



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)



2019
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 2019 (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 published 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
Company secretary	:	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 Indicators prepared in accordance with CASBE

Unit: Renminbi Yuan ("RMB")

Item	Six months ended	Six months ended	Change as
	30 June 2019 (unaudited)	30 June 2018 (unaudited)	compared to the same period last year
Operating income	3,099,899,621.95	2,687,680,140.23	15.34%
Total profits	196,820,708.40	163,340,602.00	20.50%
Income tax expense	36,048,980.47	29,495,994.75	22.22%
Net profits	160,771,727.93	133,844,607.25	20.12%
Minority interest income	13,297,712.76	10,480,791.91	26.88%
Net profit attributable to shareholders of listed company	147,474,015.17	123,363,815.34	19.54%
Net profit attributable to shareholders of listed company after deduction of non-recurring profit and loss	135,785,046.70	120,200,530.53	12.97%
Net cash flow from operating activities	151,855,922.52	136,331,240.88	11.39%
Basic earnings per share	0.24	0.20	20.00%
Diluted earnings per share	0.24	0.20	20.00%
Return on equity	5.31%	4.90%	Increased by 0.41 percentage points
		As at 31 December	
	As at 30 June 2019 (unaudited)	2018 (the "End of Last Year") (audited)	Change as compared to the End of Last Year
Total assets	6,096,275,041.08	5,916,156,319.63	3.04%
Total liabilities	3,161,684,485.28	3,119,603,287.55	1.35%
Minority shareholders' equity	121,173,400.54	109,304,714.07	10.86%
Total net assets attributable to the shareholders of listed company	2,813,417,155.26	2,687,248,318.01	4.70%

Note: The Company implemented a capital reserve fund to allot 3 shares for every 10 shares held by all Shareholders (as defined hereinafter) in 2018, and re-presented the basic earnings per share and diluted earnings per share for the previous year.

Key Financial Data and Financial Indicators prepared in accordance with CASBE

After deduction of Non-recurring profit and loss items and amounts

Unit: RMB Yuan

Non-recurring profit and loss items	Amount	Note (if applicable)
Profit or loss from disposal of non-current assets	99,961.76	Profit or loss of disposal of fixed assets
Government grants 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)	16,613,994.50	Government grants that are recorded into current profits and losses
Except for the normal operations associated with Company's effective hedging business, gain or loss from change in fair value of held-for-trading financial assets, held-for-trading financial liabilities, as well as income gains from the disposal of held-for-trading financial assets and financial liabilities and financial assets available for sale	-	
Other non-operating income and cost except the above items	(2,941,401.59)	
Less: Impact on minority interest income	20,831.81	
Effect of income tax	<u>2,062,754.39</u>	
Total	<u><u>11,688,968.47</u></u>	

Items measured at fair value

Unit: RMB Yuan

Items	Amount as at 1 January 2019	Profit or loss from change in fair value	Cumulative Change of fair value recorded in equity	Provision impairment	Amount as at 30 June 2019
Financial assets:					
1. Investment in other equity instruments	189,739,168.00	-	179,882,258.10	-	232,851,504.00
2. Accounts receivable financing	<u>136,220,853.40</u>	-	-	-	<u>167,305,049.25</u>
Subtotal of financial assets	<u>325,960,021.40</u>	-	<u>179,882,258.10</u>	-	<u>400,156,553.25</u>

Key Financial Data and Financial Indicators prepared in accordance with CASBE

Other comprehensive income items

Unit: RMB Yuan

Items	Six months ended 30 June 2019	Six months ended 30 June 2018
1. Change in fair value of investment in other equity instruments	43,112,336.00	(51,713,024.00)
Less: Income tax impact arising from investment in other equity instruments	6,466,850.40	(7,756,953.60)
Net profit or loss carried from amounts previously recognized in other comprehensive income	-	-
Subtotal	36,645,485.60	(43,956,070.40)
2. Conversion difference of financial statements in foreign currency	66,767.93	385,959.73
Less: net profit or loss carried from amounts incurred by disposal of foreign operation	-	-
Subtotal	66,767.93	385,959.73
Total	<u>36,712,253.53</u>	<u>(43,570,110.67)</u>

Changes In Share Capital Structure And Information On Shareholders

1. CHANGES IN SHARE CAPITAL STRUCTURE

Unit: share

Class of shares	30 June 2019		1 January 2019	
	Number of shares	Percentage of the total share capital (%)	Number of shares	Percentage of the total share capital (%)
1. Total number of conditional tradable shares	27,364,370	4.400	27,364,370	4.400
State-owned shares	—	—	—	—
Shares owned by domestic legal persons	27,352,768	4.398	27,352,768	4.398
Conditional tradable shares owned by senior management (A shares)	11,602	0.002	11,602	0.002
Others	—	—	—	—
2. Total number of unconditional tradable shares	594,495,077	95.600	594,495,077	95.600
Renminbi-denominated ordinary shares (A shares)	399,495,077	64.242	399,495,077	64.242
Overseas listed foreign shares (H shares)	195,000,000	31.358	195,000,000	31.358
3. Total number of shares	621,859,447	100.00	621,859,447	100.00

Changes In Share Capital Structure And Information On Shareholders

2. SHAREHOLDERS INFORMATION

- (1) As at 30 June 2019, the Company had on record a total of 32,849 shareholders (the "Shareholders"), including 45 holders of H Shares and 32,804 holders of A Shares.
- (2) As at 30 June 2019, the ten largest Shareholders were as follows:

Unit: share

Name of Shareholders	Nature of Shareholders	% of the total share capital	Number of shares held
華魯控股集團有限公司 (Hualu Holdings Group Co. Ltd.*) ⁽¹⁾ ("HHGC")	State-owned shares	32.94	204,864,092
香港中央結算(代理人)有限公司 HKSCC Nominees Limited	Others	31.13	193,599,877
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	23,310,176
齊魯證券資管—民生銀行—齊魯民生2號集合資產管理計畫 Qilu Securities Asset Management – Minsheng Bank—Qilu Minsheng No.2 Collective Asset Management Plan	Others	0.80	4,977,072
黃佩玲 Huang Peiling	Others	0.79	4,901,956
全國社保基金—零七組合 National Social Security Fund 107 Portfolio	Others	0.69	4,302,177
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	4,042,592
香港中央結算有限公司 HKSCC Limited	Others	0.47	2,948,044
林穗賢 Lin Suixian	Others	0.43	2,658,174
華魯投資發展有限公司 Hualu Investment Development Co. Ltd	Others	0.30	1,840,270

Changes In Share Capital Structure And Information On Shareholders

- (3) As at 30 June 2019 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
華魯控股集團有限公司 HHGC ⁽¹⁾ (Hualu Holdings Group Co., Ltd.) (“HHGC”)	204,864,092	RMB-denominated ordinary shares
香港中央結算(代理人)有限公司 HKSCC Nominees Limited	193,599,877	Overseas listed foreign shares
齊魯證券資管－民生銀行－齊魯民生2號集合資產管理計畫 Qilu Securities Asset Management – Minsheng Bank – Qilu Minsheng No. 2 Collective Asset Management Plan	4,977,072	RMB-denominated ordinary shares
黃佩玲 Ms. Huang Peiling	4,901,956	RMB-denominated ordinary shares
全國社保基金－零七組合 National Social Security Fund 107 Portfolio	4,302,177	RMB-denominated ordinary shares
香港中央結算有限公司 HKSCC Limited	2,948,044	RMB-denominated ordinary shares
林穗賢 Lin Suixian	2,658,174	RMB-denominated ordinary shares
華魯投資發展有限公司 Hualu Investment Development Co. Ltd	1,840,270	RMB-denominated ordinary shares
劉炳俊 Liu Bingjun	1,500,000	RMB-denominated ordinary shares
劉福娟 Liu Fujuan	1,458,990	RMB-denominated ordinary shares

Notes:

- i. Such figure excludes the A shares indirectly held by Hualu Investment Development Co. Ltd, a directly wholly owned subsidiary of HHGC. As of 30 June 2019, Hualu Investment Development Co. Ltd and Well Bring Limited (“Well Bring”) are a wholly owned subsidiary and an indirectly wholly owned subsidiary of HHGC, respectively. Well Bring owns 17,791,800 H shares of the Company (being overseas listed foreign shares), representing approximately 2.86% of the issued share capital of the Company. Hualu Investment Development Co. Ltd owns 1,840,270 A shares of the Company, representing approximately 0.30% of the issued share capital of the Company.

Changes In Share Capital Structure And Information On Shareholders

- ii. The following is a description of any association relationship or concerted actions of the other above Shareholders under the applicable PRC laws and regulations: Except for Hualu investment Development Co. Ltd which is a subsidiary of Hualu Holdings, 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 remaining of the abovementioned Shareholders, nor if any of them is a person acting in concert as defined in the “Measures for the Administration of the Takeover of Listed Companies” (“Administration Measures for Takeover”) issued by the China Securities Regulatory Commission (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 is a person acting in concert as defined in the Administration Measures for Takeover. The Directors are not aware whether there is any association amongst the other above-mentioned Shareholders of unconditional tradable shares of the Company, or any association between the other Shareholders of unconditional tradable shares and the other Shareholders of the Company or if any of them is a person 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 HHGC.
- iv. Save as disclosed above and so far as the Directors are aware, as at 30 June 2019, 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 in the Listing Rules) of the Company.

3. THE CHANGE OF CONTROLLING SHAREHOLDER (AS DEFINED UNDER THE LISTING RULES) OF THE COMPANY DURING THE REPORTING PERIOD

On 3 April 2019, the controlling Shareholder of the Company was changed from Shandong Xinhua Pharmaceutical Group Company Limited (“SXPGC”) to HHGC. The ultimate controller of the Company remains unchanged and remains the State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”) of Shandong province. For details, please refer to the announcement published on HKExnews website (<https://www.hkexnews.hk/>) and Juchao website (<http://www.cninfo.com.cn>) on 4 and 8 April 2019 respectively.

Directors, Supervisors, Senior Officers and Staff

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 2019	Number of Shares as at 1 January 2019
Directors:			
Mr. Zhang Daiming	Chairman	15,470 <small>(note 2)</small>	15,470
		174,888 <small>(note 3)</small>	174,888
Mr. Ren Fulong	Non-executive Director	58,296 <small>(note 3)</small>	58,296
Mr. Du Deping	Executive Director, General Manager	151,568 <small>(note 3)</small>	151,568
Mr. Xu Lie	Non-executive Director	81,614 <small>(note 3)</small>	81,614
Mr. Zhao Bin	Non-executive Director (resigned with effect from 29 January 2019)	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	Nil	Nil
Supervisors:			
Mr. Li Tianzhong	Chairman of Supervisory Committee	93,272 <small>(note 3)</small>	93,272
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil
Ms. Hu Yanhua	Employee Supervisor	34,977 <small>(note 3)</small>	34,977
Mr. Wang Jianping	Employee Supervisor	Nil	Nil
Mr. Xiao Fangyu	Independent Supervisor	Nil	Nil
Other Senior Management:			
Mr. Wang Xiaolong	Deputy General Manager	81,614 <small>(note 3)</small>	81,614
Mr. Dou Xuejie	Deputy General Manager	34,977 <small>(note 3)</small>	34,977
Mr. Du Deqing	Deputy General Manager	81,614 <small>(note 3)</small>	81,614
Mr. He Tongqing	Deputy General Manager	116,592 <small>(note 3)</small>	116,592
Mr. Hou Ning	Financial Controller	116,592 <small>(note 3)</small>	116,592
Mr. Zheng Zhonghui	Deputy General Manager	23,318 <small>(note 3)</small>	23,318
Mr. Cao Changqiu	Secretary to the Board	2,331 <small>(note 3)</small>	2,331
Total		1,067,122 <small>(note 3)</small>	1,067,122

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 15,470 A Shares.
- (3) The relevant shares held by the Employee Share Ownership Scheme of the Company of which the relevant person is a participant.

Directors, Supervisors, Senior Officers and Staff

- (4) So far as the Directors, the senior management and Supervisors are aware, as at 30 June 2019, 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.

CHANGE OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

On 29 January 2019, Mr. Zhao Bin, who had served as a non-executive director, resigned from his position in the Company with immediate effect for reasons of age.

POSITION HELD IN THE HOLDING COMPANY

Name	Name of the Shareholding Company	Position	Beginning date	Termination date	Remuneration received from shareholder
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 other Senior Management is determined with reference to state policies, the Company's financial standing, personal performance and the general remuneration standard of society.
Payment of remuneration to Directors, Supervisors and Senior Management	RMB1,804,118.40 was paid during this Reporting Period.

Directors, Supervisors, Senior Officers and Staff

Staff and remuneration information (As of 30 June 2019)

Staff remuneration of the Group (the Company and its subsidiaries) was determined with reference to state policies, the Company's operation condition during the relevant period and the general remuneration level of the society.

As at 30 June 2019, the number of staff employed by the Group was 6,240, and the total amount of their salaries and wages for the half year was RMB264,438,000.

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

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

The details of the implementation and impact of the Company's 2018 A Share Option Incentive Plan are as follows:

On 28 December 2018, the 2018 A Share Option Incentive Plan was approved by the 2018 first extraordinary general meeting, the 2018 second class meeting of the shareholders of A shares and the 2018 second class meeting of the shareholders of H shares of the Company. On the same day, the ninth session of the Board and the 2018 eighth extraordinary meeting of the Company were also held to approve the granting of 16.25 million share options to 185 eligible grantees.

The exercise price of the share options granted was determined to be RMB5.98 per A share. The date of grant was 28 December 2018. The share options shall have vesting period of 24 months, 36 months and 48 months from the date of grant respectively. A summary of the movements of share options of the Company during the six months ended 30 June 2019 is set out in the following table:

Name of participant	Position of participant	Number of unexercised options at the beginning of the reporting period	Number of options granted during the reporting period	Number of options exercisable during the reporting period	Number of options cancelled during the reporting period	Number of options lapsed during the reporting period	Number of outstanding options at the end of the reporting period
Zhang Daiming	Chairman	300,000	0	0	0	0	300,000
Ren Fulong	Director	270,000	0	0	0	0	270,000
Du Deping	Director	270,000	0	0	0	0	270,000
Xu Lie	Director	220,000	0	0	0	0	220,000
Wang Xiaolong	Senior Officers	220,000	0	0	0	0	220,000
Du Deqing	Senior Officers	220,000	0	0	0	0	220,000
He Tongqing	Senior Officers	220,000	0	0	0	0	220,000
Dou Xuejie	Senior Officers	220,000	0	0	0	0	220,000
Hou Ning	Senior Officers	220,000	0	0	0	0	220,000
Zheng Zhonghui	Senior Officers	220,000	0	0	0	0	220,000
Cao Changqiu	Senior Officers	160,000	0	0	0	0	160,000
Mid-level management and core staff members (174 grantees in total)		13,710,000	0	0	0	0	13,710,000
Total		16,250,000	0	0	0	0	16,250,000

For further details of the 2018 A Share Option Incentive Plan of the Company, please refer to the section headed "REPORT OF THE BOARD OF DIRECTORS – 3. Others – 2018 A Share Option Incentive Plan" in the 2018 Annual Report of the Company.

Directors, Supervisors, Senior Officers and Staff

The Group's staff can be categorised by their areas of work as follows:

Area of Work	Number of Staff
Production	3,598
Engineering & Technical	487
Administration	305
Finance	84
Product R&D	240
Procurement	48
Sales	1,068
Quality inspection	410
Total	<u>6,240</u>

The Group's staff can be categorised by their education level as follows:

Education level by category	Number of Staff
Universities or above	1,085
Tertiary institutions other than universities	1,738
Intermediate institutions and technical schools	2,396
Senior high schools or below	1,021
Total	<u>6,240</u>

The Company formulated and implemented staff education and training plan in 2019. The training programme implemented or to be implemented in 2019 includes orientation for new staff, safety skills and knowledge improvement training, training of professional environmental protection knowledge, production equipment and special facilities training, technical quality management training, management skill upgrading training and strategic training for mid-level and senior management. The Company actively enriched the content of its training and innovated the forms of training to further enhance the results of training.

Chairman's Statement

To all Shareholders:

We hereby report to the Shareholders the operation results of the Company for the first half year of 2019.

In the first half year of 2019, the operating income of the Company and its subsidiaries prepared under the China Accounting Standards for Business Enterprises ("CASBE") was RMB3,099,900,000, representing an increase of 15.34% as compared with the same period last year. The Group recorded its profit attributable to the Shareholders as RMB147,474,000, representing an increase of 19.54% as compared with the same period last year.

The Board did not recommend the declaration of any interim dividends for the first half year of 2019.

BUSINESS REVIEW

In the first half of 2019, the Group strived to overcome the effect of various factors such as fierce market competition, made improvement in technology, accelerated replacement of old growth drivers with new ones and project construction, and took effective measures for market development, thereby maintaining a good development trend of production and operation.

1. Obtaining significant results in marketing

By seizing the development opportunity of bulk drugs markets, we secured steady rise in selling prices of leading APIs and steadily improved our market shares. We took active measures to develop featured bulk drugs market, thus obtaining significant results.

We took effective measures for marketing of preparations, and focused on the cultivation of new strategic varieties. In the first half of the year, total sales revenue of ten major strategic varieties recorded a year-on-year increase of 33.6%, among which, sales revenue of ShuTaiDe (Rabeprazole Sodium Enteric-coated Tablets) recorded a year-on-year increase of 22.07%, and sales revenue of JiaHeLuo (Glimepiride Tablets) recorded a year-on-year increase of 27.33%.

We progressively developed cross-border business and deployed new retail business. In the first half of the year, sales volume of e-commerce business recorded a year-on-year increase of 29.68%.

2. Obtaining important achievements in technological R&D

In the first half of the year, the Company passed the technical evaluation of the NMPA, and obtained the approval from New Drug Application (NDA) for its Fasudil hydrochloride and its injection. The Company also obtained one approval for Investigational New Drug (IND) and six Approval Document Numbers of Veterinary Drugs.

Glimepiride Tablets of two specifications passed consistency evaluation and application information for 10 products has been submitted to the Center for Drug Evaluation (CDE), NMPA for approval, which represented that the consistency evaluation work of the Company entered the harvest time.

"Construction and Scaled Development of Green Preparation System of Caffeine based on Critical Technology of Industrialization" was awarded the Second Prize for 2018 Scientific and Technological Progress of Shandong Province. In the first half of the year, the Company was granted authorization of 10 patents. The Company was announced as the "Model Enterprise of Technological Innovation in Shandong Province", and was appraised as the advanced work unit for talents of Shandong.

3. Successful progress of major project construction

Phase one of the International Cooperation Center for Modern Pharmacy Project has successfully passed domestic GMP certification and the British MHRA certification, and the Company has obtained qualification for the access to EU high-end markets. In respect of phase two of the International Cooperation Center, purification and renovation have been completed with equipment being installed currently. High-end New Pharmaceutical Preparations Industrialization Project, a provincial key construction project, has already commenced in June.

International Cooperation Center for Modern Pharmacy has been included in the list of pilot demonstration projects for "Modern Competitive Industrial Cluster + Artificial Intelligence" of Shandong Province.

4. Accelerating the implementation of international strategies

In the first half of the year, export volume of products of the Group recorded a year-on-year increase of over 20%. The Company was pleased to receive an award of the honorary title of "Top 100 Enterprises of Export of Shandong Province 2018".

Zibo Xinhua-Perrigo Pharmaceutical Company Limited, a joint venture with an annual export of 5 billion tablets, has successfully passed the on-site audit of the MHRA.

5. Continuous improvement on basic management

On-site management of the Company was further improved to a new level and lifeline engineering remained stable. In the first half of the year, security condition remained stable, while environmental emissions remained stable and met relevant standards.

In the first half of the year, No. 2 factory of the Company successfully passed on-site audit of the FDA; International Cooperation Center for Modern Pharmacy passed on-site inspection of the MHRA; 5 products passed GMP certification; Shandong Xinhua Medical Trade Company Limited passed GSP certification and passed 69 audits and certifications.

In the first half of the year, the Company's energy consumption per RMB10,000 turnover recorded a year-on-year decrease of 4.51%. Xinhua Pharmaceutical (Shouguang) Company Limited passed the acceptance inspection of the first batch of provincial key supervision points. The Company was appraised as the National Model Enterprise of Harmonious Labour Relations.

PROSPECTS

In the second half of the year, the Group will be exposed to complicated and ever-changing market environment with increasing uncertainties, which will have adverse impact on the production organization of bulk drugs and the marketing of preparations. Accordingly, we will focus on the following tasks in the second half of the year:

1. Fully utilizing our advantages and highlighting market development

We will continue to increase input in the market exploration for leading APIs in order to gain market shares. We will accelerate market promotion for new and featured bulk drugs and strive to cultivate economic growth points.

We will pay close attention to changes in national policies, utilize competitive edge, properly implement synergetic development of bulk drugs and preparations, and accelerate the cultivation of strategic preparation products and "brand general drug" market. We will implement "one strategy for one product" in respect of strategic preparation products, and make great efforts to cultivate product groups exceeding RMB100 million.

We will accelerate the development of new operation type and new model of e-commerce, consolidate in-depth cooperation with e-commerce platforms, expand scope of agency, accelerate the development of cross-border e-commerce and new retail, and proactively deploy Internet-based pharmaceutical business.

2. Accelerating technological innovation and strengthening development momentum

We will continue to increase investment in the R&D of new products and consistency evaluation, accelerate the R&D of key new products, and actively facilitate ANDA registration.

We will, by utilizing innovative platforms including multi-function workshop, accelerate the progress of industrialization of new products, to turn it into the new momentum and new engine for the Company to accelerate structure adjustment.

3. Advancing the international strategies and accelerating structural upgrading.

By taking the opportunity of phase one of the International Cooperation Center passing British MHRA audit, we will advance existing key international cooperative projects and commence commercial production as soon as practicable. We will properly organize the production of products under international cooperation. We will accelerate the implementation of more projects, realize commercial supply as soon as practicable, and achieve rapid development of international preparations.

4. Continuous improvement on the construction of lifeline engineering.

We will continue to properly carry out fundamental work including safety education and training, safety specific inspection, rectification of hidden hazards and emergency drill, and consolidate safety infrastructure construction, to ensure the completion of annual safety objectives.

We will properly implement key environmental protection projects such as CWO, RTO and MVR, and properly carry out environmental protection work by focusing on reduction from the source, process control, standardized management and acceleration of disposal.

We will strengthen on-site and process regulation, continue to properly organize activities aiming to improve technical quality of all staff members, strive to improve product quality, and enhance our ability to solve technical quality related problems, in order to secure successful passing of various certifications and audits.

Chairman
Zhang Daiming
19 August 2019

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 2019 were approximately RMB6,096,275,000, representing an increase of 3.01% 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 2019, accounts receivable of the group were RMB594,976,000, increasing by 73.85% 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 2019, the Group's other current assets were RMB34,839,000, representing a decrease of 52.73% over the beginning of the year. The decrease was mainly due to the decrease of the income tax and added-value tax withholding at the end of the Reporting Period.

As at 30 June 2019, the long-term equity investments of the group were RMB83,269,000, increasing by 324.96% as compared with the beginning of the year, mainly because 30% equity of the joint venture Cansheng Pharmaceutical (Zibo) co., Ltd. was obtained during the Reporting Period.

As at 30 June 2019, the projects in progress of the Group was RMB464,512,000, representing an increase of 83.45% compared with the beginning of the year. The increase was mainly due to the investment in the second phase of the International Cooperation Center for Modern Medicine and other engineering projects during this Reporting Period.

As at 30 June 2019, the short-term borrowing of the Group was RMB340,000,000, representing an increase of 44.68% compared with the beginning of the year. Non-current liabilities due within one year was RMB364,536,000, representing a decrease of 39.97% compared with the beginning of the year. Long-term loans were RMB660,680,000, representing an increase of 26.41% compared with the beginning of the year. Long-term payables were RMB49,715,000, representing a decrease of 32.98% compared with the beginning of the year. The main reason for the change is to repay the loan due in this Reporting Period and adjust the financing structure.

As at 30 June 2019, the taxes and dues payable of the Group were RMB32,772,000, representing an increase of 38.73% 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 at the end of the Reporting Period.

As at 30 June 2019, the other payable of the Group were RMB432,007,000, representing an increase of 51.11% compared with the beginning of the year. The main reason for the increase is that cash dividends for 2018 at the end of this report have not been paid.

As at 30 June 2019, the Group's deferred income tax liabilities was RMB40,484,000, representing an increase of 31.09% from the beginning of the year. The main reason for the increase was the impact of changes in the fair value of other equity instruments.

Management Discussion And Analysis

As at 30 June 2019, total liabilities were approximately RMB3,161,684,000, representing an increase of 1.28% as compared with the beginning of the year.

As at 30 June 2019, total equity attributable to the Shareholders of the Company was approximately RMB2,813,417,000, increasing by 4.70% as compared with the beginning of the year. The increase was mainly attributable to the business profits generated in the Reporting Period.

The Group's sales expenses amounted to RMB446,285,000 for the first half of 2019, representing an increase of approximately 32.77% as compared with the same period last year, and the increase was mainly attributable to increase in market development efforts, market development and terminal sales costs.

The Group's administration expenses amounted to RMB143,870,000 for the first half of 2019, representing an increase of approximately 27.66% as compared with the same period last year, and the increase was mainly attributable to the increase of employee's compensations and depreciation expenses.

The Group's research and development expenses amounted to RMB132,437,000 for the first half of 2019, representing an increase of approximately 53.76% as compared with the same period last year, and the main reason for the increase is that the Company has strengthened the progress of science and technology, and the fact that research and development investment continues to increase.

The Group's financial expenses amounted to RMB26,892,000 for the first half of 2019, representing a increase of approximately 34.20% as compared with the same period last year, and the increase was mainly attributable to the decrease in exchange gains.

The Group's other income amounted to RMB16,084,000 for the first half of 2019, representing an increase of approximately RMB10,872,000 as compared with the same period last year, and the main reason for the increase is increase in government subsidies received and amortized during the Reporting Period.

The Group's impairment losses amounted to RMB8,838,000 for the first half of 2019, representing an increase of approximately RMB5,140,000 as compared with the same period last year, and the increase was mainly attributable to the increase of impairment losses.

Operating profit of the Group amounted to RMB199,456,000, increasing by RMB20.06% as compared with the same period last year. Total profits of the Group amounted to RMB196,821,000, increasing by RMB20.50% as compared with the same period last year. Net profit attributable to Shareholders of parent company amounted to RMB147,474,000, increasing by RMB19.54% as compared with the same period last year. The main reason for the increase is that the company seized the development opportunities of the bulk drug and preparation sector and realize the rise of product sales and prices.

For the first half of 2019, net cash outflow from investment activities of the Group was RMB216,025,000, representing an increase by RMB96,902,000 as compared with the same period last year. The main reason was the increase of the investment in the second phase of the International Cooperation Center for Modern Medicine and other engineering projects during this Reporting Period.

For the first half of 2019, net cash outflow from financing activities of the Group was RMB49,736,000, an increase by RMB172,775,000 as compared with the same period last year. The reason for the increase was that the Company actively reduced the leverage, adjusted the debt structure and reduced the interest-bearing debt scale during this Reporting Period.

Management Discussion And Analysis

The Group's main business revenue classified by industry, product and 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	1,392,041,059.08	909,050,048.72	34.70%	18.62%	6.67%	Increased by 7.32 percentage points
Preparations	1,404,184,796.94	958,314,014.10	31.75%	18.73%	22.40%	Decreased by 2.05 percentage points
Medical intermediates and other products	303,673,765.93	259,337,229.41	14.60%	(8.39%)	(14.64%)	Increased by 6.26 percentage points
Total	3,099,899,621.95	2,126,701,292.23	31.39%	15.34%	9.68%	Increased by 3.53 percentage points
By product						
Antipyretic and analgesic active pharmaceutical ingredients	1,392,041,059.08	909,050,048.72	34.70%	18.62%	6.67%	Increased by 7.32 percentage points
Tablet, injection, capsule etc.	1,404,184,796.94	958,314,014.10	31.75%	18.73%	22.40%	Decreased by 2.05 percentage points
Medical intermediates and others	303,673,765.93	259,337,229.41	14.60%	(8.39%)	(14.64%)	Increased by 6.26 percentage points
Total	3,099,899,621.95	2,126,701,292.23	31.39%	15.34%	9.68%	Increased by 3.53 percentage points
By geographical location						
PRC (including Hong Kong)	2,037,284,202.18	1,377,068,175.63	32.41%	8.53%	5.41%	Increased by 2.00 percentage points
Americas	469,230,381.82	320,073,665.82	31.79%	15.97%	(0.81%)	Increased by 11.54 percentage points
Europe	200,826,232.76	145,696,251.75	27.45%	33.18%	32.17%	Increased by 0.55 percentage points
Others	392,558,805.19	283,863,199.03	27.69%	53.90%	42.21%	Increased by 5.95 percentage points
Total	3,099,899,621.95	2,126,701,292.23	31.39%	15.34%	9.68%	Increased by 3.53 percentage points

Management Discussion And Analysis

An analysis of profit as compared to 2018 was as follows:

Items	Amount (RMB Yuan)		Percentage of the total profit (%)	
	Six months ended 30 June 2019	2018	Six months ended 30 June 2019	2018
Operating profits	199,455,920.41	337,313,909.75	101.34	103.76
Net non-operating income	(2,635,212.01)	(12,238,051.58)	(1.34)	(3.76)
Total profits	<u>196,820,708.40</u>	<u>325,075,858.17</u>	<u>100.00</u>	<u>100.00</u>

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

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

As at 30 June 2019, the current ratio was 101.71%, the quick ratio was 67.14%, 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 1,323.03% and 490.45% respectively.

The current ratio and the quick ratio differed from the end of the previous year, mainly because the loan structure changed during the Reporting Period, and the non-current debt due within one year decreased while the long-term loan increased. 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 2019, the Group's total borrowing was RMB1,407,048,000. The amount of cash the Group had on hand and in bank amounted to RMB661,965,000 (including deposits for, inter alia, bank acceptance bills of RMB96,829,000). The group's Banks are in good credit condition and have sufficient bank credit line available. For details of the Group's loans and debts including maturity profile, please refer to Notes VI. 18, 25, 27 and 29 to the Financial Statements of this Report.

As at 30 June 2019, the Company and Shandong Zibo Xincat Pharmaceutical Co., Ltd., a subsidiary of the Company, charged the monetary capital of RMB75,009,000 and RMB21,820,000 to the bank for arrangement of bank acceptance bill respectively. Besides, the Company's fixed asset of RMB108,926,000 worth was charged as security for loans, the Company's right-of-use assets was RMB1,908,000. Save as disclosed, the Group did not have other assets restricted.

On 20 December 2018, the Company acquired 30% equity interest of Sinochem DSM (Zibo) Co.(Now it is renamed as "cansheng pharmaceutical (zibo) co., LTD."), Ltd. with a listing price of RMB63,030,660 and entered into an equity transfer agreement with SXPGC. On 20 February 2019, the above transactions were considered and approved at the extraordinary general meeting of the Company. Equity payments were made on 25 February 2019.

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

Management Discussion And Analysis

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 2019, the number of employees of the Group was 6,240. The total salaries for employees in the first half of 2019 amounted to RMB264,438,000.

As at 30 June 2019, the asset-liability ratio of the Group was 51.86% (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.

On 30 June 2019, the Group had a gross gearing ratio (ie, gross debt divided by adjusted capital) of 50.01%, and a net gearing ratio (ie, net debt divided by adjusted capital) of 29.92%. For this purpose, gross debt is defined as total borrowings and net debt is defined as total borrowings less cash and cash equivalents, and adjusted capital is defined as all components of equity attributable to shareholders other than designated reserves.

The assets and liabilities of the Group were mainly recorded in Renminbi. For the first half year of 2019, the revenue from the Group's exports was approximately US\$155,225,000, 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) when entering into material export contracts, the Group has made arrangements with overseas customers 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.

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\$20,949,000, and the Company holds 50.1% of its equity interest. This company is mainly engaged in producing and selling APIs and solid preparations. As at 30 June 2019, the total assets of the company were RMB279,300,000, and equity attributable to shareholders of the company was RMB228,057,000. For the first half of 2019, the operating income and the total profits of the company were RMB124,726,000 and RMB30,804,000 respectively, representing an increase of 32.32% and an increase of 70.59% respectively as compared with the same period last year. The increase was mainly due to the increase in both sales volume and sales prices.
- (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, chemical bulk drugs, chemical preparations, antibiotics, biochemical medicine, biological products (excluding vaccine), health food, drugs and products for birth control and cosmetics. As at 30 June 2019, the total assets of the subsidiary were RMB411,824,000, and equity attributable to shareholders of the subsidiary was RMB10,944,000. In the first half of 2019, the operating income of the subsidiary was RMB1130,998,000, representing an increase of 42.35% as compared with the same period last year, and the total profits of the subsidiary was RMB9,702,000, representing an increase of 186.14% as compared with the same period last year, the increase in the total profits was mainly attributable to the Company's solid promotion of greater preparations strategy and achieved sales growth.

Management Discussion And Analysis

- (3) The total registered 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 2019, the total assets of the subsidiary were RMB816,806,000, and equity attributable to shareholders of the subsidiary was RMB462,587,000. In the first half of 2019, the operating income and the total profits of the subsidiary were RMB433,552,000 and RMB27,160,000 respectively, representing an decrease of 2.45% and an increase of 44.55% respectively as compared with the same period last year. The increase in the total profits was attributable to the strengthening of the cost control and the decrease in the procurement cost during the Reporting Period.

