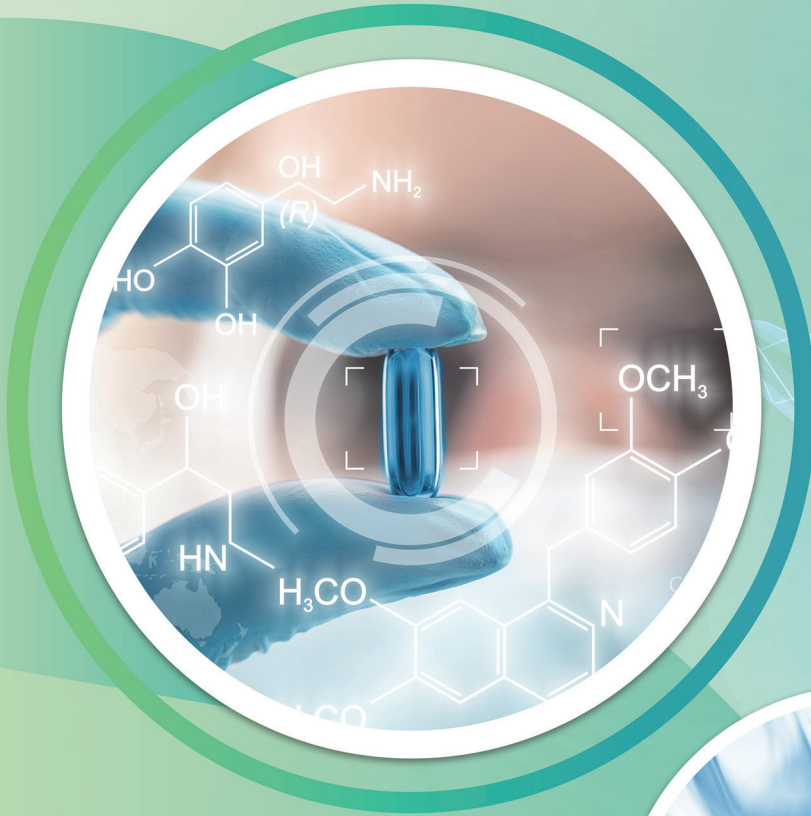




山東新華製藥股份有限公司
Shandong Xinhua Pharmaceutical Company Limited

(H Share Stock Code: 00719)

(A Share Stock Code: 000756)



2020
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 2020 (the “Reporting”) 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 finance 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
Secretary to the Board	:	Mr. Cao Changqiu
Telephone Number	:	86-533-2196024
Facsimile Number	:	86-533-2287508
E-mail Address of the Secretary to the Board	:	cqcao@xhzy.com
Registered Address	:	Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, the People's Republic of China (the "PRC")
Office Address	:	No. 1 Lutai Ave., Hi-tech Industry Development Zone, Zibo City, Shandong Province, the PRC
Postal Code	:	255086
Website of the Company	:	http://www.xhzy.com
E-mail Address of the Company	:	xhzy@xhzy.com
PRC newspaper for information disclosure	:	Securities Times
PRC Website 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 30 June 2020 (Unaudited)	Six Months Ended 30 June 2019 (Unaudited)		Change as Compared to the Same Period Last Year
		Before Adjustment	After Adjustment	After Adjustment
Operating income	3,285,772,716.57	3,099,899,621.95	3,122,647,157.46	5.22%
Total profits	231,016,986.90	196,820,708.40	200,812,483.61	15.04%
Income tax expense	42,980,002.53	36,048,980.47	37,349,250.63	15.08%
Net profits	188,036,984.37	160,771,727.93	163,463,232.98	15.03%
Minority interest income	15,725,122.80	13,297,712.76	14,350,931.59	9.58%
Net profits attributable to shareholders of listed company	172,311,861.57	147,474,015.17	149,112,301.39	15.56%
Net profits attributable to shareholders of listed company after deduction of non-recurring profit and loss	154,280,634.28	135,785,046.70	137,468,287.98	12.23%
Net cash flow from operating activities	200,601,673.34	151,855,922.52	156,539,749.26	28.15%
Basic earnings per share	0.28	0.24	0.24	16.67%
Diluted earnings per share	0.28	0.24	0.24	16.67%
Return on equity	5.68%	5.31%	5.34%	Increased by 0.34 percentage points
	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (the "End of Last Year") (Audited)		Change as Compared to the End of Last Year
		Before Adjustment	After Adjustment	After Adjustment
Total assets	6,795,793,778.14	6,436,024,609.48	6,436,024,609.48	5.59%
Total liabilities	3,642,977,155.99	3,325,495,154.66	3,325,495,154.66	9.55%
Minority shareholders' equity	129,310,870.27	141,501,384.01	141,501,384.01	(8.62%)
Total net assets attributable to the shareholders of listed company	3,023,505,751.88	2,969,028,070.81	2,969,028,070.81	1.83%

Note: The Company has made retrospective adjustments to the previous financial year's data due to the merger of enterprises under common control in October 2019.

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	(555,548.93)	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) Profit or loss from change in fair value of held-for-trading financial	16,853,604.82	Government grants that are recorded into current profits and losses Investment income
Except for the normal operations associated with Company's effective hedging business, gain or loss held- for-trading financial assets, held-for-trading financial liabilities, as well as incomes gains from the disposal of held-for-trading financial assets and financial liabilities and financial assets available for sale	6,000,000.00	Investment bonus and revenue from other equity interests instruments
Other non-operating income and cost except the above items	(2,041,366.80)	
Less: Effect of income tax	2,144,130.53	
Impact on minority interest income	81,331.27	
Total	<u><u>18,031,227.29</u></u>	

Items measured at fair value

Unit: RMB Yuan

Items	Amount as at 1 January 2020	Profit or Loss from Change in Fair Value	Cumulative Change of Fair Value Recorded in Equity	Provision Impairment	Amount as at 30 June 2020
Financial assets:					
1. Investment in other equity instruments	235,474,096.00	-	133,610,801.30	-	<u>178,414,496.00</u>
2. Accounts receivable financing	<u>145,924,204.55</u>	-	-	-	<u>152,826,381.97</u>
Subtotal of financial assets	<u><u>381,398,300.55</u></u>	<u><u>-</u></u>	<u><u>133,610,801.30</u></u>	<u><u>-</u></u>	<u><u>331,240,877.97</u></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 2020	Six Months Ended 30 June 2019
1. Change in fair value of investment in other equity instruments	(57,059,600.00)	43,112,336.00
Less: Income tax impact arising from investment in other equity instruments	(8,558,940.00)	6,466,850.40
Net profit or loss carried from amounts previously recognized in other comprehensive income	-	-
Subtotal	(48,500,660.00)	36,645,485.60
2. Conversion difference of financial statements in foreign currency	689,238.59	66,767.93
Less: net profit or loss carried from amounts incurred by disposal of foreign operation	-	-
Subtotal	689,238.59	66,767.93
Total	<u>(47,811,421.41)</u>	<u>36,712,253.53</u>

Changes In Share Capital Structure And Information On Shareholders

1. CHANGES IN SHARE CAPITAL STRUCTURE

Class of Shares	30 June 2020		1 January 2020	
	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 2020, the Company had on record a total of 40,224 shareholders (the "Shareholders"), including 48 holders of H Shares and 40,176 holders of A Shares.
- (2) As at 30 June 2020, 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 Co. Ltd.*) ⁽¹⁾ State-owned ("HHC")		32.94	204,864,092
香港中央結算(代理人)有限公司 HKSCC Nominees Limited	Others	31.04	193,050,427
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
香港中央結算有限公司 HKSCC Limited	Others	0.96	5,956,862
華魯投資發展有限公司 Hualu Investment Development Co., Ltd ("Hualu Investment")	State-owned	0.67	4,143,168
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
交通銀行股份有限公司—長信量化先鋒混合型證券投資基金 Bank of Communications Co., LTD. – Chang Xin Quantitative Pioneer Hybrid Securities Investment Fund	Others	0.38	2,389,567
黃佩玲 Huang Peiling	Others	0.34	2,108,217
中國建設銀行股份有限公司—華安生態優先混合型證券投資基金 China Construction Bank Co., LTD. – Hua An Ecological Priority Hybrid Securities Investment Fund	Others	0.24	1,518,932
林穗賢 Lin Suixian	Others	0.23	1,417,344

Changes In Share Capital Structure And Information On Shareholders

- (3) As at 30 June 2020 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 HHC ⁽¹⁾	204,864,092	RMB-denominated ordinary shares
香港中央結算(代理人)有限公司 HKSCC Nominees Limited	193,050,427	Overseas listed foreign shares
香港中央結算有限公司 HKSCC Limited	5,956,862	RMB-denominated ordinary shares
華魯投資發展有限公司 Hualu Investment	4,143,168	RMB-denominated ordinary shares
交通銀行股份有限公司－長信量化先鋒混合型證券投資基金 Bank of Communications Co., LTD. – Chang Xin Quantitative Pioneer Hybrid Securities Investment Fund	2,389,567	RMB-denominated ordinary shares
黃佩玲 Huang Peiling	2,108,217	RMB-denominated ordinary shares
中國建設銀行股份有限公司－華安生態優先混合型證券投資基金 China Construction Bank Co., LTD. – Hua An Ecological Priority Hybrid Securities Investment Fund	1,518,932	RMB-denominated ordinary shares
林穗賢 Lin Suixian	1,417,344	RMB-denominated ordinary shares
楊大宇 Yang Dayu	1,100,000	RMB-denominated ordinary shares
交通銀行－華安創新證券投資基金 Bank of Communications – Hua An Innovation Securities Investment Fund	958,000	RMB-denominated ordinary shares

Notes:

- Such figure excludes the 4,143,168 A shares indirectly held by Hualu Investment, a directly wholly owned subsidiary of HHC. As of 30 June 2020, Welling Bring Limited (“Well Bring”) and Hualu Investment are an indirect wholly owned subsidiary and a direct wholly owned subsidiary of HHC, respectively. Well Bring owns 18,991,800 H shares of the Company (being overseas listed foreign shares), representing approximately 3.05% of the issued share capital of the Company. Hualu Investment Development Co. Ltd owns 4,143,168 A shares of the Company, representing approximately 0.67% of the issued share capital of the Company.

Changes In Share Capital Structure And Information On Shareholders

2. The following is a description of any association relationship or concerted actions of the above Shareholders under the applicable PRC laws and regulations: Except for Hualu Investment which is a subsidiary of HHC, to the best of the knowledge of the Directors, they are not aware as to whether there is any association relationship (as defined in the Rules Governing Listing of Stocks On Shenzhen Stock Exchange) amongst the remaining of the abovementioned Shareholders, or whether 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.
3. Save as disclosed, the only domestic Shareholder directly holding more than 5% of the total issued shares of the Company is HHC.
4. Save as disclosed above and so far as the Directors are aware, as at 30 June 2020, no other person (other than the Directors, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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

There was no change in the controlling Shareholder and actual controller of the Company during the Reporting Period.

Directors, Supervisors, Senior Management 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 2020	Number of Shares as at 1 January 2020
Directors:			
Mr. Zhang Daiming	Chairman	15,470 ^(note 2)	15,470
		174,888 ^(note 3)	174,888
Mr. Ren Fulong	Non-executive Director	58,296 ^(note 3)	58,296
Mr. Du Deping	Executive Director, General Manager	151,568 ^(note 3)	151,568
Mr. Xu Lie	Non-executive Director	81,614 ^(note 3)	81,614
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 ^(note 3)	93,272
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil
Ms. Hu Yanhua	Employee Supervisor	34,977 ^(note 3)	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 ^(note 3)	81,614
Mr. Du Deqing	Deputy General Manager	81,614 ^(note 3)	81,614
Mr. He Tongqing	Deputy General Manager	116,592 ^(note 3)	116,592
Mr. Hou Ning	Financial Controller	116,592 ^(note 3)	116,592
Mr. Zheng Zhonghui	Deputy General Manager	23,318 ^(note 3)	23,318
Mr. Cao Changqiu	Secretary to the Board	2,331 ^(note 3)	2,331
Total		1,032,145	1,032,145

Notes:

- 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.
- Mr. Zhang Daiming personally holds 15,470 A Shares.
- The relevant shares held by the Employee Share Ownership Scheme of the Company of which the relevant person is a participant.

Directors, Supervisors, Senior Management and Staff

4. So far as the Directors, the senior management and the Supervisors are aware, as at 30 June 2020, no Director, senior management or Supervisor had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, senior management or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

CHANGE OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

There was no change of Directors, Supervisors and other Senior Management during the Reporting Period.

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
	Shandong Xinhua Pharmaceutical branch of Hualu Holdings Co., Ltd.	General manager	19 November 2018	–	No
Mr. Xu Lie	SXPGC	Director	13 January 2011	–	No
Mr. Li Tianzhong	SXPGC	Deputy general manager	16 October 2009	–	No
	Shandong Xinhua Pharmaceutical branch of Hualu Holdings Co., Ltd.	Deputy general manager	19 November 2018	–	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 based on the state policies, the Company's financial standing, personal performance and with reference to the general remuneration standard of society.
Payment of remuneration to Directors, Supervisors and senior management	RMB1,957,964.00 was paid during this Reporting Period.

Directors, Supervisors, Senior Management and Staff

Staff information (As of 30 June 2020)

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

As at 30 June 2020, the number of staff employed by the Group was 6,305, and the total amount of their salaries and wages for the half year was RMB288,809,000.

The number of retired staff with cost borne 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 2020 is set out in the following table:

Directors, Supervisors, Senior Management and Staff

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 Management	220,000	0	0	0	0	220,000
Du Deqing	Senior Management	220,000	0	0	0	0	220,000
He Tongqing	Senior Management	220,000	0	0	0	0	220,000
Dou Xuejie	Senior Management (Resigned on 24 September 2019)	220,000	0	0	0	0	220,000
Hou Ning	Senior Management	220,000	0	0	0	0	220,000
Zheng Zhonghui	Senior Management	220,000	0	0	0	0	220,000
Cao Changqiu	Senior Management	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 2019 Annual Report of the Company.

Directors, Supervisors, Senior Management and Staff

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

Area of Work	Number of Staff
Production	3,603
Engineering & Technical	518
Administration	286
Finance	82
Product R&D	264
Procurement	47
Sales	1,042
Quality Inspection	463
Total	<u>6,305</u>

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

Education Level by Category	Number of Staff
Universities or above	1,157
Tertiary institutions other than universities	1,834
Intermediate institutions and technical schools	2,391
Senior high schools or below	923
Total	<u>6,305</u>

The Company formulated and implemented staff education and training plan in 2020. The training programme implemented or to be implemented in 2020 includes orientation specialized training 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, internal trainer team building training and the improvement of management skills of young cadres. 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 on the operation results of the Company for the first half of the year 2020.

In the first half of the year 2020, the operating income of the Group prepared under the CASBE was RMB3,285,773,000, representing an increase of 5.22% as compared with the same period last year. The Group recorded its net profits attributable to the Shareholders as RMB172,312,000, representing an increase of 15.56% as compared with the same period last year.

The Board did not recommend the declaration of any interim dividends for the first half of the year 2020.

BUSINESS REVIEW

In the first half of the year, the Group overcame the impact of various factors, such as the COVID-19 epidemic and global economic downturn, seized opportunities, expanded markets, promoted innovation, developed projects and solidified the foundation to achieve steady development of the enterprise. All production and operation indicators reached a new historical high.

1. Exert all efforts to seize market opportunities and achieve stable sales growth

To proactively respond to the rapid changes in the global economic and foreign trading conditions, the Group realised a foreign exchange gain of USD174 million in the first half of the year, representing a year-on-year increase of 11.89% and a growth in exports contrary to the trend.

Seizing opportunities in the domestic bulk drugs market and laying foundation for the sales of key products and featured bulk drugs, the Company actively expanded the market of veterinary drugs, and realised sales revenue of RMB393 million for domestic sales of bulk drugs in the first half of the year, representing a year-on-year increase of 11.88%.

By integrating various channel resources, strengthening online services and vigorously developing cross-border export business, the Company realised sales revenue of RMB140 million for e-commerce business in the first half of the year, representing a year-on-year increase of 90.81%.

The Company actively participated in national procurement with target quantity and local biddings to lay foundation for the advancement of preparations strategy. In the first half of the year, the sales volume of the top ten strategic preparations products reached 636 million tablets/bottles, realising sales revenue of RMB248 million which represented a year-on-year increase of 34.4% and 8.37% respectively, and the market share was further increased.

2. Step up efforts in technological innovation to attain remarkable achievements in innovation

The Company continuously increased its investment in research and development, in which the Company recorded a year-on-year increase of 24.60% in the first half of the year. The Company's Advanced Manufacturing Engineering Research Center for Antipyretic and Analgesic Drugs was recognized as the Shandong Engineering Research Center.

Chairman's Statement

In the first half of the year, the Company was granted the qualification for Edaravone bulk drugs to be launched in the market, and obtained the registration approval for Edaravone injection from the State Food and Drug Administration. Three products, namely, cephalexin capsules, ibuprofen tablets and clarithromycin tablets (with five specifications) passed the quality and efficacy consistency evaluation for generic drugs.

A number of key automatic and intelligence projects were carried out steadily. The Integrated Power Intelligence Project of No. 2 sub-factory of the Company proceeded to the installation stage. Four key automatic control projects were implemented as scheduled. The whole life management system for equipment entered the sites for inspection and installation.

3. Accelerate the facilitation of key projects construction, and add momentum to enterprise development

System debugging of phase II of the International Cooperation Center for Modern Medicine was completed and trial production of certain products commenced; the tenders for purification and decoration and certain equipment were completed for the high-end injection project; continuation projects for key products were under civil construction and the tenders for automatic control system and certain equipment were completed; construction of the hydroxyiminobarbituric acid project and acetyl acetone (calcium) project has commenced, and tenders for certain equipment were completed; and the capping of civil construction for the veterinary drug preparation project was completed, and purification and decoration work was started.

4. Strengthen basic management and seize the lifeline projects

The Company steadily promoted the "Four Major Plans" for annual hidden risks investigation, emergency drills, safety technical measures as well as education and training, carried out various monthly activities for production safety, and successfully completed the replacement of production safety permits for hazardous chemical enterprises. The Company was recognised by the National Emergency Management Department as a pilot unit for the construction of a dual prevention system.

Key environmental protection measures, such as RTO devices, were carried out in an orderly manner as scheduled; the anaerobic ammonia oxidation project was in the debugging stage; the MVR project in Workshop 207 of No. 2 sub-factory of the Company was officially put into operation; and the data digitalization work for 11 sets of VOC online surveillance was completed.

In the first half of the year, the Company successfully passed 19 official and customer audits; Phase I of the International Cooperation Center for Modern Medicine passed the FDA certification with zero defect and the inspection by German company STADA. The Company completed the work of order No. 62 to export 15 products to the EU as scheduled. Seven products passed GMP compliance confirmation, and seven DMF registrations were newly added. The Company completed the production of ANDA ibuprofen tablets for validation and registration use, completed the transfer of ibuprofen capsules production sites for the UK and Ireland markets, and completed the commercial validation for Xinhua-Perrigo products.

5. Deepen internal reform and strengthen incentive and restrictive mechanism

The Company speeded up the reform of the departmental system through functional integration and institutional streamlining.

The Company formulated the Sunshine Procurement Management Measures, established the office for tender, optimized and improved the procurement process of the Company, further standardized the procurement management, resulting in the procurement process being more scientific, reasonable, efficient and transparent.

The Company implemented contract management for managers, and entered into the engagement agreements on contract management with 41 managers of 11 subsidiaries.

PROSPECTS

Currently, COVID-19 is spreading continuously, and anti-globalization movement such as trade protectionism and unilateralism is being intensified. Under such circumstances, companies are facing increasingly obvious uncertainties in relation to the external environment and are under great pressure in respect of pharmaceutical export. The in-depth promotion of certain national policies such as "4+7" procurement with target quantity, consistency assessment and introduction of imported generic drugs, has posed great challenges to the implementation of the Group's preparation strategy. With the increase in rigid investments in research and development, labour costs, safety and environmental protection, the growth of the Group's profits has been under great pressure.

In this regard, the key tasks of the Group in the second half of 2020 are as follows:

1. Cautiously normalize the epidemic prevention and control measures to ensure smooth progress of production and operation

Aiming at different scenarios of production, operation, R&D and management, the Company will accurately customize prevention and control measures, strictly implement disinfection, isolation, inspection, reporting and other measures, strengthen publicity and education, and eliminate the mindset of stolidity and laxity to ensure that no impediment shall arise in the prevention and control work while safeguarding the steady commencement of production and operation.

2. Actively respond to market changes and seize the opportunities of market development

The Company will pay close attention to the market, especially the change in international market, formulate proper response plans in advance and avoid operational risks. In the meantime, the Company will seize market opportunities, continue to implement the "Three Stabilisations" strategy, i.e. stabilising key products, stabilising key markets and stabilising key customers. Taking advantage of exclusive bulk drugs and featured bulk drugs, the Company will focus on the marketing of its new products such as glimepiride. The Company will carry out the business negotiation work for the next year's orders in advance.

Chairman's Statement

In response to the new circumstances, the Company will continue to push forward the "Preparations Strategy", study specific measures, formulate plans, make full efforts in market access such as tendering, secure the production of bid-winning products and make greater marketing. The Company will maintain the market contribution of strategic preparations products, vigorously cultivate hundreds of millions of product types, and put more efforts to develop preparations products with economic benefits.

