	135,626,648.75
Total comprehensive income attributable to the minority shareholders	10,555,008.24	7,534,701.40
VIII. Earnings per share:		
(I) Basic earnings per share	0.26	0.23
(II) Diluted earnings per share	0.26	0.23

SUMMARY NOTES TO THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CASBE

NOTES:

1. Basis of preparation

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 China Accounting Standards issued by the Ministry of Finance of the PRC and other relevant regulations and the disclosure requirements under the Companies Ordinance of Hong Kong and the Listing Rules by the SEHK.

Going concern

The Group has evaluated 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.

2. Segment information

(a) Description of segments

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

The Group's reporting segments are as follows:

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

Information regarding the abovementioned segments is as below:

(b) Segment information for six months ended 30 June 2018 and six months ended 30 June 2017 are as follows (unaudited):

Six months ended 30 June 2018 (unaudited)

Unit: RMB Yuan

Item	Chemical bulk drugs	Preparations	Medical intermediate and other products	Unallocated	Offset	Total
Operating income	1,174,096,899.50	1,399,266,611.39	657,258,672.89	-	(542,942,043.55)	2,687,680,140.23
Include : Revenue from external customers	1,173,577,615.67	1,182,629,382.39	331,473,142.17			2,687,680,140.23
Inter-segment transaction income	519,283.83	216,637,229.00	325,785,530.72	-	(542,942,043.55)	-
Operating costs	876,824,143.23	979,008,681.44	597,680,574.50	-	(514,557,122.74)	1,938,956,276.43
Cost elimination	24,616,838.39	196,071,738.81	293,868,545.54		(514,557,122.74)	-
Expenses for the period	182,220,959.33	340,259,814.64	32,537,101.36	-		555,017,875.33
Total operating profit (loss)				214,108,489.77	(47,974,854.95)	166,133,634.82
Total assets	2,884,020,202.49	1,450,299,586.72	1,002,974,729.28	1,770,083,866.64	(1,435,736,383.84)	5,671,642,001.29
Total liabilities	972,016,389.57	1,067,783,929.98	424,933,003.40	1,426,645,822.40	(896,859,498.34)	2,994,519,647.01

Six months ended 30 June 2017 (unaudited)

Unit: RMB Yuan

Item	<u>Chemical bulk drugs</u>	<u>Preparations</u>	<u>Medical intermediate and other products</u>	<u>Unallocated</u>	<u>Offset</u>	<u>Total</u>
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
Include: Revenue from external customers	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 elimination	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 profit (loss)				180,306,145.70	(30,807,871.57)	149,498,274.13
Total assets	2,616,440,054.82	1,458,152,818.13	1,063,400,196.07	1,335,578,854.38	(1,199,924,798.77)	5,273,647,124.63
Total liabilities	922,370,357.92	716,136,253.74	514,040,053.38	1,265,087,374.98	(723,440,296.20)	2,694,193,743.82

3. Notes receivable and Accounts receivable

	30 June 2018 RMB Yuan (unaudited)	31 December 2017 RMB Yuan (audited)
Notes receivable and Accounts receivable	676,285,169.39	493,398,333.43
Less: provision for bad debts for accounts receivable	<u>59,567,655.32</u>	<u>57,526,523.22</u>
	<u>616,717,514.07</u>	<u>435,871,810.21</u>

Aging analysis of notes receivable based on transaction date is as follows:

	30 June 2018 RMB Yuan (unaudited)	31 December 2017 RMB Yuan (audited)
0-1 year	130,325,639.87	123,254,824.94
Total	<u>130,325,639.87</u>	<u>123,254,824.94</u>

Aging analysis of accounts receivable based on transaction date is as follows:

	30 June 2018	31 December 2017
	RMB Yuan (unaudited)	RMB Yuan (audited)
0-1 year	481,841,091.68	311,448,492.42
Over 1 year to 2 years	4,504,508.44	1,102,467.6
Over 2 years to 3 years	46,274.08	66,025.25
Total	<u>486,391,874.2</u>	<u>312,616,985.27</u>

Aging analysis of account receivables past due without provision for bad debts accrued is as follows:

	30 June 2018	31 December 2017
	RMB Yuan (unaudited)	RMB Yuan (audited)
0-1 year	16,106,930.94	5,986,979.12
Over 1 year to 2 years	19,321.40	79,392.38
Over 2 years to 3 years	23,563.73	66,025.25
Total	<u>16,149,816.07</u>	<u>6,132,396.75</u>

As at 30 June 2018, accounts receivable of RMB16,149,816.07 (amount as at the beginning of the year: RMB6,132,396.75) were past due and no provision for bad debts has been made. The Company 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 bad-debt is individually or fully provided.