DIVIDEND DISTRIBUTION DURING THE REPORTING PERIOD

The Board did not propose distribution of half-year dividend for the six months ended 30 June 2019 (2018 interim dividend: Nil).

Principal Risks

- (1) Risks associated with industry policy changes: As the pharmaceutical industry is highly regulated and China is deepening the reform of healthcare system with relevant policies and regulations gradually being formulated and improved, the introduction of policies may have impact on the research and development, production and sales of the Group at various extent, for example, factors including the adjustments to the Medical Insurance Catalogue, the promotion of Consistency Evaluation and lower bid price may have certain impact on the Group.

Response measures: The Group will pay close attention to and study relevant industry policies to catch up with the changing trends of the industry in a timely manner in order to regulate its production and management, strengthen its core competitiveness and actively respond to industry policy changes.

- (2) Risks associated with new drug research and development: Generally speaking, the development of drugs has to undergo preclinical studies, clinical registry application, clinical trials approval, clinical trials, production registration filing, on-site assessment, production approval, etc., which involve many processes and lengthy period of time, therefore the approvals are uncertain and there is a risk in the research and development. Also, it is uncertain whether effective sales could be established in the market after the product is successfully developed.

Response measures: The Group will further optimise the innovative R&D system by introducing and cultivating high-end talents, continuously improving the R&D level, optimising the R&D structure with the focus placed on promoting the research and development of key products under research. Meanwhile, the Group will strengthen the secondary development of key products, improve the research level and reduce production costs, thereby enhancing the competitiveness of products.

- (3) Risk associated with lower price: After the drug product has been approved for the launch, it has to go through medical insurance approval and tendering to gain market access, which makes the pharmaceutical enterprises face greater downward pressure on drug prices. Meanwhile, due to the industry policies such as macroeconomics, market competition, medical insurance budget, the drug product may be exposed to the risk of a price drop.

Management Discussion And Analysis

Response measures: Firstly, the Group will pay close attention to the development of the tenders to swiftly response and adjust the tender plan. Secondly, the Group will conduct post-marketing clinical studies on some of the key products to strengthen their market competitiveness. Thirdly, the Group will continue to innovate and develop drugs of urgent clinical need with high added value, further develop the product under production with market potential, and optimise the layout of products to ensure the substantiality of the Company.

- (4) Risk associated with supply and price fluctuation of raw materials: chemical raw materials, supplemental materials, and packaging materials have been affected by various factors such as macroeconomics, monetary policy, environmental management, natural disasters, etc., which may lead to restrained resource supply or significant fluctuation in the prices, and affect the profitability of the Group to a certain extent.

Response measures: On the one hand, the Group will strengthen monitoring and analysing the market, rationally arrange inventory and procurement cycle to reduce risks. On the other hand, the Group will make proactive efforts to realise technology breakthroughs and effective cost reduction.

- (5) Environmental risk: A certain amount of sewage, wasted gas and wasted residue will be generated during the production of API. With the improvement of environmental protection supervision by national and local environmental protection authority and the enhancement of social environmental protection awareness, the environmental protection requirements for API manufacturers are becoming higher, and the cost of environmental protection are continuously increasing. Many pharmaceutical companies are faced with the problems of production suspension and production limit.

Response measures: The Group has always been in strict compliance with the requirements of national environmental policies and regulations, and will continue to increase investment in environmental protection and promote the upgrading and transformation of environmental protection facilities. The Group will continue to carry out safety training and education, strengthen internal control standards, strengthen the monitoring of key sewage discharge points, reduce the environmental risks and match the emissions policy.

Review of Major Events

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 for Year 2018 has been approved at the Annual General Meeting for year 2018.
3. For this Reporting Period and the six months ended 30 June 2018, 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. Material related party transactions:

Related Party transactions conducted during the Reporting Period are set out in Note XI Relationship with Related Parties transactions to the Financial Statements of this Report compiled in accordance with CASBE.

7. During the Reporting Period, there was 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 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 2019, 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.

9. Disclosures that the Company or Shareholders holding more than 5% of the total number of issued Shares has/have committed to make: Nil.
10. 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.

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.

Review of Major Events

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

Stock Code	Stock short name	Initial investment amount	Proportion of equity interest in investee	Book value at the end of the Reporting Period	Profit/loss over the Reporting Period	Change in shareholder's equity over the Reporting Period
601601	China Pacific Insurance	7,000,000.00	0.06%	182,550,000.00	-	34,340,000.00
601328	BANKCOMM	14,225,318.00	0.01%	50,301,504.00	-	2,305,485.60
Total		21,225,318.00	-	232,851,504.00	-	36,645,485.60

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

14. Performance of other social responsibilities

The Company, Xinhua-Perrigo, a holding subsidiary, and Xinhua Pharmaceutical (Shouguang) are on the List of Key Pollutant-discharging Units announced by the Ministry of Environmental Protection.

Name of Company or Subsidiary	Names of Key Pollutants and Special Types of Pollutants		Number of Discharge Outlets	Distribution of Discharge Outlets	Discharge Concentration	Implemented Standards for Discharge of Pollutants	Approved		
	Discharge Mode	Discharge					Total Amount of Discharge	Total Amount of Discharge	Excessive Discharge
Shandong Xinhua Pharmaceutical Company Limited	Wastewater: chemical oxygen demand, ammonia nitrogen.	Continuous wastewater discharge.	Two main wastewater outlet.	Main wastewater outlet of No. 1 factory: No. 13, Huagong Road, Hi-tech Industry Development Zone, Zibo City;	No. 1 factory: COD concentration less than 400 mg/L; ammonia nitrogen concentration less than 30 mg/L.	Wastewater: COD concentration less than 500 mg/L; ammonia nitrogen concentration less than 45 mg/L.	No. 1 factory: total amount of COD less than 600 tons/year; total amount of ammonia nitrogen less than 40 tons/year.	No. 1 factory: 836.33 tons/year of COD; 75.27 tons/year of ammonia nitrogen.	None

Review of Major Events

Name of Company or Subsidiary	Names of Key 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	Wastewater: chemical oxygen demand, ammonia nitrogen.	Continuous wastewater discharge.	Two main wastewater outlet.	Main wastewater outlet of No. 2 factory: No. 229, Changguodong Road, East Chemical Industrial Zone, Zhangdian District, Zibo City;	No. 2 factory: COD concentration less than 400 mg/L; ammonia nitrogen concentration less than 30 mg/L.	Wastewater: COD concentration less than 500 mg/L; ammonia nitrogen concentration less than 45 mg/L.	No. 2 factory: total amount of COD less than 500 tons/year; total amount of ammonia nitrogen less than 30 tons/year.	No.2 factory: 982.5 tons/year of COD; 88.43 tons/year of ammonia nitrogen.	None
Shandong Xinhua Pharmaceutical Company Limited	Exhaust gas: volatile organic compound (VOC) (calculated according to Non-methane hydrocarbons, "MHC"), sulfur dioxide, nitrogen oxide, particulate matter.	Exhaust gas emission at interval.	There are more Exhaust outlets. Please refer to appendix of the emission permit.	No. 1 factory, No. 2 factory	No. 1 factory: NMHC concentration less than 80 mg/m ³ .	Exhaust gas: NMHC concentration less than 120 mg/m ³ .	No. 1 factory: total amount of NMHC concentration less than 80 tons/year.	No. 1 factory: 149.11 tons/year of VOC.	None
Shandong Xinhua Pharmaceutical Company Limited	Exhaust gas: volatile organic compound (VOC) (calculated according to Non-methane hydrocarbons, "MHC"), sulfur dioxide, nitrogen oxide, particulate matter.	Exhaust gas emission at interval.	There are more Exhaust outlets. Please refer to appendix of the emission permit.	No. 1 factory, No. 2 factory	No. 2 factory: NMHC concentration less than 80 mg/m ³ ; sulfur dioxide concentration less than 45 mg/m ³ ; nitrogen oxide concentration less than 90 mg/m ³ ; particulate matter concentration less than 8 mg/m ³ ;	Exhaust gas: NMHC concentration less than 120 mg/m ³ ; sulfur dioxide concentration less than 50 mg/m ³ ; nitrogen oxide concentration less than 100 mg/m ³ ; particulate matter concentration less than 10 mg/m ³ .	No. 2 factory: total amount of NMHC concentration less than 80 tons/year; total amount of sulfur dioxide concentration less than 18 tons/year; total amount of nitrogen oxide concentration less than 20 tons/year; total amount of particulate matter concentration less than 5 tons/year;	No. 2 factory: 150.21 tons/year of VOC; 19.19 tons/year of sulfur dioxide; 39 tons/year of nitrogen oxide; 9.18 tons/year of particulate matter.	None

Review of Major Events

Name of Company or Subsidiary	Names of Key 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
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Wastewater: chemical oxygen demand	Continuous wastewater discharge.	1	Wastewater discharged into the sewage treatment plant of the No. 1 factory from the Department of Environmental Protection of Shandong Xinhua Pharmaceutical Company Limited.	COD concentration less than 400 mg/L.	Wastewater: COD concentration less than or equal to 500 mg/L.	Total amount of COD less than 80 tons/year.	90 tons/year of COD.	None
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Exhaust gas: volatile organic compound (VOC).	Exhaust gas emission at interval.	3	Composite plant	VOC concentration less than 80 mg/L.	Exhaust gas: VOC concentration less than 120 mg/m ³ .	Total amount of VOC less than 10 tons/year.	18.526 tons/year of VOC.	None
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Wastewater (chemical oxygen demand, ammonia Nitrogen, total phosphate, total nitrogen · PH)	Continuous discharge	1	Main wastewater outlet	COD (400 mg/L); ammonia nitrogen (250 mg/L) total phosphate (8mg/L) total nitrogen (mg/L) PH (6-9)	COD (500 mg/L); ammonia nitrogen (35 mg/L) total phosphate (8mg/L) total nitrogen (mg/L) PH (6-9)	Total amount of COD less Than 10.5 ton/year, ammonia nitrogen less than 0.385 ton/year, total nitrogen 5.09 ton/year, total phosphate 0.522 ton/year.	COD concentration (21.7366 tons/year), ammonia nitrogen (0.76 tons). No approved amount for total phosphate and total nitrogen and PH	None
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Exhaust outlets (sulfur dioxide, nitrogen oxide, NMHC, etc.).	Discharge at Interval	13	Pyrazolone: 2; Ziurea: 2; DK workshop: 7; chloropropionyl chloride: 1; sulfuric acid: 1	Sulfur dioxide (300 mg/m ³); nitrogen oxide (300 mg/m ³ or 240 mg/m ³); NMHC (120 mg/m ³)	Sulfur dioxide (300 mg/m ³); nitrogen oxide (300 mg/m ³ or 240 mg/m ³); NMHC (120 mg/m ³)	Total amount of sulfur dioxide less than 10.95 tons/year; nitrogen oxide less than 11.55 tons/year.	Total amount of sulfur dioxide (13.04 tons/year); nitrogen oxide (15.01 tons/year); no approved amount for NMHC	None

Construction and operation of pollution prevention & treatment facilities

(1) *Waste water treatment*

The Company, Xinhua-Perrigo and Shouguang have in place respectively three, one and six sewage treatment facilities with treatment capacity of 12,000 tons/day, 400 tons/day and 3,000 tons/day respectively, to fully meet the requirement of consistently 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 two outlets of the Company are equipped with standardised online monitoring facilities, which are operated by authorized qualified entities. Online monitoring data of wastewater discharge is 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.

The production wastewater generated by Xinhua Perrigo is pretreated by special facilities in production processes first: wastewater with high content of organics realizes a separation between organics and aqueous phase through evaporation fractionation and other methods to recycle the organics. High salt wastewater recovers inorganic salts through MVR method. After flowing into the Company's high concentration wastewater pool, the pretreated production wastewater then enters water-collecting well through special conveying pipelines. After mixing with sanitary sewage, it then enters the Company's sewage treatment system for biochemical treatment. After a qualified monitoring by the Company, it is discharged into the sewage treatment plant of the No.1 factory of the Company.

Production wastewater generated by production workshops of Shouguang company is pretreated by special facilities in production processes first: COD and ammonia nitrogen are removed from wastewater with high content of COD and salt through high-temperature wet oxidation and salt is then removed through MVR evaporation. Then the production wastewater enters sewage treatment system. Wastewater with high content of ammonia nitrogen and salt produces by-products of desalination and ammonia-nitrogen reduction through MVR evaporation. Pre-treated production wastewater enters the gathering tank (pool) of each workshop separately. After it meets the Company's internal control target through environmental monitoring and sampling of the Company, the sewage treatment center of the Company will open the inlet valve of production wastewater to transport to its biochemical wastewater treatment system and finally discharge into Shouguang Huayuan Water Co., Ltd.

Review of Major Events

Shouguang company has installed a standard online monitoring facility at its main wastewater outlet and entrusted qualified units to operate the facility. The online monitoring data of wastewater discharge is uploaded to Weifang Environmental Monitoring Center in real time and published on a regular basis. Weifang Environmental Protection Bureau is in charge of the implementation of online real-time management.

(2) Waste gas control and treatment

We mainly apply source point control:

First, we have adopted “double pipe” technology to get rid of foul smell of chemical raw materials arising from 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.

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 the chemical odor and the results of waste gas treatment on real-time basis.

(3) Hazardous Wastes Treatment

The hazardous waste treatment of the Company: First, the company has built two 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 entities to dispose of part of the hazardous waste to strictly implement transfer manifest system and transfer plan approval system.

As required by the “Transfer Manifest Management Procedures of Hazardous Waste in Zibo City (Shandong Province)”, Xinhua Perrigo strictly implements transfer manifest system and transfer plan approval system and transport hazardous waste to qualified units for entrusted disposal.

Review of Major Events

The hazardous waste treatment of Shouguang company: The first method is building its own incineration facility to dispose ketene dimer residue by itself; the second method is that the company, in accordance with the requirements for the storage and transfer of hazardous waste, strictly implements transfer manifest system and transfer plan approval system and transport some of its hazardous waste to qualified units for entrusted disposal.

All construction projects of the Company and its subsidiaries have passed environmental impact assessments and other environmental administrative licenses.

The Company and its subsidiaries have formulated the “Emergency Response Plan for Environmental Emergencies”, which includes six parts: comprehensive emergency plan for sudden environmental incidents, special emergency plan for fire and explosion accidents, emergency plan for material leakage accidents, special emergency plan for hazardous waste and disposal plan for environmental emergency site.

The Company has separately formulated the “Self-monitoring Plan of No. 1 Factory” and the “Self-monitoring Plan of No.2 Factory”. Xinhua Perrigo and Shouguang company have formulated their respective “Self-monitoring Plan”.

The Company started to plan to establish its environment management system in September 1999. The system passed the environment management system certification of China Certification Center in 2000, and passed the reassessment and review of the environment management system in 2003, 2006, 2009, 2012 and 2015 respectively. In 2017, its environment management system passed the certification of two new-version systems of environment and quality.

The Company entrusted Shandong Jiayu Testing Technology Co., Ltd., an independent third party, to conduct exhaust emission test on its No. 1 factory and No. 2 factory, and they were up to standard. Xinhua Perrigo entrusted Shandong Fangxin Environment Monitoring Company, an independent third party, to conduct exhaust emission test of the Company, and it was up to standard. Shouguang company entrusted Shandong Weike Testing Co., Ltd., an independent third party, to test the exhaust outlets of workshops on a regular basis, and they were up to standard.

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

Review of Major Events

16. Changes in accounting policies

Content and reason of accounting policy change	Approval	Remarks
On 7 December 2018, the Ministry of Finance of PRC released in Cai Kuai (2018) No. 35 "Accounting Standards for Business Enterprises ("ASBE") No. 21 – Leases" (hereinafter referred to as "New Lease Standard"), which has come into force since 1 January 2019. In the preparation of the first quarter and interim financial statements of 2019, the group has implemented the relevant accounting standards and dealt with them in accordance with the relevant transitional requirements.	The relevant accounting policy changes were approved by the seventh meeting of the ninth Board of Directors of the Company on April 23 2019.	Note 1
On April 30 2019, the ministry of finance issued the notice on revising and issuing the 2019 annual financial statement format of general enterprises (financial accounting (2019) no. 6) (hereinafter referred to as the "new financial statement format"), which revised the financial statement format of general enterprises. In the preparation of interim financial statements of 2019, the group has implemented the relevant accounting standards and dealt with them in accordance with the relevant transitional requirements.	The relevant accounting policy changes were approved by the eighth meeting of the ninth Board of Directors of the Company on August 19 2019.	Note 2

Note:

1) Enforcement of New Lease Standard:

The Group has made adjustments to meet the requirements of the New Lease Standard: the Company will adjust the amount of retained earnings and other related items in financial statements at the beginning of the first year of the first execution according to the cumulative impact of the first implementation of the New Lease Standard, without adjusting the comparable period information.

The main adjustments to the implementation of the New Lease Standard are as follows:

Consolidated Statements

Report item	Book value as of December 31 2018 in accordance with the original leasing standards	Book value as of January 1 2019 in accordance with the New Lease Standard
Right-of-use assets	–	2,232,117.00
Non-current liabilities due within one year	–	611,583.91
Lease liabilities	–	1,620,533.09

Review of Major Events

Parent Company's Statements

Report item	Book value as of December 31 2018 in accordance with the original leasing standards	Book value as of January 1 2019 in accordance with the New Lease Standard
Right-of-use assets	-	1,516,217.37
Non-current liabilities due within one year	-	484,044.54
Lease liabilities	-	1,032,172.83

2) Adjustment of new financial statement format:

On April 30 2019, the Ministry of Finance issued the Notice on Revising and Issuing the 2019 Annual Financial Statement Format of General Enterprises (Financial Accounting (2019) no. 6) (hereinafter referred to as the "new financial statement format"), which revised the financial statement format of general enterprises. The retroactive restatement of the group's financial statements caused by the change in the format of the new financial statements has significantly affected the items and amounts of the statements on December 31 2018 as follows:

Consolidated Statements

Item and amount of original report		Item and amount of new report	
Notes receivable and accounts receivable	478,454,671.43	Accounts receivable	342,233,818.03
Notes payable and accounts payable	889,606,620.75	Receivables financing	136,220,853.40
Other current liabilities	17,211,380.00	Notes payable	426,876,630.26
Deferred incomes	128,295,859.52	Accounts payable	462,729,990.49
		Other current liabilities	-
		Deferred incomes	145,507,239.52

Parent Company's Statements

Item and amount of original report		Item and amount of new report	
Notes receivable and accounts receivable	350,310,234.29	Accounts receivable	334,767,282.65
Notes payable and accounts payable	729,706,582.84	Receivables financing	15,542,951.64
Other current liabilities	17,211,380.00	Notes payable	413,234,812.17
Deferred incomes	127,933,359.52	Accounts payable	316,471,770.67
		Other current liabilities	-
		Deferred incomes	145,144,739.52

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 2019.

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 2019 and that sufficient disclosures has 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 in relation 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 2018 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 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.

Consolidated Balance Sheet

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

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

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current assets:			
Monetary funds	VI.1	661,965,007.87	778,423,353.71
Funds reserved for settlement			
Loans to other banks			
Trading financial assets			
Financial assets measured at fair value and their variance recorded into current period profits or losses			
Derivative financial assets			
Notes receivable			136,220,853.40
Accounts receivable	VI.2	594,975,618.09	342,233,818.03
Accounts receivable financing	VI.3	167,305,049.25	
Prepayments	VI.4	35,024,858.70	31,786,512.35
Receivables from reinsurers			
Reinsurance contract reserves receivable			
Other receivables	VI.5	26,307,416.57	35,077,815.17
Including: Interest receivable			
Dividends receivable		-	
Financial assets purchased under agreements to be resold			
Inventories	VI.6	782,749,002.44	951,723,324.21
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets	VI.7	34,839,392.37	73,699,758.87
Total current assets		2,303,166,345.29	2,349,165,435.74

Consolidated Balance Sheet (Continued)

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

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Non-current assets:			
Loans and advances to customers			
Debt investment			
Financial assets available for sale			
Other debt investment			
Held-to-maturity investments			
Long-term accounts receivable			
Long-term equity investments	VI.8	83,268,724.88	19,594,473.83
Other equity instrument investments	VI.9	232,851,504.00	189,739,168.00
Other non-current financial assets			
Investment properties	VI.10	77,190,088.99	69,365,706.41
Fixed assets	VI.11	2,544,976,268.05	2,631,152,561.89
Construction in progress	VI.12	464,511,861.12	253,211,929.16
Productive biological assets			
Right-of-use asset	VI.13	1,908,442.92	
Intangible assets	VI.14	357,083,301.19	332,703,937.68
Development expenditure			
Goodwill	VI.15		
Long-term deferred expenses			
Deferred income tax assets	VI.16	31,318,504.64	22,246,103.11
Other non-current assets	VI.17		48,977,003.81
Total non-current assets		<u>3,793,108,695.79</u>	<u>3,566,990,883.89</u>
Total assets		<u>6,096,275,041.08</u>	<u>5,916,156,319.63</u>

Consolidated Balance Sheet (Continued)

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

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

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current liabilities:			
Short-term borrowings	VI.18	340,000,000.00	235,000,000.00
Borrowings from central bank			
Loans from other banks			
Trading financial liabilities			
Financial liabilities measured at fair value and their variance recorded into current period profits or losses			
Derivative financial liabilities			
Notes payable	VI.19	327,473,084.02	426,876,630.26
Accounts payable	VI.20	511,017,852.94	462,729,990.49
Accounts received in advance			
Contract liabilities	VI.21	199,003,298.81	228,622,058.30
Financial assets sold to be repurchase			
Payroll payable	VI.22	57,736,915.64	73,456,646.80
Taxes payable	VI.23	32,772,247.74	23,623,090.44
Other payables	VI.24	432,006,553.26	285,887,587.92
Including: Interest payable		5,883,024.67	3,020,508.89
Dividends payable		67,496,544.23	5,310,599.53
Accounts payable on reinsurance			
Payments from acting as agent on buying and selling securities			
Payments from acting as agent on underwriting securities			
Liabilities held for sale			
Non-current liabilities due within one year	VI.25	364,535,741.66	606,637,247.96
Other current liabilities	VI.26		17,211,380.00
Total current liabilities		<u>2,264,545,694.07</u>	<u>2,360,044,632.17</u>

Consolidated Balance Sheet (Continued)

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

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Non-current liabilities:			
Insurance contract reserves			
Long-term loans	VI.27	660,679,890.02	522,643,436.60
Bonds payable			
Including: Preferred stock			
Perpetual bond			
Lease liabilities	VI.28	1,668,161.74	
Long-term payables	VI.29	49,715,334.80	74,174,473.69
Estimated liabilities			
Deferred incomes	VI.30	141,030,312.02	128,295,859.52
Deferred income tax liabilities	VI.16	40,483,592.63	30,883,385.57
Other non-current liabilities	VI.31	3,561,500.00	3,561,500.00
Total non-current liabilities		<u>897,138,791.21</u>	<u>759,558,655.38</u>
Total liabilities		<u>3,161,684,485.28</u>	<u>3,119,603,287.55</u>

Consolidated Balance Sheet (Continued)

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

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

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Shareholders' equity:			
Capital stock	VI.32	621,859,447.00	621,859,447.00
Other equity instruments			
Including: Preferred stock			
Perpetual bond			
Capital reserve	VI.33	626,998,003.30	622,815,654.30
Less: Treasury stock			
Other comprehensive income	VI.34	179,343,488.82	142,645,071.04
Special reserve	VI.35		
Surplus reserve	VI.36	256,110,049.68	256,110,049.68
General risk reserve			
Undistributed profits	VI.37	<u>1,129,106,166.46</u>	<u>1,043,818,095.99</u>
Total equity attributable to the shareholders of parent company		<u>2,813,417,155.26</u>	2,687,248,318.01
Minority shareholders' interests		<u>121,173,400.54</u>	<u>109,304,714.07</u>
Total shareholders' equity		<u><u>2,934,590,555.80</u></u>	<u><u>2,796,553,032.08</u></u>
Total liabilities and shareholder's equity		<u><u>6,096,275,041.08</u></u>	<u><u>5,916,156,319.63</u></u>

Parent Company's Balance Sheet

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

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current assets:			
Monetary funds		340,196,660.85	502,099,872.73
Trading financial assets			
Financial assets measured at fair value and their variance recorded into current period profits or losses			
Derivative financial assets			
Notes receivable			15,542,951.64
Accounts receivable	XVI.1	527,125,021.85	334,767,282.65
Accounts receivable financing		60,111,818.15	
Prepayments		19,145,564.90	20,108,174.57
Other receivables	XVI.2	446,174,911.20	453,949,633.71
Including: Interest receivable			
Dividends receivable		18,860,182.44	18,860,182.44
Inventories		422,527,817.21	525,797,855.92
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		12,075,958.62	52,590,207.34
Total current assets		<u>1,827,357,752.78</u>	<u>1,904,855,978.56</u>

Parent Company's Balance Sheet (Continued)

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

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

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Non-current assets:			
Debt investment			
Financial assets available for sale			
Other debt investment			
Held-to-maturity investments			
Long-term accounts receivable			
Long-term equity investments	XVI.3	660,579,957.44	596,905,706.39
Other equity instrument investments		232,851,504.00	189,739,168.00
Other non-current financial assets			
Investment properties		107,507,210.23	100,423,699.43
Fixed assets		1,963,873,329.82	2,035,173,711.34
Construction in progress		389,688,624.04	195,838,575.85
Productive biological assets			
Right-of-use asset		1,263,514.47	
Intangible assets		170,561,811.64	179,636,835.15
Development expenditure			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets			
Other non-current assets			6,400,000.00
Total non-current assets		3,526,325,951.64	3,304,117,696.16
Total assets		5,353,683,704.42	5,208,973,674.72

Parent Company's Balance Sheet (Continued)

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

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current liabilities:			
Short-term borrowings		340,000,000.00	235,000,000.00
Trading financial liabilities			
Financial liabilities measured at fair value and their variance recorded into current period profits or losses			
Derivative financial liabilities			
Notes payable		323,520,834.95	413,234,812.17
Accounts payable		403,323,528.84	316,471,770.67
Contract liabilities		25,753,992.55	42,928,191.14
Payroll payable		40,587,249.74	67,671,188.05
Taxes payable		8,134,276.47	9,972,709.04
Other payables		331,694,879.40	243,643,120.39
Including: Interest payable		5,883,024.67	3,020,508.89
Dividends payable		67,496,544.23	5,310,599.53
Liabilities held for sale			
Non-current liabilities due within one year		364,417,810.35	606,637,247.96
Other current liabilities			17,211,380.00
Total current liabilities		1,837,432,572.30	1,952,770,419.42
Non-current liabilities:			
Long-term loans		660,679,890.02	522,643,436.60
Bonds payable			
Including: Preferred stock			
Perpetual bond			
Lease liabilities		779,622.60	
Long-term payables		49,715,334.80	74,174,473.69
Estimated liabilities			
Deferred incomes		140,667,812.02	127,933,359.52
Deferred income tax liabilities		35,780,752.98	26,960,455.56
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		891,184,912.42	755,273,225.37
Total liabilities		2,728,617,484.72	2,708,043,644.79

Parent Company's Balance Sheet (Continued)

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

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

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Shareholders' equity:			
Capital stock		621,859,447.00	621,859,447.00
Other equity instruments			
Including: Preferred stock			
Perpetual bond			
Capital reserve		668,635,686.87	664,453,337.87
Less: Treasury stock			
Other comprehensive income		179,882,258.10	143,236,772.50
Special reserve			
Surplus reserve		249,856,062.61	249,856,062.61
Undistributed profits		<u>904,832,765.12</u>	<u>821,524,409.95</u>
Total shareholders' equity		<u>2,625,066,219.70</u>	<u>2,500,930,029.93</u>
Total liabilities and shareholder's equity		<u>5,353,683,704.42</u>	<u>5,208,973,674.72</u>

Consolidated Income Statement

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

Item	Notes	Amount of current period	Amount of previous period
I. Gross revenue		3,099,899,621.95	2,687,680,140.23
Including: Operating revenue	VI.38	3,099,899,621.95	2,687,680,140.23
II. Total operating cost		2,906,938,728.21	2,524,424,132.76
Including: Operating cost	VI.38	2,126,701,292.23	1,938,956,276.43
Taxes and surcharges	VI.39	30,752,678.44	30,449,981.00
Selling expenses	VI.40	446,285,237.44	336,144,937.35
Administration expenses	VI.41	143,869,850.53	112,700,479.79
Research and development expense	VI.42	132,437,445.25	86,133,750.67
Financial expenses	VI.43	26,892,224.32	20,038,707.52
Including: Interest expenses		27,953,824.54	26,822,807.00
Interest income		1,855,332.89	1,550,160.56
Add: Other income	VI.44	16,083,994.50	5,212,300.00
Investment incomes (losses to be listed with "-")	VI.45	515,231.31	807,270.99
Including: Incomes from investment into affiliates and joint ventures		515,231.31	
Income from changes in fair value (losses to be listed with "-")			
Credit impairment loss(losses to be listed with "-")	VI.46	-1,590,062.98	
Asset impairment loss (losses to be listed with "-")	VI.47	-8,837,908.34	-3,697,535.57
Gains from asset disposals (losses to be listed with "-")	VI.48	323,772.18	555,591.93
III. Operating profit (losses to be listed with "-")		199,455,920.41	166,133,634.82
Add: Non-operating income	VI.49	1,520,708.01	1,232,885.38
Less: Non-operating expenditure	VI.50	4,155,920.02	4,025,918.20
IV. Total profits (total loss to be listed with "-")		196,820,708.40	163,340,602.00
Less: Income tax expense	VI.51	36,048,980.47	29,495,994.75
V. Net profit (net loss to be listed with "-")		160,771,727.93	133,844,607.25
(I) By operation continuity		160,771,727.93	133,844,607.25
(1) Net profit from continued operations (listed with "-" for net loss)		160,771,727.93	133,844,607.25
(2) Net profit from discontinued operations (listed with "-" for net loss)			
(II) By ownership		160,771,727.93	133,844,607.25
(1) Net profit attributable to shareholders of parent company		147,474,015.17	123,363,815.34
(2) Minority interest		13,297,712.76	10,480,791.91

Consolidated Income Statement (Continued)

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

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

Item	Notes	Amount of current period	Amount of previous period
VI. Net after-tax other comprehensive income		36,712,253.53	-43,570,110.67
Net after-tax other comprehensive income attributable to the owners of the parent company	VI.52	36,698,417.78	-43,644,327.00
(I) Other comprehensive income not subject to reclassification to profit or loss	VI.52	36,645,485.60	-43,956,070.40
1. Change in remeasurement of defined benefit plans			
2. Other comprehensive income not subject to reclassification to loss or profit under equity law			
3. change in fair value of other equity instrument investments	VI.52	36,645,485.60	-43,956,070.40
4. Change in fair value of the company's own credit risk			
5. Other			
(II) Other comprehensive income to be reclassified to profit or loss in future	VI.52	52,932.18	311,743.40
1. Other comprehensive income to be reclassified to loss or profit in under equity law			
2. Change in fair value of other debt investment			
3. Profit or loss from change in fair value of financial assets available for sale			
4. Financial asset reclassified to other comprehensive income			
5. Profit or loss from held-to-maturity investment reclassified to available-for-sale financial assets			
6. Provision for credit impairment of other debt investment			
7. Cash flow hedging reserve			
8. Conversion difference of foreign currency statement	VI.52	52,932.18	311,743.40
9. Other			
Net after-tax other comprehensive income attributable to minority shareholders	VI.52	13,835.75	74,216.33
VII. Total comprehensive income		197,483,981.46	90,274,496.58
Total comprehensive income attributable to the shareholders of parent company		184,172,432.95	79,719,488.34
Total comprehensive income attributable to the minority shareholders		13,311,548.51	10,555,008.24
VIII. Earnings per share:			
(I) Basic earnings per share	XIX.2	0.24	0.20
(II) Diluted earnings per share	XIX.2	0.24	0.20

Parent Company's Income Statement

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

Item	Notes	Amount of current period	Amount of previous period
I. Gross revenue	XVI.4	1,620,887,029.46	1,457,638,366.97
Less: Operating cost	XVI.4	1,174,376,065.69	1,080,776,896.16
Taxes and surcharges		15,778,204.78	17,998,326.99
Selling expenses		31,248,203.55	44,358,582.92
Administration expenses		102,588,929.73	80,941,073.40
Research and development expense		109,854,879.30	75,337,954.33
Financial expenses		26,790,166.35	23,328,805.82
Including: Interest expenses		27,953,824.54	26,822,807.00
Interest income		1,437,164.57	1,145,194.05
Add: Other income		15,856,509.50	5,212,300.00
Investment incomes (losses to be listed with "-")	XVI.5	3,197,189.27	19,830,820.24
Including: Incomes from investment into affiliates and joint ventures		515,231.31	
Income from changes in fair value (losses to be listed with "-")			
Credit impairment loss(losses to be listed with "-")		-6,562,222.36	-1,625,078.50
Asset impairment loss (losses to be listed with "-")		658,287.32	
Gains from asset disposals (losses to be listed with "-")		425,063.72	1,221,827.51
II. Operating profit (losses to be listed with "-")		173,825,407.51	159,536,596.60
Add: Non-operating income		1,460,498.67	777,950.58
Less: Non-operating expenditure		3,992,502.74	3,822,295.24
III. Total profits (total loss to be listed with "-")		171,293,403.44	156,492,251.94
Less: Income tax expense		25,799,103.57	19,513,463.82
IV. Net profit (net loss to be listed with "-")		145,494,299.87	136,978,788.12
(I) Net profit from continued operations (listed with "-" for net loss)		145,494,299.87	136,978,788.12
(II) Net profit from discontinued operations (listed with "-" for net loss)			
V. Net after-tax other comprehensive income		36,645,485.60	-43,956,070.40
(I) Other comprehensive income not subject to reclassification to profit or loss		36,645,485.60	-43,956,070.40
1. Change in remeasurement of defined benefit plans			
2. Other comprehensive income not subject to reclassification to loss or profit under equity law			
3. change in fair value of other equity instrument investments		36,645,485.60	-43,956,070.40
4. Change in fair value of the company's own credit risk			
5. Other			