The Company will focus on promoting the strategic cooperation model of "Internet + Healthcare", build closed-loop Internet healthcare services, and accelerate the development of two-way cross-border e-commerce business. The Company will strengthen cooperation with more international brands, expand and strengthen international cooperation in "Big Health" sector, actively negotiate with more domestic distributors of high-quality brands, and lay a solid foundation for the subsequent rapid development of e-commerce business.

3. Push forward the "Big R&D Strategy" and accelerate scientific and technological innovation

The Company will speed up the implementation of the "Big R&D Strategy", establish a joint R&D base outside the province, expand the R&D team, and further accelerate the progress of R&D. The Company will strive to obtain other 3 to 5 consistency assessment approvals in the second half of the year.

The Company will accelerate the R&D of bulk drugs and key preparations products, and strive to submit the registration and reporting documents of 1 new preparations product and 4 new bulk drugs products.

4. Promote project construction steadily to build a foundation for large-scale development

The Company will speed up the commercialisation of internationally cooperated preparation projects, strive to expand the scale of production and sales, and utilize the production capacity advantages of the Modern Pharmaceutical International Cooperation Center as soon as possible.

The Company will complete purification and decoration of the injection project, commence installation of equipment, and make full preparation for subsequent cooperation.

In the second half of the year, the Company will strive to complete the construction of the violuric acid project and the acetylacetone (calcium) project, with the conditions for industrialisation.

The Company will complete the purification, decoration and equipment installation for the veterinary drug preparation project, and strive to pass the GMP on-site inspection for veterinary drugs.

5. Promote the implementation of internationalization strategies and accelerate the implementation of international cooperation projects

In the second half of the year, there will still be uncertainties in respect of the epidemic factors, and adequate preparation will need to be made for production to ensure that international OEM products will meet market demand.

Chairman's Statement

The Company will speed up the registration application for the commissioned processing of Roche Metopa tablets, and meet the conditions for commercialised production as soon as possible. At the same time, the Company will make every effort to introduce more international cooperation projects.

The Company will speed up the commercialisation of Xinhua-Perrigo's certified preparations products.

6. Strengthen basic management and earnestly grasp the “Lifeline Project”

The Company will solidly carry out the three-year specialised rectification action for safety production, continue to carry out the construction of the “Dual Preventive System”, continue to strengthen the Company's basic safety management, put forward the work of 7S-CTPM, speed up the implementation of projects on safety measures, and strive to increase the intrinsic safety level of the enterprise.

The Company will speed up the implementation of annual key environmental projects, strictly operate existing environmental protection facilities, as well as ensure that the stable discharge of waste water and waste gas meets standard stably, with standardized management of hazardous waste.

The Company will ensure that 2 products in Hutian Park pass the European GMP certification inspection, accelerate the registration of products abroad as planned, complete the CTD registration of 7 domestic products, and complete 6 key quality research projects.

Chairman

Zhang Daiming

21 August 2020

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 OPERATIONAL AND FINANCIAL CONDITION IN ACCORDANCE WITH CASBE

The Group's total assets as at 30 June 2020 were RMB6,795,794,000, representing an increase of 5.59% 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 2020, the Group's total liabilities were RMB3,642,977,000, representing an increase of 9.55% compared with the beginning of the year. The main reasons for the rise are that during the Reporting Period, in order to further reduce financing costs and optimize the debt structure, the Company borrowed from the controlling Shareholder RMB600 million.

As at 30 June 2020, the total equity attributable to the Shareholders of the Company was RMB3,023,506,000, increasing by 1.83% compared with the beginning of the year. The increase was mainly attributable to the operating profits generated in the Reporting Period.

As at 30 June 2020, the Group's monetary funds were RMB1,114,374,000, increasing by 61.39% compared with the beginning of the year. The main reason for the increase was that the Company borrowed from the controlling Shareholder RMB600 million in order to further reduce financing costs and optimize the debt structure.

As at 30 June 2020, the Group's accounts receivable of the Group were RMB602,359,000, increasing by 94.74% compared with the beginning of the year, mainly because of the expanded scale of sales and that payments for part of the sales business had not yet been due during the Reporting Period.

As at 30 June 2020, the Group's prepayments were RMB63,056,000, increasing by 111.78% compared with the beginning of the year, mainly because of the increase in the procurement prepayments to ensure normal production and operation during the Reporting Period.

As at 30 June 2020, the Group's other accounts receivable were RMB27,222,000, increasing by 38.35% compared with the beginning of the year, mainly because of the increase in the sales and leaseback business margin and sales margin during the Reporting Period.

As at 30 June 2020, the Group's inventories were RMB788,306,000, decreasing by 30.26% compared with the beginning of the year. The main reason for the decrease was that the Company seized market opportunities and actively consumed the inventory during the Reporting Period.

As at 30 June 2020, the Group's other current assets were RMB62,663,000, representing a decrease of 39.10% over the beginning of the year. The decrease was mainly due to reduction of the prepaid income tax and value-added tax allowance at the end of the Reporting Period.

As at 30 June 2020, the Group's short-term borrowing was RMB230,000,000, representing a decrease of 57.41% compared with the beginning of the year. Non-current liabilities due within one year was RMB517,364,000, representing an increase of 48.24% compared with the beginning of the year. Long-term loans were RMB485,508,000, representing a decrease of 17.68% compared with the beginning of the year. Long-term payables were RMB660,800,000, representing a substantial increase compared with the beginning of the year. The main reason for the changes was detailed in the reasons for changes in total liabilities.

Management Discussion And Analysis

As at 30 June 2020, the Group's notes payable were RMB224,414,000, representing a decrease of 38.37% compared with the beginning of the year. The main reason for the decrease was that the bank acceptance bills were due for payment during the Reporting Period.

As at 30 June 2020, the Group's tax payable was RMB27,875,000, representing an increase of 45.34% compared with the beginning of the year. The main reason for the increase was the increase in value-added tax and income tax payable at the end of the Reporting Period.

The Group's operating profits amounted to RMB232,721,000, increasing by 14.37% compared with the same period last year. The total profits amounted to RMB231,017,000, increasing by 15.04% compared with the same period last year. The net profits attributable to Shareholders of the Company amounted to RMB172,312,000, increasing by 15.56% compared with the same period last year. The main reason for the increase was that the Company seized market opportunities and expanded the scale of sales, actively adjusted the product structure, and continued to facilitate cost reduction and efficiency enhancement during the Reporting Period.

The Group's sales expenses amounted to RMB326,650,000 for the first half of 2020, representing a decrease of 26.91% compared with the same period last year. The decrease was mainly attributable to the Company's continued strengthening of sales expenses control and the decrease in market development and terminal sales costs.

The Group's administration expenses amounted to RMB155,101,000 for the first half of 2020, representing an increase of 4.49% compared with the same period last year. The increase was mainly attributable to the increase of depreciation and amortization expenses.

The Group's research and development expenses amounted to RMB157,167,000 for the first half of 2020, representing an increase of 18.51% compared with the same period last year. The main reason for the increase was that the Company has strengthened scientific and technological advancement, and continued to increase investment in research and development.

The Group's financial expenses amounted to RMB30,154,000 for the first half of 2020, representing an increase of 11.56% compared with the same period last year. The increase was mainly attributable to the increase in interest expenses due to the increase in the borrowing scale during the Reporting Period.

The Group's assets impairment losses amounted to RMB5,369,000 for the first half of 2020, representing a decrease of 39.25% as compared with the same period last year. The decrease was mainly attributable to the decrease of assets impairment losses accrued during the Reporting Period.

For the first half of 2020, the net cash inflow from the Group's operating activities was RMB200,602,000, representing an increase of RMB44,062,000 compared with the same period last year. The main reason for the increase was the expansion of the sales scale, the increase in sales revenue and the continuous strengthening of inventory management, as well as active inventory digestion during the Reporting Period.

For the first half of 2020, the net cash outflow from the Group's investment activities was RMB106,496,000, representing a decrease of RMB110,677,000 compared with the same period last year. The main reason for the decrease was the payment for 30% equity interest of Centrient Pharmaceutical (Zibo) Co., LTD. in the same period last year.

For the first half of 2020, the net cash inflow from the Group's financing activities was RMB294,171,000, representing a substantial increase compared with the same period last year. The reason for the increase was mainly due to the Company's obtaining of the loan RMB600,000,000 from the controlling Shareholder and the reduction in loan repayments during the Reporting Period.

Management Discussion And Analysis

The Group's main business 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	1,538,952,813.09	1,010,529,763.98	34.34%	10.55%	10.94%	Decreased by 0.23 percentage points
Preparations	1,344,752,815.46	993,976,942.77	26.08%	(4.23%)	3.72%	Decreased by 5.67 percentage points
Medical intermediates and other products	402,067,088.02	359,321,162.72	10.63%	23.17%	33.63%	Decreased by 6.99 percentage points
Total	3,285,772,716.57	2,363,827,869.47	28.06%	5.22%	10.56%	Decreased by 3.47 percentage points
By product						
Antipyretic and analgesic active pharmaceutical ingredients	1,538,952,813.09	1,010,529,763.98	34.34%	10.55%	10.94%	Decreased by 0.23 percentage points
Tablet, injection, capsule etc.	1,344,752,815.46	993,976,942.77	26.08%	(4.23%)	3.72%	Decreased by 5.67 percentage points
Medical intermediates and others	402,067,088.02	359,321,162.72	10.63%	23.17%	33.63%	Decreased by 6.99 percentage points
Total	3,285,772,716.57	2,363,827,869.47	28.06%	5.22%	10.56%	Decreased by 3.47 percentage points
By geographical location						
PRC (including Hong Kong)	1,948,474,947.43	1,367,944,132.95	29.79%	(5.42%)	(1.48%)	Decreased by 2.80 percentage points
Americas	526,156,055.65	394,305,467.75	25.06%	12.13%	23.19%	Decreased by 6.73 percentage points
Europe	550,175,286.48	406,527,858.35	26.11%	173.96%	179.02%	Decreased by 1.35 percentage points
Others	260,966,427.01	195,050,410.42	25.26%	(33.52%)	(31.29%)	Decreased by 2.43 percentage points
Total	3,285,772,716.57	2,363,827,869.47	28.06%	5.22%	10.56%	Decreased by 3.47 percentage points

Management Discussion And Analysis

An analysis of profit as compared to 2019 was as follows:

Items	Amount (RMB Yuan)		Percentage of the Total Profit (%)	
	Six Months Ended 30 June 2020	2019	Six Months Ended 30 June 2020	2019
Operating profits	232,720,933.35	387,436,288.68	100.74	101.58
Net non-operating income	(1,703,946.45)	(6,043,667.75)	(0.74)	(1.58)
Total profits	<u>231,016,986.90</u>	<u>381,392,620.93</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 2020, the Group's current ratio was 122.65%; the quick ratio was 88.25%; the turnover rate of accounts receivable was 1,441.66% (annualized operating revenue/average net accounts receivable × 100%); and the rate of inventory turnover was 492.81% (annualised operating costs/average net inventories × 100%).

The current ratio and the quick ratio increased since the end of the previous year respectively, primarily because the increase of monetary funds and the optimization of debt structure which reduced current liabilities during the Reporting Period. The Group's working capital need did not show significant seasonal fluctuation.

The Group's main sources of funds were loans and operating profits. As at 30 June 2020, the Group's total borrowing was RMB1,880,793,000 and the Group's monetary funds amounted to RMB1,114,374,000. The Group is in good credit condition and has sufficient bank credit line available to meet the demand for working capital at any time. For details of the Group's loans and debts including maturity profile, please refer to Notes VI.17, 24, 25 and 27 to the financial statements of this Report.

As at 30 June 2020, the Company's subsidiary Xinhua (Zibo) Real Estate Co., Ltd., had a mortgage deposit of RMB702,000 and received in advance regulated payments of RMB26,703,000 for property sales. The Company and Shandong Zibo XinCat Pharmaceutical Co., Ltd., the Company's subsidiary, pledged the monetary funds of RMB101,320,000 and RMB19,709,000 respectively to the bank for arrangement of bank acceptance bills. Besides, the ownership of the Company's fixed assets of RMB100,589,000 and the right-of-use assets of RMB1,471,000 does not belong to the Group. Save as disclosed, the Group did not have other assets mortgaged.

On 20 April 2020, the Company acquired 27% equity interest of Shandong Xinhua Wanbo Chemical Industry Co., Ltd. ("Wanbo Chemical") with a listing price of RMB15,906,834 and the Company's shareholding in Wanbo Chemical increased from 73% to 100%. Wanbo Chemical has become a wholly-owned subsidiary of the Company. As at 30 June 2020, the total assets of Wanbo Chemical was RMB78,233,000, and the Shareholders' equity was RMB51,692,000. From January to June 2020, the operating income was RMB60,208,000, representing an increase of 16.12% compared with the same period last year. The net profits of Wanbo Chemical was RMB3,943,000, representing a slight increase compared with that of last year. Wanbo Chemical is operating in good condition.

Management Discussion And Analysis

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

The breakdown of the Group's results is set out in the section headed "Analysis of operational and financial condition in accordance with CASBE".

As at 30 June 2020, the number of the Group's employees was 6,305. The total employee salaries in the first half of 2020 amounted to RMB288,809,000.

As at 30 June 2020, the Group's asset-liability ratio was 53.61% (total liabilities/total assets \times 100%).

The Group's current bank deposits will mainly be used as working capital for project construction, production and operation.

As at 30 June 2020, the Group had a gross gearing ratio (ie, gross liabilities divided by adjusted capital) of 62.21%, and a net gearing ratio (ie, net liabilities divided by adjusted capital) of 25.35%. For this purpose, "gross liabilities" is defined as total borrowings and "net liabilities" 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 Group's assets and liabilities were recorded in Renminbi. In the first half year of 2020, the Group's export revenue was USD173,687,000, which exposed the Group to the risks associated with exchange rate fluctuations. Therefore, the Group has taken the following major measures to lower the risks of exchange rate fluctuations: (1) the Group has increased export prices to reduce the risks of exchange rate fluctuations; (2) when entering into material export contracts, the Group has made in advance arrangements with parties that the risks associated with fluctuations in exchange rates shall be borne by both parties if the fluctuations exceed the range mutually agreed.

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 Co., Ltd. ("Xinhua-Perrigo") 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 2020, the total assets of the company were RMB308,379,000, and equity attributable to shareholders of the company was RMB235,896,000. For the first half of 2020, the operating income of the company was RMB117,795,000, representing a decrease of 5.56% as compared with the same period last year. The total profits of the company was RMB31,916,000, representing an increase of 3.61% as compared with the same period last year, the increase was mainly due to the decrease of raw material and power purchasing cost.
- (2) The total registered capital of Xinhua Pharmaceutical (Shouguang) Co., Ltd. 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 2020, the total assets of the subsidiary were RMB837,910,000, and equity attributable to shareholders of the subsidiary was RMB505,296,000. In the first half of 2020, the operating income was RMB417,302,000, representing a decrease of 3.75% as compared with the same period last year. The total profits of the company was RMB27,067,000, representing a slight decrease from the same period last year.

Management Discussion And Analysis

DIVIDEND DISTRIBUTION DURING THE REPORTING PERIOD

The Board did not propose distribution of half-year dividend for the six months ended 30 June 2020 (2019 interim dividend: Nil).

Principal Risks faced by the Company and response measures

- (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 to various extent, for example, factors including the adjustments to the Medical Insurance Catalogue, the promotion of Consistency Evaluation and lowering of the 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 on a timely basis, in order to regulate its production and management, strengthen its core competitiveness and actively respond to industry policy changes.

- (2) Risks associated with research and development of new drugs: 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 craftsmanship 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 launching on the market, it has to go through medical insurance approval and tendering to gain market access, which makes the pharmaceutical enterprises facing greater downward pressure on drug prices. Meanwhile, due to the industry policies such as macroeconomics, market competition, medical insurance budget, the drop may be exposed to the risk of a further price drop.

Response measures: Firstly, the Group will pay close attention to the development of the tenders to flexibly respond to it and adjust the tender plan. Secondly, the Group will conduct clinical studies on some of the key products after their launch on the market 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.

Management Discussion And Analysis

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

Response measures: On the one hand, the Group will strengthen monitoring and analysis of the market, reasonably 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 higher, and the cost of environmental protection are continuously increasing. Many pharmaceutical companies are even 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 actively carries out safety and environmental protection 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 2019 has been approved at the Annual General Meeting for year 2019.
3. For this Reporting Period and the six months ended 30 June 2019, 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. Save as disclosed under the section headed “Liquidity and analysis of financial resources and capital structure”, the Group did not have any material acquisitions or disposals of assets or mergers during the Reporting Period.
6. **Material related party transactions**

Related party transactions conducted during the Reporting Period are set out in Note XI Related Parties and Related Party Transactions to the financial statements of this Report compiled in accordance with CASBE.

7. In the Reporting Period, there was no trust or subcontracting of assets between the Company and other companies. During the Reporting period, the Company leased assets of RMB1,471,000 from other companies; and the other companies leased assets of RMB52,136,000 from the Company.
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 for 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 2020, 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.

Review of Major Events

11. Entrusted Management of Funds

During the Reporting Period, the Company has not engaged in any entrusted management of funds. There was no entrusted management of funds that took place before the Reporting Period and was carried over to the Reporting Period.

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%	136,250,000.00	6,000,000.00	(45,007,500.00)
601328	BANKCOMM	14,225,318.00	0.01%	42,164,496.00	-	(3,493,160.00)
Total		<u>21,225,318.00</u>	<u>-</u>	<u>178,414,496.00</u>	<u>6,000,000.00</u>	<u>(48,500,660.00)</u>

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) Co., Ltd. ("Shouguang") and Wanbo Chemical 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	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	2	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 500 tons/year; total amount of ammonia nitrogen less than 30 tons/year	No. 1 factory: 835 tons/year of COD; 75.15 tons/year of ammonia nitrogen.	None

Review of Major Events

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	Total Amount of Discharge	Approved Total Amount of Discharge	Excessive Discharge
	Discharge Mode	Discharge							
Shandong Xinhua Pharmaceutical Company Limited	Wastewater: chemical oxygen demand, ammonia nitrogen.	Continuous wastewater discharge	2	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 400 tons/year; total amount of ammonia nitrogen less than 30 tons/year	No.2 factory: 994.5 tons/ year of COD; 89.51 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 40 mg/m ³ .	Exhaust gas: NMHC concentration less than 60 mg/m ³ .	No. 1 factory: total amount of NMHC concentration less than 50 tons/year; total amount of particulate matter less than 1 tons/year.	No. 1 factory: 52.54 tons/ year of VOC; 1.35 tons/year of particulate matter	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 40 mg/m ³ ; sulfur dioxide concentration less than 40 mg/m ³ ; nitrogen oxide concentration less than 80 mg/m ³ ; particulate matter concentration less than 8 mg/m ³ .	Exhaust gas: NMHC concentration less than 60 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 7 tons/year; total amount of nitrogen oxide concentration less than 13 tons/year; total amount of particulate matter less than 2 tons/year.	No. 2 factory: 103.98 tons/ year of VOC; 11.98 tons/ year of sulfur dioxide; 32.83 tons/year of nitrogen oxide; 3.23 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 Co., Ltd.	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 500 mg/L.	Wastewater: COD concentration less than or equal to 500 mg/L.	Total amount of COD less than 65 tons/year.	90 tons/year of COD.	None
Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd.	Exhaust gas: volatile organic compound (VOC).	Exhaust gas emission at interval	3	Composite plant Purified plant	VOC concentration less than 60 mg/L.	Exhaust gas: VOC concentration less than 60 mg/m ³ .	Total amount of VOC less than 2 tons/year.	10.9 tons/year of VOC.	None
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Wastewater: chemical oxygen demand, ammonia Nitrogen, etc.	Continuous discharge	1	Main wastewater outlet	COD less than 400 mg/L; ammonia nitrogen less than 25 mg/L; total phosphate less than 8mg/L; total nitrogen less than 70mg/L.	COD 400 mg/L; ammonia nitrogen 25 mg/L; total phosphate 8mg/L; total nitrogen 70mg/L.	Total amount of COD less Than 4.7 ton/ year, ammonia nitrogen less than 0.0466 ton/ year.	COD concentration 21.7366 tons/ year, ammonia nitrogen 0.76 tons.	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 less than 50 mg/m ³ ; nitrogen oxide less than 100 mg/m ³ ; NMHC less than 120 mg/m ³ .	Sulfur dioxide 50 mg/m ³ ; nitrogen oxide 100 mg/m ³ ; NMHC 120 mg/m ³ .	Total amount of sulfur dioxide less than 12 tons/ year; nitrogen oxide less than 13 tons/year.	Total amount of sulfur dioxide 13.04 tons/ year; nitrogen oxide 15.01 tons/year.	None

Review of Major Events

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 Outlets					Total Amount of Discharge	Total Amount of Discharge	Excessive Discharge
Wanbo Chemical	Exhaust gas: sulfur dioxide, volatile organic compound (VOC), particulate matter, nitrogen oxide.	Discharge at Interval	4	dimethyl sulfate 3, 8-diazabicyclo (5,4,0) undec-7-ene 1	sulfur dioxide less than 16 mg/m ³ , volatile organic compound (VOC) less than 5.46 mg/m ³ , particulate matter less than 4.6 mg/m ³ , nitrogen oxideless than 27 mg/m ³ .	sulfur dioxide less than 50 mg/m ³ , volatile organic compound (VOC) less than 60 mg/m ³ , particulate matter less than 10 mg/m ³ , nitrogen oxideless than 100 mg/m ³ .	sulfur dioxide less than 1.5 tons/year, volatile organic compound (VOC) less than 1 tons/year, particulate matter less than 0.4 tons/year, nitrogen oxideless than 1.5 tons/year.	sulfur dioxide less than 3.33 tons/year, volatile organic compound (VOC) less than 4.093 tons/year, particulate matter less than 0.651 tons/year, nitrogen oxideless than 4.64 tons/year.	None

Construction and operation of pollution prevention & treatment facilities

(1) Waste water treatment

The Company has in place three sewage treatment facilities with treatment capacity of 12,000 tons/day. Xinhua-Pewigo has in place one sewage treatment facility with treatment capacity of 400 tons/day. Shouguang has in place six sewage treatment facilities with treatment capacities of 3,000 tons/day. Such sewage treatment facilities can all 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: the Company 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 CWO. 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.