4. Other accounts receivable

	30 June 2018	31 December 2017
	RMB Yuan (unaudited)	RMB Yuan (audited)
Other accounts receivable	55,703,200.94	64,931,292.56
Less: provision for bad debts of other accounts receivable	19,877,379.86	19,913,909.51
	<u>35,825,821.08</u>	<u>45,017,383.05</u>

Aging analysis of other receivables based on transaction date is as follows:

	<u>30 June 2018</u>	<u>31 December 2017</u>
	RMB Yuan (unaudited)	RMB Yuan (audited)
0-1 year	17,431,697.44	26,252,675.63
Over 1 year to 2 years	8,283,615.28	10,654,600.02

Over 2 years to 3 years	10, 110, 508. 36	8, 110, 107. 40
Total	<u>35,825,821.08</u>	<u>45,017,383.05</u>

The Group had not set a specific credit period for other receivables. As a result, on 30 June 2018 and December 31, 2017, the Group had no other receivables that were past due but did not accrue provision for bad-debt individually

5. Notes payable and accounts payable

	<u>30 June 2018</u> RMB Yuan (unaudited)	<u>31 December 2017</u> RMB Yuan (audited)
Notes payable and accounts payable	889, 668, 443. 16	738, 293, 026. 61
	<u>889,668,443.16</u>	<u>738,293,026.61</u>

Aging analysis of notes payable based on transaction date is as follows:

	<u>30 June 2018</u> RMB Yuan (unaudited)	<u>31 December 2017</u> RMB Yuan (audited)
0-1 year	344, 013, 074. 26	208, 227, 829. 37
Total	<u>344,013,074.26</u>	<u>208,227,829.37</u>

Aging analysis of accounts payable based on transaction date is as follows:

	<u>30 June 2018</u> RMB Yuan (unaudited)	<u>31 December 2017</u> RMB Yuan (audited)
0-1 year	532, 146, 751. 09	507, 439, 905. 53
Over 1 year to 2 years	6, 950, 202. 56	15, 463, 021. 70
Over 2 years to 3 years	3, 187, 469. 32	2, 206, 933. 89
Over 3 years	3, 370, 945. 93	4, 955, 336. 12
Total	<u>545,655,368.90</u>	<u>530,065,197.24</u>

6. Payroll payable

(1) Classification of payroll payable

<u>31 December 2017</u> RMB Yuan (audited)	Increase during the first half of 2018 RMB Yuan (unaudited)	Decrease during The first half of 2018 RMB Yuan (unaudited)	<u>30 June 2018</u> RMB Yuan (unaudited)
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Short-term remuneration	68,460,743.73	288,732,227.92	320,740,555.67	36,452,415.98
Post-employment welfare				
- Defined contribution plan	-	28,923,768.89	28,923,768.89	-
Dismissal welfare	-	190,878.00	190,878.00	-
Total	<u>68,460,743.73</u>	<u>317,846,874.81</u>	<u>349,855,202.56</u>	<u>36,452,415.98</u>

(2) Short-term remuneration

	<u>31 December 2017</u>	<u>Increase during the first half of 2018</u>	<u>Decrease during the first half of 2018</u>	<u>30 June 2018</u>
	RMB Yuan (audited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Salary, bonus, allowance and subsidy	63,856,096.87	231,215,576.88	263,403,709.80	31,667,963.95
Employee welfare expenses	-	11,950,503.88	11,950,503.88	-
Social insurance premiums	-	13,340,989.10	13,340,989.10	-
Including: Medical insurance premiums	-	10,522,634.18	10,522,634.18	-
Work-related injury insurance premiums	-	1,325,653.34	1,325,653.34	-
Maternity insurance premium	-	1,492,701.58	1,492,701.58	-
Housing provident fund	-	8,201,961.14	8,204,791.94	(2,830.80)
Labour union expenditure & personnel education fund	4,604,646.86	4,378,609.56	4,195,973.59	4,787,282.83
Labour costs	-	19,644,587.36	19,644,587.36	-
Total	<u>68,460,743.73</u>	<u>288,732,227.92</u>	<u>320,740,555.67</u>	<u>36,452,415.98</u>