Parent Company's Income Statement (Continued)

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

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

Item	<i>Notes</i>	Amount of current period	Amount of previous period
(II) Other comprehensive income to be reclassified to profit or loss in future			
1. Other comprehensive income to be reclassified to loss or profit in under equity law			
2. Change in fair value of other debt investment			
3. Profit or loss from change in fair value of financial assets available for sale			
4. Financial asset reclassified to other comprehensive income			
5. Profit or loss from held-to-maturity investment reclassified to available-for-sale financial assets			
6. Provision for credit impairment of other debt investment			
7. Cash flow hedging reserve			
8. Conversion difference of foreign currency statement			
9. Other			
VI. Total comprehensive income		182,139,785.47	93,022,717.72
VII. Earnings per share:			
(I) Basic earnings per share			
(II) Diluted earnings per share			

Consolidated Cash Flow Statement

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

Item	Notes	Amount of current period	Amount of previous period
I. Cash flow from operating activities:			
Cash received from sale of goods or rendering services		2,330,362,484.80	1,970,011,784.72
Refunds of taxes and levies		37,012,625.85	34,729,313.93
Other cash received from operating-related activities	VI.53	50,276,143.00	17,190,914.42
Subtotal of cash inflows from operating activities		2,417,651,253.65	2,021,932,013.07
Cash paid for goods purchased and labor services received		1,393,201,888.00	1,090,311,618.99
Cash paid to and for employees		360,477,026.02	349,855,202.56
Cash paid for taxes and surcharges		154,848,392.89	128,573,384.58
Other cash paid related to operating activities	VI.53	357,268,024.22	316,860,566.06
Subtotal of cash outflows from operating activities		2,265,795,331.13	1,885,600,772.19
Net cash flow from operating activities		151,855,922.52	136,331,240.88
II. Cash flow generated from investing activities:			
Cash received from redemption of investments			807,270.99
Cash received from returns on investments			807,270.99
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,148,910.00	845,937.00
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		1,148,910.00	1,653,207.99
Cash paid for acquisitions of fixed assets, intangible assets and long-term assets		160,407,118.52	120,776,063.74
Cash paid for acquisitions of investments		56,766,721.32	
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		217,173,839.84	120,776,063.74
Net cash flow from investing activities		-216,024,929.84	-119,122,855.75

Consolidated Cash Flow Statement (Continued)

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

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

Item	Notes	Amount of current period	Amount of previous period
III. Cash flows from financing activities:			
Cash received from capital contributions			46,942,796.00
Including: cash received from subsidiaries' receipt of investment from minority shareholders			46,942,796.00
Cash received from loans		806,036,453.42	305,000,000.00
Cash received from bond issues			
Other cash received relating to financing activities	VI.53		16,986,600.00
Subtotal of cash inflows from financing activities		806,036,453.42	368,929,396.00
Cash paid for repayment of debts		781,000,000.00	163,000,000.00
Cash paid for distributing dividends and profits or paying interest		25,599,464.64	36,520,679.36
Including: dividends and profits paid to minority shareholders by subsidiaries		1,442,862.04	
Other cash paid related to financing activities	VI.53	49,173,149.01	46,369,891.84
Subtotal of cash outflows from financing activities		855,772,613.65	245,890,571.20
Net cash flows from financing activities		-49,736,160.23	123,038,824.80
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		-416,930.97	3,025,965.75
V. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the beginning of the period		679,458,292.03	682,862,651.75
VI. Cash and cash equivalents at the end of the period			
		565,136,193.51	826,135,827.43

Parent Company Cash Flow Statement

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

Item	Notes	Amount of current period	Amount of previous period
I. Cash flow from operating activities:			
Cash received from sale of goods or rendering services		1,112,289,152.76	948,601,033.66
Refunds of taxes and levies		30,165,994.29	27,578,215.69
Other cash received from operating-related activities		50,149,003.01	6,497,302.69
Subtotal of cash inflows from operating activities		1,192,604,150.06	982,676,552.04
Cash paid for goods purchased and labor services received		731,397,653.50	516,943,753.43
Cash paid to and for employees		261,462,492.39	217,083,120.48
Cash paid for taxes and surcharges		45,364,185.63	51,340,067.32
Other cash paid related to operating activities		67,216,135.20	88,608,248.84
Subtotal of cash outflows from operating activities		1,105,440,466.72	873,975,190.07
Net cash flow from operating activities		87,163,683.34	108,701,361.97
II. Cash flow generated from investing activities:			
Cash received from redemption of investments			807,270.99
Cash received from returns on investments		2,681,957.96	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,127,910.00	715,000.00
Net cash received from disposal of subsidiaries and other business entities			7,539,637.21
Other cash received related to investing activities			
Subtotal of cash inflows from investing activities		3,809,867.96	9,061,908.20
Cash paid for acquisitions of fixed assets, intangible assets and long-term assets		137,524,132.70	95,232,627.75
Cash paid for acquisitions of investments		56,766,721.32	
Net cash paid for acquisitions of subsidiaries and other business entities			
Other cash paid related to investing activities		1,000,000.00	49,000,000.00
Subtotal of cash outflow from investing activities		195,290,854.02	144,232,627.75
Net cash flow from investing activities		-191,480,986.06	-135,170,719.55

Parent Company Cash Flow Statement (Continued)

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

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

Item	Notes	Amount of current period	Amount of previous period
III. Cash flows from financing activities:			
Cash received from capital contributions			
Cash received from loans		806,036,453.42	305,000,000.00
Cash received from bond issues			
Other cash received relating to financing activities			6,576,600.00
Subtotal of cash inflows from financing activities		806,036,453.42	311,576,600.00
Cash paid for repayment of debts		781,000,000.00	163,000,000.00
Cash paid for distributing dividends and profits or paying interest		24,156,602.60	36,520,679.36
Other cash paid related to financing activities		49,173,149.01	43,312,698.74
Subtotal of cash outflows from financing activities		854,329,751.61	242,833,378.10
Net cash flows from financing activities		-48,293,298.19	68,743,221.90
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		-97,178.05	508,077.27
V. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the beginning of the period		417,895,625.44	457,664,695.99
VI. Cash and cash equivalents at the end of the period		265,187,846.48	500,446,637.58

Consolidated Statement of Changes in Shareholder's Equity

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

Item	Six months ended 30 June 2019												
	Equity assigned to the shareholders of parent company										Minority shareholders' equity	Total shareholder's equity	
	Capital stock	Other equity instrument			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve			Undistributed profits
Preferred stock		Perpetual bond	Other										
I. Balance at the end of previous year	621,859,447.00				622,815,654.30		142,645,071.04		256,110,049.68		1,043,818,095.99	109,304,714.07	2,796,553,032.08
Add: Changes in accounting policies													
Corrections of the previous period accounting errors													
Business merger under joint control													
Other													
II. Balance at the beginning of current year	621,859,447.00				622,815,654.30		142,645,071.04		256,110,049.68		1,043,818,095.99	109,304,714.07	2,796,553,032.08
III. Current year increase/decrease (decrease to be listed with "-")					4,182,349.00		36,698,417.78				85,288,070.47	11,868,686.47	138,037,523.72
(I) Total comprehensive income							36,698,417.78				147,474,015.17	13,311,548.51	197,483,961.46
(II) Invested and decreased capital of shareholders													
1. Shareholder's contribution of capital													
2. Contribution of capital from holders of other equity instruments													
3. Amount of share-based payment recognized as share holder's interest													
4. Other													
(III) Profit distribution											-62,185,944.70	-1,442,862.04	-63,628,806.74
1. Appropriation of surplus reserves											-62,185,944.70	-1,442,862.04	-63,628,806.74
2. Appropriation of general risk reserve													
3. Distribution to shareholders													
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. Change in defined benefit plan carried forward to retained earning													
5. Other comprehensive income carried forward to retained earnings													
6. Other													
(V) Special reserve													
1. Appropriation in current year									12,818,641.01				12,818,641.01
2. Amount used in current year									12,818,641.01				12,818,641.01
(VI) Other					4,182,349.00								4,182,349.00
IV. Balance at end of current period	621,859,447.00				626,998,003.30		179,343,488.82		256,110,049.68		1,129,106,166.46	121,173,400.54	2,934,590,555.80

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

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

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

Item	Six months ended 30 June 2018												
	Equity assigned to the shareholders of parent company									Minority shareholders' equity	Total shareholder's equity		
	Capital stock	Other equity instrument			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve			General risk reserve	Undistributed profits
Preferred stock		Perpetual bond	Other										
I. Balance at the end of previous year	478,353,421.00				728,450,324.94		198,385,406.07		235,509,229.07		838,325,395.51	99,429,604.22	2,579,453,380.81
Add: Changes in accounting policies													
Corrections of prior period accounting errors													
Business merger under joint control													
Other													
II. Balance at the beginning of current year	478,353,421.00				728,450,324.94		198,385,406.07		235,509,229.07		838,325,395.51	99,429,604.22	2,579,453,380.81
III. Current year increase/decrease (decrease to be listed with "-")													
(I) Total comprehensive income							-43,644,327.00		-187,652.06		99,633,796.35	41,867,156.18	97,668,973.47
(II) Invested and decreased capital of shareholders											187,652.06	43,885,602.90	43,885,602.90
1. Shareholder's contribution of capital												46,942,796.00	46,942,796.00
2. Contribution of capital from holders of other equity instruments													
3. Amount of share-based payment recognized as share holder's interest													
4. Other									-187,652.06		187,652.06	-3,057,193.10	-3,057,193.10
(III) Profit distribution											-23,917,671.05	-12,573,454.96	-36,491,126.01
1. Appropriation of surplus reserves													
2. Appropriation of general risk reserve													
3. Distribution to shareholders													
4. Others											-23,917,671.05	-12,573,454.96	-36,491,126.01
(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. Change in defined benefit plan carried forward to retained earning													
5. Other comprehensive income carried forward to retained earnings													
6. Other													
(V) Special reserve													
1. Appropriation in current year									7,414,945.29				7,414,945.29
2. Amount used in current year									7,414,945.29				7,414,945.29
(VI) Other													
IV. Balance at end of current period	478,353,421.00				728,450,324.94		155,741,079.07		235,321,577.01		937,959,191.86	141,296,760.40	2,677,122,354.28

Parent Company Statement of Changes in Shareholder's Equity

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

Item	Six months ended 30 June 2019										
	Capital stock	Other equity instrument			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total shareholder's equity
		Preferred stock	Perpetual bond	Other							
I. Balance at the end of previous year	621,859,447.00				664,453,337.87		143,236,772.50		249,856,062.61	821,524,409.95	2,500,930,029.93
Add: Changes in accounting policies											
Corrections of prior period accounting errors											
Other											
II. Balance at the beginning of current year	621,859,447.00				664,453,337.87		143,236,772.50		249,856,062.61	821,524,409.95	2,500,930,029.93
III. Current year increase/decrease (decrease to be listed with "-")					4,182,349.00		36,645,485.60			83,308,355.17	124,136,189.77
(I) Total comprehensive income							36,645,485.60			145,494,299.87	182,139,785.47
(II) Invested and decreased capital of shareholders											
1. Shareholder's contribution of capital											
2. Contribution of capital from holders of other equity instruments											
3. Amount of share-based payment recognized as share holder's interest											
4. Other											
(III) Profit distribution										-62,185,944.70	-62,185,944.70
1. Appropriation of surplus reserves										-62,185,944.70	-62,185,944.70
2. Distribution to shareholders										-62,185,944.70	-62,185,944.70
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. Change in defined benefit plan carried forward to retained earning											
5. Other comprehensive income carried forward to retained earnings											
6. Other											
(V) Special reserve											
1. Appropriation in current year								5,125,109.61			5,125,109.61
2. Amount used in current year								5,125,109.61			5,125,109.61
(VI) Other					4,182,349.00						4,182,349.00
IV. Balance at end of current period	621,859,447.00				668,635,686.87		179,882,258.10		249,856,062.61	904,832,765.12	2,625,066,219.70

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

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

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

Item	Six months ended 30 June 2018										
	Capital stock	Other equity instrument			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total shareholder's equity
		Preferred stock	Perpetual bond	Other							
I. Balance at the end of previous year	478,353,421.00			743,199,658.14		201,378,526.90		229,067,589.94	668,345,826.93	2,310,345,022.91	
Add: Changes in accounting policies											
Corrections of prior period accounting errors											
Other											
II. Balance at the beginning of current year	478,353,421.00			743,199,658.14		201,378,526.90		229,067,589.94	668,345,826.93	2,310,345,022.91	
III. Current year increase/decrease (decrease to be listed with "-")											
(I) Total comprehensive income						-43,956,070.40			113,061,117.07	69,105,046.67	
(II) Invested and decreased capital of shareholders						-43,956,070.40			136,978,788.12	93,022,717.72	
1. Shareholder's contribution of capital											
2. Contribution of capital from holders of other equity instruments											
3. Amount of share-based payment recognized as share holder's interest											
4. Other											
(III) Profit distribution									-23,917,671.05	-23,917,671.05	
1. Appropriation of surplus reserves											
2. Distribution to shareholders									-23,917,671.05	-23,917,671.05	
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. Change in defined benefit plan carried forward to retained earning											
5. Other comprehensive income carried forward to retained earnings											
6. Other											
(V) Special reserve								4,699,073.82		4,699,073.82	
1. Appropriation in current year								4,699,073.82		4,699,073.82	
2. Amount used in current year											
(VI) Other											
IV. Balance at end of current period	478,353,421.00			743,199,658.14		157,422,456.50		229,067,589.94	771,406,944.00	2,379,450,069.58	

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

Shandong Xinhua Pharmaceutical Co., Ltd. (hereinafter referred to as “**the Company**”, and collectively referred to as “**the Group**” with its subsidiaries) was established in 1993 by the restructuring of Shandong Xinhua Pharmaceutical Factory. The Company offered H-shares of the People’s Republic of China (“**PRC**”) to the public in Hong Kong in December 1996, and offered A-shares of the People’s Republic of China to the public in Shenzhen in July 1997. The Company was transformed into a foreign invested joint stock company after being approved by the Ministry of Foreign Trade and Economic Cooperation of the People’s Republic of China in November 1998. In September 2001, the Group was approved to issue 30 million shares of common stock of A-shares, while reducing its holding of 3 million state-owned shares. After the change, the registered capital of the Company was RMB457,312,830.00.

The Company privately issued 21,040,591 shares to 2 specific investors at the issue price of RMB11.15 after approval. The registered capital of the Company increased by RMB21,040,591.

The Company implemented the 2017 annual dividend scheme in July 2018, with capital reserve converted into share capital of 143,506,026 shares. After the transfer of capital, the total share capital of the Company was 621,859,447 shares. The registered capital of the Company was RMB621,859,447.00.

As of 30 June, 2019, the registered capital of the Company was RMB621,859,447.00, and the capital structure was as follows:

Class of shares	Number of shares	Proportion of total share capital (%)
I. Subtotal of tradable shares with restricted sale conditions	27,364,370	4.40
A-share with restricted sale conditions	27,364,370	4.40
II. Subtotal of tradable shares without restricted sale conditions	594,495,077	95.60
RMB common stocks (A-share)	399,495,077	64.24
Overseas listed foreign shares (H-share)	195,000,000	31.36
III. Total number of shares	<u>621,859,447</u>	<u>100.00</u>

The Company belongs to the pharmaceutical manufacturing industry. The Group is principally engaged in the development, manufacturing and sale of chemical Active Pharmaceutical Ingredients (APIs), pharmaceutical preparations and chemical products. The main products are antipyretic analgesics, drugs for cardiovascular and cerebrovascular diseases, anti-infectives, drugs for central nervous system diseases; and other drugs under the brand of “Xinhua”.

Notes to the Interim Financial Statements (Continued)

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

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

On 3 April 2019, the controlling Shareholder of the Company was changed from Shandong Xinhua Pharmaceutical Group Company Limited (“**SXPGC**”) to Hualu Holdings Group Company Limited (“**HHGC**”). The general meeting of shareholders is the Company’s authority, which exercises the right of resolution in respect of the Company’s operation policies, financing, investment, profit distribution and other significant events in accordance with the laws. The board of directors is responsible for organizing the general meeting of shareholders, and shall exercise the business decision-making right of the Company in accordance with the laws; the managers are responsible for facilitating the implementation of resolution matters of the general meeting of shareholders and the board of directors and managing the production and operation of the Company.

The Company is registered in Chemical Industry Zone, High-tech Industrial Development Zone, Zibo City, Shandong Province. The office address is No. 1 Lutai Avenue, High-tech Industry Development Zone, Zibo City, Shandong.

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The Group’s consolidated financial statements cover 12 companies, including Shandong Xinhua Pharmaceutical Co., Ltd., Xinhua Pharmaceutical (Shouguang) Co., Ltd. and Shandong Zibo Xincat Pharmaceutical Co., Ltd., etc.

See relevant information under “VII. Changes in Consolidation Scope” and “VIII. Interests in Other Entities” in the Notes for details.

III. PREPARATION BASIS OF FINANCIAL STATEMENTS

1. Preparation basis

On a going-concern basis, the financial statements of the Company have been prepared based on transactions and matters that have actually occurred and in accordance with the Accounting Standards for Business Enterprises (“**ASBE**”) issued by the Ministry of Finance of the PRC, and other relevant regulations, and China Securities Regulatory Commission’s “Rules for Compiling Information Disclosure of Public Securities Companies No. 15 – General Provisions on Financial Reporting” (Amended in 2014) and related provisions, relevant disclosures required by the Hong Kong Companies Ordinance and the Listing Rules of The Stock Exchange of Hong Kong Limited. (“**HKEX**”) and the accounting policies and accounting estimates described in “IV. Important Accounting Policies and Accounting Estimates” of these Notes.

2. Going concern

The Group assessed the ability of going concern for the 12 months since the end of the reporting period, and did not find any significant matters and circumstances which caused any significant doubt on the Company’s ability to operate as a going concern. Accordingly, the financial statements are prepared on a going concern basis.

Notes to the Interim Financial Statements (Continued)

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

IV. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Specific accounting policies and estimates based on actual production and operation characteristics prepared by the Group include business cycle, recognition and measurement of bad debts allowance for accounts receivable, measurement of issued inventories, measurement of net realizable value of inventories, classification and depreciation of fixed assets, amortization of intangible assets, capitalization conditions of research and development expenses, recognition and measurement of income, etc.

1. Declaration on compliance with the ASBE

The financial statements of the Company have met the requirements of the ASBE and truly and fully reflected relevant information such as the financial position, operating results and cash flows of the Company and the Group.

2. Accounting period

The accounting period runs from January 1 to December 31 of the Gregorian calendar.

3. Business

Business cycle of the Company is 12 months, which is regarded as the classification standard of the liquidity of assets and liabilities.

4. Recording currency

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

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

5. Accounting 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.

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The identifiable assets, liabilities and contingent liabilities acquired from the acquiree in 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 the 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 the 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 the business merger, the difference is included in current non-operating income.

6. Method of preparing consolidated financial statements

The Group's consolidation scope includes all controlled subsidiaries.

The scope of consolidation of consolidated financial statements is determined on the basis of control. Control refers to the power of the investor over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power to affect the amount of the returns. Changes in the relevant elements of the definition of control as a result of changes in the relevant facts and circumstances will result in a reassessment by the Group.

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

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

For the subsidiary acquired in the business merger under common control, its business performance and cash flow are included in 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 reporting entity formed after the merger has existed since the start of control by the ultimate controlling party.

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*(Unless otherwise indicated, all figures are stated in RMB)
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For the subsidiary acquired in the business merger not under common control, its business performance and cash flow are included in 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 value of identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

Where the Group partially disposes of long-term equity investments in a subsidiary without losing control, in the consolidated financial statements, for the difference between the disposal price and the share of net assets to which the Group should be entitled in the subsidiary continuously calculated since the purchase date or merger date corresponding to the disposed long-term equity investment, such difference shall be adjusted to capital premium or share premium. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted.

If the Group loses control over the investee due to the disposal of part of the equity investments or other reasons, when preparing the consolidated financial statements, re-measurement of the residual equity shall be carried out according to the fair value on the date of loss of control. For the sum of the consideration obtained by disposing of the equity and the fair value of the remaining equity, less the share of net assets to which the Group should be entitled in the subsidiary continuously calculated since the purchase date or merger date according to the original share holding percentage corresponding to the disposed long-term equity investment, the difference after such deduction shall be recognized in the investment profit or loss during the period of loss of control, with goodwill written-off simultaneously. The other comprehensive income related to the equity investment in the subsidiary originally owned shall be transferred to the current investment profit or loss during the period of loss of control.

Where the Group disposes of its equity investment in a subsidiary until it eventually loses control through a number of transactions, if the disposal of equity investments in the subsidiary up to the loss of control belongs to a series of transactions, all transactions should be treated as one transaction in which the subsidiary was disposed of and control was lost for the accounting treatment. However, the balance between each disposal price before losing control and the share of the net assets of the subsidiary to which the Group should be entitled when disposing of the investment should be recognized as other comprehensive income in the consolidated financial statements, and will all be transferred into the current profit or loss when control is lost.

7. 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 equivalents in the cash flow statement refer to the investments which have a holding period of not more than 3 months, are highly liquid and readily convertible to known amounts of cash with low risk of value change.

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

(1) *Foreign currency transactions*

The foreign currency amount in a foreign currency transaction of the Group is converted into RMB based on the spot exchange rate on the first day of the transaction month. Monetary items calculated in foreign currency in the balance sheet are converted into RMB at the spot exchange rate on the balance sheet date; the exchange difference is included in current profit or 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 in current profit or loss 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 assets and liabilities in the foreign currency balance sheet are converted based on the spot exchange rate on the balance sheet date; the owner's equity items, except for "undistributed profit", are converted based on the spot exchange rate on the transaction date; the income and expenditure items in the income statement are converted based on the spot exchange rate on the transaction date. The above translation balance of foreign currency financial statements is included in other comprehensive income. Foreign currency cash flow is converted based on the spot exchange rate on the date when the cash flow occurs. The effect of exchange rate change on the amount of cash and cash equivalents is listed in the cash flow statement separately.

9. Financial assets and financial liabilities

When the Group becomes a party to a financial instrument contract, the Group recognizes a financial asset or liability.

(1) *Financial assets*

1) *Classification, recognition basis and measurement method of financial assets*

According to the business model of managing financial assets and the characteristics of contractual cash flows of financial assets, the Group classified its financial assets as financial assets measured at amortized cost, financial assets measured at fair value and changes in fair value recognized in other comprehensive income, and financial assets measured at fair value where changes in fair value recognized in current profit or loss.

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The Group classifies its financial assets that simultaneously meet the following conditions as financial assets measured at amortized cost: ① The business model of managing the financial asset aims to collect the contractual cash flows. ② The contractual clauses of the financial asset stipulate that the cash flows generated on a specific date are only used to pay for the principal and interest which is based on the amount of unpaid principals. Such financial assets are initially measured at fair value. The relevant transaction costs are recorded in the initial recognition amount. Such financial assets are subsequently measured at amortized cost. Except those designated as hedged items, for the difference between the amortization of the initial amount according to effective interest rate method and the amount due, amortization, impairment, exchange gains or losses, and gains or losses arising from the termination of recognition are recognized in current profit or loss.

The Group classifies its financial assets that simultaneously meet the following conditions as the financial assets measured at fair value where changes in fair value are recorded in other comprehensive income: ① The business model of managing the financial asset aims to collect contractual cash flows and sell the financial assets. ② The contractual clauses of the financial asset stipulate that the cash flows generated on a specific date are only used to pay for the principal and interest payments which are based on the amount of unpaid principal. Such financial assets are initially measured at fair value. The relevant transaction costs are recorded in the initial recognition amount. Except those designated as hedged items, such financial assets, except for credit impairment losses or gains, exchange gains or losses, and interest on the financial asset calculated according to the effective interest rate method, all other gains or losses generated are recorded in other comprehensive income. When the recognition of the financial asset is terminated, the accumulated gains or losses previously recorded in other comprehensive income are transferred out from other comprehensive income and recorded in current profit or loss.

The Group recognizes interest income in accordance with the effective interest rate method. Interest income is determined by multiplying the book balance of the financial asset by the actual interest rate, except in the following cases: ① For financial assets that are purchased or derived from credit impairment already incurred, since the initial recognition, the interest income is calculated and determined according to the amortized cost of the financial asset and the actual interest rate adjusted by credit adjustments. ② For financial assets that are purchased or derived from credit impairment not yet incurred, but to which the credit impairment will be incurred in the subsequent period, during the subsequent period, the interest income of the financial asset is calculated and determined according to the amortized cost of the financial asset and the actual interest rate.

The Group designates the non-tradable equity instrument investments as financial assets measured at fair value where changes in fair value are recorded in other comprehensive income. Once the designation has been made, it will not be revoked. For non-tradable equity instrument investments designated by the Group as measured at fair value and where changes in fair value are recorded in other comprehensive income, the initial measurement is made at fair value, with the relevant transaction costs recorded in the initial recognition amount. Except for obtained dividend (except for any investment cost recovery) which is recognized in current profit or loss, all other related gains or losses (including exchange gains or losses) are recorded in other comprehensive income, and

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will not be subsequently transferred into current profit or loss. When such financial assets are no longer recognised, the accumulated gains or losses previously recorded in other comprehensive income are transferred out from other comprehensive income and recorded in current profit or loss.

For financial assets other than the aforementioned financial assets which are classified as financial assets measured at amortized cost and financial assets measured at fair value where changes in fair value are recorded in other comprehensive income, the Group classifies the financial assets into financial assets measured at fair value where changes in fair value are recorded in current profit or loss. Such financial assets are initially recognized according to fair value, with the relevant transaction costs directly recorded in current profit or loss. The gains or losses of such financial assets are recorded in current profit or loss.

For financial assets that consist of contingent consideration recognized by the Group in a business merger not under common control, such financial assets are classified as financial assets measured at fair value where changes in fair value are recorded in current profit or loss.

2) *Determination basis and measurement method of financial asset transfer*

Financial assets meeting one of the following conditions shall be de-recognized by the Group: ① The contractual right to collect the cash flows of the financial asset has been terminated; ② The financial asset has been transferred and the Group has transferred almost all the risks and rewards of ownership of the financial asset; ③ When the financial asset has been transferred, the Group has neither transferred nor retained almost all the risks and rewards of ownership of the financial asset, and the Group has also not retained control over the financial asset.

Where the overall transfer of a financial asset satisfies the conditions for termination of recognition, the difference between the book value of the transferred financial asset and the sum of the following two amounts is recorded in current profit or loss. The two amounts are the consideration received as a result of the transfer, and the accumulated changes in fair value previously recorded directly in other comprehensive income which correspond to the amount of the de-recognized part (If the condition involves the contractual provisions of the transferred financial asset, the cash flows generated on the specified dates are only to be used for payment of the principal and the payments of interests which are based on the amount of unpaid principal).

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*(Unless otherwise indicated, all figures are stated in RMB)
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Where the partial transfer of a financial asset meets the conditions for termination of recognition, the book value of the transferred financial asset as a whole is allocated between the de-recognized part and the part that has not been de-recognized according to their respective relative fair values. Also, the difference between the sum of the consideration received as a result of the transfer, and the amount in the accumulated changes in fair value which should be apportioned to the de-recognized part and which has been previously recognized in other comprehensive income (If the condition involves the contractual provisions of the transferred financial asset, the cash flows generated on the specified dates are only to be used for payment of the principal and the payments of interest based on the amount of unpaid principal) and the allocated overall book value of the aforementioned financial asset is recognized in current profit or loss.

(2) Financial liabilities

1) The classification, recognition basis and measurement method of financial liabilities

The financial liabilities of the Group are, when initially recognized, classified as financial liabilities measured at fair value where changes in fair value are recorded in current profit or loss, and other financial liabilities.

The financial liabilities measured at fair value where changes in fair value are recorded in current profit or loss include trading financial liabilities and financial liabilities designated at the time of initial recognition as financial liabilities measured at fair value where changes in fair value are recorded in current profit or loss. They are subsequently measured at fair value, and the gain or loss arising from changes in fair value, dividends and the dividend and interest expenditures paid related to that financial liability are recorded in current profit or loss.

The Group adopts the effective interest rate method to carry out the subsequent measurement of other financial liabilities according to the amortized costs. Except for the following items, the Group classifies financial liabilities as financial liabilities measured at amortized cost: ① The financial liabilities measured at fair value where changes in fair value are recorded in current profit or loss, including trading financial liabilities (including derivative instruments that are financial liabilities) and the financial liabilities designated at the time of initial recognition as financial liabilities measured at fair value where changes in fair value are recorded in current profit or loss; ② Financial asset transfers that do not meet the recognition conditions or financial liabilities resulting from continued involvement of transferred financial assets; ③ Financial guarantee contracts that do not involve the situations stated in the aforementioned ① or ②, and loan commitments at an interest rate lower than the market interest rate that do not involve the situation stated in the aforementioned ①.

Financial liabilities formed by the contingent consideration recognized by the purchaser in a business merger not under common control are measured at fair value and recorded in current profit or loss by the Group as the basis for its accounting treatment.

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2) *Conditions for de-recognition of financial liabilities*

Where the current obligations of a financial liability are entirely or partially discharged, the discharged portion of the financial liability or obligations will be de-recognized. Where the Group signs an agreement with a creditor to replace the current financial liability by assuming a new financial liability, and the new financial liability is substantially different in the contractual terms with the current financial liability, the Group de-recognizes the current financial liability, and recognizes the new financial liability at the same time. Where the Group makes a substantial change to all or some of the contractual terms of the current financial liability, the Group de-recognizes the current financial liability or a part of the current financial liability, and recognizes the financial liability of which the terms are modified as a new financial liability at the same time. The difference between the book value of the de-recognized portion and the consideration paid is recognized into current profit or loss.

(3) ***Determination method for the fair value of financial assets and financial liabilities***

The Group measures the fair value of financial assets and financial liabilities according to prices in major markets. For assets or liabilities for which no major market exists, the most favorable market price will be adopted as the fair value of those financial assets and financial liabilities. The Group also adopts valuation techniques which are applicable at that time, and for which there are sufficient available data and other information to support such techniques. The input value used for the fair value measurement is divided into three levels. The input value of the first level is the unadjusted quotation price in the active market to obtain the same asset or liability on the measurement date; the input value of the second level is the direct or indirect observable value of the asset or liability other than the input value of the first level; and the input value of the third level is the non-observable value of the related asset or liability. The Group gives priority to the use of the first level input value, and uses the third level input value as a last resort. The equity investments in other equity instruments use the first level input value. The level to which the fair value measurement result belongs is determined by the lowest level to which the input value belongs which is the most significant to the overall fair value measurement.

The Group measures investments in equity instruments at fair value. However, in limited cases, if there is insufficient information used to determine the fair value, or if the range of possible estimated fair values is broad, and the cost represents the best estimate of the fair value in such a range, such costs can represent the proper estimate of the fair value in that range.

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(4) Offset of financial assets and financial liabilities

The financial assets and financial liabilities of the Group are shown separately in the balance sheet, not mutually offset. Nonetheless, when the following conditions are met, the net amount after an offset will be shown in the balance sheet: (1) the Group has the legal right to offset the recognized amount, and this legal right is currently enforceable; and (2) the Group plans to settle with the net amount, or to realize the financial asset and discharge the financial liability at the same time.

(5) Differentiation and the relevant treatment methods of financial liabilities and equity instruments

The Group differentiates financial liabilities and equity instruments according to the following principles: (1) if the Group cannot unconditionally avoid performing a contractual obligation by paying in cash or other financial assets, such contractual obligation meets the definition of financial liability. Although some financial instruments do not explicitly include terms and conditions on the obligation to pay in cash or other financial assets, the contractual obligation may be formed indirectly by other terms and conditions; (2) If the Group must use or may use its own equity instruments to settle a financial instrument, the following information should be considered: i.e. whether such instrument is taken as substitute for cash or other financial assets, or whether the purpose is to entitle the holding party to the residual equity in the assets of the issuer after deducting all the liabilities. If the former situation is the case, the instrument is a financial liability of the issuer. If the latter is the case, the instrument is an equity instrument of the issuer. In some cases, the contract of a financial instrument specifies that the Group must use or may use its own equity instruments to settle the financial instrument, of which the amount of the contractual rights or contractual obligations equals the product of the number of the issuer's equity instruments and the fair value of such instruments at the time of settlement. Then, no matter whether the amount of such contractual rights or contractual obligations is fixed, or is changed entirely or partially based on changes in variables other than the market price of the Group's own equity instruments (such as interest rate, the price of a certain commodity, or the price of a financial instrument), such contract will be classified as a financial liability.