Review of Major Events

The production wastewater generated by Xinhua Perrigo is firstly pretreated by specialised facilities in production processes: wastewater with high content of organics realizes a separation between organics and aqueous phase through evaporation fractionation and other methods to recycle the organics. Highsalt Wastewater with high content of salt recovers inorganic salts through MVR method. After flowing into the Xinhua Perrigo'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 Xinhua Perrigo's sewage treatment system for biochemical treatment. The outlet of the Company is equipped with standardised online monitoring facilities, which are operated by authorized qualified entities. Online monitoring data of wastewater discharge will be uploaded real-time to the Environmental Automatic Monitoring and Control System of Shandong Province and will be published and managed real-time by Environmental Protection Office of Shandong Province. After a qualified monitoring by the Company it is then discharged into the sewage treatment plant of the No.1 factory of the Company.

Production wastewater generated by production workshops of Shouguang is firstly pretreated by special facilities in production processes: 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 Shouguang's internal control target through environmental monitoring and sampling of the Shouguang, the sewage treatment center of the Shouguang 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.

Shouguang 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 way. Weifang Environmental Protection Bureau is in charge of the implementation of online real-time management.

Wanbo Chemical has established sewage storage facilities with the storage capacity of 300m³, and has entered into a sewage treatment agreement with the Company, allowing the sewage of Wanbo Chemical to enter the treatment center of the Company for treatment.

(2) *Waste gas control and treatment*

The Company mainly applies source point control:

First, the Company has adopted "double pipe" technology to get rid of foul smell of chemical raw materials arising from products loading, unloading, and transporting.

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

Third, the Company turns the exhausting in the reaction process into closed circulation to prevent gas emissions.

Review of Major Events

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

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

Sixth, the Company uses 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, the Company uses 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 the Company uses important exhaust gas treatment facilities like VOC monitor and VOC warning monitor for factory boundary, to monitor on real-time basis the chemical odor and the results of waste gas treatment.

Ninth, the Company uses RTO, sewage treatment plant waste gas and part of the workshop organic waste gas to conduct RTO incineration treatment.

(3) *Hazardous Wastes Treatment*

The hazardous waste treatment of the Company: First, building three incineration facilities to dispose of hazardous wastes by itself. Second, in accordance with the requirements of the Procedures of Joint Management of Hazardous Wastes Transfer in Zibo City (《淄博市危險廢物轉移聯單管理工作程序》), rendering qualified entities to dispose of part of the hazardous waste to strictly implement transfer processing 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 processing system and transfer plan approval system and transport hazardous waste to qualified units for entrusted disposal.

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

Wanbo Chemical has standardized the construction of hazardous waste warehouse as required to strengthen the standardized management of hazardous waste. As required by the “Transfer Manifest Management Procedures of Hazardous Waste in Zibo City (Shandong Province)”, Wanbo Chemical strictly implements the transfer processing system and transfer plan approval system and transports hazardous waste to qualified units for entrusted disposal.

Review of Major Events

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 abrupt environmental incidents, emergency plan for fire and explosion accidents, emergency plan for material leakage accidents, 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 “Selfmonitoring Plan of No.2 Factory”. Xinhua Perrigo, Shouguang and Wanbo Chemical have formulated their respective “Self-monitoring Plan”.

The Company started planning 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, 2015 and 2017 respectively. In 2019, 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 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. Wanbo Chemical has entrusted Shandong Dingli Environmental Testing Co., Ltd. to regularly conduct organized and unorganized exhaust gas testing, and they were up to standard.

15. Please refer to the Company’s announcements dated 25 March 2020 on <http://www.cninfo.com.cn> for the details of research, communication and interview activities during the Reporting Period.

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 2020.

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 2020 and that sufficient disclosures have been made.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of a sufficient number of independent non-executive Directors and at least one independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive Directors including one with financial management expertise, of whom the biographical details were set out in the 2019 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

(Unit: RMB)

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

Item	Notes	Balance as at 30 June 2020	Balance as at 31 December 2019
Current assets:			
Monetary funds	VI.1	1,114,374,375.14	690,469,765.67
Trading financial assets			
Derivative financial assets			
Notes receivable			
Accounts receivable	VI.2	602,358,591.15	309,307,455.92
Accounts receivable financing	VI.3	152,826,381.97	145,924,204.55
Prepayments	VI.4	63,055,571.01	29,773,518.97
Other receivables	VI.5	27,221,887.76	19,676,461.89
Including: Interest receivable			
Dividends receivable	VI.5.2		29,660.75
Inventories	VI.6	788,305,949.81	1,130,342,789.68
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets	VI.7	62,663,182.36	102,892,339.63
Total current assets		2,810,805,939.20	2,428,386,536.31
Non-current assets:			
Debt investment			
Other debt investment			
Long-term accounts receivable			
Long-term equity investments	VI.8	58,528,956.37	60,774,211.24
Other equity instrument investments	VI.9	178,414,496.00	235,474,096.00
Other non-current financial assets			
Investment properties	VI.10	52,136,030.61	72,811,661.10
Fixed assets	VI.11	2,745,378,521.51	2,806,949,444.22
Construction in progress	VI.12	505,018,924.89	392,135,611.07
Productive biological assets			
Oil and gas assets			
Right-of-use asset	VI.13	1,471,096.33	1,892,241.67
Intangible assets	VI.14	412,881,629.42	411,593,975.21
Development expenditure			
Goodwill	VI.15		
Long-term deferred expenses			
Deferred income tax assets	VI.16	31,158,183.81	26,006,832.66
Other non-current assets			
Total non-current assets		3,984,987,838.94	4,007,638,073.17
Total assets		6,795,793,778.14	6,436,024,609.48

Consolidated Balance Sheet (Continued)

(Unit: RMB)

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

Item	Notes	Balance as at 30 June 2020	Balance as at 31 December 2019
Current liabilities:			
Short-term borrowings	VI.17	230,000,000.00	540,000,000.00
Trading financial liabilities			
Derivative financial liabilities			
Notes payable	VI.18	224,414,431.10	364,123,575.62
Accounts payable	VI.19	458,035,924.61	434,388,662.65
Accounts received in advance			
Contract liabilities	VI.20	330,486,893.71	364,947,071.21
Payroll payable	VI.21	73,535,280.69	79,834,732.56
Taxes payable	VI.22	27,874,927.17	19,178,538.68
Other payables	VI.23	430,106,796.26	334,043,971.20
Including: Interest payable	VI.23.1	8,792,482.26	4,253,876.86
Dividends payable	VI.23.2	94,903,733.17	5,310,599.53
Liabilities held for sale			
Non-current liabilities due within one year	VI.24	517,364,183.51	348,997,921.06
Other current liabilities			
Total current liabilities		2,291,818,437.05	2,485,514,472.98
Non-current liabilities:			
Long-term loans	VI.25	485,508,474.38	589,779,008.96
Bonds payable			
Including: Preferred stock			
Perpetual bond			
Lease liabilities	VI.26	459,739.33	855,959.44
Long-term payables	VI.27	660,799,702.12	50,286,746.46
Long-term Payroll payable			
Estimated liabilities			
Deferred income	VI.28	149,760,542.80	141,673,879.14
Deferred income tax liabilities	VI.16	51,068,760.31	53,823,587.68
Other non-current liabilities	VI.29	3,561,500.00	3,561,500.00
Total non-current liabilities		1,351,158,718.94	839,980,681.68
Total liabilities		3,642,977,155.99	3,325,495,154.66

Consolidated Balance Sheet (Continued)

(Unit: RMB)

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

Item	Notes	Balance as at 30 June 2020	Balance as at 31 December 2019
Shareholders' equity:			
Capital stock	VI.30	621,859,447.00	621,859,447.00
Other equity instruments			
Including: Preferred stock			
Perpetual bond			
Capital reserve	VI.31	636,097,641.57	634,142,967.70
Less: Treasury stock			
Other comprehensive income	VI.32	134,047,026.85	182,008,870.59
Special reserve	VI.33	5,346,705.05	1,436,261.16
Surplus reserve	VI.34	278,949,576.01	278,949,576.01
Undistributed profits	VI.35	1,347,205,355.40	1,250,630,948.35
Total equity attributable to the shareholders of parent company		3,023,505,751.88	2,969,028,070.81
Minority shareholders' interests		129,310,870.27	141,501,384.01
Total shareholders' equity		3,152,816,622.15	3,110,529,454.82
Total liabilities and shareholder's equity		6,795,793,778.14	6,436,024,609.48

Parent Company's Balance Sheet

(Unit: RMB)

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

Item	Notes	Balance as at 30 June 2020	Balance as at 31 December 2019
Current assets:			
Monetary funds		692,895,650.89	298,770,314.96
Trading financial assets			
Derivative financial assets			
Notes receivable			
Accounts receivable	XVII.1	509,469,660.72	274,018,243.04
Accounts receivable financing	XVII.2	80,519,081.55	94,079,080.33
Prepayments		24,967,105.68	13,444,428.58
Other receivables	XVII.3	494,838,369.19	456,056,466.67
Including: Interest receivable			
Dividends receivable	XVII.3.2	18,860,182.44	18,889,843.19
Inventories		402,950,014.05	633,343,633.90
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		<u>21,348,671.29</u>	<u>58,246,508.06</u>
Total current assets		<u>2,226,988,553.37</u>	<u>1,827,958,675.54</u>
Non-current assets:			
Debt investment			
Other debt investment			
Long-term accounts receivable			
Long-term equity investments	XVII.4	685,042,133.65	671,380,554.52
Other equity instrument investments		178,414,496.00	235,474,096.00
Other non-current financial assets			
Investment properties		81,819,731.95	103,889,231.54
Fixed assets		2,160,108,964.06	2,222,838,029.22
Construction in progress		414,468,881.92	301,679,067.38
Productive biological assets			
Oil and gas assets			
Right-of-use asset		758,108.68	1,010,811.58
Intangible assets		231,405,132.84	227,579,525.65
Development expenditure			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets			
Other non-current assets			
Total non-current assets		<u>3,752,017,449.10</u>	<u>3,763,851,315.89</u>
Total assets		<u>5,979,006,002.47</u>	<u>5,591,809,991.43</u>

Parent Company's Balance Sheet (Continued)

(Unit: RMB)

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

Item	Notes	Balance as at 30 June 2020	Balance as at 31 December 2019
Current liabilities:			
Short-term borrowings		210,000,000.00	540,000,000.00
Trading financial liabilities			
Derivative financial liabilities			
Notes payable		300,730,034.34	336,302,214.32
Accounts payable		381,947,534.62	364,182,344.83
Accounts received in advance			
Contract liabilities		38,876,015.31	75,004,214.72
Payroll payable		55,439,466.22	66,720,107.14
Taxes payable		8,053,664.54	9,540,538.19
Other payables		336,406,242.79	303,811,080.08
Including: Interest payable		8,781,093.36	4,253,876.86
Dividends payable		79,933,733.17	5,310,599.53
Liabilities held for sale			
Non-current liabilities due within one year		517,500,813.54	348,914,517.54
Other current liabilities			
Total current liabilities		1,848,953,771.36	2,044,475,016.82
Non-current liabilities:			
Long-term loans		485,508,474.38	589,779,008.96
Bonds payable			
Including: Preferred stock			
Perpetual bond			
Lease liabilities		263,536.17	527,072.35
Long-term payables		660,799,702.12	50,286,746.46
Long-term Payroll payable			
Estimated liabilities			
Deferred income		148,711,048.70	140,576,163.70
Deferred income tax liabilities		41,998,466.11	48,906,631.75
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		1,340,842,727.48	833,637,123.22
Total liabilities		3,189,796,498.84	2,878,112,140.04

Parent Company's Balance Sheet (Continued)

(Unit: RMB)

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

Item	Notes	Balance as at 30 June 2020	Balance as at 31 December 2019
Shareholders' equity:			
Capital stock		621,859,447.00	621,859,447.00
Other equity instruments			
Including: Preferred stock			
Perpetual bond			
Capital reserve		676,319,499.96	672,137,151.96
Less: Treasury stock			
Other comprehensive income		133,610,801.30	182,111,461.30
Special reserve		1,411,136.01	
Surplus reserve		272,695,588.94	272,695,588.94
Undistributed profits		<u>1,083,313,030.42</u>	<u>964,894,202.19</u>
Total shareholders' equity		<u>2,789,209,503.63</u>	<u>2,713,697,851.39</u>
Total liabilities and shareholder's equity		<u>5,979,006,002.47</u>	<u>5,591,809,991.43</u>

Consolidated Income Statement

(Unit: RMB)

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

Item	Notes	Amount in Current Period	Amount in Previous Period
I. Gross revenue		3,285,772,716.57	3,122,647,157.46
Including: Operating revenue	VI.36	3,285,772,716.57	3,122,647,157.46
II. Total operating cost		3,065,966,315.61	2,924,331,367.91
Including: Operating cost	VI.36	2,363,827,869.47	2,138,113,852.29
Taxes and surcharges	VI.37	33,066,486.57	31,225,907.54
Selling expenses	VI.38	326,650,283.59	446,911,864.33
Administration expenses	VI.39	155,101,017.99	148,430,407.74
Research and development expense	VI.40	157,166,732.04	132,619,075.23
Financial expenses	VI.41	30,153,925.95	27,030,260.78
Including: Interest expenses		31,476,188.17	28,097,193.31
Interest income		2,101,311.70	1,864,104.60
Add: Other income	VI.42	16,171,604.82	16,083,994.50
Investment income (losses to be listed with "-")	VI.43	3,754,745.13	-694,074.12
Including: Income from investment into affiliates and joint ventures		-2,245,254.87	-694,074.12
Income from changes in fair value (losses to be listed with "-")			
Credit impairment loss (losses to be listed with "-")	VI.44	-1,431,451.78	-1,661,768.44
Asset impairment loss (losses to be listed with "-")	VI.45	-5,369,396.50	-8,837,908.34
Gains from asset disposals (losses to be listed with "-")	VI.46	-210,969.28	276,072.47
III. Operating profit (losses to be listed with "-")		232,720,933.35	203,482,105.62
Add: Non-operating income	VI.47	774,125.65	1,545,298.01
Less: Non-operating expenditure	VI.48	2,478,072.10	4,214,920.02
IV. Total profits (total loss to be listed with "-")		231,016,986.90	200,812,483.61
Less: Income tax expense	VI.49	42,980,002.53	37,349,250.63
V. Net profit (net loss to be listed with "-")		188,036,984.37	163,463,232.98
(I) By operation continuity			
(1) Net profit from continued operations (listed with "-" for net loss)		188,036,984.37	163,463,232.98
(2) Net profit from discontinued operations (listed with "-" for net loss)			
(II) By ownership			
(1) Net profit attributable to shareholders of parent company (listed with "-" for net loss)		172,311,861.57	149,112,301.39
(2) Minority interest (listed with "-" for net loss)		15,725,122.80	14,350,931.59

Consolidated Income Statement (Continued)

(Unit: RMB)

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

Item	Notes	Amount in Current Period	Amount in Previous Period
VI Net after-tax other comprehensive income	VI.50	-47,811,421.41	36,712,253.53
Net after-tax other comprehensive income attributable to the owners of the parent company		-47,961,843.74	36,698,417.78
(I) Other comprehensive income not subject to reclassification to profit or loss	VI.50	-48,500,660.00	36,645,485.60
1. Change in remeasurement of defined benefit plans			
2. Other comprehensive income not subject to reclassification to loss or profit under equity method			
3. Change in fair value of other equity instrument investments	VI.50	-48,500,660.00	36,645,485.60
4. Change in fair value of the company's own credit risk			
5. Others			
(II) Other comprehensive income to be reclassified to profit or loss in future	VI.50	538,816.26	52,932.18
1. Other comprehensive income to be reclassified to loss or profit under equity method			
2. Change in fair value of other debt investment			
3. Financial asset reclassified to other comprehensive income			
4. Provision for credit impairment of other debt investment			
5. Cash flow hedging reserve			
6. Conversion difference of foreign currency statement	VI.50	538,816.26	52,932.18
7. Others			
Net after-tax other comprehensive income attributable to minority shareholders		150,422.33	13,835.75
VII. Total comprehensive income		140,225,562.96	200,175,486.51
Total comprehensive income attributable to the shareholders of parent company		124,350,017.83	185,810,719.17
Total comprehensive income attributable to the minority shareholders		15,875,545.13	14,364,767.34
VIII. Earnings per share:			
(I) Basic earnings per share	VI.51	0.28	0.24
(II) Diluted earnings per share	VI.51	0.28	0.24

Parent Company's Income Statement

(Unit: RMB)

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

Item	Notes	Amount in Current Period	Amount in Previous Period
I. Gross revenue	XVII.5	1,807,192,520.98	1,620,887,029.46
Less: Operating cost	XVII.5	1,313,225,942.35	1,174,376,065.69
Taxes and surcharges		19,531,459.07	15,778,204.78
Selling expenses		46,004,788.85	31,248,203.55
Administration expenses		108,533,978.22	102,588,929.73
Research and development expense		129,493,642.25	109,854,879.30
Financial expenses		29,888,282.10	26,790,166.35
Including: Interest expenses		31,331,685.08	27,953,824.54
Interest income		1,379,686.07	1,437,164.57
Add: Other income		15,405,848.00	15,856,509.50
Investment income (losses to be listed with "-")	XVII.6	49,784,745.13	3,197,189.27
Including: Income from investment into affiliates and joint ventures		-2,245,254.87	515,231.31
Income from changes in fair value (losses to be listed with "-")		-920,595.18	658,287.32
Credit impairment loss(losses to be listed with "-")		-6,352,666.12	-6,562,222.36
Asset impairment loss (losses to be listed with "-")		-215,753.17	425,063.72
Gains from asset disposals (losses to be listed with "-")		-215,753.17	425,063.72
II. Operating profit (losses to be listed with "-")		218,216,006.80	173,825,407.51
Add: Non-operating income		747,477.56	1,460,498.67
Less: Non-operating expenditure		1,404,573.62	3,992,502.74
III. Total profits (total loss to be listed with "-")		217,558,910.74	171,293,403.44
Less: Income tax expense		24,516,948.87	25,799,103.57
IV. Net profit (net loss to be listed with "-")		193,041,961.87	145,494,299.87
(I) Net profit from continued operations (listed with "-" for net loss)		193,041,961.87	145,494,299.87
(II) Net profit from discontinued operations (listed with "-" for net loss)			

Parent Company's Income Statement (Continued)

(Unit: RMB)

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

Item	Notes	Amount in Current Period	Amount in Previous Period
V. Net after-tax other comprehensive income		-48,500,660.00	36,645,485.60
(I) Other comprehensive income not subject to reclassification to profit or loss		-48,500,660.00	36,645,485.60
1. Change in remeasurement of defined benefit plans			
2. Other comprehensive income not subject to reclassification to loss or profit under equity method			
3. Change in fair value of other equity instrument investments		-48,500,660.00	36,645,485.60
4. Change in fair value of the company's own credit risk			
5. Others			
(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 method			
2. Change in fair value of other debt investment			
3. Financial asset reclassified to other comprehensive income			
4. Provision for credit impairment of other debt investment			
5. Cash flow hedging reserve			
6. Conversion difference of foreign currency statement			
7. Others			
VI. Total comprehensive income		144,541,301.87	182,139,785.47
VII. Earnings per share:			
(I) Basic earnings per share			
(II) Diluted earnings per share			

Consolidated Cash Flow Statement

(Unit: RMB)

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

Item	Notes	Amount in Current Period	Amount in Previous Period
I. Cash flow from operating activities:			
Cash received from sale of goods or rendering services		2,748,887,004.39	2,344,543,843.39
Refunds of taxes and levies		56,962,874.26	37,012,625.85
Other cash received from operation-related activities	VI.52	55,756,043.04	50,337,339.50
Subtotal of cash inflows from operating activities		<u>2,861,605,921.69</u>	<u>2,431,893,808.74</u>
Cash paid for goods purchased and labor services received		1,775,714,159.09	1,390,777,030.10
Cash paid to and for employees		365,863,479.38	368,524,081.71
Cash paid for taxes and surcharges		132,536,472.89	157,513,725.30
Other cash paid related to operating activities	VI.52	386,890,136.99	358,539,222.37
Subtotal of cash outflows from operating activities		<u>2,661,004,248.35</u>	<u>2,275,354,059.48</u>
Net cash flow from operating activities		<u>200,601,673.34</u>	<u>156,539,749.26</u>
II. Cash flow generated from investing activities:			
Cash received from redemption of investments			
Cash received from returns on investments		6,000,000.00	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		212,405.09	1,238,663.59
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		<u>6,212,405.09</u>	<u>1,238,663.59</u>
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		112,708,621.03	161,644,961.40
Cash paid for investments			56,766,721.32
Net cash paid for acquisitions of subsidiaries and other business entities			
Other cash paid related to investing activities	VI.52		
Subtotal of cash outflows from investing activities		<u>112,708,621.03</u>	<u>218,411,682.72</u>
Net cash flow from investing activities		<u>-106,496,215.94</u>	<u>-217,173,019.13</u>