(3) Defined contribution plan

	<u>31 December 2017</u>	<u>Increase during the first half of 2018</u>	<u>Decrease during the first half of 2018</u>	<u>30 June 2018</u>
	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan

	(audited)	(unaudited)	(unaudited)	(unaudited)
Basic endowment insurance	-	27,878,818.03	27,878,818.03	-
Unemployment insurance premium	-	1,044,950.86	1,044,950.86	-
Total	-	28,923,768.89	28,923,768.89	-

7. Capital reserve

	31 December 2017	Increase during the first half of 2018	Decrease during the first half of 2018	30 June 2018
	RMB Yuan (audited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Capital stock premium	626,442,192.76	-	-	626,442,192.76
Other capital reserves	102,008,132.18	-	-	102,008,132.18
Total	728,450,323.94	-	-	728,450,323.94

8. Other comprehensive income

	Amount incurred in six months ended 30 June 2018(unaudited)						
	31 December 2017 <u>RMB Yuan</u> (audited)	Incurred pre-tax amount <u>RMB Yuan</u>	Less: Amount included into other comprehensive incomes in previous period and carried over into profits and loss in current period <u>RMB Yuan</u>	Less: income tax expense <u>RMB Yuan</u>	After-tax amount attributable to the parent company <u>RMB Yuan</u>	After-tax amount attributable to minority shareholders <u>RMB Yuan</u>	<u>30 June 2018</u> <u>RMB Yuan</u> (unaudited)
(1) Other comprehensive incomes that cannot be reclassified into losses or profits in future	201,378,526.90	(51,713,024.00)	-	(7,756,953.60)	(43,956,070.40)	-	157,422,456.50
Changes in the fair value of other equity instruments investment	201,378,526.90	(51,713,024.00)	-	(7,756,953.60)	(43,956,070.40)	-	157,422,456.50
(2) Other comprehensive income to be reclassified to profit or loss	(1,993,120.83)	385,959.73	-	-	311,743.40	74,216.33	(1,681,377.43)
Translation difference of foreign currency financial statement	(1,993,120.83)	385,959.73	-	-	311,743.40	74,216.33	(1,681,377.43)
Total other comprehensive incomes	199,385,406.07	(51,327,064.27)	-	(7,756,953.60)	(43,644,327.00)	74,216.33	155,741,079.07

9. Undistributed profits

	Six months ended 30 June 2018	Six months ended 30 June 2017
	RMB Yuan (unaudited)	RMB Yuan (audited)
Ending balance of previous year	838,325,395.51	657,375,780.62
Add: Beginning adjustment for undistributed profit	-	-
Including: Change of consolidation scope under common control	-	-
Beginning balance of the current period	838,325,395.51	657,375,780.62
Add: Net profits attributable to the parent company's shareholders in the current period	123,363,815.34	106,774,952.86
Less: appropriation of legal surplus reserve	-	-
Appropriation of discretionary surplus reserves	-	-
Appropriation of provision for general risk	-	-
Common stock dividends payable	23,917,671.05	-
Others	(187,652.06)	-
Ending balance of current period	<u>937,959,191.86</u>	<u>764,150,733.48</u>

10. Operating income and costs

Operating income Item	Six months ended 30 June	
	<u>2018</u>	<u>2017</u>
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Chemical bulk drugs	1,173,577,615.67	1,049,851,436.87
Preparations	1,182,629,382.39	1,067,395,251.96
Medical intermediates and other products	331,473,142.17	286,027,472.43
Total	<u>2,687,680,140.23</u>	<u>2,403,274,161.26</u>