In the classification of the financial instruments (or its components) in the consolidated statement, the Group considers all the terms and conditions between Group members and the holders of the financial instruments. If the Group is responsible for the settlement of cash, other financial assets, or discharges its settlement obligation in another way that results in the instrument becoming a financial liability as a result of the instrument as a whole, the instrument should be classified as a financial liability.

If the financial instrument or its components are financial liabilities, the Group recognizes the related interest, dividends, gains or losses, and gains or losses generated from redemption or refinancing in the current profit or loss.

If the financial instrument or its components are equity instruments, the Group treats its issuance (including refinancing), repurchase, sale or cancellation as change in equity, and does not recognize changes in fair value of the equity instrument.

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10. Accounts receivable

The determination method and the accounting processing method of the expected credit loss of accounts receivable are as follows.

For receivables formed in transactions stipulated in 'Accounting Standards for Business Enterprises No. 14 – Standard of Income' with no significant financing component, the Group measures the loss provision according to the amount equivalent to the expected credit loss over the entire life period.

The judgment of whether credit risk has significantly increased since the initial recognition is made by comparing the following two probabilities: i.e. the default probability of financial instruments in the expected life period determined at the time of initial recognition, and the default probability of the instrument during the expected lifetime determined on the balance sheet date. However, if the Group determines that the financial instrument only has a low credit risk on the balance sheet date, it can be assumed that the credit risk of the financial instrument has not significantly increased since the initial recognition. Usually, if receivables are overdue for more than 30 days, this indicates that the credit risk of the financial instrument has increased significantly. Unless the Group is able to obtain reasonable information with a supporting basis without paying unnecessary extra costs or effort to prove that, despite being more than 30 days overdue, the credit risk of the receivable has not significantly increased since the initial recognition. When determining whether credit risk has significantly increased since the initial recognition, the Group takes into account reasonable information with a supporting basis provided that it need not pay unnecessary extra costs or effort, including prospective information.

The assessment based on combination is as follows. For accounts receivable, the Group is unable to obtain sufficient evidence of a significant increase in credit risk at a reasonable cost at the level of individual instruments, whereas it is feasible to assess whether credit risk increases significantly on a combined basis. Therefore, the Group divides the receivables into groups, considers and assesses whether there is a significant increase in credit risk on a combined basis by considering factors such as the types of financial instruments, credit risk rating, collateral type, initial recognition date and residual contract duration, industry where the debtor operates, geographical location of the debtor, and value of collateral relative to financial assets as the common risk characteristics. Using the age of accounts receivable as a common risk feature, the Group divides the accounts receivable into groups and assesses whether credit risk significantly increases on a combined basis.

The measurement of expected credit loss is as follows. On the balance sheet date, the Group calculates the expected credit loss of accounts receivable. If such expected credit loss is greater than the current book value of the impairment provision for accounts receivable, the Group recognizes the difference as the impairment loss of accounts receivable, debiting the 'credit impairment loss' and crediting the 'bad debt provision'. In contrast, the Group recognizes the opposite difference as gains from impairment, and makes the opposite accounting records.

Where the Group actually incurs credit loss, and determines that the relevant accounts receivable cannot be recovered, if the receivables have been approved for cancellation after verification, the Group will debit 'bad debt provision' and credit 'accounts receivable' according to the approved amount of write-off. If the amount of write-off is greater than the accrued impairment loss provision, the 'credit impairment loss' will be debited according to the difference.

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*(Unless otherwise indicated, all figures are stated in RMB)
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Based on actual credit losses in previous years, as well as the prospective information in the current year, the policies of accounting estimates to measure the expected credit loss are as follows: the Group determines the expected credit loss rate by single items for accounts receivable with significantly different credit risks; in addition to determining the expected credit loss rate for accounts receivable by single items, the Group adopts an aging model for expected credit loss model, calculates the expected credit loss of accounts receivable through default risk exposure of accounts receivable and expected credit loss rate, and determines the expected credit loss rate based on the probability of default and loss from default.

11. Accounts receivable financing

In the course of managing the liquidity of the enterprise, the Group will make a discount or endorsement transfer before the maturity of some of the notes receivable, and terminate the confirmation of the discounted or endorsed instruments receivable after the Group has transferred almost all the risks and rewards of the relevant notes receivable to the relevant counter parties. The Group's business model for the management of notes receivable is aimed at both the collection of contractual cash flow and the sale of the financial assets. Therefore, it is classified as financial assets measured at fair value and whose changes are included in other comprehensive income, which are listed in the accounts receivable financing.

The fair value at the time of initial recognition is usually the transaction price, when there is a difference between the fair value and the transaction price, the following circumstances shall be dealt with differently:

- (I) At the time of initial recognition, if the fair value of a financial asset or financial liability is determined on the basis of the quoted price of the same asset or liability in the active market or by only using valuation techniques of observable market data, the difference between the fair value and the transaction price is recognized as a profit or loss.
- (II) If the fair value of a financial asset or financial liability is determined in another method at the time of initial recognition, the difference between the fair value and the transaction price shall be deferred. After initial recognition, the deferred difference is recognized as profit or loss in the corresponding accounting period according to the degree of change of a factor in the corresponding accounting period. This factor should be limited to the factors that will be taken into account by market participants when pricing the financial instrument, including time, etc.

The financial assets measured at fair value and whose changes are recorded in other comprehensive income, except for credit impairment losses or gains and exchange gains or losses, all other gains or losses generated shall be recorded in other comprehensive income, until the financial assets are de-recognized or reclassified.

When the recognition of the financial assets is terminated, the accumulated gains or losses previously recorded in other comprehensive income shall be transferred out from other comprehensive income and recorded in the current profit or loss.

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

12. Other receivables

The method of determining the expected credit loss of other receivables and the accounting treatment are as follows.

The Group measures the loss provision of other receivables in accordance with the following circumstances: ① For financial assets with no significant increase in credit risk since initial recognition, the Group measures the loss provision in accordance with the amount of expected credit loss over the next 12 months; ② For financial assets with a significant increase in credit risk incurred since the initial recognition, the Group measures the loss provision in the amount equivalent to the expected credit loss of the financial instruments during the entire life cycle; ③ For financial assets purchased or derived from the credit impairment already incurred, the Group measures the loss provision according to the amount equivalent to the expected credit loss over the entire lifetime.

Assessments on a combined basis are as follows: For other receivables, the Group is unable to obtain sufficient evidence of a significant increase in credit risk at a reasonable cost at the level of individual instruments, whereas it is feasible to assess whether the credit risk has significantly increased on a combined basis. Therefore, the Group divides other receivables into groups, considers and assesses whether there is a significant increase in credit risk on a combined basis by considering factors such as the types of financial instruments, credit risk rating, collateral type, initial recognition date and residual contract duration, industry where the debtor operates, geographical location of the debtor, and value of collateral relative to financial assets as the common risk characteristics.

The measurement of expected credit loss: On the balance sheet date, the Group calculates the expected credit loss of other receivables. If such expected credit loss is greater than the current book value of the impairment provision for other receivables, the Group recognizes the difference as an impairment loss of other receivables, debiting 'credit impairment loss' and crediting 'bad debt provision'. In contrast, the Group recognizes the opposite difference as gains from impairment, and makes the opposite accounting records.

Where the Group actually incurs credit loss, and determines that the relevant other receivables cannot be recovered, if the receivables have been approved for cancellation after verification, the Group will debit 'bad debt provision' and credit 'other receivables' according to the approved amount of write-off. If the amount of write-off is greater than the accrued impairment loss provision, the 'credit impairment loss' will be debited according to the difference.

Based on actual credit losses in previous years, and the prospective information in the current year, the policies of accounting estimates to measure the expected credit loss are as follows: the Group refers to historical credit loss, combined with the current conditions and forecasts of future economic conditions, and calculates the expected credit loss by exposure to default risk and the expected credit loss rate for the next 12 months or the whole life period.

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13. Inventories

The inventories of the Group mainly include raw materials, development costs, low value consumables, products in process, and goods 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 the one-off write-off method.

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

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

14. Contract assets

(1) Recognition methods and criteria of contract assets

Contract assets refer to the rights to receive consideration for the transfer of goods by the Group to its customers, and that right depends on factors other than the passage of time. If the Group sells two commodities that can be clearly distinguished to its customers, for which the Group has the right to collect payment because one of the commodities has been delivered, but the collection of payment depends on the delivery of the other commodity, the Group regards this right to collect payment as a contractual asset.

(2) The determination method and the accounting treatment for expected credit loss of contract assets

For the determination method and the accounting treatment of expected credit loss of contract assets, refer to the determination method and accounting treatment of notes receivable and accounts receivable stated in Note 9.

On the balance sheet date, the Group calculates the expected credit loss of contract assets. If such expected credit loss is greater than the current book value of the impairment provision for contract assets, the Group recognizes the difference as impairment loss of contract assets, debiting 'credit impairment loss' and crediting 'impairment provision for contract assets'. In contrast, the Group recognizes the opposite difference as gains from impairment, and makes the opposite accounting records.

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Where the Group actually incurs credit loss and determines that the relevant contract assets cannot be recovered, if the contract assets have been approved for cancellation after verification, the Group will debit "impairment provision for contract assets" and credit "contract assets" according to the approved amount of write-off. If the amount of write-off is greater than the accrued impairment loss provision, credit "impairment loss" shall be debited according to the difference.

15. Long term equity investments

The Group's long-term equity investments are mainly investments into its subsidiaries.

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

The Group's basis for recognition of significant influence is that the Company holds more than 20% (inclusive) but less than 50% of the voting shares of the invested entity directly or indirectly through subsidiaries. If there is clear evidence that the Group cannot participate in making decisions related to production and operation of the invested entity in that case, no significant influence exists.

Where control over the invested entity exists, the invested entity becomes a subsidiary of the Group. As for long-term equity investments acquired in the 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 is recognized as the initial investment cost of the long-term equity investment. Where the book value of net assets of the merged party on the merger date is negative, the long-term equity investment cost is determined to be zero.

For long-term equity investments acquired via business merger not under common control, the merger cost is taken as the initial investment cost.

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

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

For long-term equity investments subsequently calculated by the cost method, when more investment is added, the book value of the long-term equity investment cost is increased by the fair value of the cost paid for increased investment and the related transaction expenses. Cash dividends or profits declared for distribution by the invested entity are recognized as current investment income in accordance with the amount entitled to.

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For long-term equity investments subsequently calculated by the equity method, the book value of the long-term equity investment is increased or decreased accordingly by adjusting owner's equity in the invested entity. When determining the portion of net profit 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 the investment was made, 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 its shareholding proportion, with the net profit of the invested entity recognized after the adjustment.

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

For loss of joint control in or significant influence over the invested entity due to disposal of partial equity investment or other reasons, the residual equity after disposal is calculated based on the financial assets available for sale, and the difference between the fair value and book value of the residual equity on the date when joint control or significant influence was lost is included in current profit or loss. Other comprehensive income from the original equity investment recognized by the equity method is subject to the accounting treatment on the same basis as that adopted by the invested entity for directly handling related assets or liabilities when the application of the equity method is terminated.

For loss of control in the invested entity due to disposal of partial long-term equity investment and for the residual equity after disposal, if sufficient for realizing joint control or exerting significant influence on the invested entity, the basis of calculation is changed to the equity method. The difference between the book value of the disposal and the consideration is included in investment income, and the residual equity is adjusted as if it has been calculated by the equity method since it was acquired. The residual equity after disposal, if insufficient to realize joint control or exert significant influence on the invested entity, is subject to accounting treatment based on the relevant regulations on financial assets available for sale. The difference between the book value of the disposal and the consideration is included in investment income, and the difference between the fair value and book value of the residual equity on the date that control is lost is included in current investment income.

Multiple equity disposal transactions of the Group that amount to loss of control but do not belong to the same series of transactions are subject to separate accounting treatment. Any transactions categorized as a series of transactions are subject to the accounting treatment for subsidiary disposal and loss of control. However, before the loss of control, the difference between the disposal price and the book value of the 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 or loss until the control is lost.

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16. Investment properties

The Group's investment properties include land use rights and buildings which have already been rented out. The cost model is applied for measurement.

The entry value of investment properties of the Group is the cost. The cost of a purchased investment property includes the purchase price, relevant taxes and other expenditures that can directly be attributed to this asset; the cost for a self-constructed investment property is comprised of the necessary expenditures for making this asset reach usable status.

The Group conducts follow-up measurements of investment properties by the cost model and accounts for depreciation or amortization based on the expected service life and net salvage rate by straight line method. The estimated life span, net residual rate and annual rate of depreciation (amortization) of investment properties are as follows:

Category	Period of depreciation (Year)	Estimated residual rate (%)	Annual rate of depreciation (%)
Land use rights	40–50	0	2.00–2.50
Premises and buildings	20	5	4.75

When investment properties are converted for own-use, such properties are changed into fixed assets or intangible assets at the date of conversion. When investment properties for own-use are converted for gaining rental income or capital increase, it is converted from fixed assets or intangible assets to investment properties at the date of conversion. When the conversion occurs, the book value prior to conversion will be the entry value after conversion.

If an investment property is disposed of or withdrawn permanently from use and no economic benefit can be obtained from the disposal, recognition of the investment property will be terminated. The disposal income from selling, transferring, discarding or damaging of investment properties is deducted by the book value and the relevant taxes thereof are then included in current profit or loss.

17. 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; 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 as premises and buildings, machinery equipment, transportation equipment, electronic equipment and others.

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Valuation of fixed assets: Fixed assets are initially measured according to the actual cost as obtained, wherein, the cost of outsourcing fixed assets includes the purchase price, value-added tax, import tariff, relevant taxes and other necessary expenditures directly attributable to the fixed asset to put it in the expected condition for use; the cost of self-built fixed assets consists of the necessary expenses for building the asset to the expected condition for use; fixed assets invested in by investors are based on the entry value agreed upon in the investment contract or agreement. However, if the value agreed upon in the contract or agreement is not fair, it will be accounted for at fair value. For fixed assets on financial lease, the fair value of leased assets on the lease commencement date or the present value of the minimum leasing payments will be the entry value, whichever is lower.

Depreciation method of fixed assets: except for fixed assets that have been fully depreciated but still in use, the Group calculates depreciation for all fixed assets. The straight line method is used for calculating depreciation for each single item every month. The depreciation expenses are separately included in the costs or current expenses of the related assets categorised by purpose. The expected net salvage value of fixed assets of the Group is 5%. The expected net salvage, 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 expenditure related to fixed assets, including repair expenditure, renovation and reformation expenditure, meets the recognition conditions of fixed assets, it is included in the cost of fixed assets, and the book value of replaced parts is de-recognised; the expenditure which does not meet the recognition conditions of fixed assets is included in current profit or loss when it occurs.

At the end of the year, the Group rechecks and properly adjusts the service life, expected net salvage value and depreciation method of the fixed assets. Any change is treated as changes in accounting estimates.

The depreciation policies of fixed assets acquired by financial lease are 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 will be accrued within the service life of the acquired leasing assets; otherwise, the depreciation will be accrued 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 be obtained from its use or disposal, recognition of that fixed asset is terminated. The disposal income from selling, transferring, discarding or damaging fixed assets is deducted by the book value thereof and relevant taxes, and then included in current profit or loss.

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18. Projects under construction

Starting from the date when a project under construction reaches the expected condition for use, the project will be transferred to fixed assets based on the estimated value and according to the project budget, construction cost or actual cost, and depreciation will be accrued starting from the next month. The original value difference of fixed assets will be adjusted after the completion settlement formalities have been handled.

19. Borrowing costs

Borrowing costs include loan 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, will begin capitalization when the expenditure of the assets and the borrowing costs occur and construction or production activities necessary for making the assets available for predicted use or sale begin. The construction or production assets which satisfy capitalization conditions will stop capitalization when the assets are available for predicted use or sale. Other borrowing costs should be determined as expenditure when they are incurred.

The amount of interest of special loans that occur in the current period is deducted from the interest income from unused loan capital which is deposited in banks or deducted from investment income from temporary investment, and will be capitalized. The capitalized amount of general loan will be determined based on the weighted average of which the accumulative asset expenditure exceeds special loan asset expenditure multiplied by the capitalization rate of the general loan used. The capitalization rate is calculated with the weighted average interest rate of general loans.

Assets in compliance with capitalization conditions refer to fixed assets, investment properties and inventory that require a considerably long time (usually more than one year) of construction or production to reach their intended usable and marketable condition.

If assets satisfying capitalization conditions are suspended in construction or production for more than 3 months continuously, the suspended borrowing costs will be capitalized until the purchase, construction or production of the assets is restarted.

20. Right-of-use asset

Right-of-use asset represents the Group's right to use an underlying asset for the lease term. The right-of-use asset shall be initially measured at cost. The cost of the right-of-use asset shall comprise: (1) the amount of the initial measurement of the lease liability; (2) any lease payments made at or before the commencement date, less any lease incentives received; (3) any initial direct costs incurred by the lessee; (4) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The foregoing costs are incurred for the production of inventories. The Accounting Standards for Business Enterprises No. 1 – Inventories shall apply. The Group shall comply with the Accounting Standards for Business Enterprises No. 13 – Contingencies to confirm and measure the costs mentioned in item (4).

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Lease incentives are the incentives provided by the lessor to the Group for the purpose of achieving the lease, including the amount of the lease payable by the lessor to our group, the cost of the lessor's repayment or commitment to the Group, and so on.

The initial direct cost refers to the incremental cost incurred to achieve the lease. Incremental cost refers to the cost that would not occur if the company did not obtain the lease.

Our Group depreciates the right-of-use assets in accordance with the relevant depreciation provisions for fixed assets. If our Group can reasonably determine the ownership of the leased assets at the expiration of the lease term, it shall depreciate the remaining service life of the leased assets. If it cannot be determined reasonably that the leasehold asset is acquired at the expiration of the lease term, it shall be depreciated by the shorter period of the lease term and the remaining service life of the leased asset.

The Group determines whether the right-of-use assets are impaired according to the provisions of asset impairment and accounts for the recognized impairment losses.

When the lease liability is re-measured due to changes in the actual fixed payment amount, the book value of the right-of-use asset shall be adjusted accordingly. If the carrying amount of the right-of-use asset has been reduced to zero, but the lease liability still needs to be further reduced, the Group should include the remaining amount in the current profit or loss.

21. Intangible assets

- (1) Valuation methods of intangible assets: intangible assets of the Group mainly include land use rights, software licenses and unpatented technologies. Intangible assets acquired through purchase are calculated as actual cost based on the actual paid amount and other relevant expenditure. Intangible assets invested by investors are confirmed as actual cost based on the value 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 will be confirmed as the fair value.
- (2) Amortization methods and period of intangible assets: land use rights of the Group are amortized evenly according to its transfer years from the starting date of transfer; software licenses and unpatented technologies of the Group are amortized evenly by stages according to the expected service life, the benefit period under contract or the effective period stated by law, whichever is shortest. Land use rights are amortized based on the benefit and transfer period, and software licenses are amortized based on the expected benefit period (5 years). The amortized amounts are included in current profit or loss or relevant asset costs according to beneficiaries.
- (3) The anticipated service life and the amortization method of intangible assets with limited life are reviewed by the Group at the end of each year. Any change is handled as change in accounting estimates. The Company reviews the expected service life of intangible assets with uncertain service life in each accounting period. If any evidence indicates that the service life of an intangible asset is limited, the service life will be estimated and amortized within the expected service life.

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22. Research and development

The expenses for in-house research and development projects are classified by the Group as those for research stage and those for development stage according to the nature of the expenses and whether a great uncertainty lies in the conversion of the research and development activities into intangible assets.

For independently researched and developed intangible assets, the expenditure in the research stage is included in current profit or loss when incurred; and the expenditure in development stage which meets the following conditions is determined as that of intangible assets: 1) it is technically feasible to finish and use or sell the intangible assets; 2) there is an intention 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 sufficient 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 expenditure in the development stage of the intangible assets can be measured reliably.

The expenses in the development stage which do not meet the above conditions are included in current profit or loss when incurred. The expenses for the development stage which have been included in profit or loss cannot be recognized as assets later. The capitalized expenses for the development stage are included in the balance sheet as development expenses and are converted into intangible assets on the date when the research and development project is ready for its intended use.

23. Impairment of long-term assets

The Group checks long-term equity investments, investment properties, fixed assets, construction in progress, intangible assets with fixed service life, etc. on each balance sheet date. When the following signs exist, it indicates that asset impairment may have occurred, and the Group will perform an impairment test. Goodwill and intangible assets with an indefinite useful life are tested for impairment annually, irrespective of whether there is any indication that the asset may be impaired. If it is hard to test the recoverable amount of a single asset, the test is performed based on asset groups or combined asset groups.

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, cannot be reversed in the subsequent accounting period. The recoverable amount of assets is the net amount of fair value of assets less disposal fees, or the present value of expected future cash flows from the assets, whichever is higher.

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24. Goodwill

Goodwill is the difference by which the cost of equity investment or the cost of a business merger not under common control exceeds the fair value share of the invested entity or the purchased party's identifiable net assets on the acquisition date or purchase date obtained in the business merger.

Goodwill related to subsidiaries is shown separately in the consolidated financial statements. Goodwill related to associates and joint ventures is included in the book value of long-term equity investments.

25. Contract liability

Contract liability reflects the Group's obligation to transfer goods or services to a customer for which the Group has received consideration or an amount of consideration is due from the customer. If a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good to the customer, the Group will present the received or receivable amount as a contract liability when the payment is made or the payment is due (whichever is earlier).

26. Payroll

Payroll of the Group includes short-term remuneration, post-employment benefits, dismissal benefits and other long-term benefits.

Short-term remuneration mainly includes salaries and welfare, etc. During the accounting period when the employees provide services for the Group, the actual short-term remuneration is recognized as liabilities, and included in current profit or loss or the relevant asset cost based on different beneficiaries.

Post-employment benefits include basic endowment insurance, unemployment insurance and classified as defined contribution plans and defined benefit plans depending on the risks and obligations the Company bears. For defined contribution plans, the contributions which are made for individuals in exchange for the staff's services rendered in the accounting period are recognized as liabilities on the balance sheet date and included in current profit or loss or the relevant asset costs according to the beneficiaries. There is no defined benefit plan in the Group.

When the Group cannot unilaterally withdraw the dismissal benefits 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 benefits payment are recognized, the payroll liabilities arising from dismissal benefits shall be recognized and included in current profit or loss.

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27. Lease liability

The lease liability reflects the closing book value of the lease payments that have not been paid by the Group's enterprises. The lease liability is initially measured at the present value of the lease payments that have not been paid on the commencement date of the lease term.

In calculating the present value of the lease payment, the Group shall use interest rate implicit in lease as the discount rate; if the interest rate implicit in lease cannot be determined, the Group's incremental borrowing rate shall be used as the discount rate. The interest rate implicit in lease refers to the interest rate that makes the sum of the present value of the lessor's lease receivable amount and the present value of the unguaranteed residual value equal to the sum of the fair value of the leased asset and the initial direct cost of the lessor. The Group's incremental borrowing rate refers to the interest rate that the Group is required to pay for borrowing funds under similar mortgage conditions in a similar economic environment in order to obtain assets close to the value of the right-to-use assets.

Lease payment refers to the amount paid by the Group to the lessor in relation to the right to use the leased asset during the lease term, including: (1) fixed payments and in-substance fixed payments, less any lease incentives receivable; (2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (3) the exercise price of a purchase option if the Group is reasonably certain to exercise that option; (4) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease; and (5) amounts expected to be payable by the Group under residual value guarantees.

After the commencement date of the lease term, the Group shall re-determine the lease payments and re-measure the lease liabilities at the present value calculated based on the lease payments and the revised discount rate: (1) if the result of the evaluation of the termination of the lease option or renewal option changes, or if the actual exercise of the foregoing option is inconsistent with the original assessment result, resulting in a change in the lease term, the lease payment shall be re-determined according to the new lease term; (2) if the assessment results of the purchase option change, the lease payment shall be re-determined based on the new assessment results.

When calculating the present value of the lease payment after change, the Group shall use the lease interest rate of the remaining lease period as the revised discount rate; if the lease interest rate of the remaining lease period cannot be determined, the Group's incremental borrowing rate should be used as the revised discount rate on the revaluation date.

If the lease change is not treated as a separate lease, on the effective date of the lease change, the Group shall apportion the consideration of the changed contract in accordance with the regulations, re-determine the lease term, and re-measure the lease liability based on the present value calculated from the leased payment amount after the change and the revised discount rate.

When calculating the present value of the lease payment after the change, the Group shall use the interest rate implicit in lease of the remaining lease period as the revised discount rate; if the lease interest rate of the remaining lease period cannot be determined, the Group's incremental borrowing rate on the effective date of the lease change shall be used as the revised discount rate. The effective date of the lease change is the date on which the parties agree on the lease change.

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If the transfer of an asset in the sale and leaseback transaction is accounted for as a sale of that asset, the lessee shall measure the right-of use asset formed by the sale and leaseback according to the part of the original asset's book value that is related to the use right obtained from the leaseback, and only recognize the relevant gains or losses from the right transferred to the lessor; the lessee should continue to confirm the transferred assets, and at the same time recognize a financial liability equal to the transfer income, if the transfer of assets in the sale and leaseback transaction were not a sale.

28. Estimated liabilities

Where a matter related to external security, trade acceptance discount, pending litigation or arbitration, product quality assurance, etc. meets the following conditions, the Group will recognize the following as a liability: 1) current obligation borne by the Group; 2) great possibility of economic benefit outflow because of performing the obligation; and 3) reliable measurement of the amount of the obligation.

Measurement 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 estimated liabilities is reviewed and adjusted (for any change) to reflect the current best estimate.

29. Share-based payments

For equity-settled share-based payments in exchange for services provided by employees, such payments are measured according to the fair value on the date of granting the equity instruments to the employees. Where the amount of such fair value can only be exercised if the services during the waiting period are completed or the required performance conditions are achieved, during the waiting period, based on the best estimate of the number of exercisable equity instruments, such amount will be recognized into the relevant costs or expenses according to the calculation by straight-line method, with the capital reserve increased correspondingly.

For cash-settled share-based payments, such payments are measured according to the fair value of the liabilities assumed by the Group on the basis determined by shares or other equity instruments. If such rights can be immediately exercised after being granted, such rights are recognized into the relevant costs or expenses according to the fair value of the liabilities assumed on the granting date, with the liabilities increased correspondingly. If such rights are exercised after the services during the waiting period are completed or the required performance conditions are achieved, on each balance sheet date in the waiting period, based on the best estimate of the vesting conditions, such amount will be recognized into costs or expenses according to the fair value of the liabilities assumed by the Group, with the liabilities adjusted correspondingly.

On each balance sheet date and the settlement date prior to the settlement of the relevant liabilities, the re-measurement of the fair value of the liabilities will be carried out, with the change of fair value recognized into current profit or loss.

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If the Group cancelled the granted equity instruments during the waiting period (except where the cancellation occurred because the vesting conditions have not been met), such circumstances shall be treated as an accelerated exercise of rights. Namely, deeming that all the vesting conditions of the equity payment plan within the remaining waiting period would have been fully met, all the expenses during the remaining waiting period are recognized in the period when the granted equity instruments are cancelled.

30. Recognition principles and measurement method of income

(1) Income recognition principle

The Group's operating income mainly includes income from sale of goods and income from rendering of services.

The Group recognizes income when the performance obligation in a contract is fulfilled, namely when the customer acquires control over the relevant goods or services.

If a contract contains two or more performance obligations, at the commencement of the contract, the Group allocates the transaction price into each individual performance obligation according to the relative proportion of each individual selling price of goods or services committed by individual performance obligation, and recognizes the income according to the transaction price allocated to each individual performance obligation.

The transaction price is the amount of consideration that the Group expects to be entitled to receive as a result of the transfer of goods or services to the customers. Such transaction price does not include the payments collected on behalf of third parties. The transaction price recognized by the Group does not exceed the amount of income accumulatively recognized when the relevant uncertainties are eliminated and where it is highly unlikely that a major reversal on such income will occur. The payments expected to be refunded to customers are treated as liabilities and will not be recognized in the transaction price. Where there are significant financing elements in the contract, the Group determines the transaction price as the amount payable assuming that the customer would have immediately paid in cash when gaining control over the goods or services. The difference between the transaction price and the contract consideration price is amortized according to the effective interest rate method during the contract period. On the commencement date of the contract, if the Group expects that the interval between the acquisition of control over goods or services by the customer and the payment of the price by the customer will not exceed one year, the significant financing elements in the contract will not be considered.

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When one of the following conditions is satisfied, the Group is considered to have fulfilled an obligation within a certain period of time. Otherwise, the Group is considered to have fulfilled an obligation at a certain point in time:

- 1) At the same time when the Group fulfills the obligation, the customer immediately obtains and consumes the economic benefits brought about by the Group's performance.
- 2) The customers can control the goods under construction in the course of the Group's performance.
- 3) Goods produced in the course of the Group's performance are irreplaceable. In addition, during the entire contract period, the Group has the right to collect the payments for the cumulatively completed parts of performance.

For obligations fulfilled within a certain period of time, the Group recognizes income in accordance with the fulfillment progress of the performance obligations during such period, and also determines the fulfillment progress of the performance obligations according to the percentage-of-completion method. Where the progress of performance cannot be reasonably determined, if the costs incurred by the Group are expected to be compensated, the income will be recognized based on the amount of costs already incurred until the progress of performance can be reasonably determined.

For obligations fulfilled at a certain point of time, the Group recognizes income at the point of time when the customer acquires control over the relevant goods or services. In judging whether the customer has acquired control over the goods or services, the Group considers the following signs:

- 1) The Group enjoys the right to collect the payments for the goods or services at present.
- 2) The Group has transferred the legal ownership of the goods to the customer.
- 3) The Group has transferred the physical goods in kind to the customer.
- 4) The Group has transferred the major risks and rewards of ownership of the goods to the customer.
- 5) The customer has accepted such goods or services, etc.

The right to collect the consideration as a result of the Group having transferred goods or services to the customer will be listed as a contract asset. The impairment provision of contract assets are accrued on the basis of the expected credit loss. The unconditional rights owned by the Group to collect the consideration from customers are listed as accounts receivable. The Group's obligation to transfer goods or services to customers due to the received customer consideration or the receivable consideration are listed as contract liabilities.

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(2) Specific principles of income recognition

For contracts of sale of goods within China transferring the control of the goods at a certain point in time, the income is recognized when the Group has delivered the goods to the customer or carrier and the Group has obtained the right to claim for payment at present, and when the consideration is likely to be received, meaning that it is recognized when the customer acquires control over the relevant goods.

For contracts of sale of goods outside China transferring the control of the goods at a certain point in time, the income is recognized when the goods are dispatched, loaded at the port of shipment and departed from the port, and when the Group has obtained the right to claim for payment at present with the consideration price likely to be received, meaning that it is recognized when the customer acquires control over the relevant goods.

31. Government grants

Government grants to the Group are divided into asset-related government grants and revenue-related government grants. Asset-related government grants 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 means. Revenue-related government grants refer to those other than asset-related government grants. If no assistance object is specified in the government documents, the Group will make a determination based on the above principles. If it is difficult to distinguish, it is integrally classified as revenue-related government grants.

As monetary assets, government grants are measured based on the actual 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 non-monetary assets, government grants are measured based on their fair value; if the fair value cannot be estimated reliably, it will be measured based on nominal amount (RMB1).

Asset-related government grants are recognized as deferred revenue, and are distributed equally within the service life of the related assets and included in current profit or loss.

For relevant assets that are sold, transferred, discarded or damaged before the end of their service life, the outstanding amounts of the relevant unallocated deferred income are transferred into the profit or loss of the current period when the assets are disposed of.

Revenue-related government grants used to compensate related costs or losses during future periods are recognized as deferred revenue, and will be included in current profit or loss during the period when it is recognized. Those used to compensate incurred costs or losses will be included in current profit or loss directly. Government grants related to daily activities are included in other income according to the substance of the economic activities. Government grants unrelated to daily activities are included in non-operating income and expenditure.

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When the Group obtains discounted interest on preferential loans, the Group will distinguish between the financial appropriation of interest-subsidized funds to the loan bank and the financial allocation of discount funds directly to the Company, and treat it according to the following accounting principles:

- (1) When the financial appropriation of interest-subsidized funds is to the bank offering loans, the bank offering loans provides loans to the Company at a policy-based preferential interest rate, the Company takes the actual received loan amount as the entry value of the loan and calculates the relevant borrowing costs according to the loan principal and the policy-based preferential interest rate.
- (2) The government will directly subsidize the interest-subsidized funds to the Company, and the Company will offset the interest-related borrowing costs by the corresponding interest discount.

If the government grants that the Company has confirmed need to be returned, it should be treated in accordance with the following provisions in the current period:

- 1) If there is relevant deferred income, the book value of the related deferred income will be offset, and the excess amount will be included in current profit or loss.
- 2) In other circumstances, the returned grant is directly included in current profit or loss

32. Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities are recognized by calculating the difference (temporary difference) between the tax base and the book value thereof. As for taxable income with deductible loss and tax deduction that can be deducted in the future as specified by tax laws, corresponding deferred tax assets will be recognized based on the temporary difference. Deferred income tax assets and liabilities are measured at the 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 income tax assets, if it is predicted that the amount of taxable income cannot be sufficient to deduct the deferred income tax assets in a future period, the book value of deferred income tax assets will be written down. If it is possible to obtain sufficient amount of taxable income, the amount that has been written down will be reversed.