Consolidated Cash Flow Statement (Continued)

(Unit: RMB)

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

Item	Notes	Amount in Current Period	Amount in Previous Period
III. Cash flows from financing activities:			
Cash received from capital contributions			
Including: cash received from subsidiaries' receipt of investment from minority shareholders			
Cash received from loans		298,500,000.00	811,036,453.42
Other cash received relating to financing activities	VI.52	621,000,000.00	_____
Subtotal of cash inflows from financing activities		919,500,000.00	811,036,453.42
Cash paid for repayment of debts		546,885,267.29	786,000,000.00
Cash paid for distributing dividends and profits or paying interest		28,740,235.82	25,737,501.10
Including: dividends and profits paid to minority shareholders by subsidiaries			1,442,862.04
Other cash paid related to financing activities	VI.52	49,703,835.57	49,173,149.01
Subtotal of cash outflows from financing activities		625,329,338.68	860,910,650.11
Net cash flows from financing activities		294,170,661.32	-49,874,196.69
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		39,156.32	-416,930.97
V. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the beginning of the period		577,624,593.37	687,243,142.56
		388,315,275.04	-110,924,397.53
VI. Cash and cash equivalents at the end of the period			
		965,939,868.41	576,318,745.03

Parent Company Cash Flow Statement

(Unit: RMB)

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

Item	Notes	Amount in Current Period	Amount in Previous Period
I. Cash flow from operating activities:			
Cash received from sale of goods or rendering services		1,335,200,655.23	1,112,289,152.76
Refunds of taxes and levies		38,512,740.33	30,165,994.29
Other cash received from operation-related activities		39,557,050.85	50,149,003.01
Subtotal of cash inflows from operating activities		1,413,270,446.41	1,192,604,150.06
Cash paid for goods purchased and labor services received		826,757,601.57	731,397,653.50
Cash paid to and for employees		244,206,165.35	261,462,492.39
Cash paid for taxes and surcharges		43,546,235.02	45,364,185.63
Other cash paid related to operating activities		137,556,893.81	67,216,135.20
Subtotal of cash outflows from operating activities		1,252,066,895.75	1,105,440,466.72
Net cash flow from operating activities		161,203,550.66	87,163,683.34
II. Cash flow generated from investing activities:			
Cash received from redemption of investments			
Cash received from returns on investments		52,030,000.00	2,681,957.96
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		273,555.53	1,127,910.00
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		52,303,555.53	3,809,867.96
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		93,285,343.43	137,524,132.70
Cash paid for investments		15,906,834.00	56,766,721.32
Net cash paid for acquisitions of subsidiaries and other business entities			
Other cash paid related to investing activities		32,500,000.00	1,000,000.00
Subtotal of cash outflows from investing activities		141,692,177.43	195,290,854.02
Net cash flow from investing activities		-89,388,621.90	-191,480,986.06

Parent Company Cash Flow Statement (Continued)

(Unit: RMB)

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

Item	Notes	Amount in Current Period	Amount in Previous Period
III. Cash flows from financing activities:			
Cash received from capital contributions			
Cash received from loans		278,500,000.00	806,036,453.42
Other cash received relating to financing activities		621,000,000.00	<u> </u>
Subtotal of cash inflows from financing activities		899,500,000.00	806,036,453.42
Cash paid for repayment of debts		546,885,267.29	781,000,000.00
Cash paid for distributing dividends and profits or paying interest		28,618,374.71	24,156,602.60
Other cash paid related to financing activities		33,797,001.57	49,173,149.01
Subtotal of cash outflows from financing activities		609,300,643.57	854,329,751.61
Net cash flows from financing activities		290,199,356.43	-48,293,298.19
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-768,985.26	-97,178.05
V. Net increase in cash and cash equivalents		361,245,299.93	-152,707,778.96
Add: Cash and cash equivalents at the beginning of the period		230,330,314.96	417,895,625.44
VI. Cash and cash equivalents at the end of the period		591,575,614.89	265,187,846.48

Consolidated Statement of Changes in Shareholder's Equity

(Unit: RMB)

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

Item	Six Months Ended 30 June 2020													Minority Shareholders' Equity	Total Shareholder's Equity
	Equity Attributable to the Shareholders of Parent Company											Subtotal			
	Capital Stock	Other Equity Instruments			Capital Surplus	Treasury Stock	Less: Comprehensive Income	Special Reserve	Surplus Reserve	General Risk Reserve	Undistributed Profits		Others		
Preferred Stock	Perpetual Bond	Others													
I. Balance at end of previous year	621,859,447.00				634,142,967.70		182,008,870.59	1,436,261.16	278,949,576.01		1,250,630,948.35		2,969,028,070.81	141,501,384.01	3,110,529,454.82
Add: Changes in accounting policies															
Corrections of prior period accounting errors															
Business merger under common control															
Others															
II. Balance at the beginning of current year	621,859,447.00				634,142,967.70		182,008,870.59	1,436,261.16	278,949,576.01		1,250,630,948.35		2,969,028,070.81	141,501,384.01	3,110,529,454.82
III. Current year increase/decrease (decrease to be listed with "-")					1,954,673.87		-47,961,843.74	3,910,443.89			96,574,407.05		54,477,681.07	-12,190,513.74	42,287,167.33
(I) Total comprehensive income							-47,961,843.74				172,311,861.57		124,350,017.83	15,875,545.13	140,225,562.96
(II) Invested and decreased capital of shareholders					1,954,673.87								1,954,673.87	-13,679,159.87	-11,724,486.00
1. Shareholder's contribution of common stock															
2. Contribution of capital from holders of other equity instruments															
3. Amount of share-based payment recognized as shareholders' interest					4,182,348.00								4,182,348.00		4,182,348.00
4. Others					-2,227,674.13								-2,227,674.13	-13,679,159.87	-15,906,834.00
(III) Profit distribution											-74,623,133.64		-74,623,133.64	-14,970,000.00	-89,593,133.64
1. Appropriation of surplus reserves															
2. Appropriation of general risk reserve															
3. Distribution to owners (or shareholders)											-74,623,133.64		-74,623,133.64	-14,970,000.00	-89,593,133.64
4. Others															
(IV) Internal carryover in shareholder's equity															
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 earnings															
5. Other comprehensive income carried forward to retained earnings															
6. Others															
(V) Special reserve								3,910,443.89			-1,114,320.88		2,796,123.01	583,101.00	3,379,224.01
1. Appropriation in current year								10,256,608.87					10,256,608.87	583,101.00	10,839,709.87
2. Amount used in current year								6,346,164.98			1,114,320.88		7,460,485.86		7,460,485.86
(VI) Others															
IV. Balance at end of current period	621,859,447.00				636,097,641.57		134,047,026.85	5,346,705.05	278,949,576.01		1,347,205,355.40		3,023,505,751.88	129,310,870.27	3,152,816,622.15

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

(Unit: RMB)

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

Item	Six Months Ended 30 June 2019													Minority Shareholders' Equity	Total Shareholder's Equity
	Equity Attributable to the Shareholders of Parent Company											Subtotal			
	Capital Stock	Other Equity Instruments			Capital Surplus	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	General Risk Reserve	Undistributed Profits		Others		
	Preferred Stock	Perpetual Bond	Others												
I. Balance at the end of previous year	621,859,447.00			637,949,953.70		142,645,071.04	1,204,746.95	256,110,049.68		1,035,690,153.67		2,695,459,422.04	119,588,899.77	2,815,048,321.81	
Add: Changes in accounting policies															
Corrections of prior period accounting errors															
Business merger under common control															
Others															
II. Balance at the beginning of current year	621,859,447.00			637,949,953.70		142,645,071.04	1,204,746.95	256,110,049.68		1,035,690,153.67		2,695,459,422.04	119,588,899.77	2,815,048,321.81	
III. Current year increase/decrease (decrease to be listed with "-")					4,182,349.00		36,698,417.78	-94,660.99		86,926,356.69		127,712,462.48	12,886,893.71	140,599,356.19	
(I) Total comprehensive income							36,698,417.78			149,112,301.39		185,810,719.17	14,364,767.34	200,175,486.51	
(II) Invested and decreased capital of shareholders				4,182,349.00								4,182,349.00		4,182,349.00	
1. Shareholder's contribution of common stock															
2. Contribution of capital from holders of other equity instruments															
3. Amount of share-based payment recognized as shareholders' interest				4,182,349.00								4,182,349.00		4,182,349.00	
4. Other															
(III) Profit distribution										-62,185,944.70		-62,185,944.70	-1,442,862.04	-63,628,806.74	
1. Appropriation of surplus reserves															
2. Appropriation of general risk reserve															
3. Distribution to owners (or shareholders)										-62,185,944.70		-62,185,944.70	-1,442,862.04	-63,628,806.74	
4. Others															
(IV) Internal carryover in shareholder's equity															
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 earnings															
5. Other comprehensive income carried forward to retained earnings															
6. Others															
(V) Special reserve								-94,660.99				-94,660.99	-35,011.59	-129,672.58	
1. Appropriation in current year								13,764,802.37				13,764,802.37	349,950.10	14,114,752.47	
2. Amount used in current year								13,859,463.36				13,859,463.36	384,961.69	14,244,425.05	
(VI) Others															
IV. Balance at end of current period	621,859,447.00			642,132,302.70		179,343,488.82	1,110,085.96	256,110,049.68		1,122,616,510.36		2,823,171,894.52	132,475,793.48	2,955,647,678.00	

Parent Company Statement of Changes in Shareholder's Equity

(Unit: RMB)

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

Item	Six Months Ended 30 June 2020										Total of Shareholder's Equity	
	Capital Stock	Other Equity Instruments			Capital Surplus	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Undistributed Profits		Others
I. Balance at the end of previous year	621,859,447.00				672,137,151.96		182,111,461.30		272,695,588.94	964,894,202.19		2,713,697,851.39
Add: Changes in accounting policies												
Corrections of prior period accounting errors												
Others												
II. Balance at the beginning of current year	621,859,447.00				672,137,151.96		182,111,461.30		272,695,588.94	964,894,202.19		2,713,697,851.39
III. Current year increase/decrease (decrease to be listed with "-")					4,182,348.00		-48,500,660.00	1,411,136.01		118,418,828.23		75,511,652.24
(I) Total comprehensive income							-48,500,660.00			193,041,961.87		144,541,301.87
(II) Invested and decreased capital of shareholders					4,182,348.00							4,182,348.00
1. Shareholder's contribution of common stock												
2. Contribution of capital from holders of other equity instruments												
3. Amount of share-based payment recognized as shareholders' interest					4,182,348.00							4,182,348.00
4. Others												
(III) Profit distribution										-74,623,133.64		-74,623,133.64
1. Appropriation of surplus reserves										-74,623,133.64		-74,623,133.64
2. Distribution to shareholders												
3. Others												
(IV) Internal carryover in shareholder's equity												
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 earnings												
5. Other comprehensive income carried forward to retained earnings												
6. Others												
(V) Special reserve								1,411,136.01				1,411,136.01
1. Appropriation in current year								5,146,386.48				5,146,386.48
2. Amount used in current year								3,735,250.47				3,735,250.47
(VI) Others												
IV. Balance at end of current period	621,859,447.00				676,319,499.96		133,610,801.30	1,411,136.01	272,695,588.94	1,083,313,030.42		2,789,209,503.63

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

(Unit: RMB)

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

Item	Six Months Ended 30 June 2019										Total of Shareholder's Equity	
	Capital Stock	Other Equity Instruments			Capital Surplus	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Undistributed Profits		Others
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												
Others												
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					4,182,349.00							4,182,349.00
1. Shareholder's contribution of common stock												
2. Contribution of capital from holders of other equity instruments												
3. Amount of share-based payment recognized as shareholders' interest					4,182,349.00							4,182,349.00
4. Others												
(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 equity												
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 earnings												
5. Other comprehensive income carried forward to retained earnings												
6. Others												
(V) Special reserve									5,125,109.61			5,125,109.61
1. Appropriation in current year									5,125,109.61			5,125,109.61
2. Amount used in current year												
(VI) Others												
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

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” when including 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 PRC to the public in Shenzhen (as the listing venue) 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 PRC in November 1998. In September 2001, the Company issued 30 million common stock of A shares after obtaining approval, meanwhile reducing the 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 RMB-shares to 2 specific investors with the issued price of RMB11.15 after approval. The registered capital of the Company increased by RMB21,040,591.00.

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 conversion 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, 2020, the registered capital of the Company was RMB621,859,447.00, and the capital structure is as follows:

Class of Shares	Quantity 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 “Xinhua brand” antipyretic analgesics, cardiovascular and cerebrovascular, anti-infectives and central nervous system and other drugs.

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 controlling Shareholder of the Company is HHC. The ultimate controller of the Company remains the State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”) of Shandong province. The general meeting of Shareholders is the Company’s authority, which is entitled to exercise the Company’s operational policy, financing, investment, profit distribution and other resolution rights on significant events in accordance with the law. The Board is responsible to the general meeting of Shareholders, and shall exercise the operational decision-making of the Company in accordance with the law; the managers are responsible for organising and implementing the general meeting of Shareholders and resolution matters of the Board, as well as 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 Province.

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The Group’s consolidated financial statements consist of 13 companies, including Shandong Xinhua Pharmaceutical Trade Co., Ltd., Xinhua Pharmaceutical (Shouguang) Co., Ltd. and Shandong Zibo XinCat Pharmaceutical Co., Ltd, etc.

See relevant details of “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 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” (Amendment in 2014) and related provisions, relevant disclosures required by the Hong Kong Companies Ordinance and the Main Board Listing Rules and GEM Listing Rules of The Stock Exchange of Hong Kong Limited, and accounting policies and accounting estimates which are described in notes “IV. important accounting policies and accounting estimates”.

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 a significant doubt on the ability of 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 provision for accounts receivable, measurement of issued 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 ASBE

The financial statements of the Company have met the requirements of 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. Period of operating cycle

The operating cycle of the Company is 12 months, which is used as the dividing standard of liquidity of asset and liability.

4. Recording currency

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 combinations under common control and business combinations 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.

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 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 business merger, the difference is included in current non-business income.

6. Compilation method of consolidated financial statements

The Group's scope of consolidated financial statements includes all controlled subsidiaries.

During preparation of consolidated financial statements, in the event that the accounting policies or accounting period adopted by subsidiaries are inconsistent 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 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 profit or loss, other comprehensive income and total comprehensive income must be respectively listed under "minority shareholders' equity, minority interest income, other comprehensive income attributable to the minority shareholders, and total comprehensive income attributable to the minority shareholders" in the consolidated financial statements.

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

Notes to the Interim Financial Statements (Continued)

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

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

If the equity of an investee under the common control is acquired step by step through multiple transactions and the acquisition eventually forms a business merger, the accounting treatment of the consolidated financial statements should be supplementarily disclosed in the Reporting Period during which control was obtained. For example, if the equity of an investee under the common control is acquired step by step through multiple transactions and the acquisition eventually forms a business merger, at the time of preparing the financial statements, adjustments should be made as if the current state existed from the beginning of the ultimate controller's implementation of control. As for the compilation of comparative statements, related assets and liabilities of the combined party should be included in the comparative statements of the Group's consolidated financial statements, and adjustments, which refer to the net asset arising from the consolidation, are made upon the related item of equity in the statements. However, the above modifications should be made no earlier than the time when the combined party and the Group are under the control of the ultimate controller simultaneously. To avoid double counting of the value of the combined party's net asset, the long-term equity investments held by the Group before the consolidation, and the recognized changes of profit or loss, other comprehensive income and net asset occurring during the period from the later of the date of the acquisition of the original equity or the date both the Group and the merged party are under the control of the ultimate controller simultaneously, to the combination date, should be offset from the opening retained earnings and current profit or loss of comparative statements separately.

For the subsidiary acquired in the business merger not under the control of the same entity, its business performance and cash flow are included in the consolidated financial statements since the date when the Group acquires the control. 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.

If the equity of an investee not under the same control is acquired step by step through multiple transactions and the acquisition eventually forms a business combination, the accounting treatment in the consolidated financial statements should be supplementarily disclosed in the Reporting Period when obtaining control. For example, if the equity of an investee not under the same control is acquired step by step through multiple transactions and the acquisition eventually forms a business combination, at the time of preparing the financial statements, the acquiree's equity held before the acquisition date should be re-measured by the fair value at the acquisition date, and the difference between the fair value and book value will be recorded into the current period's investment income; other comprehensive income and changes in equity except for the net profit or loss, other comprehensive income and profit distribution, which arise from the acquiree's equity held before the acquisition date and measured by equity method, will be transferred as investment profit or loss in the period that the acquisition occurs. However, the principle is not applicable to the other comprehensive income that arises from the changes of net liabilities or net assets due to the investee's recalculation of defined benefit plans.

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

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

Where the Group disposes of the equity investment in subsidiaries until losing the right of control step by step through a number of transactions, if the disposal of equity investments in subsidiaries up to the loss of control rights belongs to a package deal transactions, it should be treated as a transaction that disposes of the subsidiary and loses control to make the accounting treatment. However, the balance between each disposal price before losing the right of control and the share of the net assets of such subsidiary which should be entitled to when disposing of the investment should be recognized as the other comprehensive income in the consolidated financial statements, and will all be transferred into the current profit or loss when losing the right of control.

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, and are of strong liquidity and readily convertible to known amounts of cash with low risk of value change.

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. Foreign currency transactions and translation of foreign currency financial statements

(1) Foreign currency transaction

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

Notes to the Interim Financial Statements (Continued)

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

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 contract cash flows of financial assets, the Group classified the financial assets as the financial assets measured at amortized cost, financial assets measured at fair value and their changes are recognized in other comprehensive income, and financial assets measured at fair value and their changes recognized in the current profit or loss.

The Group classifies the financial assets that simultaneously meet the following conditions as the financial assets measured at amortized cost: ① The business model of managing the financial assets aims to collect the contract cash flows. ② The contract clauses of the financial assets stipulate that the cash flows generated on a specific date are only used to pay for the principal and interests 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. 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, the 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 the financial assets that simultaneously meet the following conditions as the financial assets measured at fair value and whose changes are recorded in other comprehensive income: ① The business model of managing the financial assets aims at both collecting contract cash flows and selling the financial assets. ② The contract clauses of the financial assets stipulate that the cash flows generated on a specific date are only used to pay for the principal and interests 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, as to such type of financial assets, except for credit impairment losses or gains, exchange gains or losses, and interest on the financial asset calculated according to effective interest rate method, all other gains or losses generated shall be recorded in other comprehensive income. 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 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))

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 assets by the actual interest rate, except in the following cases: ① For the financial assets that are purchased or derived from credit impairment already incurred, since the initial recognition, the interest income shall be calculated and determined according to the amortized cost of the financial asset and the actual interest rate adjusted by credit adjustments. ② For the financial assets that are purchased or derived from credit impairment not yet incurred, but to which the credit impairment has incurred in the subsequent period, during the subsequent period, the interest income of the financial asset shall be calculated and determined according to the amortized cost of the financial assets and the actual interest rate.

The Group designates the non-tradable equity instrument investments as the financial assets measured at fair value and whose changes are recorded in other comprehensive income. Once the designation has been made, it shall not be revoked. For the non-tradable equity instrument investments designated by the Group which are measured at fair value and whose changes are recorded in other comprehensive income, the initial measurement shall be carried out according to the fair value, with the relevant transaction costs recorded in the initial recognition amount. Except that the obtained dividend (except for the part of investment cost recovery) is recognized in current profit or loss, all the other related gains or losses (including exchange gains or losses) are recorded in other comprehensive income, and shall not be subsequently transferred into current profit or loss. When such financial assets are terminated in recognition, the accumulated gains or losses previously recorded in other comprehensive income are transferred out from other comprehensive income and recorded in retained earnings.

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

For the financial assets that consist of the contingent consideration recognized by the Group in the business combination not under common control, such financial assets are classified as the financial assets measured at fair value and whose changes are recorded in 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))*

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

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

Where the overall transfer of financial assets satisfies the conditions for termination of recognition, the difference between the book value of the transferred financial assets 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 derecognized part (If the condition involves the contract provisions of the transferred financial assets, the cash flows generated on specific dates only refer to the payment for the principal and the payments for the interests which are based on the amount of unpaid principal).

Where the partial transfer of financial assets meets the conditions for termination of recognition, the book value of the transferred financial assets as a whole shall be allocated between the derecognized part and the part not derecognized according to their respective relative fair value. 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 derecognized part and which has been previously recognized in other comprehensive income (If the condition involves the contract provisions of the transferred financial assets, the cash flows generated on specific dates only refer to the payment for the principal and the payments for the interests which are based on the amount of unpaid principal) and the allocated overall book value of the aforementioned financial assets shall be recognized into 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))

(2) Financial liabilities

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

The financial liabilities of the Group are classified as financial liabilities measured at fair value and whose changes are recorded in current profit or loss and other financial liabilities.