Operating Costs item	Six months ended 30 June	
	<u>2018</u>	<u>2017</u>
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Chemical bulk drugs	852,207,304.84	724,063,162.72
Preparations	782,936,942.63	784,023,429.33
Medical intermediates and other products	303,812,028.96	235,136,776.00
Total	<u>1,938,956,276.43</u>	<u>1,743,223,368.05</u>

11. Taxes and surcharges

	Six months ended 30 June	
	2018	2017
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
City maintenance and construction tax	8,586,436.71	9,262,407.48
Educational surcharges	6,133,169.07	6,616,005.30
Local water conservancy fund	609,177.18	1,230,754.03
House property tax	6,000,312.87	5,589,639.32
Land use tax	7,813,116.52	8,387,170.07
Vehicle usage tax	37,683.36	38,004.39
Stamp duty	1,209,530.55	1,084,223.80
Environmental protection tax	60,554.74	–
Total	30,449,981.00	32,208,204.39

12. Income tax expenses

(1) Income tax expenses

	Six months ended 30 June	
	2018	2017
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
The current income tax calculated in accordance with the tax law and related regulations	24,252,917.55	29,310,628.71
Including: PRC enterprise income tax	24,252,917.55	28,802,264.57
Hong Kong profits tax	–	–
USA corporate tax	–	508,364.14
Deferred income tax expense	3,840,081.50	(412,443.17)
Overstatements (understatements) from previous years	1,402,995.70	4,624,341.31
Total	29,459,994.75	33,522,526.85

(2) Adjustment process between accounting profits and income tax expenses

Six months ended 30 June
2018

	RMB (unaudited)
Total consolidated profit for the current period	163,340,602.00
Income tax expense calculated in accordance with legal/applicable tax rate	24,501,090.30
Effect of different tax rate applicable to subsidiaries	4,423,676.00
Overstatements (understatements) from previous years	1,402,995.70
Effect of non-assessable income	(37,606.10)
Effect of cost, expense and loss non-deductible	-
Effect of utilising deductible loss of the unrecognised deferred income tax assets in the preceding period	-
Deductible temporary difference or effect of deductible loss of unrecognised deferred income assets in the current period	(794,161.15)
Income tax expense	<u>29,495,994.75</u>

13. Earnings per share

The calculation of the basic earnings per share is based on the Group's profit for the Reporting Period attributable to the owners of the Company of RMB123,363,815.34 (2017: RMB 106,774,952.86) and based on the weighted average of 478,353,421 shares (2017: 457,312,830.00 shares) in issue during the Reporting Period.

	Six months ended 30 June	
	2018 RMB Yuan (unaudited)	2017 RMB Yuan (unaudited)
Consolidated net profit attributable to shareholders of ordinary shares of the parent company	123,363,815.34	106,774,952.86
Weighted average of ordinary shares outstanding of the parent company	478,353,421.00	457,312,830.00
Basic earnings per share	0.26	0.23

Basic earnings per share and diluted earnings per share for the six months ended 30 June 2018 and that for the six months ended 30 June 2017 are the same as there were no dilutive events existed during both periods.

14. Dividends

The board of the directors of the Company did not recommend payment of an interim dividend for the six months ended 30 June 2018 (2017: nil).

	Six months ended 30 June	
	2018 RMB Yuan (unaudited)	2017 RMB Yuan (unaudited)
Final dividend in respect of the financial year ended 31 December 2017, approved during the Reporting Period and paid out on 27 July 2018, of RMB0.05 per share (year ended 31 December 2016: 0)	<u>23,917,671.05</u>	<u>nil</u>

X. DOCUMENTS AVAILABLE FOR INSPECTION AND PLACE FOR INSPECTION

(1) DOCUMENTS AVAILABLE FOR INSPECTION

- i. The Company's 2018 interim results announcement signed by the Chairman of the Board.
- ii. Financial reports signed and stamped by the legal representative, the financial controller and the chief of the accounting department of the Company.

(2) PLACE FOR INSPECTION

Office of the secretary to the Board of the Company.

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

17 August 2018, Zibo, PRC

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

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

Independent Non-executive Directors:
Mr. Li Wenming
Mr. Du Guanhua
Mr. Lo Wah Wai

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

**for identification purpose only*