33. Leases

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

Finance lease is a kind of lease in which all risks and rewards regarding the ownership of the assets are actually transferred.

Operating lease refers to the leases other than finance lease.

Notes to the Interim Financial Statements (Continued)

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

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

On the commencement date of the lease term, the Group initially recognizes the right-of-use assets and the lease liabilities of lease. The right-of-use assets are initially measured according to the cost, and the lease liabilities are initially measured according to the present value of the lease payment amount that has not been paid on the commencement date of the lease term, except for short-term and low-value asset leases.

Short-term lease refers to the lease that the lease term does not exceed 12 months from the commencement date of the lease term, and the lease that includes the option of purchase is not a short-term lease; low-value assets lease refers to the lease with a relatively low value when a single lease asset is a new asset. For short-term and low-value asset leases, the Group does not recognize the right-of-use assets and lease liabilities. The Group recognizes the amount of lease payments of short-term lease and low-value assets lease in the related asset or current profit or loss, on a straight-line method or another systematic method during each period of the lease term.

34. Held for sale

The Group specifies that the following non-current assets or disposal groups are classified as held for sale: (1) For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets or disposal groups. (2) For the sale to be highly probable, an active programme to locate a buyer and complete the plan must have been initiated, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. The sale has to be approved by the relevant authorities or regulatory authorities if required by relevant regulations. The Group will measure the carrying amount of the assets and liabilities of non-current assets or disposable group in accordance with accounting policies before it classifies the non-current assets or disposal group as held for sale. In the initial measurement or remeasurement of non-current assets held for sale or disposal group on the balance sheet date, if the carrying amount is more than fair value less costs to sell, the carrying amount is written down to the net value of the fair value minus costs to sell, and the amount written down is recognized as the asset impairment loss, which is recorded in current profit or loss, and the provision for impairment of assets held for sale is made.

When the Group acquires a non-current asset or disposal group exclusively with a view to its subsequent disposal, it shall classify the non-current asset or disposal group as held for sale at the acquisition date only if the expected sale within one-year requirement is met and it is highly probable that any other criteria that are not met at that date will be met within a short period following the acquisition (usually within three months). On initial measurement, the measurement will be made based on the lower amount after comparing the initial measurement amount and the net value of fair value minus costs to sell, assuming the non-current assets or disposal group is not classified as held for sale. Except for the non-current assets or disposal groups acquired in a business combination, the difference arising from the net amount of non-current assets or disposal groups measured at fair value less costs to sell as the initial measurement amount shall be included in the current profit or loss.

Notes to the Interim Financial Statements (Continued)

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

Where the Group loses control of its subsidiaries due to the sale of investment in its subsidiaries, etc., regardless of whether the Group will reserve part of the equity investment, when the investment in subsidiaries to be sold meets the requirements for the classification of held for sale, in the individual financial statements of parent company, the investment in subsidiaries is classified as holding for sale as a whole, and in the consolidated financial statements, all assets and liabilities of subsidiaries are classified as held for sale.

If the net value of the non-current assets held for sale's fair value less the cost to sell increases on the subsequent balance sheet date, the amount previously written-down should be recovered and reversed within the amount of the asset impairment loss recognized after classification as held for sale, and the reversed amount is recorded in the current profit or loss. Assets impairment losses recognized before classification as held for sale shall not be reversed.

For the asset impairment loss recognized in the disposal group held for sale, firstly, the carrying amount of the goodwill in the disposal group shall be offset, and then according to the proportion of the carrying amount of each non-current asset, the carrying amount will be deducted proportionally.

If the net value of the disposal group held for sale's fair value less the cost to sell increases on the subsequent balance sheet date, the amount previously written-down should be recovered and reversed within the amount of the asset impairment loss recognized in the non-current assets subject to the relevant measurement rules after classification as held for sale, and the reversed amount is recorded in the current profit or loss. The carrying amount of goodwill that has been deducted and the impairment loss on assets recognized as non-current assets before classification as held for sale are not allowed to be reversed.

The amount of assets impairment losses recognized by the disposal group held for sale is subsequently reversed; according to the disposal group (except goodwill) and the proportion of the carrying amount of each non-current asset, the carrying amount will be increased proportionately.

The non-current asset classified as held for sale, or included within a disposal group, is not depreciated or amortized. Interest on the liabilities within the disposal group that is classified as held for sale shall be recognized continuously.

When non-current assets held for sale no longer continue to be classified as the held-for-sale category or non-current assets removed from the disposal group because of no longer meeting the condition classified as held for sale, it shall be measured according to the lower of the following two: (1) the carrying amount before classification as held for sale is adjusted based on the depreciation, amortization or impairment that should be recognized if it is not classified as held for sale; (2) recoverable amount.

When derecognizing the non-current assets or disposal group held for sale, the unrecognized gains or losses shall be included in the current profit or loss.

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

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

35. Discontinued operations

A discontinued operation means any component of the Group which meets one of the following conditions, can be distinguished separately and has been disposed of or classified as held for sale; (1) this component represents an independent main business or a separate main operating area; (2) this component is part of a related plan to be disposed of in an independent main business or in a separate main operating area; (3) this component is a subsidiary acquired exclusively for resale.

36. Accounting of income tax

The accounting of income tax of the Group will be conducted by adopting the 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 recognized in current profit or loss, 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 carrying amount 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 authority 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 adopting the balance sheet liability method at the end of the period and the original amount that has been recognized.

37. Other important accounting policies and accounting estimates

(1) Safe production costs

The Company accrues, uses and calculates the safe production costs in accordance with the relevant rules from the Administrative Measures for the Collection and Utilization of Enterprise Work Safety Funds (Cai Qi [2012] No.16) issued by the Ministry of Finance of the People's Republic of China and State Administration of Work Safety on February 14, 2012.

The Company was involved in the production and storage of dangerous goods, and based on the actual operating income of the previous year, adopted the excess regressive method to conduct monthly average accrual in accordance with the following accrual standard:

No.	Sales of the previous year	Proportion of accrual
1	Part of less than RMB10 million	4%
2	Part of RMB10 million to RMB100 million (inclusive)	2%
3	Part of RMB100 million to RMB1 billion (inclusive)	0.5%
4	Part of more than RMB1 billion	0.2%

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 shall accrue the safe production cost according to the stipulated standards and the accrued safe production cost shall be included in the current profit or loss, as well as included in special reserves, which is listed separately under owner's equity. The actual use of accrued safe production costs, if it belongs to expense, offsets special reserves directly. If the use of the accrued safe production costs is to form a fixed asset, the costs are collected and pooled through the account of 'construction in progress'. Such expenses are recognized as a fixed asset when the the security project is completed and achieves its intended usable status. At the same time, the cost of the formation of fixed assets offsets the special reserves, and the cumulative depreciation as the same amount shall be recognized. The fixed assets shall no longer be depreciated in the subsequent period. If the amount of the special reserve is insufficient to be offset, it shall be directly recognized in the current profit or loss based on the actual amount.

(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:

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

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

Notes to the Interim Financial Statements (Continued)

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

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

38. Changes to important accounting policies and accounting estimates

(1) Changes to important accounting policies

Content and reason of accounting policy change	Approval	Remarks
<p>On 7 December 2018, its the Ministry of Finance of PRC released in Cai Kuai [2018] No. 35 “Accounting Standards for Business Enterprises (“ASBE”) No. 21 – Leases” (hereinafter referred to as the “New Lease Standard”), requiring corporations to adopt the New Lease Standard since 1 January 2019. In the preparation of the first quarter and interim financial statements of 2019, the Group has implemented the relevant accounting standards and dealt with them in accordance with the relevant transitional requirements.</p>	<p>The relevant accounting policy changes were approved by the seventh meeting of the ninth session of the board of directors of the Company on April 23 2019.</p>	<p>Note 1</p>
<p>On April 30 2019, the Ministry of Finance issued the Notice on Revising and Issuing the 2019 Annual Financial Statement Format of General Enterprises (Financial Accounting (2019) No. 6) (hereinafter referred to as the “New Financial Statement Format”), which revised the financial statement format of general enterprises. In the preparation of interim financial statements of 2019. The Group has implemented the relevant accounting standards and dealt with them in accordance with the relevant transitional requirements.</p>	<p>The relevant accounting policy changes were approved by the eighth meeting of the ninth session of the board of directors of the Company on August 19 2019.</p>	<p>Note 2</p>

Note:

1) Enforcement of the New Lease Standard:

The Group has made adjustments to meet the requirements of the New Lease Standard: the Company will adjust the amount of retained earnings and other related items in financial statements at the beginning of the first year of the first execution according to the cumulative impact of the first implementation of the New Lease Standard, without adjusting information in the comparable 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))

The main adjustments to the implementation of the New Lease Standard are as follows:

Consolidated Statements

Report item	Book value as of December 31 2018 in accordance with the original leasing standards	Book value as of January 1 2019 in accordance with the New Lease Standard
Right-of-use assets	-	2,232,117.00
Non-current liabilities due within one year	-	611,583.91
Lease liabilities	-	1,620,533.09

Parent Company's statements

Report item	Book value as of December 31 2018 in accordance with the original leasing standards	Book value as of January 1 2019 in accordance with the New Lease Standard
Right-of-use assets	-	1,516,217.37
Non-current liabilities due within one year	-	484,044.54
Lease liabilities	-	1,032,172.83

2) Adjustment of the New Financial Statement Format:

On April 30 2019, the Ministry of Finance issued the Notice on Revising and Issuing the 2019 Annual Financial Statement Format of General Enterprises (Financial Accounting (2019) No. 6), which revised the financial statement format of general enterprises. The retroactive restatement of the Group's financial statements caused by the change in the format of the new financial statements has significantly affected the items and amounts of the statements on December 31 2018 as follows:

Notes to the Interim Financial Statements (Continued)

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

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

Consolidated Statements

Item and amount of original report		Item and amount of new report	
Notes receivable and accounts receivable	478,454,671.43	Accounts receivable	342,233,818.03
		Receivables financing	136,220,853.40
Notes payable and accounts payable	889,606,620.75	Notes payable	426,876,630.26
		Accounts payable	462,729,990.49
Other current liabilities	17,211,380.00	Other current liabilities	–
Deferred income	128,295,859.52	Deferred income	145,507,239.52

Parent Company's statements

Item and amount of original report		Item and amount of new report	
Notes receivable and accounts receivable	350,310,234.29	Accounts receivable	334,767,282.65
		Receivables financing	15,542,951.64
Notes payable and accounts payable	729,706,582.84	Notes payable	413,234,812.17
		Accounts payable	316,471,770.67
Other current liabilities	17,211,380.00	Other current liabilities	–
Deferred income	127,933,359.52	Deferred income	145,144,739.52

(2) Changes in important accounting estimates

There were no matters of changes in accounting estimates for the Group during this reporting 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) **Relevant items of adjustment to the New Lease Standard implemented for the first time and financial statement at the beginning of the the year implemented for the first time**

1) Consolidated Balance Sheet

Unit: RMB

Item	December 31, 2018	January 1, 2019	Adjustment
Current assets:			
Monetary funds	778,423,353.71	778,423,353.71	
Funds reserved for settlement			
Loans to other banks			
Trading financial assets			
Financial assets measured at fair value and their variance recorded into current period profit or loss			
Derivative financial assets			
Notes receivable	136,220,853.40		-136,220,853.40
Accounts receivable	342,233,818.03	342,233,818.03	
Accounts receivable financing		136,220,853.40	136,220,853.40
Prepayments	31,786,512.35	31,786,512.35	
Premium receivables			
Receivables from reinsurers			
Reinsurance contract reserves receivable			
Other receivables	35,077,815.17	35,077,815.17	
Including: Interest receivable			
Dividends receivable			
Financial assets purchased under agreements to be resold			
Inventories	951,723,324.21	951,723,324.21	
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets	73,699,758.87	73,699,758.87	
Total current assets	<u>2,349,165,435.74</u>	<u>2,349,165,435.74</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	December 31, 2018	January 1, 2019	Adjustment
Non-current assets:			
Loans and advances to customers			
Debt investment			
Financial assets available for sale			
Other debt investments			
Held-to-maturity investments			
Long-term accounts receivable			
Long-term equity investments	19,594,473.83	19,594,473.83	
Other equity instrument investments	189,739,168.00	189,739,168.00	
Other non-current financial assets			
Investment properties	69,365,706.41	69,365,706.41	
Fixed assets	2,631,152,561.89	2,631,152,561.89	
Construction in progress	253,211,929.16	253,211,929.16	
Productive biological assets			
Right-of-use assets		2,232,117.00	2,232,117.00
Intangible assets	332,703,937.68	332,703,937.68	
Development expenditure			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets	22,246,103.11	22,246,103.11	
Other non-current assets	48,977,003.81	48,977,003.81	
Total non-current assets	3,566,990,883.89	3,569,223,000.89	2,232,117.00
Total assets	5,916,156,319.63	5,918,388,436.63	2,232,117.00

Notes to the Interim Financial Statements (Continued)

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

Item	December 31, 2018	January 1, 2019	Adjustment
Current liabilities:			
Short-term borrowings	235,000,000.00	235,000,000.00	
Borrowings from central bank			
Loans from other banks			
Trading financial liabilities			
Financial liabilities measured at fair value and their variance recorded into current period profit or loss			
Derivative financial liabilities			
Notes payable	426,876,630.26	426,876,630.26	
Accounts payable	462,729,990.49	462,729,990.49	
Accounts received in advance			
Contract liabilities	228,622,058.30	228,622,058.30	
Financial assets repurchased to be sold			
Handling charges and commission payable			
Payroll payable	73,456,646.80	73,456,646.80	
Taxes payable	23,623,090.44	23,623,090.44	
Other payables	285,887,587.92	285,887,587.92	
Including: Interest payable	3,020,508.89	3,020,508.89	
Dividends payable	5,310,599.53	5,310,599.53	
Accounts payable on reinsurance			
Payments from acting as agent on buying and selling securities			
Payments from acting as agent on underwriting securities			
Liabilities held for sale			
Non-current liabilities due within one year	606,637,247.96	607,248,831.87	611,583.91
Other current liabilities	17,211,380.00		-17,211,380.00
Total current liabilities	<u>2,360,044,632.17</u>	<u>2,343,444,836.08</u>	<u>-16,599,796.09</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	December 31, 2018	January 1, 2019	Adjustment
Non-current liabilities:			
Insurance contract reserves			
Long-term loans	522,643,436.60	522,643,436.60	
Bonds payable			
Including: Preferred stock			
Perpetual bonds			
Lease liabilities		1,620,533.09	1,620,533.09
Long-term payables	74,174,473.69	74,174,473.69	
Estimated liabilities			
Deferred income	128,295,859.52	145,507,239.52	17,211,380.00
Deferred income tax liabilities	30,883,385.57	30,883,385.57	
Other non-current liabilities	3,561,500.00	3,561,500.00	
Total non-current liabilities	759,558,655.38	778,390,568.47	18,831,913.09
Total liabilities	3,119,603,287.55	3,121,835,404.55	2,232,117.00
Shareholders' equity:			
Capital stock	621,859,447.00	621,859,447.00	
Other equity instruments			
Including: Preferred stock			
Perpetual bonds			
Capital reserve	622,815,654.30	622,815,654.30	
Less: Treasury stock			
Other comprehensive income	142,645,071.04	142,645,071.04	
Special reserve			
Surplus reserve	256,110,049.68	256,110,049.68	
General risk reserve			
Undistributed profits	1,043,818,095.99	1,043,818,095.99	
Total equity attributable to the shareholders of parent company	2,687,248,318.01	2,687,248,318.01	
Minority shareholders' interests	109,304,714.07	109,304,714.07	
Total shareholders' equity	2,796,553,032.08	2,796,553,032.08	
Total liabilities and shareholders' equity	5,916,156,319.63	5,918,388,436.63	2,232,117.00

Notes about the adjustment of the consolidated balance sheet: on January 1, 2019, in the Company's

Notes to the Interim Financial Statements (Continued)

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

consolidated balance sheet, there were reduced notes receivable by RMB136,220,853.40, increased accounts receivable financing by RMB136,220,853.40, increased right-of-use assets by RMB2,232,117.00, correspondingly increased other non-current assets by RMB2,232,117.00, increased total assets by RMB2,232,117.00; increased non-current liabilities due within one year by RMB611,583.91, decreased other current liabilities by RMB17,211,380.00, correspondingly reduced current liabilities by RMB16,599,796.09; increased lease liabilities by RMB1,620,533.09, increased deferred income by RMB17,211,380.00, correspondingly increased non-current liabilities by RMB18,831,913.09, increased total liabilities by RMB2,232,117.00, with total increase in liabilities and shareholders' equity by RMB2,232,117.00.

2) Parent Company's Balance Sheet

Unit: RMB

Item	December 31, 2018	January 1, 2019	Adjustment
Current assets:			
Monetary funds	502,099,872.73	502,099,872.73	
Trading financial assets			
Financial assets measured at fair value and their variance recorded into current period profit or loss			
Derivative financial assets			
Notes receivable	15,542,951.64		-15,542,951.64
Accounts receivable	334,767,282.65	334,767,282.65	
Accounts receivable financing		15,542,951.64	15,542,951.64
Prepayments	20,108,174.57	20,108,174.57	
Other receivables	453,949,633.71	453,949,633.71	
Including: Interest receivable			
Dividends receivable	18,860,182.44	18,860,182.44	
Inventories	525,797,855.92	525,797,855.92	
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets	52,590,207.34	52,590,207.34	
Total current assets	1,904,855,978.56	1,904,855,978.56	

Notes to the Interim Financial Statements (Continued)

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

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

Item	December 31, 2018	January 1, 2019	Adjustment
Non-current assets:			
Debt investments			
Financial assets available for sale			
Other debt investments			
Held-to-maturity investments			
Long-term accounts receivable			
Long-term equity investments	596,905,706.39	596,905,706.39	
Other equity instrument investments	189,739,168.00	189,739,168.00	
Other non-current financial assets			
Investment properties	100,423,699.43	100,423,699.43	
Fixed assets	2,035,173,711.34	2,035,173,711.34	
Construction in progress	195,838,575.85	195,838,575.85	
Productive biological assets			
Right-of-use assets		1,516,217.37	1,516,217.37
Intangible assets	179,636,835.15	179,636,835.15	
Development expenditure			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets			
Other non-current assets	6,400,000.00	6,400,000.00	
Total non-current assets	3,304,117,696.16	3,305,633,913.53	1,516,217.37
Total assets	5,208,973,674.72	5,210,489,892.09	1,516,217.37

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	December 31, 2018	January 1, 2019	Adjustment
Current liabilities:			
Short-term borrowings	235,000,000.00	235,000,000.00	
Trading financial liabilities			
Financial liabilities measured at fair value and their variance recorded into current period profit or loss			
Derivative financial liabilities			
Notes payable	413,234,812.17	413,234,812.17	
Accounts payable	316,471,770.67	316,471,770.67	
Contract liabilities	42,928,191.14	42,928,191.14	
Payroll payable	67,671,188.05	67,671,188.05	
Taxes payable	9,972,709.04	9,972,709.04	
Other payables	243,643,120.39	243,643,120.39	
Including: Interest payable	3,020,508.89	3,020,508.89	
Dividends payable	5,310,599.53	5,310,599.53	
Liabilities held for sale			
Non-current liabilities due within one year	606,637,247.96	607,121,292.50	484,044.54
Other current liabilities	17,211,380.00		-17,211,380.00
Total current liabilities	1,952,770,419.42	1,936,043,083.96	-16,727,335.46

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	December 31, 2018	January 1, 2019	Adjustment
Non-current liabilities:			
Long-term loans	522,643,436.60	522,643,436.60	
Bonds payable			
Including: Preferred stock			
Perpetual bonds			
Lease liabilities		1,032,172.83	1,032,172.83
Long-term payables	74,174,473.69	74,174,473.69	
Estimated liabilities			
Deferred income	127,933,359.52	145,144,739.52	17,211,380.00
Deferred income tax liabilities	26,960,455.56	26,960,455.56	
Other non-current liabilities	3,561,500.00	3,561,500.00	
Total non-current liabilities	755,273,225.37	773,516,778.20	18,243,552.83
Total liabilities	2,708,043,644.79	2,709,559,862.16	1,516,217.37
Shareholders' equity:			
Capital stock	621,859,447.00	621,859,447.00	
Other equity instruments			
Including: Preferred stock			
Perpetual bonds			
Capital reserve	664,453,337.87	664,453,337.87	
Less: Treasury stock			
Other comprehensive income	143,236,772.50	143,236,772.50	
Special reserve			
Surplus reserve	249,856,062.61	249,856,062.61	
Undistributed profits	821,524,409.95	821,524,409.95	
Total shareholders' equity	2,500,930,029.93	2,500,930,029.93	
Total liabilities and shareholders' equity	5,208,973,674.72	5,210,489,892.09	1,516,217.37

Notes to the adjustment of the balance sheet of the parent company: on January 1, 2019, there were decreased notes receivable in parent company balance sheet by RMB15,542,951.64, increased accounts receivable financing by RMB15,542,951.64, increased right-of-use assets by RMB1,516,217.37, correspondingly increased other non-current assets by RMB1,516,217.37, total increase of assets by RMB1,516,217.37; increased non-current liabilities due within 1 year by RMB484,044.54, reduced other current liabilities by RMB17,211,380.00, correspondingly reduced current liabilities by RMB16,727,335.46; increased lease liabilities by RMB1,032,172.83, increased deferred income by RMB17,211,380.00, correspondingly increased non-current liabilities by RMB18,243,552.83, total increase of liabilities by RMB1,516,217.37, total increase in liabilities and shareholders' equity by RMB1,516,217.37.

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) Notes on the comparative data impact by the retroactive adjustments from the first implementation of the New Lease Standard

In the first implementation, the Group did not have any retroactive adjustment on the comparative data of previous years.

V. TAXES

1. Main taxes and rates

Tax Category	Taxation Basis	Tax Rate
Value-added tax (<i>Note</i>)	Difference after deducting the input tax on purchased goods from output tax	6%,10%/9%, 16%/13%
Urban construction tax	Turnover tax payable	7%
Educational surcharges	Turnover tax payable	3%
Local educational surcharges	Turnover tax payable	2%
PRC enterprise income tax	Taxable income	15%,25%
USA federal and state corporate income tax	Taxable income	Federal tax: 21%, state tax: 8.84%
Dutch corporate income tax	Taxable income	20%/25%

Note: According to the “Circular of the General Administration of Customs of the State Administration of Taxation of the Ministry of Finance on deepening the Reform of value-added tax” (Circular No. 39 of 2019 of the General Administration of Customs of the General Administration of Taxation of the Ministry of Finance), if companies incur the behaviors taxable to value-added tax (VAT), since April 1, 2011, the original applicable tax rate of 16% and 10% is adjusted to 13% and 9%.

Notes to the Interim Financial Statements (Continued)

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

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

Notes on taxpaying subjects and income tax rates of different enterprises:

Name of the Taxpaying Subject	Income Tax Rate
The Company	15%
Shandong Zibo Xincat Pharmaceutical Co., Ltd	15%
Shandong Xinhua Pharmaceutical (Europe) B.V	20%/25%
Shandong Xinhua Pharmaceutical (USA) Inc	Federal tax rate: 21%, state tax rate: 8.84%
Other 9 subsidiaries	25%

2. Tax preference

(1) **Income Tax**

According to the replied approval of the document Lu Ke Zi [2018] No. 37 from Department of Science and Technology of Shandong province, Shandong Province Finance Department, Shandong State Tax Bureau, and Shandong Local Taxation Bureau, the Company was identified as a high and new tech enterprise. The Company obtained the certificate of high and new tech enterprises No. GR201737001056 on December 28, 2017. The validity period is 3 years. According to the 'Enterprise Income Tax Law' of the People's Republic of China, the Company enjoys the preferential tax policy of enterprise income tax levied at the rate of 15%. The Company is in the preferential tax period in the year of 2018. The applicable income tax rate is 15%.

According to the replied approval of the document Lu Ke Zi [2018] No. 37 from Department of Science and Technology of Shandong province, Shandong Province Finance Department, Shandong State Tax Bureau, and Shandong Local Taxation Bureau, the subsidiary of the Company, Shandong Zibo Xincat Pharmaceutical Co., Ltd (hereinafter referred to as Xincat Pharmaceutical) was identified as a high and new tech enterprise. Xinda Pharmaceutical obtained the certificate of high and new tech enterprises No. GR201737000587 on December 28, 2017. The validity period is 3 years. According to the 'Enterprise Income Tax Law' of the People's Republic of China, Xincat Pharmaceutical enjoys the preferential tax policy of enterprise income tax levied at the rate of 15%. Xincat Pharmaceutical is in the preferential tax period in the year of 2018. The applicable income tax rate is 15%.

(2) **Value-added tax**

The Group enjoys the preferential policy of 'relieving, offset and refund of VAT' on export of commodities.

Notes to the Interim Financial Statements (Continued)

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

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 2019, 'end of the period' refers to 30 June 2019. "End of the previous year" refers to December 31, 2018; 'Current period' refers to period from 1 January to 30 June 2019. 'Previous period' refers to period from 1 January 2018 to 30 June 2018, and all figures are stated in RMB.

1. Currency funds

Item	Ending Balance	Beginning Balance
Cash in stock	86,325.58	116,143.06
Bank deposit	565,049,867.93	679,342,148.97
Other currency funds	96,828,814.36	98,965,061.68
Total	<u>661,965,007.87</u>	<u>778,423,353.71</u>
Including: total amount deposited abroad	<u>17,146,052.74</u>	<u>8,650,356.70</u>

The Group's balance of other monetary funds at the end of the period includes a bank acceptance deposit of RMB96,828,814.36 (balance at the beginning of the year: RMB98,965,061.68)

2. Accounts receivable

(1) Accounts receivable classified according to the method of provision for bad debt

Item	Book Balance		Ending Balance		Book Value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
Account receivables accrued bad debt provision on single item	289,641.86	0.04	289,641.86	100.00	
Account receivables with provision for bad debts accrued on combination	656,385,515.64	99.96	61,409,897.55	9.36	594,975,618.09
Total	<u>656,675,157.50</u>	<u>100.00</u>	<u>61,699,539.41</u>	<u>9.40</u>	<u>594,975,618.09</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		Beginning Balance		Book Value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
Account receivables accrued bad debt provision on single item	301,241.46	0.08	301,241.46	100.00	
Account receivables with provision for bad debts accrued on combination	400,559,500.27	99.92	58,325,682.24	14.56	342,233,818.03
Total	400,860,741.73	100.00	58,626,923.70	14.63	342,233,818.03

1) Account receivables accrued bad debt provision on single item

As of June 30, 2019 the amount of the Group's account receivables expected to be unrecoverable was RMB289,641.86. The Group made a bad debt provision at the full amount of RMB289,641.86 on single item.

2) Bad debt provisions accrued according to combinations

Item	Ending Balance			Beginning Balance		
	Account Receivables	Provision for Bad Debt	Accrual Proportion (%)	Account Receivables	Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	593,594,621.86	2,967,973.13	0.50	342,371,962.62	1,711,859.81	0.50
1-2 years	7,194,544.18	2,845,574.82	39.55	2,595,111.45	1,021,396.23	39.36
2-3 years	24,070.00	24,070.00	100.00	41,810.00	41,810.00	100.00
3-4 years	51,490.00	51,490.00	100.00	139,051.64	139,051.64	100.00
4-5 years	275,495.92	275,495.92	100.00	319,358.37	319,358.37	100.00
Over 5 years	55,245,293.68	55,245,293.68	100.00	55,092,206.19	55,092,206.19	100.00
Total	656,385,515.64	61,409,897.55		400,559,500.27	58,325,682.24	

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) Accounts receivable presented according to aging

Part of the sales of the Group was carried out by way of prepayments, and a certain period of credit was granted to the remaining sales.

- 1) Aging analysis of accounts receivable (including accounts receivable from related parties) according to the date of transaction:

Account Age	Ending Balance		Accrual Proportion (%)
	Account Receivables	Provision for Bad Debt	
Within 1 year	593,876,138.72	3,249,489.99	0.55
1-2 years	7,194,544.18	2,845,574.82	39.55
2-3 years	32,195.00	32,195.00	100.00
3-4 years	51,490.00	51,490.00	100.00
4-5 years	275,495.92	275,495.92	100.00
Over 5 years	55,245,293.68	55,245,293.68	100.00
Total	<u>656,675,157.50</u>	<u>61,699,539.41</u>	

Account Age	Beginning Balance		Accrual Proportion (%)
	Account Receivables	Provision for Bad Debt	
Within 1 year	342,665,079.08	2,004,976.27	0.59
1-2 years	2,603,236.45	1,029,521.23	39.55
2-3 years	41,810.00	41,810.00	100.00
3-4 years	139,051.64	139,051.64	100.00
4-5 years	319,358.37	319,358.37	100.00
Over 5 years	55,092,206.19	55,092,206.19	100.00
Total	<u>400,860,741.73</u>	<u>58,626,923.70</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) *Accrual and reversal (or recovery) of bad debt provisions of accounts receivable in the current period*

Item	Beginning Balance	Amount Incurred in Current period		Ending Balance
		Provision	Recovered or reversed	
Account receivables accrued bad debt provision on single item	301,241.46	-11,599.60		289,641.86
Account receivables with provision for bad debts accrued on combination	58,325,682.24	3,084,215.31		61,409,897.55
Total	58,626,923.70	3,072,615.71		61,699,539.41

There was no bad debt provision recovered or reversed in this year.

(4) *Account receivables actually written off in the current period*

There were no accounts receivable written off in the current period.

(5) *Accounts receivable with the top five period-end balances sorted by the parties of debtors*

Organization Name	Ending Balance	Account Age	Proportion in Total Ending Balance of Account Receivables (%)	Ending Balance of Bad Debt Provision
Shandong Xin Kang Qi Pharmaceutical Co., Ltd.	40,405,087.51	Over 5 years	6.15	40,405,087.51
Beijing JingDong Century Trading Co., Ltd.	37,517,953.55	Within 1 year	5.71	187,589.77
DASTECH INTERNATIONAL INC.	36,864,891.28	Within 1 year	5.61	184,324.46
SANDOZ GRUP SAGLIK URUNLERI ILACLARISAN.VE TIC.AS	28,928,737.60	Within 1 year	4.41	144,643.69
Zibo Central Hospital	26,278,963.43		4.00	131,394.82
Total	169,995,633.37		25.88	41,053,040.25

Notes to the Interim Financial Statements (Continued)

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

3. Accounts receivable financing

(1) Classification of accounts receivable financing

Category of notes	Ending Balance	Beginning Balance
Notes receivable*	<u>167,305,049.25</u>	<u>136,220,853.40</u>
Total	<u><u>167,305,049.25</u></u>	<u><u>136,220,853.40</u></u>

* In the course of managing the liquidity of the companies, the Group will make a discount or endorsement before the maturity of some of the notes receivable, and terminate the recognition of the discounted or endorsed instruments receivable after the Group has transferred almost all the risks and rewards of the relevant notes receivable to the relevant counterparties. The Group's business model for the management of notes receivable is aimed at both collecting contract cash flows and selling the financial assets.

4. Prepayments

(1) Age of prepayments

Account Age	Ending Balance		Beginning Balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	<u>34,124,376.65</u>	<u>97.43%</u>	31,784,040.35	99.99
1–2 years	<u>900,482.05</u>	<u>2.57%</u>	<u>2,472.00</u>	<u>0.01</u>
Total	<u><u>35,024,858.70</u></u>	<u><u>100.00</u></u>	<u><u>31,786,512.35</u></u>	<u><u>100.00</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))

(2) Top five advance payments at the period end sorted by the prepaid objects

The total amount of the top five prepayments by the end of the period was RMB13,393,849.95, accounting for 38.24% of the total amount of the prepayments at period end.