The financial liabilities measured at fair value and whose changes 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 and whose changes are recorded in current profit or loss. They are subsequently measured at fair value. The gain or loss arising from changes in fair value, dividends and the dividend and interest expenditures paid related to such financial liabilities are recorded in current profit or loss.

The Group adopts the effective interest rate method to carry out the subsequent measurement on the 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: ①The financial liabilities measured at fair value and whose changes are recorded in current profit or loss, including trading financial liabilities (including the derivative instruments that belong to financial liabilities) and the financial liabilities designated at the time of initial recognition as financial liabilities measured at fair value and whose changes are recorded in current profit or loss; ②Financial asset transfer failing to meet the recognition conditions or financial liabilities resulting from continued involvement in the transferred financial assets; ③The financial guarantee contracts that do not belong to the conditions stated in the aforementioned ① or ②, and the loan commitments at the interest rate lower than the market interest rates that do not belong to the condition stated in the aforementioned ①.

The financial liabilities formed by the contingent consideration recognized by the purchaser in the business combination not under common control are measured at fair value and recorded in current profit or loss by the Group as the basis to carry out the accounting treatment.

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) *De-recognition conditions of financial liabilities*

When the current obligations of the financial liabilities are entirely or partially released, the released portion of such financial liabilities or obligations shall be derecognized. When the Group signs an agreement with the creditors to replace the current financial liabilities by assuming new financial liabilities, and the new financial liabilities are substantially different in the contractual terms with the current financial liabilities, the Group derecognizes the current financial liabilities, and recognizes the new financial liabilities at the same time. When the Group makes substantial change to the entire or partial contractual terms of the current financial liabilities, the Group derecognizes the current financial liabilities or a part of the current financial liabilities, and recognizes the financial liabilities of which the terms are modified as new financial liabilities at the same time. The difference between the book value of the portion terminated in recognition and the consideration paid is recognized in 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 the prices in major markets. For the assets or liabilities of which no major market exists, the most favorable market price will be adopted as the fair value of financial assets and financial liabilities. The Group also adopts the valuation techniques which are applicable at that time, and to which there are sufficient available data and other information to support such techniques. The input value adopted by the fair value measurement is classified into three levels, namely that the input value of the first level is the unadjusted quotation prices in the active market to obtain the same assets or liabilities which can be obtained on the measurement date; the input value of the second level is the direct or indirect observable value of the related assets or liabilities except for the input value of the first level; and the input value of the third level is the non-observable value of the related assets or liabilities. The Group gives priority to the use of the first level input value, and uses the third level input value at last. The equity investments in other equity instruments use the first level input value. The level to which the fair value measurement results belong is determined by the lowest level to which the input value which is of great significance to the overall fair value measurement belongs.

The Group measures the investments in equity instruments at fair value. However, in limited cases, if the short-term information used to determine the fair value is insufficient, or if the possible estimated amount of fair value may be widely distributed, while the costs represent the best estimate of the fair value in such range, such costs can represent the proper estimates of the fair value in the distribution range.

Notes to the Interim Financial Statements (Continued)

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

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

(4) Offset of financial assets and financial liabilities

The financial assets and financial liabilities of the Group are shown separately in the balance sheet, but are not mutually offset. Nonetheless, when meeting the following conditions, the net amount after mutually 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 such financial assets and discharge the financial liabilities at the same time.

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

The Group differentiates the financial liabilities and the equity instruments according to the following principles: (1) if the Group cannot unconditionally avoid performing an item of the contractual obligation by delivering the cash or other financial assets, such contractual obligation meets the definition of financial liabilities. Although some financial instruments do not explicitly include the terms and conditions of the obligation to deliver the cash or other financial assets, the contractual obligation may be formed indirectly by other terms and conditions; (2) For an item of the financial instruments, if the Group must use or may use the equity instruments of its own to carry out the settlement, the following information should be considered: i.e. for the Group's own equity instruments used to settle such instrument, whether such instrument is taken as the substitute of the cash or other financial assets, or is for the purpose of enabling the holding party to entitle the residual equity in the assets of the issuer after deducting all the liabilities. If the case is the former situation, the instrument is the financial liability of the issuer. If the case is the latter situation, the instrument is the equity instrument of the issuer. In some cases, the contract of an item of financial instruments specifies that the Group must use or may use its own equity instruments to settle such financial instrument, among which the amount of the contractual rights or contractual obligations equals the result calculated by multiplying the number of the equity instrument of its own available or required to be delivered with the fair value of such instrument 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 the changes of the 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 an item of financial instruments), such contract will be classified as a financial liability.

Notes to the Interim Financial Statements (Continued)

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

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 financial liabilities.

If the financial instruments or the components thereof belong to financial liabilities, the Group recognizes the related interest, dividends (or dividends from stocks), gains or losses, the gains or losses generated from redemption or refinancing into the current profit or loss.

If the financial instruments or the components thereof belong to equity instruments, when such instruments are issued (including the refinancing), repurchased, sold or cancelled, the Group makes the treatment as the change in equity, and does not recognize the changes in fair value of the equity instruments.

10. Accounts receivable

The determination method and the accounting processing method of the expected credit loss of accounts receivable, include evaluating if the credit risk has increased significantly since the initial recognition and assessing the expected credit based on the combination, etc.

For the receivables formed in the transactions stipulated by the document 'Accounting Standards for Business Enterprises No. 14 – Standard of Income' and the transactions with no significant financing component, the Group always 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 as follows. 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, the Group determines whether the credit risk of the financial instruments has increased significantly. However, if the Group determines that the financial instruments only have a low credit risk on the balance sheet date, it can be assumed that the credit risk of the financial instruments has not significantly increased since the initial recognition. Usually, if the receivables are overdue for more than 30 days, such circumstance indicates that the credit risk of financial instruments has increased significantly, unless the Group is able to obtain reasonable information with a supporting basis under the condition of not paying unnecessary extra costs or efforts to prove that even if the receivables are more than 30 days overdue, the credit risk has not significantly increased since the initial recognition. When determining whether credit risk has significantly increased since the initial recognition, the Group considers the reasonable information with a supporting basis under the condition of not paying unnecessary extra costs or efforts, including prospective information.

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 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 the basis of portfolio. Therefore, the Group divides the accounts receivable into groups, considers and assesses whether there is a significant increase in credit risk on portfolio-basis by taking the items 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 collaterals 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 of the accounts receivable, the Group recognizes the difference as the impairment loss of the accounts receivable, debiting the 'credit impairment loss' and crediting the 'bad debt provision'. In contrast, the Group recognizes the difference as gains from impairment, and makes the contrary 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 shall 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' shall be debited according to the difference.

Based on the actual credit losses in previous years, and considering the prospective information in the current year, the policies of accounting estimates to measure the expected credit losses are as follows: the Group determines the expected credit loss rate in single item for accounts receivable with significantly different credit risks; in addition to determining the expected credit loss rate for accounts receivable in single item, the Group adopts the expected credit loss model based on the characteristics of ageing, calculates the the expected credit losses of accounts receivable through default risk exposure of accounts receivable and expected credit losses rate, and determines the expected credit loss rate based on the default probability and loss from default.

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. Accounts receivable financing

In the course of the Group managing the liquidity of the enterprises, the vast majority of the notes receivable are endorsed before maturity, and the Group shall derecognize the discounted or endorsed notes receivable based on the fact that almost all the risk and reward have been transferred to the counterparty. The business model adopted by the Group to manage the notes receivable is to collect contractual cash flows as well as sell the financial asset, therefore, it is classified as a financial asset measured at fair value and the changes of which are recognized through other comprehensive income, and listed in the accounts receivable financing.

At the time of initial recognition, the fair value usually equals the trading price; if there exists a difference, distinctions should be made in the following situations:

- (1) At the time of initial recognition, if the fair value of the financial asset or financial liability is set by the quoted price of identical asset or liability in an active market, or merely determined by the valuation techniques using observable market data, the gap between fair value and trading price is recognized as a gain or loss.
- (2) At the time of initial recognition, if the fair value of the financial asset and financial liability is set by other means, the difference between fair value and trading price should be deferred. After the initial recognition, the deferred difference will be confirmed as gains or losses in the corresponding accounting period depending on the degree of volatility of a certain factor within the period. This factor should only be restricted to those considered by the market participants when pricing the financial instrument, including time, etc.

All the gains and losses that arise from financial asset measured at fair value and the changes of which are recognized through other comprehensive income, except for those generated by impairment and exchange differences, should be charged to other comprehensive income, until the derecognition or the reclassification of the financial asset.

When the financial asset is derecognized, the accumulative gains or losses which were previously charged to other comprehensive income should be transferred out and included in current profit or loss.

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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 the financial assets with no significant increase in credit risk since the initial confirmation, the Group measures the loss provision in accordance with the amount of expected credit losses over the next 12 months. ② For the financial assets with 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 the 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.

The assessment based on the portfolio is 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 significantly increased on the basis of the portfolio. Therefore, the Group divides the other receivables into groups, considers and assesses whether there is a significant increase in credit risk on a portfolio-basis by taking the items 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 collaterals relative to financial assets as the common risk characteristics.

The measurement of expected credit loss is as follows. 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 of other receivables, the Group recognizes the difference as the impairment loss of other receivables, debiting the 'credit impairment loss' and crediting the 'bad debt provision'. In contrast, the Group recognizes the difference as gains from impairment, and makes the contrary 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 shall 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' shall be debited according to the difference.

Based on the actual credit losses in previous years, and considering the prospective information in the current year, the policies of accounting estimates to measure the expected credit losses are as follows: the Group refers to historical credit losses experience, and having regard to current conditions and forecasts of future economic conditions, calculates expected credit losses by default risk exposure 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 cost, low value consumables, products in process, and commodities in stock.

The inventories implement the perpetual inventory system, and are valued by the actual cost when acquired. The actual costs of requisitioned or issued inventories are determined by the weighted average method. Low value consumables and packaging materials are amortized by 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 single 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, unfinished products, and materials available for sale, its net realizable value is determined as per the estimated selling price less the estimated selling expenses and relevant taxes; for material inventory available for production, its net realizable value is determined as per 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, under which condition the Group has the right to collect money because one of the goods has been delivered, while the collection of money also depends on the delivery of the other commodity, the Group regards this right to collect money as the contractual assets.

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

The determination method and accounting treatment of expected credit loss of contract assets refer to the determination method and accounting treatment of accounts receivable stated in the aforementioned Note 10.

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 of the contract assets, the Group recognizes the difference as the impairment loss of the contract assets, debiting the 'credit impairment loss' and crediting the 'impairment provision of contract assets'. In contrast, the Group recognizes the difference as gains from impairment, and makes the contrary 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 shall debit 'impairment provision of 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, the '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 the policies of arranging the relevant activities must be subject to unanimous consent of parties sharing the control.

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

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

For long-term equity investment acquired via business merger 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, as to long-term equity investments acquired by cash payment, the actual amount paid is taken as the investment cost; as to long-term equity investments acquired through issuing equity securities, the fair value of the issued equity securities is taken as the investment cost; as to long-term equity investments invested by investors, the value specified in the investment contract or agreement is taken as the initial investment cost; as to 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 relevant accounting rules.

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

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

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

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

For loss of joint control in or significant influence on the invested unit due to disposal of partial equity investment or other reasons, the residual equity after disposal is calculated as per the financial assets available for sale, and the difference between the fair value and book value of residual equity on the date when losing the joint control or significant influence is included 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 unit for directly handling related assets or liabilities when the application of equity method is terminated.

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

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

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

The Group shall conduct follow-up measurement of investment properties by cost model and shall withdraw the depreciation or amortization as per 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	Depreciation Period (year)	Expected Residual Rate (%)	Annual Depreciation Rate (%)
Land use rights	40–50	0	2.00–2.50
Premises and buildings	20	5	4.75

When investment properties are converted for self-use, such real estate shall be changed into fixed assets or intangible assets since the date of conversion. When investment properties for self-use is converted for gaining rental income or capital increase, fixed assets or intangible assets shall be changed into investment properties since the date of conversion. When conversion occurs, the book value prior to conversion shall 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, the recognition of the investment properties shall be terminated. The disposal income from selling, transferring, discarding or damaging of investment properties shall be deducted by the book value and relevant taxes thereof and then included in current profit or loss.

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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; and meanwhile, economic interests related to the fixed assets are likely to flow into the enterprise, and the cost of fixed assets can be measured reliably.

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

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

Depreciation method of fixed assets: except for the fixed assets fully depreciated but still in use, the Group calculates depreciation for all fixed assets. Straight line method shall be adopted for calculating depreciation based on single item per month. The depreciation expenses shall be separately included in the costs or current expenses of related assets by purposes. 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 is related to fixed assets, including repairing expenditure, renovation and reformation expenditure, and meets the recognition conditions of fixed assets, it shall be included in the cost of fixed assets, and the book value of replaced parts shall be derecognised; the expenditure which does not conform to the recognition conditions of fixed assets shall be included in current profit or loss when occurred.

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 shall be treated as changes in accounting estimates.

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The depreciation policies of fixed assets acquired by financial lease shall be consistent with those of self-owned fixed assets. For fixed assets, if it can be reasonably confirmed that the ownership can be granted when the lease term expires, the depreciation shall be accrued within the service life of the acquired leasing assets; otherwise, the depreciation shall 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 the use or disposal, the recognition of such fixed asset is terminated. The disposal income from selling, transferring, discarding or damaging of fixed assets shall be deducted by the book value thereof and relevant taxes and then included in current profit or loss.

18. Projects under construction

Starting from the date when the projects under construction reach the expected conditions for use, the projects shall be carried forward to fixed assets based on the estimated value and according to project budget, construction cost or actual cost, and depreciation shall be accrued from the next month. The original value difference of fixed assets shall 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, shall 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 selling begin. The construction or production assets which satisfy capitalization conditions shall stop capitalization when the assets are available for predicted use or sale. Other borrowing costs should be determined as expenditure when incurred.

The amount of interest of special loans that actually occurred 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 shall be capitalized. The capitalized amount of general loan shall be determined as per 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 shall be calculated with the weighted average interest rate of general loans.

The assets in compliance with capitalization conditions refer to the fixed assets, investment properties and inventory that require considerable long time (usually referred to as 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 capitalization of the suspended borrowing costs shall last until the restart of purchase, construction or production of the assets.

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20. Right-of-use asset

(1) Initial recognition

Right-of-use asset refers to the Group's right to use a leased asset during the lease term.

At the beginning of the lease, the Group initially measures the asset by its cost. The cost includes the following four items: ① the initially-recognized amount of the lease liability; ② the lease payment paid at or before the commencement date, if there exists lease incentives, the incentive amount enjoyed by the Group should be deducted; ③ the initial direct cost incurred, i.e., the incremental cost to reach the leasing; ④ the cost expected to incur in order to dismantle and remove the leasing property, to restore the using site, or to restore the leasing property's condition to the one stipulated by the leasing terms; however, the cost incurred for inventory production is excluded.

(2) Subsequent measurement

After the leasing commencement date, the Group adopts the cost model to subsequently state the right-of-use asset, i.e., the property is measured at cost minus accumulated depreciation and accumulated impairment loss.

If the lease obligation is remeasured by the Group according to the related regulation of lease accounting standard, adjustments should be made upon the book value of the right-of-use asset accordingly.

(3) Depreciation of the right-of-use asset

The Group has depreciated the right-of-use asset since the leasing commencement date. Usually the property is depreciated at the month when the lease term started. The charged depreciation amount is included in the cost of relevant asset or current profit or loss, depending on the purpose of the right-of-use asset.

In determining the depreciation method of the right-of-use assets, the Group finally chooses to depreciate the asset on a straight-line basis in view of the expected consumption of the economic benefits associated with itself.

In determining the depreciation period of the right-of-use asset, the Group shall follow the following principles: if it can be reasonably confirmed that the Group can acquire the ownership of the leased asset at the end of the lease term, the leased asset shall be depreciated within the remaining service life; if it cannot be reasonably confirmed that the Group can acquire the ownership of the leased asset at the end of the lease term, the depreciation period is based on the shorter of the lease term and remaining service life.

In the event that impairment occurs on the property, the Group shall continue the subsequent depreciation according to the book value of the right-of-use asset which has already deducted the impairment loss.

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21. Intangible assets

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

22. Research and development

The expenditure for in-house research and development projects is classified by the Group as those for research stage and those for development stage according to the nature of the expenditure 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 research stage shall be included in the current profit or loss when incurred; and the expenditure in development stage which meets the following conditions shall be determined as that of intangible assets: 1) it is technically feasible to finish and use or sell the intangible assets; 2) there is an 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 development stage of the intangible assets can be measured reliably.

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

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23. Impairment of long-term assets

The Group shall check 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 an intangible asset with an indefinite service life shall be 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 shall be 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 impairment loss. Such impairment loss, once recognized, shall not 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 flow of the assets, whichever is higher.

24. Goodwill

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

Goodwill related to subsidiaries is shown separately in the consolidated financial statements. Goodwill related to associate enterprises 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 shall present the received or receivable amount as a contract liability when the payment is made or the payment is due (whichever is earlier).

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26. Payroll payable

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

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

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

When the Group cannot unilaterally withdraw the dismissal 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 and concerning the dismissal welfare payment are recognized, the liabilities of the employee compensation arising from dismissal welfare shall be recognized and included in current profit or loss.

27. Lease liability

Lease liability reflects the closing book value of the Group's outstanding lease payment.

(1) **Initial recognition**

The Group initially measures the lease liability with the present value of the outstanding lease payment at the commencement date of the lease term.

1) *Lease payment*

Lease payment refers to the amount paid by the Group to the lessor and is related to the right of using the leased asset during the lease term, which includes: ① The amount of fixed payment and the substantial fixed payment, if there exist lease incentives, the amount associated with the lease incentives should be deducted; ② The variable lease payment depending on the index or ratio; this amount is determined at the time of initial recognition on the basis of the index or ratio on the commencement date; ③ The exercise price of the purchase option when the Group reasonably confirms that the option will be exercised; ④ The payment required when the Group chooses to terminate the lease option, if it indicates that the Group shall exercise option to terminate the lease during the lease period; ⑤ The amount expected to be paid according to the guaranteed residual value provided by the Group.

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2) *Discount rate*

In calculating the present value of the lease payment, the Group shall adopt the incremental borrowing rate as the discount rate if the implicit rate cannot be determined. The incremental borrowing rate is the interest rate paid by the Group for borrowing funds under similar mortgage terms and in similar period, in order to get the asset of which the value is similar to the right-to-use asset under similar economic environment. The interest rate relates to the following: ① The self-condition of the Group, i.e., its solvency and credit status; ② The time limit of the borrowings, i.e., the lease term; ③ The borrowing amount, i.e., the figure of the lease liability; ④ The mortgage conditions, i.e., the nature and quality of the underlying assets; ⑤ The economic environment, including the jurisdiction where the lessee is located, the valuation currency, the timing of signing the contract, etc. The Group calculates the incremental borrowing rate on the basis of the bank loan rate, while making adjustments by taking account of the above factors.

(2) *Subsequent measurement*

After the leasing commencement date, the Group shall make subsequent measurements of the lease liabilities based on the following principles: ① Increasing the carrying amount of the lease liability when the interest on the lease liability is recognized; ② Decreasing the carrying amount of the lease liability when the lease payment is made; ③ Remeasuring the book value of the lease liability if changes occur in the lease payment due to factors such as revaluation or change of lease, etc.

The interest expenses of the lease liability for each period of the lease term should be calculated according to the fixed cyclical interest rates, and the expenses, except for the capitalized ones, should be charged to the current profit or loss. Periodic interest rates are the discount rates adopted by the Group in the initial measurement of lease liabilities, or the discount rates revised due to the changes of the lease payment or the changes of the lease which require the recalculation of the lease liability according to the revised discount rate.

(3) *Re-measuring*

After the beginning of the lease period, if the following situations occur, the Group shall recalculate the value of the lease liability according to the changed lease payment and the present value calculated by the revised discount rate, and adjust the book value of the right-of-use asset accordingly. If the book value of the right-of-use assets has already been deducted to zero, but further reduction still needs to be made upon the lease liabilities, the Group shall include the remaining amount in the current profit or loss: ① The amounts of the substantial fixed payments have changed; ② The expected amounts payable of guaranteed residual value have changed; ③ The index or ratio used for ascertaining the lease payments has changed; ④ The assessment results of the purchase option have changed; ⑤ The assessment results or actual exercise of the lease's renewal option or termination option have changed.

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28. Estimated liabilities

Where the business related to external security, trade acceptance discount, pending litigation or arbitration, product quality assurance, etc., meets the following conditions at the same time, the Group will recognize it as liabilities: 1) current obligation borne by the Group; 2) high possibility of economic benefit outflow from the enterprise due to performance of such obligations; and 3) availability for reliable measurement for the amount of the obligations.

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

29. Share-based payments

For the 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. Under the situation 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 the 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 shall be 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 shall be 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 the relevant costs or expenses according to the fair value amount 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 shall be carried out, with the change of the fair value recognized into current profit or loss.

If the Group cancelled the granted equity instruments during the waiting period (except for the situation in which the cancellation took place because the vesting conditions have not been met), such circumstance would 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 in the period are recognized when the granted equity instruments are cancelled.