5. Other receivables

Item	Ending Balance	Beginning Balance
Interest receivables		
Dividend receivables		
Other receivables	26,307,416.57	35,077,815.17
Total	26,307,416.57	35,077,815.17

5.1 Interest receivables: None

5.2 Dividend receivables: None

5.3 Other receivables

(1) Classification of other receivables by nature

Nature	Ending Balance	Beginning Balance
Guarantee deposit and security deposit	4,080,003.08	4,485,408.39
Petty cash	464,404.70	627,544.01
Tax receivable	8,592,958.43	8,416,251.21
Deposit acquired under sale-leaseback	18,000,000.00	28,000,000.00
Claim	6,600,000.00	6,600,000.00
Others	7,394,321.43	7,255,435.36
Total	45,131,687.64	55,384,638.97

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) Bad debt provision of other receivables

Bad debt provision	Stage 1	Stage 2	Stage 3	Total
	Expected credit losses during future 12 months	Expected credit losses of entire lifetime (with no credit loss incurred)	Expected credit losses of entire lifetime (with credit loss already incurred)	
Balance as of January 1, 2019	681,046.14	19,625,777.66		20,306,823.80
Balance of other receivable as of				
January 1, 2019 in the current period				
– Transferred to stage 2				
– Transferred to stage 3				
– Reversed to stage 2				
– Reversed to stage 1				
Accrued in current period	31,276.11	-1,513,828.84		-1,482,552.73
Reversed in current period				
Transferred out in current period				
Written-off in current period				
Other changes				
Balance as of June 30, 2019	<u>712,322.25</u>	<u>18,111,948.82</u>		<u>18,824,271.07</u>

(3) Aging analysis of other accounts receivable

Account Age	Other receivables	Ending Balance Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	17,870,080.26	144,912.67	0.81
1–2 years	8,795,522.06	255,433.08	2.90
2–3 years	354,136.50	311,976.50	88.09
3–4 years	161,863.22	161,863.22	100.00
4–5 years	95,472.84	95,472.84	100.00
Over 5 years	<u>17,854,612.76</u>	<u>17,854,612.76</u>	<u>100.00</u>
Total	<u>45,131,687.64</u>	<u>18,824,271.07</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	Other receivables	Beginning Balance Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	16,843,353.08	155,217.24	0.92
1–2 years	8,485,709.47	195,754.14	2.31
2–3 years	10,429,798.76	330,074.76	3.16
3–4 years	126,653.22	126,653.22	100.00
4–5 years	150,452.81	150,452.81	100.00
Over 5 years	19,348,671.63	19,348,671.63	100.00
Total	55,384,638.97	20,306,823.80	

(4) Provisions for bad debt of other receivables

Item	Beginning balance of current year	Amount Incurred in Current Period			Ending Balance
		Accrual	Recovered or reversed	Transferred or written-off	
Other receivables in stage I	681,046.14	31,276.11			712,322.25
Other receivables in stage II	19,625,777.66	-1,513,828.84			18,111,948.82
Total	20,306,823.80	-1,482,552.73			18,824,271.07

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

There were no other receivables 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))

(6) Top five other receivables sorted by the parties of debtors at the period end:

Entity Name	Nature of Payments	Ending Balance	Account Age	Proportion to the Total Ending Balance of Other Receivables (%)	Ending Balance of Bad Debt Provision
Pingan International Financial Leasing Co., Ltd.	Guarantee deposit	10,000,000.00	Within 1 year		
		8,000,000.00	1-2 years	39.88	
Nanjing Huadong Pharmaceutical Co., Ltd.	Guarantee deposit	6,600,000.00	Over 5 years	14.62	6,600,000.00
Gaoqing County People's Hospital	Guarantee deposit	1,000,000.00	Within 1 year	2.22	5,000.00
Hayao Group Shiyitang Baichuan Pharmaceutical Trade Co., Ltd	Guarantee deposit	794,917.61	Over 5 years	1.76	794,917.61
Alipay (China) Network Technology Co., Ltd.	Guarantee deposit	690,000.00	Within 1 year	1.53	17,100.00
Total		<u>27,084,917.61</u>		<u>60.01</u>	<u>7,417,017.61</u>

(7) Borrowings due from employees during this year

As at June 30, 2019, 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. Inventories

(1) Classifications of inventories

Item	Ending Balance			Beginning Balance		
	Book Balance	Provision for Diminution of Inventories Value	Book Value	Book Balance	Provision for Diminution of Inventories Value	Book Value
Raw materials	111,556,954.17	9,578,929.14	101,978,025.03	89,562,564.37	6,094,337.33	83,468,227.04
Products in process	102,983,326.84	18,752,010.40	84,231,316.44	156,565,899.84	14,106,288.43	142,459,611.41
Goods in stock	441,813,308.16	22,890,437.53	418,922,870.63	603,252,768.40	24,606,353.76	578,646,414.64
Development costs	157,953,360.92		157,953,360.92	130,379,645.39		130,379,645.39
Low-value consumables	19,226,578.53	1,402,845.60	17,823,732.93	16,332,574.84	1,402,845.60	14,929,729.24
Materials reserved with special approval	1,839,696.49		1,839,696.49	1,839,696.49		1,839,696.49
Total	835,373,225.11	52,624,222.67	782,749,002.44	997,933,149.33	46,209,825.12	951,723,324.21

(2) Provision for diminution in value of inventories

Classification of inventories	Beginning Balance	Amount Accrued In This Period	Decrease in Current Period		Ending Balance
			Other Transfer-out	Write-off	
Raw materials	6,094,337.33	3,539,952.57		55,360.76	9,578,929.14
Products in process	14,106,288.43	4,645,721.97			18,752,010.40
Goods in stock	24,606,353.76	652,233.80		2,368,150.03	22,890,437.53
Low-value consumables	1,402,845.60				1,402,845.60
Total	46,209,825.12	8,837,908.34		2,423,510.79	52,624,222.67

For withdrawal method of provisions for diminution in value of inventories, see the note "IV. Important Accounting Policies and Accounting Estimates 13. Inventories".

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) *Withdrawal method of provision for diminution in value of inventories*

Item	Specific Basis For Determining Net Realizable Value	Reasons for Reversal or Write-off In Current Year
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
Low-value consumables	Expected net realizable value is lower than the book cost	

7. Other current assets

Item	Ending Balance	Beginning Balance	Nature
Enterprise income tax prepayment	15,338,657.50	29,863,689.97	Enterprise income tax prepayment
Input taxes of VAT to be deducted	12,728,709.79	38,695,572.50	Input taxes to be deducted
Prepayment of other taxes and fees	6,772,025.08	5,140,496.40	Prepayment of other taxes and fees
Total	<u>34,839,392.37</u>	<u>73,699,758.87</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. Long-term equity investment

Invested company	Beginning balance	Increase or decrease in current period			Accrued impairment	Ending balance
		Added investment	Reduced investment	Investment gains and losses recognized under equity method		
I. Associate enterprises						
Shandong Xinhua Wanbo Chemical Co., Ltd	19,594,473.83			1,209,305.43		20,803,779.26
Cansheng Pharmaceutical (Zibo) co., Ltd.		63,159,019.74		-694,074.12		62,464,945.62
Total	<u>19,594,473.83</u>	<u>63,159,019.74</u>		<u>515,231.31</u>		<u>83,268,724.88</u>

The Company contributed RMB63,159,019.74 as increased capital into the stock of Cansheng Pharmaceutical (Zibo) Co., Ltd. with a shareholding ratio of 30%; meanwhile, the Company recognized current investment income of RMB-694,074.12 of the associate enterprise under equity method.

Notes to the Interim Financial Statements (Continued)

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

9. Other equity instruments

(1) Other equity instrument investments

Item	Ending balance	Beginning balance
Bank of Communications Co., Ltd.	50,301,504.00	47,589,168.00
China Pacific Insurance (Group) Co., Ltd	182,550,000.00	142,150,000.00
Total	232,851,504.00	189,739,168.00

(2) Non-transactional equity instrument investments of current period

Item	Dividend income recognized in current period	Cumulative gains	Cumulative losses	Amounts transferred to retained income from other comprehensive income	Reasons of designation to be measured at fair value and that their changes are included in other comprehensive income	Reasons of transferring other comprehensive income into retained profit
Bank of Communications Co., Ltd.		50,113,393.68			The Group invests for equity purposes	
China Pacific Insurance (Group) Co., Ltd		178,212,396.00			The Group invests for equity purposes	
Total		228,325,789.68				

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. Investment properties

(1) Investment properties measured by costs

Item	Premises and Buildings	Land Use Right	Total
I. Original book value			
1. Beginning Balance	110,408,536.50	14,121,724.63	124,530,261.13
2. Increased amount in the Current Period	5,069,278.84	8,127,206.55	13,196,485.39
(1) Purchase			
(2) Transferred from fixed assets or intangible assets	5,069,278.84	8,127,206.55	13,196,485.39
3. Decreased amount in the current period			
4. Ending Balance	115,477,815.34	22,248,931.18	137,726,746.52
II. Accumulated depreciation and accumulated amortization			
1. Beginning Balance	52,420,505.19	2,744,049.53	55,164,554.72
2. Increased amount in the Current Period	3,405,666.55	1,966,436.26	5,372,102.81
(1) Accrual or amortization	2,427,132.78	361,250.40	2,788,383.18
(2) Transferred from fixed assets or intangible assets	978,533.77	1,605,185.86	2,583,719.63
3. Decreased amount in the current period			
4. Ending Balance	55,826,171.74	4,710,485.79	60,536,657.53
III. Provision for impairment			
IV. Book value			
1. Ending book value of the period	59,651,643.60	17,538,445.39	77,190,088.99
2. Beginning book value of the year	57,988,031.31	11,377,675.10	69,365,706.41

The amount of depreciation and amortization for investment properties recognized as profits or losses was RMB2,788,383.18 (last term's amount: RMB2,445,145.20) in the current year.

All investment properties of the Company were 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))

(2) *Investment properties with certificate of title not properly handled*

At the end of the year, the investment properties include the house properties with the book value of RMB37,589,058.21 (beginning balance: RMB38,944,862.91) and the certificates of title are in progress. Since the above house properties are handled in accordance with relevant legal procedures, the board of directors of the Company are sure that the transfer of the property title will not have any substantial legal obstacles, will not affect the normal use of such house buildings by the Group, and will not exert significant impact on normal operation of the Group and there is no need to accrue any impairment provision on investment properties.

Item	Book Value	Reasons for the Certificate of Title Not Properly Handled
13-22/F, Xinhua Mansion in the Headquarters	30,518,562.84	In progress
No. 1 Scientific Research Centre in the Headquarters	<u>7,070,495.37</u>	In progress
Total	<u><u>37,589,058.21</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))

11. Fixed assets

Item	Ending Book Value	Beginning Book Value
Fixed assets	2,544,976,268.05	2,631,152,561.89
Disposal of fixed assets		
Total	2,544,976,268.05	2,631,152,561.89

11.1 Fixed assets

(1) Details of fixed assets

Item	Premises and Buildings	Machinery and Equipment	Transportation Equipment	Electronic Equipment and Others	Total
I. Original book value					
1. Beginning balance	1,701,297,427.07	2,768,508,972.85	28,874,468.95	77,385,073.17	4,576,065,942.04
2. Increased amount in the period	25,181,850.80	46,747,203.82	2,228,675.77	6,719,973.45	80,877,703.84
(1) Purchase	16,777,240.50	44,773,303.81	2,228,675.77	2,491,901.67	66,271,121.75
(2) Transferred from construction in progress	8,404,610.30	1,973,900.01		4,227,837.01	14,606,347.32
(3) Other transfer-in *				234.77	234.77
3. Decreased amount in the period	5,069,278.84	8,043,868.84	288,558.97	665,996.17	14,067,702.82
(1) Disposal or scrapping		8,043,868.84	288,558.97	665,996.17	8,998,423.98
(2) Transferred to investment properties	5,069,278.84				5,069,278.84
4. Ending balance	1,721,409,999.03	2,807,212,307.83	30,814,585.75	83,439,050.45	4,642,875,943.06
II. Accumulated depreciation					
1. Beginning balance	549,908,583.14	1,305,822,128.49	21,571,448.31	52,868,303.45	1,930,170,463.39
2. Increased amount in the period	42,584,680.04	113,008,976.20	1,169,633.76	4,291,820.48	161,055,110.48
(1) Provision	42,584,680.04	113,008,976.20	1,169,633.76	4,291,820.48	161,055,110.48
3. Decreased amount in the period	978,533.77	6,158,815.03	281,648.97	649,817.85	8,068,815.62
(1) Disposal or scrapping		6,158,815.03	281,648.97	649,817.85	7,090,281.85
(2) Transferred to investment properties	978,533.77				978,533.77
4. Ending balance	591,514,729.41	1,412,672,289.66	22,459,433.10	56,510,306.08	2,083,156,758.25
III. Provision for impairment					
1. Beginning balance	1,319,163.22	13,417,167.12		6,586.42	14,742,916.76
2. Increased amount in the period					
3. Decreased amount in the period					
4. Ending balance	1,319,163.22	13,417,167.12		6,586.42	14,742,916.76

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	Premises and Buildings	Machinery and Equipment	Transportation Equipment	Electronic Equipment and Others	Total
IV. Book value					
1. Ending book value	1,128,576,106.40	1,381,122,851.05	8,355,152.65	26,922,157.95	2,544,976,268.05
2. Beginning book value	1,150,069,680.71	1,449,269,677.24	7,303,020.64	24,510,183.30	2,631,152,561.89

* The amount of other transfer-in is derived from the conversion of the original value of fixed assets and accumulated depreciation in the foreign currency statements of overseas subsidiaries using the spot exchange rate of the balance sheet date.

The amount of depreciation and amortization for fixed assets recognized as profits or losses was RMB161,055,110.48 (last term's amount: RMB138,463,162.28) in current period.

- (2) All houses and buildings of the Group were located in the territory of China and in the medium-term (10–50 years) phase.
- (3) *Fixed assets acquired under sale-leaseback:*

At the end of the period, the fixed assets with a book value of RMB108,926,467.32 (the original book value of RMB294,479,114.65) are sale-leaseback. The specific analysis is as follows:

Ending balance	Original Book Value	Accumulated Depreciation	Provision for Impairment	Book Value
Machinery equipment	294,479,114.65	180,822,925.97	4,729,721.36	108,926,467.32
Total	294,479,114.65	180,822,925.97	4,729,721.36	108,926,467.32

- (4) *Fixed assets whose title certificates are not properly handled yet*

At the end of the year, the fixed assets include the house properties with the book value of RMB641,264,801.91 (beginning balance: RMB642,111,989.48) and the handling of its certificate of title is in progress. Since the above house properties are 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. Also there is no need to accrue impairment provision of fixed 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))

Item	Book Value	Reasons for the Certificate of Title Not Properly Handled
House property of No. 2 factory	290,245,508.79	In progress
House property in the headquarter park	210,970,692.25	In progress
House property in Shouguang park	65,852,726.35	In progress
House property of No. 1 factory	53,386,641.04	In progress
House property of Gaomi Factory area	20,809,233.48	In progress
Total	<u><u>641,264,801.91</u></u>	

11.2 Disposal of fixed assets: None

12. Construction in progress

Item	Ending Balance	Beginning Balance
Construction in progress	464,511,861.12	253,211,929.16
Project materials	<u> </u>	<u> </u>
Total	<u><u>464,511,861.12</u></u>	<u><u>253,211,929.16</u></u>

12.1 Construction in progress

(1) Details of construction in progress

Item	Ending Balance		Beginning Balance			
	Book Balance	Impairment Provision	Book Value	Book Balance	Impairment Provision	Book Value
International processing technology renovation of solid preparation project	61,564,922.52	61,564,922.52	45,553,288.45			45,553,288.45
Finished Dosage Form workshop II of Modern Pharmaceutical International Cooperation Center	107,082,742.02	107,082,742.02	64,952,288.21			64,952,288.21
Production expansion and transformation of Ibuprofen project	39,699,565.93	39,699,565.93	24,600,493.72			24,600,493.72
Catalytic Wet Oxidation (CWO) project	21,779,994.91	21,779,994.91	16,009,449.34			16,009,449.34
Ammonium sulfate MVR product processing technology	14,852,574.29	14,852,574.29	8,284,092.75			8,284,092.75
Others	219,532,061.45	219,532,061.45	93,812,316.69			93,812,316.69
Total	<u><u>464,511,861.12</u></u>	<u><u>464,511,861.12</u></u>	<u><u>253,211,929.16</u></u>			<u><u>253,211,929.16</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))

The construction in progress increased at the end of the period, the increase was mainly due to the investment in the FDF Workshop II of Modern Pharmaceutical International Cooperation Center and other engineering projects during the Reporting Period.

(2) Changes in major projects under construction

Name of Project	Beginning Balance	Increase in Current Period	Decrease in Current Period		Ending Balance
			Transferred to Fixed Assets/ Investment Properties	Other Decreases	
International processing technology renovation of solid preparation project	45,553,288.45	16,011,634.07			61,564,922.52
FDF workshop II of Modern Pharmaceutical International Cooperation Center	64,952,288.21	42,130,453.81			107,082,742.02
Production expansion and transformation of Ibuprofen project	24,600,493.72	15,099,072.21			39,699,565.93
Catalytic Wet Oxidation (CWO) project	16,009,449.34	5,770,545.57			21,779,994.91
Ammonium sulfate MVR product processing technology	8,284,092.75	6,568,481.54			14,852,574.29
Others	93,812,316.69	140,326,092.08	14,606,347.32		219,532,061.45
Total	253,211,929.16	225,906,279.28	14,606,347.32		464,511,861.12

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	Engineering	Accumulated	Including:	Capitalization	Financial
		of Project					
		Investment	Schedule	Capitalization	Interest in	Current	Resource
		in Budget	(%)	of Interest	Current Period	Period	
			(%)			(%)	
International processing technology renovation of solid preparation project	174,290,000.00	36.00	33.00				Self-provided
FDF workshop II of Modern Pharmaceutical International Cooperation Center	350,890,000.00	30.52	40.00	1,672,514.07	1,327,556.58	4.90	Self-provided/ bank borrowing
Production expansion and transformation of Ibuprofen project	45,000,000.00	88.22	90.00				Self-provided
Catalytic Wet Oxidation (CWO) project	31,784,200.00	68.52	75.00				Self-provided
Ammonium sulfate MVR product processing technology	21,373,000.00	69.49	80.00				Self-provided
Total	623,337,200.00			1,672,514.07	1,327,556.58		

- (3) No impairment was incurred on the projects under construction of the Group at the end of the year, and no impairment provision of projects under construction was accrued.

12.2 Project materials: None

Notes to the Interim Financial Statements (Continued)

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

13. Right-of-use asset

(1) Details of right-of-use asset

Item	Premises and Buildings	Total
I. Original book value		
1. Beginning balance	2,232,117.00	2,232,117.00
2. Increased amount in the period		
3. Decreased amount in the period		
4. Ending balance	2,232,117.00	2,232,117.00
II. Accumulated depreciation		
1. Beginning balance		
2. Increased amount in the period	323,674.08	323,674.08
(1) Provision	323,674.08	323,674.08
3. Decreased amount in the period		
4. Ending Balance	323,674.06	323,674.06
III. Provision for impairment		
IV. Book value		
1. Ending book value	1,908,442.92	1,908,442.92
2. Beginning book value	2,232,117.00	2,232,117.00

The amount of depreciation and amortization for right-of-use asset recognized as profit or loss was RMB323,674.08 (amount in last term: RMB0.00) in current period.

(2) All right-of-use asset of the Group were 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))

14. Intangible assets

(1) Intangible assets

Item	Land Use Right	Software License	Non-patented Technology	Others *	Total
I. Original book value					
1. Beginning balance	407,368,522.89	11,313,445.22	23,496,005.93	2,613,680.00	444,791,654.04
2. Increased amount in the period	34,665,838.81	927,183.51			35,593,022.32
(1) Purchase	34,665,838.81	927,183.51			35,593,022.32
3. Decreased amount in the period	8,127,206.55				8,127,206.55
(1) Disposal					
(2) Transferred to investment property	8,127,206.55				8,127,206.55
4. Ending balance	433,907,155.15	12,240,628.73	23,496,005.93	2,613,680.00	472,257,469.81
II. Accumulated amortization					
1. Beginning balance	77,958,100.34	8,019,930.09	23,496,005.93	2,613,680.00	112,087,716.36
2. Increased amount in the period	4,193,921.29	497,716.83			4,691,638.12
(1) Provision	4,193,921.29	497,716.83			4,691,638.12
(2) Other increase					
3. Decreased amount in the period	1,605,185.86				1,605,185.86
(1) Disposal					
(2) Transferred to investment property	1,605,185.86				1,605,185.86
4. Ending balance	80,546,835.77	8,517,646.92	23,496,005.93	2,613,680.00	115,174,168.62
III. Provision for impairment					
IV. Book value					
1. Ending book value	353,360,319.38	3,722,981.81			357,083,301.19
2. Beginning book value	329,410,422.55	3,293,515.13			332,703,937.68

* "Others" are client sources purchased from American-Eastwest Co., Ltd. by Shandong Xinhua Pharmaceutical (USA) Inc., the subsidiary of the Company.

The amount of depreciation and amortization for intangible assets recognized as profits or losses was RMB4,691,638.12 (amount in the last term: RMB4,459,232.43) in the current year.

(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))

15. Goodwill

(1) Original value of goodwill

Invested Entity	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	2,715,585.22			2,715,585.22

(2) Provision for impairment of goodwill

Invested Entity	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	2,715,585.22			2,715,585.22

For goodwill impairment test methods and accrual methods of provision for impairment, see “23. Impairment of long-term assets” under “IV. Important Accounting Policies and Accounting Estimates” in these Notes.

16. Deferred income tax assets and liabilities

(1) Deferred income tax assets not offset

Item	Ending Balance		Beginning Balance	
	Deductible Temporary Difference	Deferred Income Tax Assets	Deductible Temporary Difference	Deferred Income Tax Assets
Provision for impairment of fixed assets	14,700,965.40	2,447,018.36	14,700,965.43	2,447,018.36
Provision for bad debt	80,295,137.96	18,929,607.92	78,119,132.01	18,385,471.82
Provisions for diminution in value of inventory	45,603,766.60	7,049,649.22	45,820,885.06	7,226,767.86
Salaries and wages unpaid	11,338,725.67	1,700,808.85	2,667,665.02	400,149.75
Estimated liabilities and others	11,780,574.93	1,767,086.24	17,473,803.91	2,621,070.58
Deferred incomes	15,660,583.33	2,349,087.50	17,961,583.32	2,694,237.50
Unrealized internal profits from purchase and sales with subsidiaries	76,653,740.06	14,037,125.85	31,904,151.73	5,330,039.23
Total	256,033,493.95	48,280,383.94	208,648,186.48	39,104,755.10

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) Deferred income tax liabilities not offset

Item	Ending Balance		Beginning Balance	
	Taxable Temporary Difference	Deferred Income Tax Liability	Taxable Temporary Difference	Deferred Income Tax Liability
Assets evaluation increment from business combination not under common control				
Profits or losses from changes in fair value of other equity instrument investment	211,626,186.00	31,743,927.90	168,513,850.00	25,277,077.50
Depreciation of fixed assets	155,880,142.59	25,701,544.03	136,387,215.22	22,464,960.06
Total	<u>367,506,328.59</u>	<u>57,445,471.93</u>	<u>304,901,065.22</u>	<u>47,742,037.56</u>

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

Item	Amount By Which The Deferred Income Tax Assets Are Offset With Liabilities At Period End	Ending Balance of Deferred Income Tax Assets or Liabilities After Offset	Amount By Which The Deferred Income Tax Assets Are Offset With Liabilities At Beginning Of Year	Beginning Balance of Deferred Income Tax Assets or Liabilities After Offset
Deferred Income Tax Assets	16,961,879.30	31,318,504.64	16,858,651.99	22,246,103.11
Deferred Income Tax Liabilities	16,961,879.30	40,483,592.63	16,858,651.99	30,883,385.57

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

(4) Details of the unrecognized deferred income tax assets

Item	Ending Balance	Beginning Balance
Deductible temporary difference	1,049,839.74	1,245,506.88
Deductible loss	9,630,281.99	10,138,054.53
Total	<u>10,680,121.73</u>	<u>11,383,561.41</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))

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

Year	Ending Balance	Beginning Balance	Note
2018			
2019	4,306,881.46	4,814,654.00	
2020			
2021	5,323,400.53	5,323,400.53	
2022			
Total	9,630,281.99	10,138,054.53	

17. Other non-current assets

Item	Ending Balance		Beginning Balance			
	Book balance	Impairment Provision	Book value	Book balance	Impairment Provision	Book value
Land prepayment			42,577,003.81			42,577,003.81
Guarantee deposit of equity			6,400,000.00			6,400,000.00
Total			48,977,003.81			48,977,003.81

18. Short-term borrowing

(1) Classification of short-term borrowing

Category	Ending Balance	Beginning Balance
Pledge loans		
Credit loans	340,000,000.00	235,000,000.00
Total	340,000,000.00	235,000,000.00

(2) Overdue short-term borrowing not yet repaid

The total amount of the Group's overdue short-term borrowing not yet repaid was RMB0.00.

(3) Short-term borrowing's interest rate range was 2.9125%–4.2% as at June 30, 2019.

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. Notes payable

Category	Ending Balance	Beginning Balance
Bank acceptance bill	327,473,084.02	426,876,630.26
Total	<u>327,473,084.02</u>	<u>426,876,630.26</u>

The aging of the aforementioned notes payable of the Group is within 180 days and there were no notes payable that were due but not paid at the end of the period.

20. Accounts payable

(1) Presentation of accounts payable

Item	Ending Balance	Beginning Balance
Payment for goods	511,017,852.94	462,729,990.49
Total	<u>511,017,852.94</u>	<u>462,729,990.49</u>

(2) Significant accounts payable with aging over 1 year

There were no significant accounts payable with the age of over 1 year in the current period.

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

Item	Ending Balance	Beginning Balance
Within 1 year	496,765,683.90	446,818,566.36
1-2 years	9,140,034.34	9,746,960.70
2-3 years	1,481,255.18	1,828,043.43
Over 3 years	<u>3,630,879.52</u>	<u>4,336,420.00</u>
Total	<u>511,017,852.94</u>	<u>462,729,990.49</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))

21. Contract liabilities

(1) Conditions of contract liabilities

Item	Ending Balance	Beginning Balance
Payments of goods sales received in advance	50,306,694.01	111,746,192.10
Payments of house sales received in advance	148,696,604.80	116,875,866.20
Total	199,003,298.81	228,622,058.30

(2) Payments of house sales received in advance are listed as follows:

Project name	Ending Balance	Expected completion time	Proportion of pre-sale (%)
Jinding Huajun Building 1#	32,696,401.20	October 2019	80.59
Jinding Huajun Building 2#	74,175,324.00	October 2019	97.12
Jinding Huajun Building 3#	9,533,602.00	October 2020	24.76
Jinding Huajun Building 4#	32,291,277.60	October 2020	47.12
Total	148,696,604.80		

22. Payroll payable

(1) Classification of payroll payable

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Short-term remuneration	73,456,646.80	313,282,695.88	329,002,427.04	57,736,915.64
Post-employment benefits- Defined contribution plans		31,449,598.98	31,449,598.98	
Dismissal benefits		25,000.00	25,000.00	
Total	73,456,646.80	344,757,294.86	360,477,026.02	57,736,915.64

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	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Salary, bonus, allowance and subsidy	70,344,769.75	248,166,692.96	264,437,632.77	54,073,829.94
Employee welfare expenses		8,763,258.37	8,763,258.37	
Social insurance premiums		15,469,583.64	15,469,583.64	
Including: Medical insurance premiums		12,233,136.99	12,233,136.99	
Work-related injury insurance premiums		1,504,456.14	1,504,456.14	
Maternity insurance premium		1,731,990.51	1,731,990.51	
Housing fund		15,530,521.02	15,534,291.42	-3,770.40
Labor union expenditure and employee education fund	3,111,877.05	5,477,577.60	4,922,598.55	3,666,856.10
Labor costs		19,875,062.29	19,875,062.29	
Total	<u>73,456,646.80</u>	<u>313,282,695.88</u>	<u>329,002,427.04</u>	<u>57,736,915.64</u>

(3) Defined contribution plan

The Group participated in the social insurance plan established by the government agencies. Under such 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 undertakes further payment obligations. The corresponding expenses were recognized in the current profit or loss or related asset costs at the time of occurrence.

In the current year, the Group should make the payments to the plans of endowment insurance and unemployment insurance as follows:

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Basic endowment insurance		30,235,872.99	30,235,872.99	
Unemployment insurance premium		1,213,725.99	1,213,725.99	
Total		<u>31,449,598.98</u>	<u>31,449,598.98</u>	

The endowment insurance, and unemployment insurance premium that the Group planned to pay on June 30, 2019 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))

23. Taxes payable

Item	Ending Balance	Beginning Balance
VAT	10,692,303.82	2,138,297.20
Income tax payable	10,743,708.39	7,856,724.42
Urban maintenance and construction tax	1,919,930.75	1,534,063.01
Individual income tax	1,733,720.71	2,017,260.42
Property tax	3,923,696.13	3,660,823.44
Land use tax	2,160,428.94	3,902,861.35
Stamp duty	72,749.45	314,964.85
Educational surcharges	1,371,474.48	1,095,854.71
Local Water Conservancy Fund	151,352.67	123,790.68
Other fees	2,882.40	978,450.36
	<hr/>	<hr/>
Total	32,772,247.74	23,623,090.44
	<hr/> <hr/>	<hr/> <hr/>

24. Other payables

Item	Ending Balance	Beginning Balance
Interests payable	5,883,024.67	3,020,508.89
Dividends payable	67,496,544.23	5,310,599.53
Other payables	358,626,984.36	277,556,479.50
	<hr/>	<hr/>
Total	432,006,553.26	285,887,587.92
	<hr/> <hr/>	<hr/> <hr/>

24.1 Interests payable

Item	Ending Balance	Beginning Balance
Interest on long-term borrowings with interest paid in installments and repayment of principal at maturity	3,547,686.55	1,477,506.34
Interest of short-term borrowing	2,094,222.22	852,375.00
Interest of finance lease	241,115.90	690,627.55
	<hr/>	<hr/>
Total	5,883,024.67	3,020,508.89
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Notes to the Interim Financial Statements (Continued)

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

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

24.2 Dividends payable

Item	Ending Balance	Beginning Balance
Common stock dividend	<u>67,496,544.23</u>	<u>5,310,599.53</u>
Total	<u><u>67,496,544.23</u></u>	<u><u>5,310,599.53</u></u>

Note: The ending balance of dividends payable is RMB67,496,544.23. The amount of RMB5,310,599.53 represented dividend unpaid for more than one year.

24.3 Other payables

(1) Classification of other payables by nature

Nature of Payments	Ending Balance	Beginning Balance
Payments payable for the category of engineering equipment	224,333,961.92	214,263,791.15
Cash deposit and guarantee deposit	33,343,404.52	38,122,582.46
Power expense, freight and Marketing expense	98,953,759.52	19,398,646.44
Others	<u>1,995,858.40</u>	<u>5,771,459.45</u>
Total	<u>358,626,984.36</u>	<u>277,556,479.50</u>
Including: above 1 year	29,420,395.32	37,682,211.90

(2) Payables with significant amount and the age of over 1 year

Organization Name	Ending Balance	Reasons for Not Repaying and Carrying Forward
Yixing Changhua Filter Equipment Co., Ltd	1,059,940.00	Engineering equipment payable
Shandong University Zibo Bio Pharmaceutical Research Institute	1,000,000.00	Research and development funds to be paid
Total	<u>2,059,940.00</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))

25. Non-current abilities due within one year

Item	Ending Balance	Beginning Balance
Long-term loans due within one year	308,000,000.00	526,000,000.00
Finance lease payment due within one year	55,923,237.84	80,637,247.96
Lease liabilities due within one year	612,503.82	611,583.91
Total	<u>364,535,741.66</u>	<u>607,248,831.87</u>

26. Other current liabilities

Item	Ending Balance	Balance of End of the previous year
Deferred income carried forward within one year	_____	17,211,380.00
Total	<u>_____</u>	<u>17,211,380.00</u>

27. Long-term loans

(1) Classifications of long-term loans

Category	Ending Balance	Beginning Balance
Credit loans	660,679,890.02	522,643,436.60
Total	<u>660,679,890.02</u>	<u>522,643,436.60</u>

Note: Long term loan's interest rate range was 4.38%–4.90% as at June 30, 2019.