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*(Unless otherwise indicated, all figures are stated in RMB)
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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 recognized income when the performance obligation in the contract is fulfilled, namely when the customer acquires control over the relevant goods or services.

If a contract contains two or more items of 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 the 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 the income accumulatively recognized when the relevant uncertainties are eliminated and under the condition when 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 shall not be recognized in the transaction price. Where there are significant financing elements in the contracts, the Group determines the transaction price as the amount payable assuming that the customer would have immediately paid in cash when gaining the control right over the goods or services. The difference between the transaction price and the contract consideration price shall be 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 shall not exceed one year, the significant financing elements in the contract shall not be considered.

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

- 1) At the same time when the Group fulfills the contract performance, the customer immediately obtains and consumes the economic benefits brought about by the Group's performance.
- 2) 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 shall have the right to collect the payments for the cumulatively completed part of performance so far.

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For the performance 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 shall be recognized based on the amount of costs already incurred until the progress of performance can be reasonably determined.

For the performance obligations which should be fulfilled at a certain point of time, the Group recognizes income at the point of time when the customer acquires the control right over the relevant goods or services. In judging whether the customer has acquired the control right 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 customers.
- 3) The Group has transferred the physical goods in kind to the customers.
- 4) The Group has transferred the major risks and rewards of ownership on the goods to the customers.
- 5) The customers have accepted such goods or services, etc.

The rights to collect the consideration as a result of the Group having transferred goods or services to customers shall be listed as contract assets. The impairment provision of contract assets shall be accrued on the basis of the expected credit loss. The unconditional rights owned by the Group to collect the consideration from customers shall be 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 shall be listed as contract liabilities.

(2) Specific principles of income recognition

For the contracts of sale of goods within China transferring the control right of the goods at a certain point in time, the income shall be recognized when the Group has delivered the goods to customers or carriers and the Group has obtained the right to claim for a 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 the contracts of sale of goods outside China transferring the control right of the goods at a certain point in time, the income shall be 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 a 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.

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*(Unless otherwise indicated, all figures are stated in RMB)
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31. Government grants

Government grants to the Group are divided into asset-related government grants and revenue-related government grants. The 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 forms. The revenue-related government grants refer to those other than the asset-related government grants. If no grant target is specified in the government documents, the Group shall determine based on the above principles. If it is difficult to distinguish, it is integrally classified as revenue-related government grants.

As monetary assets, the government grants shall be measured based on the actual received amounts; for 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 the period, the government grants shall be measured based on the receivable amounts; as non-monetary assets, the government grants shall be measured based on the fair value; if the fair value cannot be estimated reliably, it shall be measured based on nominal amount (RMB1).

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

Relevant assets are sold, transferred, discarded or damaged before the end of their service life, and the unallocated related deferred income is 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 shall be recognized as deferred income, and it shall be included in current profit or loss during the period when it is recognized; those used to compensate the incurred related costs or losses shall be included in current profit or loss directly. Government grants related to daily activities are included in other income according to the substance of economic activities. Government grants unrelated to daily activities are included in non-operating income and expenditure.

When the Group obtains discounted interest on preferential loans, the Group will distinguish between the financial appropriation of interest-subsidized funds to the bank offering loans and the financial allocation of discount funds directly to the Company, and this should be treated according to the following principles of accounting:

- (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.

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

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

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

33. Leases

(1) The recognition of lease

A lease is a contract within a defined period of time and in which the lessor delivers to the lessee the right to use the asset in order to obtain a consideration. At the beginning of the contract, the Group evaluates whether the contract is a lease or includes a lease. If a contractual party transfers the control right to use one or more identified assets over a period of time in exchange for consideration, the contract is a lease or includes a lease. To determine whether the contract has ceded the right to control the use of the identified assets within a certain period of time, the Group assesses whether the client in the contract is entitled to almost all the economic benefits arising from the use of the identified assets during the period of use and to dominate the use of the identified assets within this period.

If the contract contains a number of separate leases, the Group shall separate the contract and account for those separate leases individually. If both the lease and non-lease parts are included in the contract, the Group shall carry out accounting treatment after dividing the lease and non-lease parts.

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(2) The Group as lessee

At the beginning of the lease period, the Group recognizes the right-of-use assets and lease liabilities for the lease. The right-of-use assets are initially measured at cost, including the initially-measured amount of the lease liability, the amount of the lease payment paid on or before the commencement date (net of the relative lease incentive amount enjoyed by the Group), the initial direct costs incurred, and the anticipated costs of dismantling and removing the leased asset, restoring the site where the asset is located or restoring the leased asset to the condition stipulated on the lease terms.

As the lessee, the Group shall confirm the right-of-use assets and lease liabilities.

1) The change of lease

The change of lease refers to the changes of lease scope, lease consideration and lease term which are outside of the scope of the original contract terms, including the increase or termination of the right to use one or more leased assets, the extension or shortening of the lease period stipulated on the contract. The effective date of the changed lease agreement is the date on which the parties reach a consensus on the lease changes.

If the lease changes satisfy the following criteria, the Group shall treat the change of lease as a separate lease and make accounting treatment individually: ① the change has extended the lease scope by increasing the use right of one or more leased assets; ② the incremental consideration is equivalent to the single price of the extended portion of the lease adjusted by the contract conditions.

If the change of lease is not accounted for as a separate lease, on the effective date of the change, the Group shall allocate the consideration of the changed contract in accordance with the relevant provisions of the lease accounting standards, and redefine the adjusted lease period; meanwhile, the Group shall discount the changed lease payment with the revised discount rate to recalculate the lease liability. In calculating the present value of the changed lease payment, the Group adopts the implicit interest rate of the remaining lease period as the discount rate; if the implicit interest rate of the remaining lease period cannot be determined, the Group shall take the incremental borrowing rate of lessee on the effective date of the lease change as the discount rate. As regards the impacts of lease liabilities' adjustments mentioned above, the Group shall make accounting treatment in the following circumstances: ① If the lease change leads to the narrow scope or shortened period of the lease, the lessee should reduce the book value of the right-of-use asset, and charge the relative gain or loss that arises from the partially or completely terminated lease to current profit or loss; ② If other lease changes result in the re-measurement of the lease liabilities, the lessee shall adjust the book value of the right-of-use assets accordingly.

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

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2) Short-term lease and low-value asset leasing

The Group has determined not to recognize the right-of-use assets and lease liabilities for the short-term lease of which the lease period is no more than 12 months and the low-value asset leases with lower value when the individual leased assets are brand new assets. The Group shall charge the lease payment of the short-term lease and the low-value leased asset to the cost of the related asset or the current profit or loss for each period during the lease term according to the straight-line method.

(3) The Group as lessor

On the basis of (1) that the contract is assessed as a lease or includes a lease, the Group, as a lessor, classifies the lease as a financial lease or an operating lease at the beginning of the lease.

If a lease in substance transfers almost all the risks and rewards associated with the ownership of the leased asset, the lessor classifies the lease as a financial lease, otherwise, the lease is identified as an operating lease.

If a lease satisfies the following one or more conditions, the Group usually classifies it as a financial lease: ① At the end of the lease period, the ownership of the leased asset will be transferred to the lessee; ② The lessee has the option to purchase the leased asset, and the agreed price of the option is sufficiently low compared to the fair value of the leased asset at the time expected to exercise the option, so at the start date of the lease, it can be reasonably confirmed that the lessee will exercise the option; ③ Although the ownership of the asset is not transferred, the lease term accounts for the vast majority of the service life of the leased asset (not less than 75% of the service life of the asset); ④ At the beginning of the lease, the present value of the lease receipt is almost equivalent to the fair value of the leased asset (not less than 90 per cent of the fair value of the asset); ⑤ The leased assets are of a specialized nature that only the lessee can use them without making major modifications. Besides, if one or more of the following indications exist on the lease, the Group may also classify it as a financial lease: ① If the lessee cancels the lease, the loss to the lessor caused by the cancellation of the contract shall be borne by the lessee; ② Gains or losses that arise from fluctuations in fair value of the residual value of the assets are attributable to the lessee; ③ The lessee has the ability to continue the lease to the next period with the price which is substantially below the market level.

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1) Accounting treatment of financial lease

Initial recognition

On the commencement date of the lease, the Group recognizes the financial lease receivable for the financial lease and derecognizes the financial lease asset. At the time of initial recognition for the financial lease receivable, the Group uses the net investment amount of the lease as the entry value.

The net investment in the lease is the sum of the present value of the unguaranteed residual value and the not-received lease receipts at the commencement date, which is discounted by the implicit interest rate of the lease. Lease receipts refer to the amount which the lessor is entitled to receive from the lessee for transferring the use right of the leased asset during the lease term, including: ① The fixed payment and the substantial fixed payment required to be paid by the lessee, and if there exist lease incentives, the amount associated with the lease incentives should be deducted; ② The variable lease payment that depends on the index or ratio, and this amount is determined at the time of initial recognition on the basis of the index or ratio on the commencement date; ③ The exercise price of the purchase option, on condition that it is reasonably confirmed that the option will be exercised by the lessee; ④ The payment required when the lessee chooses to terminate the lease option, on condition that it indicates that the lessee tends to exercise the option to terminate the lease during the lease period; ⑤ The guaranteed residual value provided to the lessor by the lessee, a party related to the lessee, or an independent third party which is financially capable of performing the warranty liability.

Subsequent measurement

The Group calculates and recognizes the interest income for each period of the lease term at a fixed cyclical interest rate. The periodic interest rate is the implicit discount rate used to determine the net investment amount of the lease (in the case of a sublease, if the implicit rate of the subleased asset is uncertain, the original discount, which is adjusted by the initial direct cost of the sublease, should be adopted), or the discount rate revised according to the related regulation when the change of the financial lease is not accounted as a separate lease, and meets the condition that the lease will be classified as a financial lease if the change comes into effect on the commencement date of the lease.

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

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Accounting treatment for lease change

If the financial lease has changed and satisfies the following criteria, the Group shall regard the change as a separate lease in accounting treatment: ① The change expands the scope of the lease by increasing the use right of one or more leased assets; ② The incremental consideration is equivalent to the individual price of the extended portion of the lease adjusted for the contract conditions.

If the change of the financial lease is not accounted for as a separate lease, and meets the condition that once the change comes into effect on the commencement date of the lease, it will be classified as an operating lease, then the Group shall treat it as a new lease since the effective date of the change, and the book value of the leased asset is determined by the net investment amount of the lease prior to the effective date of the change.

2) *Accounting treatment of operating lease*

Treatment of rent

During the respective periods of the lease term, the Group adopts a straight-line method to recognize the lease receipts of operating leases as rental income.

Incentives

If a rent-free period is offered, the Group shall allocate the total rent by a straight-line method throughout the lease term without deducting the rent-free period, whereas the rental income is still recognized in the rent-free period. Where the Group undertakes certain expenses of the lessee, the expenses shall be deducted from the total amount of the rental income and the balance is distributed over the lease term.

Initial direct cost

The initial direct costs of the Group which are related to the operating lease shall be capitalized to the cost of the underlying lease asset, and charged to current profit or loss in instalments during the lease period, based on the same recognition basis as rental income.

Depreciation

For fixed assets in operating lease, the Group uses the depreciation policies similar to those carried out in normal assets, and for other operating leased assets, amortization is carried out in a systematic and reasonable way.

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Variable lease payments

The variable lease payments related to the operating lease, which are not included in lease receipts, should be charged to current profit or loss when actually occurred.

Change of operating lease

If changes occur in operating lease, the Group shall make accounting treatment as if it was a new lease since the effective date of the change, and the lease-related amount of the lease receipts received in advance or receivable before the change shall be regarded as the receipts of the new lease.

34. Held for sale

The Group specifies that a non-current asset or disposal group will be classified as held for sale, if meeting the following conditions simultaneously. (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 the terms that are usual and customary for sale of such assets (or disposal groups). (2) For the sale to be highly probable, a resolution on a sale plan should have been made and a confirmed purchase commitment should have been obtained, 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 or disposal group held for sale 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 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 comparison assumes that it is not classified as held for sale at the lower of its net amount on initial recognition and fair value less costs to sell. 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.

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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 the parent company, the investment in subsidiaries is classified as held 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 fair value of non-current assets held for sale less the cost to sell on the subsequent balance sheet date increases, 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 fair value of the disposal group held for sale less the cost to sell on the subsequent balance sheet date increases, 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.

For the amount of assets impairment losses recognized by the disposal group (held for sale) that are 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: (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)
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35. Discontinued operations

Discontinued operations mean that 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 book value of deferred income taxes generated by business merger for goodwill adjustment.

Current income tax refers to the amount that is determined by calculation for transactions and events occurring in that phase and shall be paid by enterprises to the tax 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 makes provision, uses and accounts for 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.

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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 make monthly average accrual in accordance with the following standard:

No.	Sales of the Previous Year	Proportion of Accrual
1	Part of RMB10 million and less than RMB10 million	4%
2	Part of RMB10 million to RMB100 million (included)	2%
3	Part of RMB100 million to RMB1 billion (included)	0.5%
4	Part of more than RMB1 billion	0.2%

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 the owner's equity. The actual use of accrued safe production costs, which 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 expenditure is recognized as a fixed asset when 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) The 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 to allocate resources to it and evaluate its 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.

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38. Changes to important accounting policies and accounting estimates

(1) Changes in important accounting policies

There were no changes in important accounting policies for the Group during the Reporting Period.

(2) Changes in important accounting estimates

There were no changes in accounting estimates for the Group during the Reporting Period.

V. TAXES

1. Main taxes and rates

Tax Category	Taxation Basis	Tax Rate
Value-added tax (VAT)	Difference after deducting the input tax on purchased goods from output tax	13%, 9%, 6%
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	25%, 15%
USA federal and state corporate income tax	Taxable income	Federal tax: 21%, state tax: 8.84%
Dutch corporate income tax	Taxable income	25%/20%

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

Taxpaying Subject	Income Tax Rate
The Company	15%
Shandong Zibo Xincat Pharmaceutical Co., Ltd	15%
Shandong Xinhua Pharmaceutical (Europe) B.V	25%/20%
Shandong Xinhua Pharmaceutical (USA) Inc.	Federal tax rate: 21%, state tax rate: 8.84%
Other 10 subsidiaries	25%

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

2. Tax preference

(1) Income Tax

According to the replied approval of the document Lu Ke Zi [2018] No.37 from the 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. On December 28, 2017, the Company obtained the certificate of high and new tech enterprises No. GR201737001056, of which the validity period is 3 years. According to the Enterprise Income Tax Law of the PRC, the Company enjoys the preferential tax policy of corporate income tax levied at the rate of 15%. In 2020, the Company's qualification as a high and new tech enterprise is being re-recognized, and the income tax of the Company shall be paid in advance at the tax rate of 15% temporarily.

According to the replied approval of the document Lu Ke Zi [2018] No.37 from the 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. On December 28, 2017, XinCat Pharmaceutical obtained the certificate of high and new tech enterprises No. GR201737000587, of which the validity period is 3 years. According to the Enterprise Income Tax Law of the PRC, XinCat Pharmaceutical enjoys the preferential tax policy of corporate income tax levied at the rate of 15%. In 2020, XinCat Pharmaceutical's qualification as a high and new tech enterprise is being re-recognized, and the income tax of the Company shall be paid in advance at the tax rate of 15% temporarily.

(2) Value-added tax (VAT)

The Group enjoys the preferential policy of "Exemption, Set Off and Refund Method of VAT" on its 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 STATEMENTS

In the following notes to the financial statements, unless otherwise indicated, the term of 'beginning of the period' refers to 1 January 2020, 'end of the period' refers to 30 June 2020. 'Current period' refers to the period from 1 January 2020 to 30 June 2020. 'Previous period' refers to the period from 1 January 2019 to 30 June 2019, and all figures are stated in RMB.

1. Currency funds

Item	Ending Balance	Beginning Balance
Cash in hand	76,835.68	84,364.78
Bank deposit	959,860,726.92	578,810,234.59
Other monetary funds	154,436,812.54	111,575,166.30
Total	1,114,374,375.14	690,469,765.67
Including: total amount deposited abroad	17,981,344.81	21,530,169.03

At the end of the period, the Group has frozen funds of RMB0.00 in bank deposits (the opening balance: RMB1,270,006.00). As for other monetary funds, there are deposits of bank acceptance bills amounting to RMB121,029,340.43(the opening balance: RMB84,170,000.00), deposits of housing loans amounting to RMB702,149.14(the opening balance: RMB702,149.14), and the the advance payment received for sale of property amounting to RMB26,703,017.16 (the opening balance: RMB26,703,017.16), regulated under the Measures for Supervision and Control of Pre-sale Funds.

2. Accounts receivable

(1) *Accounts receivable classified by the method of recognizing provision for bad debt*

Item	Book Balance		Ending Balance		Book Value
			Provision For Bad Debt		
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
To recognize the bad debt provision based on single item	289,641.86	0.04	289,641.86	100.00	
To recognize the bad debt provision based on combination	662,258,363.39	99.96	59,899,772.24	9.04	602,358,591.15
Total	662,548,005.25	100.00	60,189,414.10	9.08	602,358,591.15

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 (%)	
To recognize the bad debt provision based on single item	289,641.86	0.08	289,641.86	100.00	
To recognize the bad debt provision based on combination	367,498,534.89	99.92	58,191,078.97	15.83	309,307,455.92
Total	367,788,176.75	100.00	58,480,720.83	15.90	309,307,455.92

1) *To recognize the bad-debt provision for accounts receivable based on single item*

As of June 30, 2020, it is expected that the amount of RMB289,641.86 in the Group's accounts receivable is unlikely to recover. The Group recognized the bad-debt provision based on single item which amounts to RMB289,641.86.

2) *To recognize the bad-debt provision for accounts receivable based on combination*

Item	Ending Balance			Beginning Balance		
	Accounts Receivable	Provision for Bad Debt	Accrual Proportion (%)	Accounts Receivable	Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	604,966,312.15	4,007,595.65	0.66	309,655,254.27	2,278,494.59	0.74
1-2 years	2,061,880.72	662,006.07	32.11	3,108,635.81	1,177,939.57	37.89
2-3 years	553,136.72	553,136.72	100.00	96,492.41	96,492.41	100.00
3-4 years	39,438.45	39,438.45	100.00	41,810.00	41,810.00	100.00
4-5 years	45,480.00	45,480.00	100.00	93,890.85	93,890.85	100.00
Over 5 years	54,592,115.35	54,592,115.35	100.00	54,502,451.55	54,502,451.55	100.00
Total	662,258,363.39	59,899,772.24		367,498,534.89	58,191,078.97	

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) Accounts receivable classified by account age

Part of the Group's sales are collected in advance, while the rest are granted with a credit period for a certain time.

1) Aging analysis of accounts receivable (including related-party transactions) according to the date of transactions:

Account Age	Accounts	Ending Balance	Accrual Proportion (%)
	Receivable	Provision for Bad Debt	
Within 1 year	605,247,829.01	4,289,112.51	0.71
1-2 years	2,061,880.72	662,006.07	32.11
2-3 years	553,136.72	553,136.72	100.00
3-4 years	47,563.45	47,563.45	100.00
4-5 years	45,480.00	45,480.00	100.00
Over 5 years	54,592,115.35	54,592,115.35	100.00
Total	<u>662,548,005.25</u>	<u>60,189,414.10</u>	

Account Age	Accounts	Beginning Balance	Accrual Proportion (%)
	Receivable	Provision for Bad Debt	
Within 1 year	309,936,771.13	2,560,011.45	0.83
1-2 years	3,108,635.81	1,177,939.57	37.89
2-3 years	104,617.41	104,617.41	100.00
3-4 years	41,810.00	41,810.00	100.00
4-5 years	93,890.85	93,890.85	100.00
Over 5 years	54,502,451.55	54,502,451.55	100.00
Total	<u>367,788,176.75</u>	<u>58,480,720.83</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) The bad-debt provision recognized or reversed (recovered) in the current period

Category	Beginning Balance	Amount Incurred in Current period		Ending Balance
		Provision	Recovered or Reversed Transferred or Written-off	
To recognize the bad debt provision based on single item	289,641.86			289,641.86
To recognize the bad debt provision based on combination	58,191,078.97	1,708,693.27		59,899,772.24
Total	58,480,720.83	1,708,693.27		60,189,414.10

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

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

(5) The top five debtors ranked by the balance of accounts receivable at the end of the current period

Debtors	Ending Balance	Account Age	Proportion in Total Ending Balance of Accounts Receivable (%)	Ending Balance of Bad Debt Provision
Shandong Xin Kang Qi Pharmaceutical Co., Ltd.	40,405,087.51	Over 5 years	6.10	40,405,087.51
Beijing JingDong Century Trading Co., Ltd.	26,604,317.72	Within 1 year	4.02	133,021.59
Zibo Central Hospital	24,684,825.26	Within 1 year	3.73	246,848.25
Galpharm International Limited	21,880,256.52	Within 1 year	3.30	109,401.28
Perrigo Company	20,455,257.60	Within 1 year	3.09	102,276.29
Total	134,029,744.61		20.24	40,996,634.92

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) Details of accounts receivable financing

Item	Initial Cost	Ending Balance		Provision for Impairment
		Fair Value changes	Book Value	
Notes receivable	<u>152,826,381.97</u>		<u>152,826,381.97</u>	
Total	<u><u>152,826,381.97</u></u>		<u><u>152,826,381.97</u></u>	

Item	Initial cost	Beginning Balance		Provision for impairment
		Fair value changes	Book value	
Notes receivable	<u>145,924,204.55</u>		<u>145,924,204.55</u>	
Total	<u><u>145,924,204.55</u></u>		<u><u>145,924,204.55</u></u>	

At the end of the current period, all accounts receivable financing were bank acceptance bills. The Group is of the view that none of the bank acceptance bills held by the Group had significant credit risk, so no provision for impairment was recognized.

(2) Notes receivables that have been at the end of the current period endorsed or discounted but not yet due on the balance sheet date

Item	Derecognized Amount at the End of the Current Period	Amount not Derecognized at the End of the Current Period
Bank acceptance bills	<u>383,589,894.29</u>	
Total	<u><u>383,589,894.29</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))

4. Prepayments

(1) Account age of prepayments

Account Age	Ending Balance		Beginning Balance	
	Amount	Proportion %	Amount	Proportion %
Within 1 year	63,035,448.27	99.97	29,293,031.78	98.39
1-2 years			460,364.45	1.55
2-3 years				
Over 3 years	20,122.74	0.03	20,122.74	0.06
Total	63,055,571.01	100.00	29,773,518.97	100.00

The Group had no significant prepayments aged over 1 year at the end of the current period.

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

The total amount of the top five prepayments by the end of the period was RMB20,562,409.82, accounting for 32.61% of the total amount of the prepayments at the end of the period.

5. Other receivables

Item	Ending Balance	Beginning Balance
Interest receivables		
Dividend receivables		29,660.75
Other receivables	27,221,887.76	19,646,801.14
Total	27,221,887.76	19,676,461.89

5.1 Interest receivables: None

5.2 Dividend receivables:

Item	Ending Balance	Beginning Balance
Centrient Pharmaceuticals (Zibo) Co.,Ltd.		29,660.75
Total		29,660.75

Notes to the Interim Financial Statements (Continued)

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

5.3 Other receivables

(1) Other receivables classified by nature

Nature	Ending Balance	Beginning Balance
Tender security, deposit	6,095,633.68	2,893,469.09
Petty cash	1,128,773.22	404,941.22
Tax receivable	7,966,029.91	7,631,874.14
Sales and leaseback deposit	18,000,000.00	15,000,000.00
Others	9,612,643.70	9,574,950.93
Total	42,803,080.51	35,505,235.38

(2) Bad-debt provision of other receivables

Bad Debt Provision	Stage 1 The Expected Credit Losses in the Next 12 Months	Stage 2 The Expected Credit Losses of the Entire Duration (Without Any Credit Impairment Occurred)	Stage 3 The Expected Credit Losses of the Entire Duration (With Credit Impairment Already Occurred)	Total
Balance as of January 1, 2020	1,396,974.03	14,461,460.21		15,858,434.24
Balance of other receivable as of January 1, 2020 in the current period				
– Transferred to stage 2				
– Transferred to stage 3				
– Reversed to stage 2				
– Reversed to stage 1				
Accrued in current period	-76,241.53	-200,999.96		-277,241.49
Reversed in current period				
Transferred out in current period				
Written-off in current period				
Other changes				
Balance as of June 30, 2020	1,320,732.50	14,260,460.25		15,581,192.75

Notes to the Interim Financial Statements (Continued)

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

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

(3) Aging analysis of other receivables

Account Age	Other Receivables	Ending Balance Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	17,359,160.40	568,805.33	3.28
1-2 years	889,516.27	493,347.58	55.46
2-3 years	10,281,793.98	246,429.98	2.40
3-4 years	517,569.59	517,569.59	100.00
4-5 years	297,711.57	297,711.57	100.00
Over 5 years	13,457,328.70	13,457,328.70	100.00
Total	42,803,080.51	15,581,192.75	

Account Age	Other Receivables	Beginning Balance Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	9,507,933.36	341,898.01	3.60
1-2 years	11,002,002.61	569,760.82	5.18
2-3 years	521,689.59	473,165.59	90.70
3-4 years	454,521.57	454,521.57	100.00
4-5 years	185,417.30	185,417.30	100.00
Over 5 years	13,833,670.95	13,833,670.95	100.00
Total	35,505,235.38	15,858,434.24	

Notes to the Interim Financial Statements (Continued)

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

(4) Provisions for bad debt of other receivables

Item	Beginning Balance	Amount Incurred in Current period		Ending Balance
		Provision	Recovered or Reversed	
Bad-debt provision	15,858,434.24	-277,241.49		15,581,192.75
Total	15,858,434.24	-277,241.49		15,581,192.75

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

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

(6) The top five debtors ranked by the balance of other receivables at the year 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	2-3 years	23.36	
Ping An Dian Chuang International Financial Leasing Co., Ltd.	Guarantee deposit	5,000,000.00	Within 1 year	11.68	
International Far Eastern Leasing Co., Ltd.	Guarantee deposit	3,000,000.00	Within 1 year	7.01	
Chen Weisen	Current account	1,900,409.00	Over 5 years	4.44	1,900,409.00
The People's Hospital of Gaoqing county	Guarantee deposit	1,000,000.00	Within 1 year	2.34	60,000.00
Total		20,900,409.00		48.83	1,960,409.00

(7) Other receivables of employees' borrowings in the current period

As at June 30, 2020, there were no employees' borrowings in other receivables.

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) Classification of inventories

Item	Ending Balance			Beginning Balance		
	Book Balance	Inventories Value	Book Value	Book Balance	Inventories Value	Book Value
Raw materials	100,758,657.81	7,781,041.03	92,977,616.78	121,873,762.00	7,781,041.03	114,092,720.97
Products in process	92,719,204.50	23,926,440.63	68,792,763.87	174,435,496.29	27,590,224.65	146,845,271.64
Goods in stock	409,047,275.43	34,508,268.93	374,539,006.50	636,981,727.88	48,074,628.24	588,907,099.64
Development costs	202,427,068.64		202,427,068.64	181,624,708.72		181,624,708.72
Low-value consumables	19,244,781.40	1,402,845.60	17,841,935.80	17,911,282.92	1,402,845.60	16,508,437.32
Materials reserved with special approval	1,839,696.49		1,839,696.49	1,839,696.49		1,839,696.49
Goods in transit	32,050,668.03	2,162,806.30	29,887,861.73	82,687,661.20	2,162,806.30	80,524,854.90
Total	<u>858,087,352.30</u>	<u>69,781,402.49</u>	<u>788,305,949.81</u>	<u>1,217,354,335.50</u>	<u>87,011,545.82</u>	<u>1,130,342,789.68</u>

(2) Provision for diminution in value of inventories

Classification of inventories	Beginning Balance	Amount Accrued In Current Period	Decrease in Current Period		Ending Balance
			Transfer-out	Write-off	
Raw materials	7,781,041.03				7,781,041.03
Products in process	27,590,224.65	-3,663,784.02			23,926,440.63
Goods in stock	48,074,628.24	9,033,180.52		22,599,539.83	34,508,268.93
Low-value consumables	1,402,845.60				1,402,845.60
Goods in transit	2,162,806.30				2,162,806.30
Total	<u>87,011,545.82</u>	<u>5,369,396.50</u>	<u></u>	<u>22,599,539.83</u>	<u>69,781,402.49</u>

For the method of recognizing the inventory falling prices reserves, see descriptions in note “IV. Important Accounting Policies and Accounting Estimates 13. Inventory”.

Notes to the Interim Financial Statements (Continued)

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

(3) *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	The expected net realizable value is lower than the book cost	Produced and sold
Products in process	The expected net realizable value is lower than the book cost	Completed and sold
Goods in stock	The expected net realizable value is lower than the book cost	Sold
Goods in transit	The expected net realizable value is lower than the book cost	Sold
Low-value consumables	The expected net realizable value is lower than the book cost	Produced and sold

7. Other current assets

Item	Ending Balance	Beginning Balance	Nature
Deductible VAT input tax	21,854,892.77	59,053,877.22	Deductible VAT input tax
Prepayment of corporate income tax	22,766,297.45	32,992,379.72	Prepayment of corporate income tax
Prepayment of VAT	6,413,818.27	6,410,141.08	Prepayment of VAT
Prepayment of other taxes	11,628,173.87	4,435,941.61	Prepayment of other taxes
Total	<u>62,663,182.36</u>	<u>102,892,339.63</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	Added Investment	Increase or Decrease in Current Period							Ending Balance	
			Reduced Investment	Investment	Adjustment of Other Comprehensive Income	Other Changes in Equity	Declared Cash Dividends or Profit	Accrued Impairment Provision	Others	Ending Balance	of Impairment Provision
				Gains and Losses Recognized under Equity Method							
I. Joint ventures											
Centrient Pharmaceuticals (Zibo) Co., Ltd.	60,774,211.24			-2,245,254.87							58,528,956.37
Total	60,774,211.24			-2,245,254.87							58,528,956.37

9. Investments of other equity instruments

(1) Investments of other equity instruments

Item	Ending Balance	Beginning Balance
Bank of Communications Co., Ltd.	42,164,496.00	46,274,096.00
China Pacific Insurance (Group) Co., Ltd	136,250,000.00	189,200,000.00
Total	178,414,496.00	235,474,096.00

(2) Non-transactional equity instrument investments in the current period

Item	Dividend Income Recognized in Current Period	Cumulative Gains	Cumulative Losses	Comprehensive Income	Amounts Transferred to Retained Earnings from Other Comprehensive Income	Reasons of Being Designated as Equity Instruments Measured at Fair Value and Changes Recognized as Other Comprehensive Income	Reasons of Transferring Other Comprehensive Income into Retained Earnings
Bank of Communications Co., Ltd.		45,662,696.88				The Group invests for equity purposes	
China Pacific Insurance (Group) Co., Ltd	6,000,000.00	149,857,396.00				The Group invests for equity purposes	
Total	6,000,000.00	195,520,092.88					

Notes to the Interim Financial Statements (Continued)

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

10. Investment properties

(1) Investment properties measured by costs

Item	Premises and Buildings	Land Use Right	Total
I. Original book value			
1. Beginning Balance	116,202,176.47	20,350,891.18	136,553,067.65
2. Increased amount in the Current Period			
(1) Purchase			
(2) Transferred from fixed assets			
3. Decreased amount in the current period	23,224,750.64	8,776,121.00	32,000,871.64
(1) Transferred into fixed assets or intangible assets	23,224,750.64	8,776,121.00	32,000,871.64
4. Ending Balance	92,977,425.83	11,574,770.18	104,552,196.01
II. Accumulated depreciation and accumulated amortization			
1. Beginning Balance	58,846,657.72	4,894,748.83	63,741,406.55
2. Increased amount in the Current Period	1,646,099.38	235,729.30	1,881,828.68
(1) Accrual or amortization	1,646,099.38	235,729.30	1,881,828.68
(2) Transferred from fixed assets			
3. Decreased amount in the current period	11,232,397.83	1,974,672.00	13,207,069.83
(1) Transferred into fixed assets or intangible assets	11,232,397.83	1,974,672.00	13,207,069.83
4. Ending Balance	49,260,359.27	3,155,806.13	52,416,165.40
III. Provision for impairment			
IV. Book value			
1. Ending book value of the period	43,717,066.56	8,418,964.05	52,136,030.61
2. Beginning book value of the year	57,355,518.75	15,456,142.35	72,811,661.10

In current period, the amount of RMB1,881,828.68 of depreciation and amortization for investment properties was charged to profit or loss (previous period: RMB2,809,561.98).

All investment properties of the Company were located in the territory of China and were 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 incompletd certificate of title

At the end of the current period, the house properties with the amount of RMB35,133,736.54 (beginning balance: RMB36,501,454.66) in investment properties were in the process of obtaining the title certificate. In view of the fact that the aforesaid properties are carried out in accordance with the relevant legal procedures, the Company's Board confirms that the transfer of the property rights will not be prevented by any material legal obstacles or have negative effects on the normal use of the properties, which does not constitute a material impact on the Group's operation. Therefore, no provision for the impairment of investment properties is required.

Item	Book Value	Reasons for the Certificate of Title Not Properly Handled
13-22/F, Xinhua Mansion in the Headquarters	28,563,509.65	In progress
No. 1 Scientific Research Centre in the Headquarters	6,570,226.89	In progress
Total	35,133,736.54	

11. Fixed assets

Item	Ending Book Value	Beginning Book Value
Fixed assets	2,745,378,521.51	2,806,949,444.22
Disposal of fixed assets	—	—
Total	2,745,378,521.51	2,806,949,444.22

Notes to the Interim Financial Statements (Continued)

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

11.1 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	1,778,581,599.76	3,144,250,075.12	31,990,833.01	103,340,644.87	5,058,163,152.76
2. Increased amount in the period	32,110,053.86	94,018,476.77	2,059,977.39	5,281,357.69	133,469,865.71
(1) Purchase	8,616,501.58	37,597,969.44	1,255,085.39	4,135,652.36	51,605,208.77
(2) Transferred from construction in progress	268,801.64	56,420,507.33	804,892.00	1,145,705.33	58,639,906.30
(3) Transferred from investment properties	23,224,750.64				23,224,750.64
3. Decreased amount in the period	2,029,608.17	7,245,103.79	735,008.86	549,323.04	10,559,043.86
(1) Disposal or scrapping	2,029,608.17	7,245,103.79	735,008.86	549,323.04	10,559,043.86
(2) Transferred to investment properties					
(3) Others					
4. Ending balance	1,808,662,045.45	3,231,023,448.10	33,315,801.54	108,072,679.52	5,181,073,974.61
II. Accumulated depreciation					
1. Beginning balance	634,821,288.91	1,515,056,189.64	23,511,471.70	62,028,319.26	2,235,417,269.51
2. Increased amount in the period	56,987,020.36	129,415,126.24	1,234,870.29	6,606,639.48	194,243,656.37
(1) Purchase	45,754,622.53	129,415,126.24	1,234,870.29	6,606,639.48	183,011,258.54
(2) Transferred from investment properties	11,232,397.83				11,232,397.83
3. Decreased amount in the period	1,641,027.16	6,900,104.34	698,258.42	522,521.89	9,761,911.81
(1) Disposal or scrapping	1,641,027.16	6,900,104.34	698,258.42	522,521.89	9,761,911.81
(2) Transferred to investment properties					
(3) Others					
4. Ending balance	690,167,282.11	1,637,571,211.54	24,048,083.57	68,112,436.85	2,419,899,014.07
III. Provision for impairment					
1. Beginning balance	1,409,671.38	14,380,315.18		6,452.47	15,796,439.03
2. Increased amount in the period					
(1) Accrual					
3. Decreased amount in the period					
(1) Disposal or scrapping					
4. Ending balance	1,409,671.38	14,380,315.18		6,452.47	15,796,439.03
IV. Book value					
1. Ending book value	1,117,085,091.96	1,579,071,921.38	9,267,717.97	39,953,790.20	2,745,378,521.51
2. Beginning book value	1,142,350,639.47	1,614,813,570.30	8,479,361.31	41,305,873.14	2,806,949,444.22

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 amount of depreciation and amortization for fixed assets recognized as profit or loss was RMB183,011,258.54 (previous period's amount: RMB162,744,078.44) in the current period.

(2) All premises 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 by sale under sale-leaseback:*

At the end of the period, the fixed assets with a book value of RMB100,588,504.42 (the original book value was RMB192,618,704.27) are sale-leaseback. The specific analysis is as follows:

Ending balance	Original Book Value	Accumulated Depreciation	Provision for Impairment	Book Value
Machinery and equipment	<u>192,618,704.27</u>	<u>91,328,519.60</u>	<u>701,680.25</u>	<u>100,588,504.42</u>
Total	<u>192,618,704.27</u>	<u>91,328,519.60</u>	<u>701,680.25</u>	<u>100,588,504.42</u>

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

At the end of the current period, the house properties with the amount of RMB510,354,905.78 (beginning balance: RMB515,323,240.08) of house properties in fixed assets were in the process of obtaining the title certificate. In view of the fact that the aforesaid properties are carried out in accordance with the relevant legal procedures, the Company's Board confirms that the transfer of the property rights will not be prevented by any material legal obstacles or have negative effects on the normal use of the properties, which does not constitute a material impact on the Group's operation. Therefore, no provision for the impairment of the fixed assets is required.

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. 1 factory	62,928,165.78	In progress
House property of No. 2 factory	278,502,559.42	In progress
House property in the headquarter park	86,612,986.14	In progress
House property in Shouguang park	61,728,839.25	In progress
House property of Gaomi Factory area	20,582,355.19	In progress
Total	510,354,905.78	

11.2 Disposal of fixed assets : None

12. Construction in progress

Item	Ending Balance	Beginning Balance
Construction in progress	505,018,924.89	392,135,611.07
Project materials		
Total	505,018,924.89	392,135,611.07

Notes to the Interim Financial Statements (Continued)

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

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

12.1 Construction in progress

(1) Details of construction in progress

Item	Ending Balance		Book Value	Beginning Balance		Book Value
	Book Balance	Impairment Provision		Book Balance	Impairment Provision	
International processing technology renovation of solid preparation project	50,023,481.35		50,023,481.35	65,384,358.38		65,384,358.38
Preparation workshop II of Modern Medicine Center for International Cooperation	210,608,189.58		210,608,189.58	187,756,062.01		187,756,062.01
High-end new pharmaceutical preparation industrialization project – Injection workshop	43,491,008.60		43,491,008.60	12,253,088.39		12,253,088.39
Research and development project of Pharmaceutical Innovation Park	16,047,198.16		16,047,198.16	3,381,720.00		3,381,720.00
Ibuprofen continuous synthesis technology transformation project	9,592,799.32		9,592,799.32	744,956.81		744,956.81
Roche Madopar Project	7,882,499.51		7,882,499.51	7,766,332.68		7,766,332.68
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch I site	8,078,821.30		8,078,821.30	3,011,348.35		3,011,348.35
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch II site	3,129,380.76		3,129,380.76	2,520,686.28		2,520,686.28
Others	156,165,546.31		156,165,546.31	109,317,058.17		109,317,058.17
Total	505,018,924.89		505,018,924.89	392,135,611.07		392,135,611.07

The construction in progress increased at the end of the period. The increase was mainly due to the investment in the preparation workshop II of the Modern Medicine Center for International Cooperation, high-end new pharmaceutical preparation industrialization project-injection workshop, research and development project of Pharmaceutical Innovation Park and ibuprofen continuous synthesis technology transformation project during the current period.

Notes to the Interim Financial Statements (Continued)

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

(2) 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	65,384,358.38	16,368,710.28	31,729,587.31		50,023,481.35
Preparation workshop II of Modern Medicine Center for International Cooperation	187,756,062.01	22,852,127.57			210,608,189.58
High-end new pharmaceutical preparation industrialization project – Injection workshop	12,253,088.39	31,237,920.21			43,491,008.60
Research and development project of Pharmaceutical Innovation Park	3,381,720.00	12,665,478.16			16,047,198.16
Ibuprofen continuous synthesis technology transformation project	744,956.81	8,847,842.51			9,592,799.32
Roche Madopar Project	7,766,332.68	116,166.83			7,882,499.51
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch I site	3,011,348.35	5,067,472.95			8,078,821.30
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch II site	2,520,686.28	608,694.48			3,129,380.76
Others	109,317,058.17	73,758,807.13	26,910,318.99		156,165,546.31
Total	392,135,611.07	171,523,220.12	58,639,906.30		505,018,924.89

Notes to the Interim Financial Statements (Continued)

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

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

Name of Project	Budget	Proportion of Project Investment in Budget (%)	Engineering Schedule (%)	Accumulated Amount of Capitalization of Interest	Including:		Capital Source
					Amount of Capitalized Interest in Current Period	Capitalization Rate of Interest in Current Period (%)	
International processing technology renovation of solid preparation project	174,290,000.00	47.19	55.00				Self-provided
Preparation workshop II of Modern Medicine Center for International Cooperation	350,890,000.00	60.02	70.00	7,144,027.90	2,912,314.87	4.90	Self-provided/ Specifically borrowed funds
High-end new pharmaceutical preparation industrialization project – Injection workshop	212,340,000.00	20.48	25.00	337,039.45	337,039.45	3.96	Self-provided/ General borrowed funds
Research and development project of Pharmaceutical Innovation Park	30,000,000.00	53.49	60.00				Self-provided
Ibuprofen continuous synthesis technology transformation project	98,230,000.00	9.77	10.00				Self-provided
Roche Madopar Project	18,550,000.00	42.49	50.00				Self-provided
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch I site	14,000,000.00	57.71	70.00				Self-provided
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch II site	14,000,000.00	22.35	40.00				Self-provided
Total	912,300,000.00			7,481,067.35	3,249,354.32		

(3) No impairment was incurred in the projects under construction of the Group at the end of the current period, 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	2,775,522.61	2,775,522.61
2. Increased amount in the period		
3. Decreased amount in the period		
4. Ending balance	2,775,522.61	2,775,522.61
II. Accumulated depreciation		
1. Beginning balance	883,280.94	883,280.94
2. Increased amount in the period	421,145.34	421,145.34
(1) Accrual	421,145.34	421,145.34
3. Decreased amount in the period		
4. Ending balance	1,304,426.28	1,304,426.28
III. Provision for impairment		
IV. Book value		
1. Ending book value	1,471,096.33	1,471,096.33
2. Beginning book value	1,892,241.67	1,892,241.67

The amount of depreciation and amortization for right-of-use asset recognized as profit or loss was RMB421,145.34 (previous period's amount: RMB323,674.08) in the current period.