(2) Analysis of long-term loan maturity date

Item	Ending Balance	Beginning Balance
1–2 years	411,000,000.00	435,500,000.00
2–5 years	116,500,000.00	87,143,436.60
Over 5 years	133,179,890.02	_____
Total	<u>660,679,890.02</u>	<u>522,643,436.60</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))

28. Lease liabilities

Item	Ending Balance	Beginning Balance
Lease liabilities	<u>1,668,161.74</u>	<u>1,620,533.09</u>
Total	<u><u>1,668,161.74</u></u>	<u><u>1,620,533.09</u></u>

29. Long-term payables

Item	Ending Balance	Beginning Balance
Long-term payables	<u>42,445,334.80</u>	66,904,473.69
Special payables	<u>7,270,000.00</u>	<u>7,270,000.00</u>
Total	<u><u>49,715,334.80</u></u>	<u><u>74,174,473.69</u></u>

29.1 Long-term payables

(1) Classifications of long-term payables by the nature of payments

Nature	Ending Balance	Beginning Balance
Financial sale-leaseback	<u>42,445,334.80</u>	<u>66,904,473.69</u>
Total	<u><u>42,445,334.80</u></u>	<u><u>66,904,473.69</u></u>

(2) Analysis of long-term payables maturity date

Item	Ending Balance	Beginning Balance
1-2 years	<u>25,327,294.74</u>	41,283,348.71
2-5 years	<u>17,118,040.06</u>	<u>25,621,124.98</u>
Total	<u><u>42,445,334.80</u></u>	<u><u>66,904,473.69</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))

29.2 Special payables

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Control of volatile organic compounds project	7,270,000.00			7,270,000.00
Total	7,270,000.00			7,270,000.00

30. Deferred income

(1) Classification of deferred income

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Government grants	145,507,239.52	4,319,500.00	8,796,427.50	141,030,312.02
Total	145,507,239.52	4,319,500.00	8,796,427.50	141,030,312.02

(2) Government grants

Project	Beginning Balance	Newly Increased Amount of Subsidy of the Current Period	Amount of accounted in other incomes	Other Changes	Other Decreases	Ending Balance	Related to assets/ Related to Income
3,000 tons Ibuprofen Project	442,500.00		295,000.00			147,500.00	Related to assets
Innovation ability construction project of technology center	1,833,333.32		250,000.00			1,583,333.32	Related to assets
Aspirin series product GMP transformation project	4,766,583.33		608,500.00			4,158,083.33	Related to assets
Special funds for MVR energy-saving technical transformation	200,000.00		20,000.00			180,000.00	Related to assets
Cultivation for famous and excellent varieties of aspirin.	7,062,500.00		787,500.00			6,275,000.00	Related to assets
Aspirin series product technical transformation project	466,666.67		50,000.00			416,666.67	Related to assets
Special funds for MVR energy-saving transformation	2,640,000.00		240,000.00			2,400,000.00	Related to assets
Incinerator and heat recovery project of East Park area	550,000.00		50,000.00			500,000.00	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	Beginning Balance	Newly Increased Amount of Subsidy of the Current Period	Amount of accounted in other incomes	Other Changes	Other Decreases	Ending Balance	Related to assets/ Related to Income
Organic gas (dichloromethane) recovery and comprehensive air pollution prevention and control project	35,313,250.00		1,780,500.00			33,532,750.00	Related to assets
Modern medicine international cooperation center project *1	68,715,062.50	3,959,500.00	3,563,612.50			69,110,950.00	Related to assets
Analgin series production process automation transformation project	531,250.00		37,500.00			493,750.00	Related to assets
Production equipment system energy saving transformation project	389,583.70		27,500.00			362,083.70	Related to assets
New 2,000 T/d sewage treatment system project	3,969,500.00		233,500.00			3,736,000.00	Related to assets
Modern medicine international cooperation center (II) project	2,249,297.50		127,315.00			2,121,982.50	Related to assets
Xinhua pharmaceuticals E-Commerce health innovation industrial park project	1,034,333.34		53,500.00			980,833.34	Related to assets
Technological transformation of hormone series projects	5,667,245.83		294,000.00			5,373,245.83	Related to assets
Polycarbophil calcium research and industrialization projects*2	2,975,000.00	360,000.00	168,000.00			3,167,000.00	Related to assets
Cefuroxime axetil dispersible tablet (kuxin) research and industrialisation	362,500.00					362,500.00	Related to assets
Organic gas recovery and comprehensive air pollution prevention and control project	198,333.33		10,000.00			188,333.33	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	Beginning Balance	Newly Increased Amount of Subsidy of the Current Period	Amount of accounted in other incomes	Other Changes	Other Decreases	Ending Balance	Related to assets/ Related to Income
Sewage treatment plant sludge drying project	300,000.00					300,000.00	Related to assets
Four new energy saving technology application project	500,000.00					500,000.00	Related to assets
Preparations production and equipment and technological upgrade and renovation project	810,000.00					810,000.00	Related to assets
Technical reform of aspirin project (Matching Funds for Major National Science and Technology Projects)	3,800,000.00		200,000.00			3,600,000.00	Related to assets
Energy saving reform of secondary steam recycling and recompression utilization project	730,300.00					730,300.00	Related to assets
Total	145,507,239.52	4,319,500.00	8,796,427.50			141,030,312.02	

- * 1. According to "Notice of Issuing 2018 Budget Indicators for Special Funds of Second Batch Technological Renovation of Enterprises" in 2019 (ZCQZ [2019] No. 9) issued by Zibo Finance Bureau, the Company received government grants of RMB3,959,500.00 for the modern medicine center for international cooperation project in 2019. The Company carries forward the amount into profits or losses on the basis of the 10-year period.
- * 2. According to the documents of "2017 New Award for Technological Innovation" issued by the Zibo High-tech Industrial Development Zone, the Company received government grants of polycarbophil calcium research and industrialization projects amounting to RMB360,000 in 2019. The Company carries forward the amount into profits or losses on the basis of the 10-year 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))

31. Other non-current liabilities

Item	Ending Balance	Beginning Balance
Specialty approved reserve 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	Beginning Balance	Beginning Balance	Increase (+)/decrease (-) during the period			Subtotal	Ending Balance
			New Shares Issued Share	Allotment Capital Reserve Converted into Capital Stock	Others		
Total shares	<u>621,859,447.00</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u><u>621,859,447.00</u></u>

33. Capital reserves

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Capital stock premium	456,047,816.39			<u>456,047,816.39</u>
Other capital reserves*	<u>166,767,837.91</u>	<u>4,182,349.00</u>		<u>170,950,186.91</u>
Total	<u>622,815,654.30</u>	<u>4,182,349.00</u>		<u><u>626,998,003.30</u></u>

* According to the Company's equity incentive plan, the accrual of the consideration of equity instrument in the waiting period will increase the capital reserve by RMB4,182,349.00.

Notes to the Interim Financial Statements (Continued)

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

34. Other comprehensive income

Item	Beginning Balance	Amount Incurred in Current Period					Ending Balance
		Pre-tax Incurred Amount	Less: Amount Included in Other Comprehensive Income in Previous Period and Carried over into Profits Or Losses in Current Period	Less: Income Tax Expense	After-tax Amount Attributable to Parent Company	After-tax Amount Attributable to Minority Shareholders	
I. Other comprehensive income that cannot be reclassified into profits or losses in future	143,236,772.50	43,112,336.00		6,466,850.40	36,645,485.60		179,882,258.10
Including: Changes in fair value of other equity instrument investments	143,236,772.50	43,112,336.00		6,466,850.40	36,645,485.60		179,882,258.10
II. Other comprehensive income to be reclassified into profit or loss in future	-591,701.46	52,932.18			52,932.18	13,835.75	-538,769.28
Including: Translation difference Of foreign currency financial statement	-591,701.46	52,932.18			52,932.18	13,835.75	-538,769.28
Total other comprehensive incomes	<u>142,645,071.04</u>	<u>43,165,268.18</u>		<u>6,466,850.40</u>	<u>36,698,417.78</u>	<u>13,835.75</u>	<u>179,343,488.82</u>

35. Special reserve

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Safe production fee		12,818,641.01	12,818,641.01	
Total		<u>12,818,641.01</u>	<u>12,818,641.01</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))

36. Surplus reserves

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Statutory surplus reserves	191,314,175.94			191,314,175.94
Discretionary surplus reserves	64,795,873.74			64,795,873.74
Total	<u>256,110,049.68</u>	<u></u>	<u></u>	<u>256,110,049.68</u>

37. Undistributed profits

Item	Current period	Previous year
Ending balance of previous year	1,043,818,095.99	838,325,395.51
Add: Beginning adjustment for undistributed profit		
Including: Retrospective adjustment to new regulation of ASBE		
Changes of accounting policies		
Change of consolidation scope under common control		
Beginning balance of current period	1,043,818,095.99	838,325,395.51
Add: Net profits attributable to the parent company's shareholders in the current period	147,474,015.17	123,363,815.34
Others		
Less: Accrual of statutory surplus reserves		
Common stock dividends payable	62,185,944.70	23,917,671.05
Others		-187,652.06
Ending balance of current period	<u>1,129,106,166.46</u>	<u>937,959,191.86</u>

Details of the declared dividends and paid dividends and the dividends proposed to be distributed in the track record period of past performance are as follows:

(1) For the year ended on December 31, 2018

- 1) Pursuant to the 2017 annual equity distribution plan adopted by the resolution of the shareholders' meeting on June 29, 2018, the Company distributed a cash dividend of RMB0.50 (including tax) per 10 shares to all shareholders, and the total amount of the cash dividend was RMB23,917,671.05.

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) For the six months ended on June 30, 2019

- 1) Pursuant to the resolution of the Company's board meeting on March 22, 2019 and shareholders' meeting on June 26, 2019, the Company distributed a cash dividend of RMB1.00 (including tax) per 10 shares to all shareholders, and the total amount of the cash dividend was RMB62,185,944.70, with 0 bonus share delivered (including tax). No capital reserve will be converted to increase the share capital.
- 2) Pursuant to the resolution of the Company's board meeting on August 19, 2019, the Company proposed not to distribute the semi-annual dividend, with 0 bonus share delivered. No capital reserve will be converted to increase the share capital.

38. Operating revenues and operating costs

(1) Operating revenues and operating costs

Item	Amount Incurred in Current Period		Amount Incurred in Previous Period	
	Revenue	Cost	Revenue	Cost
Main business	3,065,577,798.41	2,084,909,858.05	2,651,269,692.33	1,895,226,738.33
Other business	34,321,823.54	41,791,434.18	36,410,447.90	43,729,538.10
Total	<u>3,099,899,621.95</u>	<u>2,126,701,292.23</u>	<u>2,687,680,140.23</u>	<u>1,938,956,276.43</u>

(2) Revenues generated from contracts

Classification of contract	Chemical bulk drugs	Preparations	Medical	Total
			Intermediates and other products	
Commodity type				
Among: Chemical bulk drugs	1,392,041,059.08	-	-	1,392,041,059.08
Preparations	-	1,404,184,796.94	-	1,404,184,796.94
Medical Intermediates and other products	-	-	303,673,765.93	303,673,765.93
Total	<u>1,392,041,059.08</u>	<u>1,404,184,796.94</u>	<u>303,673,765.93</u>	<u>3,099,899,621.95</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))

Classification of contract	Chemical bulk drugs	Preparations	Medical Intermediates and other products	Total
Classification by regions of the income source				
Where: China (including Hong Kong)	429,707,921.54	1,367,859,424.87	239,716,855.77	2,037,284,202.18
Americas	432,529,973.95	-	36,700,407.87	469,230,381.82
Europe	143,656,400.93	36,325,372.07	20,844,459.76	200,826,232.76
Others	386,146,762.66	-	6,412,042.53	392,558,805.19
Total	1,392,041,059.08	1,404,184,796.94	303,673,765.93	3,099,899,621.95
Classification by contract performance obligation				
Among : Recognition of revenue at a certain point in time	1,392,041,059.08	1,404,184,796.94	303,673,765.93	3,099,899,621.95
Recognition of revenue within a certain period	-	-	-	-
Total	1,392,041,059.08	1,404,184,796.94	303,673,765.93	3,099,899,621.95

(3) Information related to performance obligations

According to the contractual provisions, as the main responsible person, the Group performed the obligation of supplying goods in accordance with the kind and standard as required by customers. For the sales contracts within China, the Group fulfilled the performance obligations when the goods were delivered to the customers or the carriers and the customers obtained control over the relevant goods; and for the sales contracts outside of China, the Group fulfilled the performance obligations when the goods were dispatched, loaded at the port of shipment and departed from the port, and the customers acquired control over the relevant goods.

The terms of payment are different among different customers and goods. Part of the Group's sales is carried out by advance receipts, and for the rest of the sales, a credit period is granted for a certain period of time.

(4) Information related to the transaction price allocated to residual performance obligations

At the end of the current year, the amount of revenue corresponding to the unfulfilled or incomplete performance obligations of signed contracts is RMB180,938,101.73. The amount of RMB142,566,652.55 is expected to be recognized as revenue in 2019 and the amount of RMB38,371,449.18 is expected to be recognized as revenue in 2020.

Notes to the Interim Financial Statements (Continued)

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

39. Taxes and surcharges

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Urban maintenance and construction tax	10,440,483.50	8,586,436.71
Educational surcharges	7,457,488.20	6,133,169.07
Local Water Conservancy Fund	744,838.81	609,177.18
Property tax	7,285,965.29	6,000,312.87
Land use tax	4,302,978.64	7,813,116.52
Stamp duty	482,504.80	1,209,530.55
Other taxes	38,419.20	98,238.10
Total	<u>30,752,678.44</u>	<u>30,449,981.00</u>

40. Selling expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Payroll	60,607,486.06	63,780,714.81
Market development and terminal sales fees	261,406,169.94	152,043,707.04
Consultation expenses	64,536,515.19	58,680,523.40
Transport charges	31,157,674.00	23,634,255.80
Advertising expenses	5,643,309.28	18,944,146.64
Travel expense	8,655,607.52	8,558,657.79
Others	14,278,475.45	10,502,931.87
Total	<u>446,285,237.44</u>	<u>336,144,937.35</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))

41. Administrative expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Payroll	69,513,702.11	59,170,516.60
Depreciation cost	18,872,443.86	11,537,236.67
Amortization of intangible assets	4,617,943.94	4,397,182.27
Warehouse expenses	10,467,129.97	4,712,542.79
Business entertainment expenses	1,988,873.09	2,375,649.16
Office expenses	1,629,404.24	1,654,334.28
Travel expense	1,413,761.36	1,530,956.41
Water, electricity and gas charges	3,177,708.52	1,430,010.98
Royalty fee of trademark	4,718,971.29	4,734,800.93
Annual fee of listing, audit fee and expenses of board of directors	1,466,272.86	2,326,277.26
Repair costs	1,906,874.31	1,862,665.25
Share-based payment	4,182,349.00	
Others	19,914,415.98	16,968,307.19
Total	143,869,850.53	112,700,479.79

42. Research and development costs

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
New products	23,521,564.42	17,485,589.60
New technology and new process	108,915,880.83	68,648,161.07
Total	132,437,445.25	86,133,750.67

Notes to the Interim Financial Statements (Continued)

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

43. Financial expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Interest expenditure	27,953,824.54	26,822,807.00
Less: Interest income	1,855,332.89	1,550,160.56
Add: Exchange gains or losses	-1,668,680.69	-7,143,932.13
Add: Commission charges and other expenditures	2,462,413.36	1,909,993.21
Total	<u>26,892,224.32</u>	<u>20,038,707.52</u>

(1) Details of interest expenditure are listed as follows:

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Interest expenditure of bank loans	25,433,188.59	24,442,342.87
Interest expenditure of financial sale-leaseback	2,472,087.39	2,380,464.13
Interest expenditure of lease liabilities	48,548.56	
Total	<u>27,953,824.54</u>	<u>26,822,807.00</u>

44. Other income

Sources of other income	Amount Incurred In Current Period	Amount Incurred In Last Period
Government grants	16,083,994.50	5,212,300.00
Including: Use/amortization of deferred income in the year	8,796,427.50	2,717,200.00
Total	<u>16,083,994.50</u>	<u>5,212,300.00</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))

Details of government subsidies

Category of subsidies	Amount Incurred In Current Period	Amount Incurred In Last Period	Source and Basis	Related to Assets/ Related to Income
Government grants received in this period				
2018 Special Funds for Consistency of Generic Drugs	3,000,000.00		ZCQZ [2019] No. 34	Related to income
Subsidies for stable post	1,969,252.00			Related to income
Ancillary Supporting Funds for Talents Work for the Year 2019	1,400,000.00		Circular in relation to the Issue of Ancillary Supporting Funds for Talents Work for the Year 2019	Related to income
Subsidies for "Double-Hundred Talents" Project of Science and Technology Bureau of Hi-tech Industry Development Zone	450,000.00			Related to income
Subsidies for Key Technological Renovation Project		690,100.00	ZGXWF [2018] No. 1	Related to income
Subsidies for High Technical Talents Introduction of Foreign Intelligent Special Subsidies		505,000.00	ZGXF [2015] No. 8	Related to income
		500,000.00		Related to income
Others	468,315.00	800,000.00		
Subtotal	7,287,567.00	2,495,100.00		
Amortization of deferred income	8,796,427.50	2,717,200.00		Related to assets
Subtotal	8,796,427.50	2,717,200.00		
Total	16,083,994.50	5,212,300.00		

Notes to the Interim Financial Statements (Continued)

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

45. Investment income

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Investment income of long-term equity accounted by equity method	515,231.31	
Others		807,270.99
Total	515,231.31	807,270.99

46. Credit impairment loss

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Bad debt loss from accounts receivable	-3,019,811.29	
Bad debt loss from other receivables	1,429,748.31	
Total	-1,590,062.98	

47. Assets impairment loss

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Bad debt losses		-1,121,753.58
Inventory valuation loss	-8,837,908.34	-2,575,781.99
Total	-8,837,908.34	-3,697,535.57

48. Gains from asset disposal

Item	Amount Incurred In Current Period	Amount Incurred In Last Period	Amount Recognized in Non-recurring Profits or Losses of Current Period
Gains from disposal of non-current assets	323,772.18	555,591.93	323,772.18
Including: Gains from disposal of fixed assets	323,772.18	555,591.93	323,772.18
Total	323,772.18	555,591.93	323,772.18

Notes to the Interim Financial Statements (Continued)

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

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

49. Non-operating income

(1) Details of non-operating income

Item	Amount Incurred In Current Period	Amount Incurred In Last Period	Amount Recognized in Non-recurring Profits or Losses of Current Period
Government subsidy	530,000.00		530,000.00
Others	990,708.01	1,232,885.38	990,708.01
Total	<u>1,520,708.01</u>	<u>1,232,885.38</u>	<u>1,520,708.01</u>

Note: In current period, the amount recognized into non-recurring profit or loss was RMB1,520,708.01 (last term's amount: RMB1,232,885.38).

50. Non-operating expenditure

Item	Amount Incurred In Current Period	Amount Incurred In Last Period	Amount Recognized in Non-recurring Profits or Losses of Current Period
Losses from scrapping of non-current assets	223,810.42	1,378,996.26	223,810.42
Relocation losses	2,594,863.07	1,577,997.31	2,594,863.07
Others	1,337,246.53	1,068,924.63	1,337,246.53
Total	<u>4,155,920.02</u>	<u>4,025,918.20</u>	<u>4,155,920.02</u>

Note: In current period, the amount recognized into non-recurring profit or loss was RMB4,155,920.02 (last term's amount: RMB4,025,918.20).

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. Income tax expenses

(1) Income tax expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
The current income tax calculated in accordance with the tax law and related regulations	41,597,093.69	24,252,917.55
– PRC enterprise income tax	41,472,908.97	24,252,917.55
– Hong Kong profits tax return		
– USA federal and state tax	124,184.72	
– Dutch corporation tax		
– Deferred income tax expense	-5,939,044.87	3,840,081.50
Excess (lesser) amount in prior years	390,931.65	1,402,995.70
Total	36,048,980.47	29,495,994.75

(2) Reconciliation process between accounting profit and income tax expense

Item	Amount Incurred In Current Period
Total consolidated profit for the current period	196,820,708.40
Income tax expense calculated in accordance with legal/applicable tax rate	29,523,106.26
Effect of different tax rate applicable to subsidiaries	6,212,227.26
Effect of adjustments to previous years income tax	390,931.65
Effect of non-assessable income	-77,284.70
Effect of non-deductible cost, expenses and loss	
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	
Additional deductions	
Income tax expenses	36,048,980.47

52. Other comprehensive income

See related description in the Note of "VI.34. Other comprehensive income" 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))

53. Cash Flow Statement

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

1) Cash received related to other operating activities

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Interest income	1,855,332.89	1,550,160.56
Subsidy income	22,134,067.00	2,495,100.00
Security deposit of sales	9,592,679.09	8,843,778.82
Security deposit of bank acceptance bills	9,195,432.93	–
Others	7,498,631.09	4,301,875.04
	50,276,143.00	17,190,914.42
Total	50,276,143.00	17,190,914.42

2) Other cash paid in relation to other operating activities

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Office expenses	4,406,077.40	4,256,290.78
Travel expense	11,008,394.81	10,435,760.34
Annual listing fee, audit fee, expenses of board of directors	1,756,066.60	1,665,354.95
Advertising and market development fees	266,005,059.23	211,436,670.98
Transportation expense	8,649,784.85	8,083,586.80
Business entertainment expenses	2,009,514.06	2,339,315.37
Technology development expenses	15,050,850.76	10,758,266.77
Security deposit of bank acceptance bills	7,059,185.61	30,546,377.41
Royalty fee of trademark	5,000,000.00	5,000,000.00
Security deposit of sales	5,380,545.78	12,024,194.40
Others	30,942,545.12	20,314,748.26
	357,268,024.22	316,860,566.06
Total	357,268,024.22	316,860,566.06

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) Other cash received related to financing activities

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Government grants related to assets		16,986,600.00
Total	49,173,149.01	16,986,600.00

4) Other cash paid related to financing activities

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Principal and interest of financial sale- leaseback	49,173,149.01	43,312,698.74
Payment of liquidation funds to subsidiaries' minority shareholders		3,057,193.10
Total	49,173,149.01	46,369,891.84

(2) Supplementary information of consolidated cash flow statement

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
1. Reconciliation of net profit to cash flows from operation activities:		
Net Profit	160,771,727.93	133,844,607.25
Add: Provision for impairment of assets	8,837,908.34	3,697,535.57
Credit impairment loss	1,590,062.98	
Depreciation of fixed assets	163,482,243.26	139,522,264.07
Amortization of right-of-use asset	323,674.08	
Amortization of intangible assets	5,052,888.52	5,845,275.84
Loss from disposal of fixed assets, intangible assets and other long-term assets (gains listed with "-")	-323,772.18	-555,591.93
Losses on scrapping of fixed assets (gains listed with "-")	223,810.42	1,378,996.26
Profit or loss from changes in fair value (gains listed with "-")		
Financial expenses (gains listed with "-")	27,891,031.87	20,849,995.01

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 Incurred In Current Period	Amount Incurred In Last Period
Investment loss (gain listed with “-”)	-515,231.31	-807,270.99
Decrease of deferred income tax assets (increases listed with “-”)	-9,072,401.53	-4,130,829.64
Increase of deferred income tax liabilities (decreases listed with “-”)	3,133,356.66	9,982,770.37
Decrease of inventory (increases listed with “-”)	162,559,924.22	43,073,445.47
Decrease of operational receivables (increases listed with “-”)	-361,461,801.37	-362,407,944.95
Increase of operating payables (decreases listed with “-”)	-14,819,848.37	146,037,988.55
Others	4,182,349.00	
Net cash flows from operating activities	151,855,922.52	136,331,240.88
2. Significant investing and financing activities not related to cash receipts and payments:		
Conversion of debt into capital Convertible corporate bonds due within one year		
Fixed assets acquired under finance leases	98,368,572.64	80,829,282.29
3. Net change in cash and cash equivalents:		
Ending balance of cash	565,136,193.51	826,135,827.43
Less: Beginning Balance of cash	679,458,292.03	682,862,651.75
Add: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase in cash and cash equivalents	-114,322,098.52	143,273,175.68

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) Major operating activities not related to cash receipts and payments

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Notes receivable endorsement payment *	482,000,328.16	642,698,343.16

* The Company endorsed part of the bank acceptance notes received from sales of products to pay for acquisition of materials etc.

(4) Major investing activities and financing activities not related to cash receipts and payments

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Long-term assets purchased from the endorsement of notes receivable*	159,206,716.03	160,213,489.72

* The Company endorsed part of the bank acceptance notes received from sales of products to purchase long-term assets.

(5) Cash and cash equivalents

Item	Ending Balance	Beginning Balance
Cash	565,136,193.51	679,458,292.03
Including: cash on hand	86,325.58	116,143.06
Bank deposit available for payments at any time	565,049,867.93	679,342,148.97
Other monetary funds available for payments at any time		
Cash equivalents		
Ending balance of cash and cash equivalents	565,136,193.51	679,458,292.03
Including: Cash and cash equivalents with restricted use owned by the parent company and subsidiaries of the Company		

Notes to the Interim Financial Statements (Continued)

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

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

54. Assets with limited ownership or use right

Item	Ending Book Value	Reason for the limitation
Monetary funds	96,828,814.36	Security deposit accepted by banks
Fixed assets	108,926,467.32	Financial sale-leaseback mortgage loan
Right-of-use asset	1,908,442.92	Restricted right to use

55. Monetary items for foreign currency

(1) Monetary items for foreign currency

Item	Ending Balance Of Foreign Currency	Exchange Rate for Conversion	Amount Converted Into RMB At Period End
Monetary funds			
Including: USD	14,787,686.97	6.8747	101,660,911.61
GBP	119,878.45	8.7113	1,044,297.14
HKD	73,651.65	0.87966	64,788.41
EUR	8.98	7.817	70.20
JPY	6,217.00	0.063816	396.74
Accounts receivable			
Including: USD	36,738,033.70	6.8747	252,562,960.28
GBP	1,131,749.63	8.7113	9,859,010.55
EUR	523,996.87	7.817	4,096,083.53
Prepayments			
Including: USD	83,806.99	6.8747	576,147.91
Other receivables			
Including: USD	33,051.58	6.8747	227,219.70
Accounts payable			
Including: USD	458,130.48	6.8747	3,149,509.61
Contract liabilities			
Including: USD	1,247,605.17	6.8747	8,576,911.26
EUR	11,018.70	7.817	86,133.18
Other payables			
Including: USD	41,175.85	6.8747	283,071.62

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) Oversea operating entities

Subsidiaries	Principal place of business	Bookkeeping Base Currency	本位幣選擇依據
Shandong Xinhua Pharmaceutical (Europe) B.V.	Hague, Holland	USD	Statutory currency of the business place
Shandong Xinhua Pharmaceutical (USA) Inc.	Los Angeles, USA	USD	Statutory currency of the business place

56. Government grants

Category	Increase in Current Period	Presentation Item	Amount included into Current Profit and Loss
Please see the Note VI. 30 for the details	4,319,500.00	Deferred income	116,987.49
Please see the Note VI. 44 for the details	7,287,567.00	Other income	7,287,567.00
Please see the Note VI. 49 for the details	530,000.00	Non-operating income	530,000.00
Total	<u>12,137,067.00</u>		<u>7,934,554.49</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))

VII. CHANGES IN CONSOLIDATION SCOPE

None

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of the Group

Name of Subsidiary	Main Premises	Place of Registration	Nature of Business	Registered Capital (monetary unit: 10,000 RMB)	Proportion of Shareholding (%)		Acquisition Method
					Direct	Indirect	
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical sales	4,849.89	100.00		Establishment
Shandong Xinhua Pharmaceutical Import and Export Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical sales	500.00	100.00		Establishment
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical design	600.00	100.00		Establishment
Zibo Xinhua Pharmacy Chain Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical sales	200.00	100.00		Establishment
Shandong Xinhua Pharmaceutical (Europe) B.V.	Hague, Holland	Hague, Holland	Pharmaceutical and chemical sales	EUR0.769 million	65.00		Establishment
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical manufacturing	USD20.949 million	50.10		Establishment
Xinhua Pharmaceutical (Shouguang) Co., Ltd	Shouguang City, Shandong Province	Shouguang City, Shandong Province	Pharmaceutical and chemical 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 and chemical manufacturing	1,900.00	100.00		Acquisition
Shandong Xinhua Pharmaceutical (USA) Inc.	Los Angeles, USA	Los Angeles, USA	Pharmaceutical and chemical sales	USD1.5 million	100.00		Establishment
Shandong Xinhua Mechanical and Electrical Engineering Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Electrical installation	800.00	100.00		Establishment
Shandong Zibo Xincat Pharmaceutical Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical manufacturing	8,483.00	100.00		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 the Current Period	Net Other Comprehensive Income after Tax Attributable to Minority Shareholders in the Current Period	Total Other Comprehensive Income Attributable to Minority Shareholders in the Current Period	Dividends to be Assigned to Minority Shareholders in the Current Period	Ending Balance of Minority Shareholders' Equity
Shandong Xinhua Pharmaceutical (Europe) B.V.	35.00	1,769,460.50	13,835.75	1,783,296.25	1,442,862.04	7,513,792.58
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	49.90	11,528,252.26		11,528,252.26		113,659,607.96
Total		13,297,712.76	13,835.75	13,311,548.51	1,442,862.04	121,173,400.54

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

Unit: RMB0'000

Name of Subsidiary	Ending Balance						Beginning Balance					
	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) B.V.	9,342.84	0.04	9,342.88	7,162.82		7,162.82	6,060.86	0.22	6,061.08	3,978.05		3,978.05
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	12,920.22	15,009.74	27,929.96	2,903.64	2,220.57	5,124.21	11,274.28	11,474.60	22,748.88	1,966.01	287.39	2,253.40

Name of Subsidiary	Amount Incurred in the Current Period				Amount Incurred in the Previous Period			
	Operating Revenue	Net Profit	Total Comprehensive Income	Cash Flow Generated from Operating Activities	Operating Revenue	Net Profit	Total Comprehensive Income	Cash Flow Generated from Operating Activities
Shandong Xinhua Pharmaceutical (Europe) B.V.	7,141.93	505.56	509.51	890.09	6,558.37	139.58	160.79	1,437.52
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	12,472.62	2,310.27	2,310.27	3,698.12	9,426.41	1,353.03	1,353.03	1,451.05

(4) Others:

As of 30 June 2019, none of the Company's subsidiaries issued share capital or debt securities.

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. Interest in joint ventures or associate enterprises

(1) Summarized financial information of insignificant associate enterprises

Item	Ending Balance/ Amount Incurred In the Current Period	Beginning Balance/ Amount Incurred In the Previous Period
Associate enterprises:		
Total book value of investments	83,268,724.88	19,594,473.83
Total amount of following items calculated based on shareholding ratio		
– Net profit	515,231.31	-34,050.25
– Other comprehensive income		
– Total amount of comprehensive income	515,231.31	-34,050.25

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

Major financial instruments of the Group include loans, receivables, payables, financial assets available for sale, tradable financial liabilities, etc. See note 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 described below. The management of the Group manages and monitors exposure to these risks, to ensure that the risks mentioned above are within controlled limits.

1. Objectives and policies of risk management

The objective of the Group's risk management activities 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 the interests of shareholders and other equity investors. Based on this risk management objective, the Group's basic risk management strategy is to identify and analyze all kinds of risks that the Group faces, set a proper bottom line of risk tolerance for risk management, and to supervise all kinds of risks in a timely and reliable manner, so as to keep the risks within controlled limits.

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 purchases and sales transactions, other main business operations are settled in RMB. As of 30 June 2019, except for assets and liabilities with balances in USD and some balances in GBP and Euros as described below, all other assets and liabilities of the Group are denominated in RMB. The exchange rate risk associated with the assets and liabilities denominated in USD may influence the Group's business performance.

As at 30 June 2019, and 31 December 2018, the Group's foreign currency financial assets and foreign currency financial liabilities (converted into RMB) are as follows:

Item	30 June 2019	31 December 2018
Monetary funds – USD	101,660,911.61	99,303,939.62
Monetary funds – EUR	70.20	1,907,104.99
Monetary funds – HKD	64,788.41	64,776.27
Monetary funds – GBP	1,044,297.14	1,039,119.84
Monetary funds – JPY	396.74	384.83
Accounts receivable – USD	252,562,960.28	154,147,499.25
Accounts receivable – GBP	9,859,010.55	6,645,192.85
Accounts receivable – EUR	4,096,083.53	
Prepayments – USD	576,147.91	854,004.10
Other receivables – USD	227,219.70	226,839.60
Accounts payable – USD	3,149,509.61	188,153.80
Contract liabilities – USD	8,576,911.26	15,098,738.43
Contract liabilities – EUR	86,133.18	86,467.04
Other payables – USD	283,071.62	407,394.27

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

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) Interest rate risk

The Group's interest rate risk arises from interest-bearing liabilities such as bank loans and shareholders' loans. Due to financial liabilities with floating interest rates, the Group faces cash flow interest rate risks; due to financial liabilities with fixed interest rates, the Group faces fair value interest rate risks. As of 30 June 2019, the interest-bearing debts of the Group consisted mainly of RMB denominated floating interest rate loan contracts, totalling RMB3,278.686 million, and RMB denominated fixed rate contracts, totalling RMB10,791.799 million.

The Group's risk of changes in fair value of financial instruments caused by changes in interest rate is mainly related to fixed-rate bank loans. For fixed-rate loans, the Group's objective is to maintain their floating interest rate.

The Group's risk of changes in cash flows from financial instruments caused by changes in interest rate is mainly related to floating-rate bank loans. The Group's policy is to maintain their floating interest rate in order to eliminate the risk to fair value caused by the changes in interest rate.

3) Price risk

The Group sells chemical raw medicine, preparations and chemical products at market prices. Therefore, the Group is affected by fluctuations in these prices.

(2) Credit risk

As of 30 June 2019, the largest credit risk exposure which may cause financial loss to the Group is the counterparties failing to perform their obligations, causing loss of financial assets to the Group, specifically including:

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

In order to minimize 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 recognised for unrecoverable amounts. In view of this, the Group's management believes that the Group's credit risk has been significantly reduced.

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

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 Group has established policies necessary to ensure that all trade customers have good credit records. Apart from the top five entities with the largest amounts in receivables, the Group has no other significant concentration of credit risk.

The total amount of the top five entities with the largest amounts in accounts receivable is RMB169,995,633.37.

(3) Liquidity risk

Liquidity risk is the risk that the Group will not be able to fulfil its financial obligations on the due date. To manage its liquidity risk, the Group ensures that sufficient financial liquidity is available to repay the mature debts and thus avoid unacceptable losses or damage to the Group's credit. The Group analyzes its debt structure and maturity periods regularly so as to make sure there will be sufficient capital. The management of the Group monitors its utilization of bank loans, and ensures adherence to loan agreements. Meanwhile, financing consultation is performed with financial institutes to keep a certain credit line and reduce liquidity risk. As of 30 June 2019, the maturity analysis (based on the undiscounted residual contract obligations) of financial assets (the book balance, undeducted impairment and bad debts provision) and financial liabilities held by the Group is as follows:

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Monetary funds	661,965,007.87				661,965,007.87
Accounts receivable	656,675,157.50				656,675,157.50
Accounts receivable financing	167,305,049.25				167,305,049.25
Prepayments	35,024,858.70				35,024,858.70
Other receivables	45,131,687.64				45,131,687.64
Including: Interest receivable					
Dividends receivable					
Financial liabilities					
Short-term borrowings	340,000,000.00				340,000,000.00
Notes payable	327,473,084.02				327,473,084.02
Accounts payable	511,017,852.94				511,017,852.94
Contract liabilities	199,003,298.81				199,003,298.81
Payroll payable	57,736,915.64				57,736,915.64
Other payables	432,006,553.26				432,006,553.26
Including: Interest payable	5,883,024.67				5,883,024.67
Dividends payable	67,496,544.23				67,496,544.23
Non-current liabilities due					
within one year	364,535,741.66				364,535,741.66
Long-term loans		411,000,000.00	116,500,000.00	133,179,890.02	660,679,890.02
lease liabilities		123,951.63	1,544,210.11		1,668,161.74
Long-term payables		25,327,294.74	17,118,040.06		42,445,334.80

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. Sensitivity analysis

The Group adopts sensitivity analysis to analyze the potential impact of possible reasonable changes in risk variables on current profits and losses or owner's equity. As risk variables seldom change alone and the correlation between variables greatly accounts for the final effect from a change in a certain risk variable, the following assume that the change of each variable is independent.

(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, the post-tax impacts on current profits or losses and equity caused by possible reasonable change in exchange rate are shown as follows:

Item	Change in Exchange Rate	Amount Incurred In the Current Period		Amount Incurred In the Previous Period	
		Impact on Net Profits	Impact on Owner's Equity	Impact on Net Profits	Impact on Owner's Equity
All foreign currencies	5% appreciated against RMB	11,820,729.49	17,405,017.30	16,530,180.16	16,530,180.16
All foreign currencies	5% depreciated against RMB	<u>-11,820,729.49</u>	<u>-17,405,017.30</u>	<u>-16,530,180.16</u>	<u>-16,530,180.16</u>

(2) Sensitivity analysis of interest rate risk

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

Changes in market interest rate affect interest revenue or expense of variable-rate financial instruments;

As for fixed-rate financial instruments measured at fair value, changes in market interest rate only affect their interest revenue or expense;

Change in fair value of derivative financial instruments 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.

Notes to the Interim Financial Statements (Continued)

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

Based on the aforementioned assumptions, if other variables stay the same, the post-tax impacts on current period profits or losses and equity caused by the possible reasonable change of interest rates are shown as follows:

Item	Change in Exchange Rate	Amount Incurred In the Current Period		Amount Incurred In the Previous Period	
		Impact on Net Profits	Impact on Owner's Equity	Impact on Net Profits	Impact on Owner's Equity
Floating interest rate loan	Increase by 1%	-8,413,585.43	-8,413,585.43	-13,736,342.89	-13,736,342.89
Floating interest rate loan	Decrease by 1%	8,413,585.43	8,413,585.43	13,736,342.89	13,736,342.89

X. DISCLOSURE OF FAIR VALUE

- Amount of assets and liabilities measured at fair value at the end of the period and the levels 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				
Other equity instruments investment	232,851,504.00			232,851,504.00
Accounts receivable financing	167,305,049.25			167,305,049.25
Total assets continuously measured at fair value	400,156,553.25			400,156,553.25

- Basis for determination of market prices of items continuously measured at level 1 fair value measurement

The items measured by the fair value of the Group included: (1) shares in the Bank of Communications and China Pacific Insurance Company (CPIC) held by the Company. The fair value at the end of the year was determined based on the closing price on the last trading day of June 2019; (2) the transaction price was the fair value of accounts receivable financing 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))

XI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

(I) Relationships with Related Parties

1. Controlling shareholder

(1) Controlling shareholder (Monetary unit: RMB ten thousands)

Name of Controlling Shareholder	Place of Registration	Nature of Business	Registered Capital	Proportion of Shareholding in the Company (%)	Proportion of Voting Rights in the Company (%)
Hualu Holdings Group Co., Ltd.	22/F, Block A, Huachuang Guanli Center, No. 219 Shunhai Road, Lixia District, Jinan, Shandong Province, China	Investment in chemical, pharmaceutical, and environmental protection (industries); management operations, consulting	300,000.00	32.94	32.94

(2) Registered capital of the controlling shareholder and changes

Name of Controlling Shareholder	Beginning Balance	Increase in the Current Period	Decrease in the Current Period	Ending Balance
Hualu Holdings Group Co., Ltd.	3,000,000,000.00			3,000,000,000.00

(3) Shares or equity of controlling shareholder and changes

Name of Controlling Shareholder	Amount of Shareholding		Proportion of Shareholding	
	Balance in the Current Period	Balance in the Previous Period	Proportion of the Current Period (%)	Proportion of the Previous Period (%)
Hualu Holdings Group Co., Ltd.	204,864,092.00		32.94	

On 3 April 2019 the controlling shareholder of the Company was changed from Shandong Xinhua Pharmaceutical Group Company Limited (“SXPGC”) to HHGC.

2. Subsidiaries

The details of the subsidiaries are described in the Note “VIII. Interests in other entities”.

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. Joint ventures and associate enterprises

The following are the other joint ventures or associate enterprises that had related party transactions with the Group in this period, or had a balance of related party transactions with the Group in a previous period:

Name of joint venture or associate enterprise	Relationship with the Company
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Controlled by the same controlling shareholder
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Associate enterprise of the company

4. Other related parties

Name of other related party	Relationship with the Company
Perrigo Company	Subsidiary's participating shareholder
Shandong Hualu Hengsheng Chemical Co., Ltd.	Controlled by the same controlling shareholder
Shandong Xinghua Pharmaceutical Branch of Hualu Holdings Group Co., Ltd*	Controlled by the same controlling shareholder

(II) Related Transactions

1. Pricing policy

The prices of the products sold by the Group to related parties and the prices of the raw materials purchased from related parties are determined based on the market price.

2. Related transactions of purchase or sale of goods and provision and receipt of services

(1) Purchasing goods or receiving services

Name of related party	Related-party Transaction	Amount Incurred in the Current Period	Amount Incurred in the Previous Period
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd. *	Purchase of chemical raw material	29,101,389.62	35,808,070.07
Cansheng Pharmaceutical (Zibo) Co., Ltd.*	Purchase of raw materials of preparations	8,694,288.61	6,187,529.48
Shandong Hualu Hengsheng Chemical Co., Ltd *	Purchase of chemical raw material	60,175,333.71	102,169,739.86
Total		97,971,011.94	144,165,339.41

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) Sale of goods/provision of services

Name of related party	Related-party Transaction	Amount Incurred in the Current Period	Amount Incurred in the Previous Period
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.*	Sale of power	1,288,203.83	966,555.64
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.*	Service labour		72,632.96
Cansheng Pharmaceutical (Zibo) Co., Ltd.*	Sale of power	5,178,110.38	4,098,132.21
Cansheng Pharmaceutical (Zibo) Co., Ltd.*	Service labour	65,316.44	85,084.20
Shandong Xinghua Pharmaceutical Branch of Hualu Holdings Group Co., Ltd*	Sale of power	5,136.99	
Shandong Xinghua Pharmaceutical Branch of Hualu Holdings Group Co., Ltd*	Service labour	8,512.95	
Perrigo Company*	Sale of bulk drugs	123,278,661.42	93,148,230.47
Perrigo Company*	Sale of bulk drugs	11,767,162.77	8,075,665.04
Total		141,591,104.78	106,446,300.52

3. Loans with related parties

Name of related party	Loan from/to	Loan amount	Starting date	Maturity date
Hualu Holdings Group Co., Ltd.	Borrowing	<u>100,000,000.00</u>	2015-11-30	2020-11-30

4. Payment of interest on loans

Name of related party	Related-party Transaction	Amount Incurred in the Current Period	Amount Incurred in the Previous Period
Hualu Holdings Group Co., Ltd.	Interest on loan	2,190,000.00	2,190,000.00

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. Other transactions

(1) Royalty fee of using trademark

Name of related party	Related-party Transaction	Amount Incurred	Amount Incurred
		in the Current Period	in the Previous Period
Shandong Xinghua Pharmaceutical Branch of Hualu Holdings Group Co., Ltd*	Royalty fee of using trademark	4,716,981.00	4,716,981.00

The Company concluded a supplementary agreement (“Supplementary Agreement”) on the trademark license agreement with the Shandong Xinhua Group on 30 October 2017. The Agreement has a valid period from 1 January 2018 to 31 December 2020. According to the Supplementary Agreement, the Company’s annual royalty fee of using the trademark “Xinhua” is still RMB10 million (including tax) and other provisions of the trademark license agreement remain unchanged.

* Note: Such related-party transactions constitute connected transactions and continuing connected transactions as defined in Chapter 14A of the Listing Rules of the Hong Kong Stock Exchange.

(III) Balance of transactions with related parties

1. Items receivable

Item	Related party	Ending Balance		Beginning Balance	
		Book balance	Provision for bad debt	Book balance	Provision for bad debt
Accounts receivable	Shandong Xinhua Industry & Trade Co., Ltd.	1,110,088.04	1,110,088.04	1,110,088.04	1,110,088.04
Accounts receivable	Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.*			37,369.99	186.85
Accounts receivable	Cansheng Pharmaceutical (Zibo) Co., Ltd.	682,588.46	3,412.94	164,332.87	821.66
Accounts receivable	Perrigo Company	22,763,140.79	113,815.70	19,093,218.09	95,466.09
Prepayments	Shandong Hualu Hengsheng Chemical Co., Ltd	3,769,430.81		3,533,206.73	

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. Items payable

Item	Related party	Ending Balance	Beginning Balance
Accounts payable	Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.*	7,641,774.41	11,366,068.20
Accounts payable	Cansheng Pharmaceutical (Zibo) Co., Ltd.	2,760.00	1,855,557.77
Contract liabilities	Perrigo Company		612,597.22
Other payables	Hualu Holdings Group Co., Ltd.	2,555,000.00	365,000.00

(IV) Principal management's remuneration

The principal management's remuneration (including amounts paid and payable to directors, supervisors and senior management) is as follows:

Item	Amount Incurred in the Current Period	Amount Incurred in the Previous Period
Salary and subsidies	1,305,707.00	1,140,474.00
Bonuses		
Social insurance premiums	361,894.00	397,518.00
Housing fund	136,517.40	45,460.20
Total	1,804,118.40	1,583,452.20

Note: The principal management's remuneration does not include share options that have been granted but not exercised, totalling RMB653,733.32.

Changes in the directors in the current period: On 29 January 2019, Mr. Zhao Bin, who had served as a non-executive director, resigned from his position in the Company with immediate effect for reasons of age.

Changes in the supervisors in the current period: There was no change.

Changes in the senior management in the current period: There was no change.

(V) Loans receivable from directors and companies related with directors

The Group had no loans receivable from directors or companies related with directors 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))

XII. SHARE-BASED PAYMENT

1. General information on share-base payment

Item	Situation
Total amount of equity instruments granted by the Company in the previous year	16,250,000.00
Total amount of equity instruments exercised by the Company in the current period	
Total amount of equity instruments of the Company invalidated in the current period	
The range of exercise price and the remaining contractual period of the share option issued by the Company at the end of the period	At the end of the period, for the share option Xinhua JLC1 issued by the Company, the option code is 037071, with the exercise price of RMB5.98 per share. The remaining period of the contract is 2.5 years.
The range of exercise price and the remaining contractual period of the other equity instruments issued by the Company at the end of the period	None

2. Share-based payment settled with equity

Item	Situation
Method of determining the fair value of equity instruments at granting date	Black-Scholes option pricing model
Basis for determining the quantity of exercisable equity instruments	At each balance sheet date during the waiting period, making the best estimate based on the performance evaluation at company level and the performance appraisal at individual level combined with the latest number of employees who have acquired exercisable rights, and modifying the estimated number of exercisable equity instruments.
Reasons for the significant difference of estimate between this year and the previous year	Not applicable
Cumulative amount of equity settled share-based payment recognized in capital reserves	4,252,054.73
Total recognized fees of share-based payment settled in equity in the current period	4,182,349.00

XIII. CONTINGENCIES

As of 30 June 2019, the Group had no significant contingencies.

Notes to the Interim Financial Statements (Continued)

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

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

XIV. COMMITMENTS

1. Large denominated signed contracts being performed or to be performed

<u>Item</u>	<u>Contract Amount</u>	<u>Unpaid Amount</u>
FDF workshop II of Modern Medicine Centre for International Cooperation	228,881,182.03	111,168,784.03
Modern Medicine Center for International Cooperation	231,754,859.00	62,967,262.61
Hormone series products project in Hutian Industrial Park	76,446,198.92	10,625,559.94
Development of innovative medicine and preparations	100,000,000.00	95,000,000.00
Total	<u>637,082,239.95</u>	<u>279,761,606.58</u>

2. There was no other significant commitment to be disclosed by the Group as of 30 June 2019, except for the aforementioned commitments.

XV. EVENTS AFTER BALANCE SHEET DATE

The Company does not have any other major events after the balance sheet date which need to be disclosed.

XVI. OTHER MAJOR MATTERS

1. Leases

(1) Fixed assets acquired under sale-leaseback (lessee)

At the end of this period, the minimum lease payments for the sale-leaseback arrangements of the Group are as follows:

<u>Remaining lease term</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>
Within 1 year	55,923,237.84	80,637,247.96
1-2 years	25,327,294.74	41,283,348.71
2-5 years	17,118,040.06	25,621,124.98
Total	<u>98,368,572.64</u>	<u>147,541,721.65</u>

As of 30 June 2019, the amount of unrecognized financing expenses of the Group's financial sale-leaseback arrangements is RMB3,287,427.36 (beginning balance: RMB5,690,278.35)

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) Right-of-use assets (lessee)

At the end of this period, the minimum lease payments for the right-of-use assets of the Group are as follows:

Remaining lease term	Ending Balance	Beginning Balance
Within 1 year	612,503.82	611,583.91
1-2 years	123,951.63	563,451.37
2-5 years	1,544,210.11	1,057,081.72
Total	2,280,665.56	2,232,117.00

As of 30 June 2019, the amount of unrecognized financing expenses of the Group's right-of-use assets is RMB166,217.85 (beginning balance: RMB249,165.00).

2. Segmented information

(1) Basis of determination and accounting policies of reportable segments

The Group determines the operating segments on the basis of internal organization structure, management requirements and the 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 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; (3) the Company can access the relevant accounting information of this part such as its financial position, operating results and cash flow. If two or more operating units share the similar economic characteristics and meet certain conditions, they can be merged into one operating segment.

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) Segmented financial information of this period

1) Operating profits, assets and liabilities of segments classified according to product or business

Reporting segments of six months ended 30 June 2019

Item	Chemical bulk drugs	Reagents	Medical intermediates and other products	Unallocated item	Offset amount	Total
Operating revenue	1,397,106,920.39	1,694,090,841.77	641,404,080.39		-632,702,220.60	3,099,899,621.95
Where: External transaction income	1,392,041,059.08	1,404,184,796.94	303,673,765.93			3,099,899,621.95
Transaction income between segments	5,065,861.31	289,906,044.83	337,730,314.46		-632,702,220.60	
Operating cost	912,110,339.13	1,234,990,827.49	553,655,361.45		-574,055,235.84	2,126,701,292.23
Cost offset amount	3,060,290.41	276,676,813.39	294,318,132.04		-574,055,235.84	
Expenses for the period	229,321,443.56	472,022,102.10	48,141,211.88			749,484,757.54
Operating profits				259,282,717.76	-59,826,797.35	199,455,920.41
Total assets	3,289,755,180.06	1,557,136,740.99	1,120,868,901.05	1,737,310,170.68	-1,608,795,951.70	6,096,275,041.08
Total liabilities	1,041,336,993.17	1,076,651,424.13	433,516,857.55	1,576,357,247.52	-966,178,037.09	3,161,684,485.28

Reporting segments of six months ended 30 June 2018

Item	Chemical bulk drugs	Reagents	Medical intermediates and other products	Unallocated item	Offset amount	Total
Operating revenue	1,174,096,899.50	1,399,266,611.39	657,258,672.89		-542,942,043.55	2,687,680,140.23
Where: External transaction income	1,173,577,615.67	1,182,629,382.39	331,473,142.17			2,687,680,140.23
Transaction income between segments	519,283.83	216,637,229.00	325,785,530.72		-542,942,043.55	
Operating cost	876,824,143.23	979,008,681.44	597,680,574.50		-514,557,122.74	1,938,956,276.43
Cost offset amount	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
Operating profits				214,108,489.77	-47,974,854.95	166,133,634.82
Total assets	3,077,522,426.57	1,611,530,491.91	1,146,540,174.31	1,467,018,836.33	-1,386,455,609.49	5,916,156,319.63
Total liabilities	982,219,926.13	864,380,883.48	581,145,189.75	1,483,719,431.27	-791,862,143.08	3,119,603,287.55

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) Non-current assets classified according to the location of the assets

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	Ending Balance	Beginning Balance
China (including Hong Kong)	3,528,938,254.04	3,566,988,639.62
Americas		
Europe	433.11	2,244.27
Total	<u>3,528,938,687.15</u>	<u>3,566,990,883.89</u>

3. As of 30 June 2019, the Group did not have any other material matters to disclose other than the above.

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

1. Accounts receivable

(1) Accounts receivable classified according to the method of provision for bad debt

Category	Book Balance		Ending Balance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Bad debt provision accrued on single item	289,641.86	0.05	289,641.86	100.00	
Bad debt accrued in combination					
Including: Aging combination	263,934,335.24	49.78	2,762,991.05	1.05	261,171,344.19
Grouping by transaction counterparty within the scope of consolidation	265,953,677.66	50.16			265,953,677.66
Subtotal of combination	<u>529,888,012.90</u>	<u>99.95</u>	<u>2,762,991.05</u>	<u>0.52</u>	<u>527,125,021.85</u>
Total	<u>530,177,654.76</u>	<u>100.00</u>	<u>3,052,632.91</u>	<u>0.58</u>	<u>527,125,021.85</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))

Category	Book Balance		Beginning Balance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Bad debt provision accrued on single item	301,241.46	0.09	301,241.46	100.00	
Account receivables with provision for bad debts accrued in combination					
Including: Aging combination	97,425,358.87	28.91	1,926,468.16	1.98	95,498,890.71
Grouping by transaction counterparty within the scope of consolidation	239,268,391.94	71.00			239,268,391.94
Subtotal of combination	<u>336,693,750.81</u>	<u>99.91</u>	<u>1,926,468.16</u>	<u>0.57</u>	<u>334,767,282.65</u>
Total	<u>336,994,992.27</u>	<u>100.00</u>	<u>2,227,709.62</u>	<u>0.66</u>	<u>334,767,282.65</u>

(2) Accounts receivable with bad debt provision accrued on single item

As of 30 June 2019, the amount of the Company's accounts receivable expected to be unrecoverable was RMB289,641.86. The Company made a bad debt provision at the full amount of RMB289,641.86 on single item.

(3) Accounts receivable with provision for bad debts accrued in combination

Item	Ending Balance			Beginning Balance		
	Accounts Receivable	Provision for Bad Debt	Drawing proportion (%)	Accounts Receivable	Provision for Bad Debt	Drawing proportion (%)
Within 1 year	528,421,038.66	1,312,336.81	0.25	335,247,176.57	479,893.92	0.14
1 - 2 years	20,400.00	4,080.00	20.00			
2 - 3 years						
3 - 4 years				111,981.60	111,981.60	100.00
4 - 5 years	111,981.60	111,981.60	100.00			
Over 5 years	<u>1,334,592.64</u>	<u>1,334,592.64</u>	<u>100.00</u>	<u>1,334,592.64</u>	<u>1,334,592.64</u>	<u>100.00</u>
Total	<u>529,888,012.90</u>	<u>2,762,991.05</u>		<u>336,693,750.81</u>	<u>1,926,468.16</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))

(4) Accounts receivable with bad debt provision accrued according to aging

Part of the sales of the Company was carried out by way of prepayment, and the remaining sales were granted for a certain period of credit.

Item	Accounts Receivable	Ending Balance Provision for Bad Debt	Drawing proportion (%)
Within 1 year	528,702,555.52	1,593,853.67	0.30
1 – 2 years	20,400.00	4,080.00	20.00
2 – 3 years	8,125.00	8,125.00	100.00
3 – 4 years			
4 – 5 years	111,981.60	111,981.60	100.00
Over 5 years	1,334,592.64	1,334,592.64	100.00
Total	<u>530,177,654.76</u>	<u>3,052,632.91</u>	

Item	Accounts Receivable	Beginning Balance Provision for Bad Debt	Drawing proportion (%)
Within 1 year	335,540,293.03	773,010.38	0.23
1 – 2 years	8,125.00	8,125.00	100.00
2 – 3 years			
3 – 4 years	111,981.60	111,981.60	100.00
4 – 5 years			
Over 5 years	1,334,592.64	1,334,592.64	100.00
Total	<u>336,994,992.27</u>	<u>2,227,709.62</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))

(5) Accounts receivable with bad debt provision in this period

Item	Beginning Balance	Amount Incurred in the Current Period		Ending Balance
		Accrual	Recovered or reversed Transferred or written off	
Bad debt provision accrued on single item	301,241.46	-11,599.60		289,641.86
Provision for bad debts accrued in combination	1,926,468.16	836,522.89		2,762,991.05
Total	2,227,709.62	824,923.29		3,052,632.91

(6) Accounts receivable actually written off in the current period

There were no accounts receivable written off in the current period.

(7) Accounts receivable with the top five year-end balances sorted by debtor

Name of Entity	Ending Balance	Account Age	Proportion in Total Ending Balance of Account Receivables (%)	Ending Balance of Bad Debt Provision
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	189,461,121.30	Within 1 year	35.74	
Shandong Xinhua Pharmaceutical (Europe) B.V	70,792,910.72	Within 1 year	13.35	
DASTECH INTERNATIONAL.INC.	36,864,891.28	Within 1 year	6.95	184,324.46
SANDOZ GRUP SAGLIK URUNLERI ILACLARISAN.VE TIC.AS	28,928,737.60	Within 1 year	5.46	144,643.69
Mitsubishi Corporation	23,671,894.78	Within 1 year	4.46	118,359.47
Total	349,719,555.68		65.96	447,327.62

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. Other receivables

Item	Ending Balance	Beginning Balance
Interest receivable		
Dividends receivable	18,860,182.44	18,860,182.44
Other receivables	427,314,728.76	435,089,451.27
Total	446,174,911.20	453,949,633.71

2.1 Interest receivable: None

2.2 Dividends receivable

Item (or invested entity)	Ending Balance	Beginning Balance
Shandong Zibo Xincat Pharmaceutical Company Limited	18,860,182.44	18,860,182.44
Total	18,860,182.44	18,860,182.44

2.3 Other receivables

(1) Classification of other receivables by account nature

Account Nature	Ending Book Balance	Beginning Book Balance
Petty cash	420,204.70	348,653.22
Tax receivable and deductible	6,195,910.06	6,195,910.06
Deposit acquired under sale-leaseback	18,000,000.00	28,000,000.00
Transactions with related party within the scope of consolidation	408,559,145.37	406,539,548.09
Others	1,744,116.63	3,093,198.51
Total	434,919,376.76	444,177,309.88

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) Other receivables with accrued bad debt provision

Bad debt provision	Stage 1	Stage 2	Stage 3	Total
	Expected credit losses during future 12 months	Expected credit losses of entire lifetime (with no credit loss incurred)	Expected credit losses of entire lifetime (with credit loss already incurred)	
Balance as of 1 January 2019	147,279.18	8,940,579.43		9,087,858.61
Book balance of other receivables as of 1 January 2019				
– Transferred to stage 2 in the current period				
– Transferred to stage 3 in the current period				
– Reversed to stage 2 in the current period				
– Reversed to stage 1 in the current period				
Accrued in the current period	-86,210.61	-1,397,000.00		-1,483,210.61
Reversed in the current period				
Transferred out in the current period				
Written-off in the current period				
Other changes				
Balance as of 30 June 2019	<u>61,068.57</u>	<u>7,543,579.43</u>		<u>7,604,648.00</u>

(3) Classification of other accounts receivable by account age

Account Age	Other receivables	Ending Balance Provision for Bad Debt	Drawing proportion (%)
Within 1 year	81,634,136.23	14,996.93	0.02
1 – 2 years	26,172,076.38	31,100.40	0.12
2 – 3 years	54,256,770.46	14,971.24	0.03
3 – 4 years	1,448,477.26	151,653.22	10.47
4 – 5 years	42,175,567.34	70,000.00	0.17
Over 5 years	229,232,349.09	7,321,926.21	3.19
Total	<u>434,919,376.76</u>	<u>7,604,648.00</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))

Account Age	Other receivables	Beginning Balance Provision for Bad Debt	Drawing proportion (%)
Within 1 year	79,425,069.35	11,207.54	0.01
1 – 2 years	26,122,076.38	1,100.40	0.01
2 – 3 years	64,376,770.46	134,971.24	0.21
3 – 4 years	1,408,477.26	111,653.22	7.93
4 – 5 years	42,105,567.34		
Over 5 years	230,739,349.09	8,828,926.21	3.83
Total	444,177,309.88	9,087,858.61	

(4) Provisions for bad debt of other receivables

Item	Beginning Balance	Amount Incurred in the Current Period			Ending Balance
		Accrual	Recovered or reversed	Transferred or written off	
Other receivables in stage 1	147,279.18	-86,210.61			61,068.57
Other receivables in stage 2	8,940,579.43	-1,397,000.00			7,543,579.43
Total	9,087,858.61	-1,483,210.61			7,604,648.00

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

There were no other receivables 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))

(6) Top five other receivables sorted by debtor at the end of the period

Name of entity	Balance	Account Age	Proportion (%)	Ending Balance of Bad Debt Provision	Nature or Content
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	30,000,000.00	4-5 years	52.88		Transactions with related party within the scope of consolidation
	220,000,000.00	Over 5 years			
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	23,962,780.52	Within 1 year	16.61		Transactions with related party within the scope of consolidation
	2,079,417.35	1-2 years			
	43,318,647.73	2-3 years			
	719,461.81	3-4 years			
	2,174,443.16	4-5 years			
Zibo Xinhua Pharmacy Chain Co., Ltd.	42,705,223.48	Within 1 year	12.96		Transactions with related party within the scope of consolidation
	5,001,317.42	1-2 years			
	1,735.32	2-3 years			
	1,711.57	3-4 years			
	8,639,883.92	4-5 years			
Xinhua (Zibo) Real Estate Co., Ltd.	2,682,452.72	Within 1 year	11.13		Transactions with related party within the scope of consolidation
	11,039,507.61	1-2 years			
	10,921,416.17	2-3 years			
	575,650.66	3-4 years			
	1,291,240.26	4-5 years			
	21,910,422.88	Over 5 years			
Pingan International Financial Leasing Co., Ltd.	10,000,000.00	Within 1 year	4.14		Guarantee deposit
	8,000,000.00	1-2 years			
Total	425,025,312.58		97.72		

(7) Loans receivable due from employees during this period

As at 30 June 2019, there were no loans receivable 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))

3. Long-term equity investments

(1) Classifications of long-term equity investment

Item	Ending Balance		Beginning Balance	
	Book balance	Provision for impairment	Book value	Book balance
Investment in subsidiaries	577,311,232.56		577,311,232.56	577,311,232.56
Investment in joint ventures and associate enterprises	83,268,724.88		83,268,724.88	19,594,473.83
Total	660,579,957.44		660,579,957.44	596,905,706.39

(2) Investment in subsidiaries

Investee Entity	Beginning Balance	Increase in the Current Period	Decrease in the Current Period	Ending Balance	Impairment Provision Accrued in the Current Period	Balance of Impairment Provision at the end of the Period
Zibo Xinhua Pharmacy 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	72,278,174.60			72,278,174.60		
Shandong Xinhua Pharmaceutical (Europe) B.V.	4,596,798.56			4,596,798.56		
Xinhua (Zibo) Real Estate Co., Ltd.	20,000,000.00			20,000,000.00		
Shandong Xinhua Pharmaceutical Import and Export Co., Ltd.	5,500,677.49			5,500,677.49		
Shandong Xinhua Pharmaceutical (USA) Inc.	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	138,073,454.68			138,073,454.68		
Total	577,311,232.56			577,311,232.56		

Notes to the Interim Financial Statements (Continued)

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

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

(3) Investment in joint ventures and associate enterprises

Invested Entity	Beginning Balance	Added investment	Reduced investment	Increase or decrease in the current period		Ending balance
				Investment gains and losses recognized under equity method	Accrued provision for impairment	
I. Associate enterprise						
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd	19,594,473.83			1,209,305.43		20,803,779.26
Cansheng Pharmaceutical (Zibo) Co., Ltd.		63,159,019.74		-694,074.12		62,464,945.62
Total	19,594,473.83	63,159,019.74		515,231.31		83,268,724.88

4. Operating revenues and costs

(1) Operating revenues and costs

Item	Amount Incurred in the Current Period		Amount Incurred in the Previous Period	
	Revenue	Cost	Revenue	Cost
Main operation	1,585,674,965.70	1,140,839,372.83	1,422,585,408.60	1,045,321,452.53
Other operation	35,212,063.76	33,536,692.86	35,052,958.37	35,455,443.63
Total	1,620,887,029.46	1,174,376,065.69	1,457,638,366.97	1,080,776,896.16

Notes to the Interim Financial Statements (Continued)

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

(2) Revenues from contracts

Classification of contract	Chemical bulk drugs	Reagents	Medical intermediates and other products	Total
Commodity type				
Among: Chemical bulk drugs	1,273,828,258.97			1,273,828,258.97
Preparations		311,846,706.73		311,846,706.73
Medical Intermediates and other products			35,212,063.76	35,212,063.76
Total	<u>1,273,828,258.97</u>	<u>311,846,706.73</u>	<u>35,212,063.76</u>	<u>1,620,887,029.46</u>
Classification by regions of the income source				
Where: China (including Hong Kong)	434,773,782.85	275,521,334.66	35,212,063.76	745,507,181.27
Americas	309,251,312.53			309,251,312.53
Europe	143,656,400.93	36,325,372.07		179,981,773.00
Others	386,146,762.66			386,146,762.66
Total	<u>1,273,828,258.97</u>	<u>311,846,706.73</u>	<u>35,212,063.76</u>	<u>1,620,887,029.46</u>
Classification by contract performance obligation				
Among: Recognition of revenue at a certain point in time	1,273,828,258.97	311,846,706.73	35,212,063.76	1,620,887,029.46
Recognition of revenue within a certain period				
Total	<u>1,273,828,258.97</u>	<u>311,846,706.73</u>	<u>35,212,063.76</u>	<u>1,620,887,029.46</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) Information related to performance obligations

According to the contractual provisions, as the main responsible party, the Company performed the obligation of supplying goods in accordance with the product type and standard as required by customers in a timely manner. For sales contracts within China, the Company fulfilled the performance obligations when the goods were delivered to the customers or the carriers, and the customers obtained control over the relevant goods; for sales contracts outside of China, the Company fulfilled the performance obligations when the goods were dispatched, loaded at the port of shipment and departed from the port, and the customers acquired control over the relevant goods.

The terms of payment are different among different customers and goods. Part of the Group's sales are carried out by prepayment, and for other sales, a credit period is granted for a certain period of time.

(4) Information related to the transaction price allocated to residual performance obligations

At the end of the current period, the amount of revenue corresponding to unfulfilled or incomplete performance obligations was RMB22,791,143.85, which is expected to be recognized as revenue in the year of 2019.

5. Investment income

Item	Amount Incurred in the Current Period	Amount Incurred in the Previous Period
Dividend from subsidiaries	2,681,957.96	18,860,182.44
Investment income of long-term equity calculated by equity method	515,231.31	
Investment income from disposal of long-term investment		163,366.81
Others		807,270.99
Total	<u>3,197,189.27</u>	<u>19,830,820.24</u>

XVIII. APPROVAL OF FINANCIAL REPORTS

This financial report was released after being approved by the Board of Directors of the Company on 19 August 2019.

Notes to the Interim Financial Statements (Continued)

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

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-recurring profit and loss for the Company during this reporting period is listed below:

Item	Amount Incurred in the Current Period	Notes
Profits and losses from disposal of non-current assets	99,961.76	
Government subsidy recognized in current profits or losses (closely related to enterprise business, except the government subsidy according to the national uniform standard quota or quantity)	16,613,994.50	
Other non-operating income or expenditure except the above items	-2,941,401.59	
Subtotal	13,772,554.67	
Less: Effect of income tax	2,062,754.39	
Impact on minority shareholders' interest (after-tax)	20,831.81	
Total	<u>11,688,968.47</u>	

2. Return on equity and earnings per share

Based on provisions in the Reporting Rule No.9 on Information Disclosure for Companies Offering Their Securities to the Public–Calculation and Disclosure 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 current period are 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	5.31	0.24	0.24
Net profit attributable to shareholders of the parent company after deducting non-recurring profit or loss	<u>4.89</u>	<u>0.22</u>	<u>0.22</u>

Shandong Xinhua Pharmaceutical Co., Ltd.
19 August 2019

Documents Available for Inspection and Place for Inspection

(1) DOCUMENTS AVAILABLE FOR INSPECTION

1. The Company's 2019 interim report signed by the Chairman of the Board.
2. Financial report 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

Shandong Xinhua Pharmaceutical Co., Ltd.
19 August 2019