- (2) Right-of-use assets of the Group are mainly stores rented by Zibo Xinhua Pharmacy Chain Co., Ltd for daily operation.
- (3) All the right-of-use assets of the Group were located in the territory of China and were 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	499,110,717.67	14,239,661.43	23,496,005.93	2,614,923.24	539,461,308.27
2. Increased amount in the period	8,776,121.00	558,726.21			9,334,847.21
(1) Purchase		558,726.21			558,726.21
(2) Transferred from investment property	8,776,121.00				8,776,121.00
3. Decreased amount in the period					
(1) Disposal					
(2) Transferred to investment property					
4. Ending balance	507,886,838.67	14,798,387.64	23,496,005.93	2,614,923.24	548,796,155.48
II. Accumulated amortization					
1. Beginning balance	92,605,004.46	9,151,399.43	23,496,005.93	2,614,923.24	127,867,333.06
2. Increased amount in the period	7,427,586.22	619,606.78			8,047,193.00
(1) Provision	5,452,914.22	619,606.78			6,072,521.00
(2) Transferred from investment property	1,974,672.00				1,974,672.00
3. Decreased amount in the period					
(1) Disposal					
(2) Transferred to investment property					
4. Ending balance	100,032,590.68	9,771,006.21	23,496,005.93	2,614,923.24	135,914,526.06
III. Provision for impairment					
IV. Book value					
1. Ending book value	407,854,247.99	5,027,381.43			412,881,629.42
2. Beginning book value	406,505,713.21	5,088,262.00			411,593,975.21

* "Others" are client sources purchased from American- Eastwest Co., Ltd. by Shandong Xinhua Pharmaceutical (USA) Inc., the subsidiary of the Company, which amounts to RMB2,613,680.00, and its amortization has been fully recognized so far.

The amount of depreciation and amortization for intangible assets recognized as profit or loss was RMB6,072,521.00 (amount in the previous period: RMB4,968,059.26) in the current period.

- (2) All land use rights of the Group are located in the territory of China and in the medium-term (10–50 years) phase.
- (3) The Group's intangible assets with incompleting certificate of title: 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))

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
Total	<u>2,715,585.22</u>			<u>2,715,585.22</u>

(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
Total	<u>2,715,585.22</u>			<u>2,715,585.22</u>

For the method of testing and recognizing the provision for impairment of goodwill, see the note "IV. Important Accounting Policies and Accounting Estimates, 23. Impairment of Long-term Assets". The Group fully recognized the impairment provision for goodwill in 2014.

Notes to the Interim Financial Statements (Continued)

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

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

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	15,761,003.77	2,712,027.95	15,761,003.77	2,712,027.95
Provision for bad debt	73,769,466.33	17,574,304.73	73,622,273.53	17,541,520.12
Provision for inventory falling price	88,986,125.95	14,251,504.71	86,872,417.33	14,042,591.67
Salaries and wages unpaid	15,151,012.10	2,272,651.82	3,239,815.14	485,972.27
Deferred income	11,501,083.27	1,725,162.49	13,507,083.32	2,026,062.49
Unrealized internal profits arising from transactions with subsidiaries	86,422,922.34	15,160,620.00	46,953,859.88	9,995,223.93
Others	911,036.77	197,759.20	15,334,252.41	2,300,137.86
Total	<u>292,502,650.53</u>	<u>53,894,030.90</u>	<u>255,290,705.38</u>	<u>49,103,536.29</u>

(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
Changes in fair value of other equity instruments investments	157,189,178.00	23,578,376.70	214,248,778.00	32,137,316.70
Depreciation of fixed assets	300,786,511.83	50,226,230.70	276,663,044.71	44,782,974.61
Total	<u>457,975,689.83</u>	<u>73,804,607.40</u>	<u>490,911,822.71</u>	<u>76,920,291.31</u>

Notes to the Interim Financial Statements (Continued)

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

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

Item	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	22,735,847.09	31,158,183.81	23,096,703.63	26,006,832.66
Deferred Income Tax Liabilities	22,735,847.09	51,068,760.31	23,096,703.63	53,823,587.68

Note: The Company's 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	1,836,611.78	891,445.29
Deductible loss	5,323,400.53	5,323,400.53
Total	7,160,012.31	6,214,845.82

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

Year	Ending Balance	Beginning Balance	Note
2020			
2021	5,323,400.53	5,323,400.53	
Total	5,323,400.53	5,323,400.53	

Notes to the Interim Financial Statements (Continued)

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

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

17. Short-term borrowing

(1) Classification of short-term borrowing

<u>Category</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>
Credit loans	<u>230,000,000.00</u>	<u>540,000,000.00</u>
Total	<u>230,000,000.00</u>	<u>540,000,000.00</u>

(2) Overdue short-term borrowing not yet repaid

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

(3) Short-term borrowing's interest rate range was 2.05%-4.1325% as at June 30, 2020.

18. Notes payable

<u>Category</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>
Bank acceptance bills	<u>224,414,431.10</u>	<u>364,123,575.62</u>
Total	<u>224,414,431.10</u>	<u>364,123,575.62</u>

The account age of the aforementioned notes payable of the Group was within 180 days and there were no overdue notes payable that were not repaid at the end of 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))

19. Accounts payable

(1) Presentation of accounts payable

Item	Ending Balance	Beginning Balance
Payment for goods	<u>458,035,924.61</u>	<u>434,388,662.65</u>
Total	<u><u>458,035,924.61</u></u>	<u><u>434,388,662.65</u></u>

(2) Significant accounts payable aged over 1 year

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

(3) Aging analysis of accounts payable (including the related-party transactions) based on transaction date is as follows:

Account Age	Ending Balance	Beginning Balance
Within 1 year	443,648,097.64	421,318,881.87
1–2 years	6,330,911.99	5,644,612.66
2–3 years	1,428,721.45	1,705,476.96
Over 3 years	<u>6,628,193.53</u>	<u>5,719,691.16</u>
Total	<u><u>458,035,924.61</u></u>	<u><u>434,388,662.65</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))

20. Contract liabilities

(1) Presentation of contract liabilities

Item	Ending Balance	Beginning Balance
Payments of goods sales received in advance	85,332,840.91	163,576,442.41
Payments of property sales received in advance	245,154,052.80	201,370,628.80
Total	330,486,893.71	364,947,071.21

(2) Significant changes in the book value of the contract liabilities in current period

Item	Changing amount	Reason
Payments of goods sales received in advance	-78,243,601.50	The performance of the orders at the beginning of the year was completed so the payments for goods received in advance decreased
Payments of property sales received in advance	43,783,424.00	Pre-sale of commercial housing led to an increase in the payments for property sales received in advance
Total	-34,460,177.50	

(3) Payments of property sales received in advance are listed as follows:

Project name	Ending Balance	Expected Time of Completion	Expected Time of House Delivery	Proportion of Pre-sale (%)
Jinding Huajun Building 1#	32,696,401.20	October 2019	October 2020	100.00
Jinding Huajun Building 2#	74,246,824.00	October 2019	October 2020	97.00
Jinding Huajun Building 3#	68,772,912.00	October 2020	March 2021	86.00
Jinding Huajun Building 4#	56,560,651.60	October 2020	March 2021	72.00
Jinding Huajun Building 5#	12,877,264.00	October 2021	December 2021	20.00
Total	245,154,052.80			

Notes to the Interim Financial Statements (Continued)

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

21. Payroll payable

(1) Classification of payroll payable

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Short-term remuneration	79,834,732.56	341,203,114.99	347,502,566.86	73,535,280.69
Post-employment benefits				
–Defined contribution plans		18,360,912.52	18,360,912.52	
Dismissal benefits				
Total	<u>79,834,732.56</u>	<u>359,564,027.51</u>	<u>365,863,479.38</u>	<u>73,535,280.69</u>

(2) Short-term remuneration

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Salary, bonus, allowance and subsidy	75,526,091.94	282,828,665.78	288,809,422.72	69,545,335.00
Employee welfare expenses		11,306,983.76	11,306,983.76	
Social insurance premiums		14,149,644.88	14,149,644.88	
Including: Medical insurance premiums		13,160,163.26	13,160,163.26	
Work-related injury insurance premiums		989,481.62	989,481.62	
Housing fund		20,300,132.82	20,300,132.82	
Labor union expenditure and employee education fund	4,196,640.62	5,391,481.75	5,737,376.68	3,850,745.69
Labor costs	<u>112,000.00</u>	<u>7,226,206.00</u>	<u>7,199,006.00</u>	<u>139,200.00</u>
Total	<u>79,834,732.56</u>	<u>341,203,114.99</u>	<u>347,502,566.86</u>	<u>73,535,280.69</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) Defined contribution plan

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

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		17,593,512.87	17,593,512.87	
Unemployment insurance premium		767,399.65	767,399.65	
Total		18,360,912.52	18,360,912.52	

The endowment insurance, and unemployment insurance premium that the Group planned to pay on June 30, 2020 had been fully paid.

22. Taxes payable

Item	Ending Balance	Beginning Balance
VAT	7,045,803.34	1,219,290.61
Income tax payable	9,186,115.84	5,719,165.75
Urban maintenance and construction tax	1,597,204.98	861,034.22
Individual income tax	428,118.30	3,056,787.34
Property tax	4,301,933.60	4,375,728.30
Land use tax	3,742,924.16	2,621,801.72
Stamp duty	73,489.86	333,938.06
Educational surcharges	1,090,121.62	614,288.25
Local Water Conservancy Fund	122,883.57	75,300.24
Environmental protection tax	286,331.90	301,204.19
Total	27,874,927.17	19,178,538.68

Notes to the Interim Financial Statements (Continued)

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

23. Other payables

Item	Ending Balance	Beginning Balance
Interests payable	8,792,482.26	4,253,876.86
Dividends payable	94,903,733.17	5,310,599.53
Other payables	326,410,580.83	324,479,494.81
Total	430,106,796.26	334,043,971.20

23.1 Interests payable

Item	Ending Balance	Beginning Balance
Interest on long-term borrowings with interest paid in installments and repayment of principal at maturity	8,335,747.14	1,382,162.03
Interest of short-term borrowing	240,590.28	2,676,305.55
Interest of sale and leaseback	216,144.84	195,409.28
Total	8,792,482.26	4,253,876.86

23.2 Dividends payable

Item	Ending Balance	Beginning Balance
Common stock dividend	94,903,733.17	5,310,599.53
Total	94,903,733.17	5,310,599.53

Note: The ending balance of dividends payable is RMB94,903,733.17, and RMB5,310,599.53 of which was the common stock dividend unpaid for more than one year.

Notes to the Interim Financial Statements (Continued)

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

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

23.3 Other payables

(1) Classification of other payables by nature

Nature of Payments	Ending Balance	Beginning Balance
Payments payable for engineering equipment	234,824,962.29	253,933,829.35
Cash deposit and guarantee deposit	41,586,568.40	45,713,609.29
Power expense, freight and consulting fees	38,418,647.87	17,895,942.56
Others	11,580,402.27	6,936,113.61
Total	326,410,580.83	324,479,494.81
Including: payments above 1 year	49,878,670.15	56,518,712.12

(2) Significant amount of other payables aged over 1 year

Organization Name	Ending Balance	Reasons for Not Repaying or Carrying Forward
Shandong Xinhua Pharmaceutical branch of HHC	1,452,745.61	Current account of payables
Shandong University Zibo Bio Pharmaceutical Research Institute	1,000,000.00	Research and development funds to be paid
Total	2,452,745.61	

24. Non-current liabilities due within one year

Item	Ending Balance	Beginning Balance
Long-term loans due within one year	455,541,069.16	289,655,801.87
Sale and leaseback due within one year	61,443,657.96	58,753,615.19
Lease liabilities due within one year	379,456.39	588,504.00
Total	517,364,183.51	348,997,921.06

Notes to the Interim Financial Statements (Continued)

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

25. Long-term loans

(1) Classifications of long-term loans

Category	Ending Balance	Beginning Balance
Credit loans	<u>485,508,474.38</u>	<u>589,779,008.96</u>
Total	<u>485,508,474.38</u>	<u>589,779,008.96</u>

Note: The range of long-term loan interest rate was 2.70%-4.90% as at June 30, 2020.

(2) Analysis of long-term loan maturity date

Item	Ending Balance	Beginning Balance
1-2 years	<u>387,541,069.16</u>	<u>355,541,069.16</u>
2-5 years	<u>97,967,405.22</u>	<u>234,237,939.80</u>
Total	<u>485,508,474.38</u>	<u>589,779,008.96</u>

26. Lease liabilities

(1) Detail of lease liabilities

Item	Ending Balance	Beginning Balance
Lease liabilities	<u>459,739.33</u>	<u>855,959.44</u>
Total	<u>459,739.33</u>	<u>855,959.44</u>

(2) Analysis of the maturity date of lease liabilities

Item	Ending Balance	Beginning Balance
1-2 years	<u>470,000.00</u>	<u>470,000.00</u>
2-5 years	<u> </u>	<u>435,000.00</u>
Total	<u>470,000.00</u>	<u>905,000.00</u>

Notes to the Interim Financial Statements (Continued)

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

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

27. Long-term payables

Item	Ending Balance	Beginning Balance
Long-term payables	648,299,702.12	50,286,746.46
Special payables	12,500,000.00	—
Total	<u>660,799,702.12</u>	<u>50,286,746.46</u>

27.1 Long-term payables

(1) Classification of long-term payables by nature

Nature	Ending Balance	Beginning Balance
Sale and leaseback payables	48,299,702.12	50,286,746.46
Borrowing from the controlling Shareholder	600,000,000.00	—
Total	<u>648,299,702.12</u>	<u>50,286,746.46</u>

(2) Analysis of the maturity date of long-term payables

Item	Ending Balance	Beginning Balance
1–2 years	33,440,000.00	38,840,000.00
2–5 years	615,960,000.00	12,600,000.00
Total	<u>649,400,000.00</u>	<u>51,440,000.00</u>

Notes to the Interim Financial Statements (Continued)

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

27.2 Special payables

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Ibuprofen continuous synthesis technology transformation project		12,500,000.00		12,500,000.00
Total		12,500,000.00		12,500,000.00

28. Deferred income

(1) Classification of deferred income

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Government grants	141,673,879.14	17,096,000.00	9,009,336.34	149,760,542.80
Total	141,673,879.14	17,096,000.00	9,009,336.34	149,760,542.80

(2) Government grants

Project	Beginning Balance	Increased Amount of Grants in Current Period	Amounts Included in Other Income in Current Period	Other Changes	Other Decreases	Ending Balance	Related to Assets/Related to Income
Project on construction of technology center's innovation power	1,333,333.32		250,000.00			1,083,333.32	Related to assets
GMP reform project on aspirin product series	3,549,583.33		608,500.00			2,941,083.33	Related to assets
Cultivation for famous and excellent varieties of aspirin	5,487,500.00		787,500.00			4,700,000.00	Related to assets
Special funds for MVR energy-saving renovation	2,160,000.00		240,000.00			1,920,000.00	Related to assets
Organic gas (dichloromethane) recovery and comprehensive air pollution prevention and control project	31,752,250.00		1,780,500.00			29,971,750.00	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	Increased	Amounts	Other Changes	Other Decreases	Ending Balance	Related to Assets/Related to Income
		Amount of Grants in Current Period	Included in Other Income in Current Period				
Project on Modern Medicine Center for international Cooperation	66,885,850.00		3,737,600.00			63,148,250.00	Related to assets
Project on East Park's new 2,000T/d sewage treatment system	3,502,500.00		233,500.00			3,269,000.00	Related to assets
Project on technological transformation of hormones	5,079,245.83		294,000.00			4,785,245.83	Related to assets
Polycarbophil calcium and troche research and industrialization projects	2,999,000.00		168,000.00			2,831,000.00	Related to assets
Project on technical reform of aspirin	3,400,000.00		200,000.00			3,200,000.00	Related to assets
Government subsidies for equipment	5,618,766.68		285,700.00			5,333,066.68	Related to assets
High-end new pharmaceutical preparation industrialization project*		17,096,000.00				17,096,000.00	Related to assets
Other deferred income	9,905,849.98		424,036.34			9,481,813.64	Related to assets
Total	141,673,879.14	17,096,000.00	9,009,336.34			149,760,542.80	

* According to the Notice of Issuing Budget Targets of Subsidy Funds for Major Industrial Investment Attraction Projects (ZCFZ [2019] No. 85) issued by Zibo Finance Bureau, the Company received government grants for the high-end new pharmaceutical preparation industrialization project in the amount of RMB17.096 million in January 2020. The project is under construction.

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. Other non-current liabilities

Item	Ending Balance	Beginning Balance
Special 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>

30. Capital stock

Item	Beginning Balance	Increase (+)/Decrease (-) During the Period				Subtotal	Ending Balance
		New Shares Issued	New Bonus Issue	Converted into Capital Stock	Others		
Total shares	621,859,447.00					<u>621,859,447.00</u>	

31. Capital reserves

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Capital stock premium*	451,740,429.79		2,227,674.13	<u>449,512,755.66</u>
Other capital reserves**	<u>182,402,537.91</u>	<u>4,182,348.00</u>		<u>186,584,885.91</u>
Total	<u>634,142,967.70</u>	<u>4,182,348.00</u>	<u>2,227,674.13</u>	<u><u>636,097,641.57</u></u>

* Capital stock premium was decreased by RMB2,227,674.13 in the current period. The decrease was mainly because the Company acquired 27% equity interest of Wanbo Chemical.

** According to the Company's share option incentive plan, the accrual of the consideration of equity instrument in the waiting period will increase the capital reserve by RMB4,182,348.00.

Notes to the Interim Financial Statements (Continued)

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

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

32. Other comprehensive income

Item	Beginning Balance	Amount Incurred in Current Period					Ending Balance
		Pre-tax Amount Incurred In Current period	Less: Amount Recognized in Other Comprehensive Income in Previous Period and Carried Over into Profit Or Loss in Current Period	Less: Income Tax Expense	After-tax Amount Attributable to the Parent Company	After-tax Amount Attributable to Minority Shareholders	
I. Other comprehensive income that cannot be reclassified into profit or loss in future							
	182,111,461.30	-57,059,600.00		-8,558,940.00	-48,500,660.00		133,610,801.30
Including: Changes in fair value of other equity instrument investments	182,111,461.30	-57,059,600.00		-8,558,940.00	-48,500,660.00		133,610,801.30
II. Other comprehensive income to be reclassified into profit or loss in future							
	-102,590.71	689,238.59			538,816.26	150,422.33	436,225.55
Including: Translation difference of foreign currency financial statement	-102,590.71	689,238.59			538,816.26	150,422.33	436,225.55
Total other comprehensive income	182,008,870.59	-56,370,361.41		-8,558,940.00	-47,961,843.74	150,422.33	134,047,026.85

33. Special reserve

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Safe production expenses	1,436,261.16	10,256,608.87	6,346,164.98	5,346,705.05
Total	1,436,261.16	10,256,608.87	6,346,164.98	5,346,705.05

Notes to the Interim Financial Statements (Continued)

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

34. Surplus reserves

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Statutory surplus reserves	214,153,702.27			214,153,702.27
Discretionary surplus reserves	64,795,873.74			64,795,873.74
Total	<u>278,949,576.01</u>	<u></u>	<u></u>	<u>278,949,576.01</u>

35. Undistributed profits

Item	Current period	Previous period
Ending balance of previous year	1,250,630,948.35	1,035,690,153.67
Add: Beginning adjustment for undistributed profit Including: Retrospective adjustment according to new regulations of ASBE Changes of accounting policies Change of consolidation scope under common control		
Beginning balance of current period	1,250,630,948.35	1,035,690,153.67
Add: Net profits attributable to the parent company's shareholders in the current period Others	172,311,861.57	149,112,301.39
Less: Accrual of statutory surplus reserves Common stock dividends payable Others	74,623,133.64 1,114,320.88	62,185,944.70
Ending balance of current period	<u>1,347,205,355.40</u>	<u>1,122,616,510.36</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 six months ended June 30, 2020

According to the Company's 2019 general meeting of shareholders held on June 29, 2020, the Company shall pay a cash dividend of RMB0.12 (tax included) per share to all shareholders, which amounts to a total cash dividend of RMB74,623,133.64, with 0 bonus share delivered and no capital reserve will be converted to increase the share capital.

Pursuant to the resolution of the Company's Board on August 21, 2020, the Company proposed not to distribute the semi interim dividend, with 0 bonus share delivered. No capital reserve will be converted to increase the share capital.

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 June 30, 2019

According to the Company's 2018 general meeting of shareholders held on June 26, 2019, the Company shall pay a cash dividend of RMB0.10 (tax included) per share to all shareholders, which amounts to a total cash dividend of RMB62,185,944.70 with 0 bonus share delivered and no capital reserve will be converted to increase the share capital.

36. 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	3,259,378,950.67	2,315,358,600.32	3,088,313,085.72	2,096,322,418.11
Other business	26,393,765.90	48,469,269.15	34,334,071.74	41,791,434.18
Total	<u>3,285,772,716.57</u>	<u>2,363,827,869.47</u>	<u>3,122,647,157.46</u>	<u>2,138,113,852.29</u>

(2) Revenues generated from contracts

Classification of Contract	Chemical		Pharmaceutical	Total
	Bulk Drugs	Preparations	Intermediates and Other Products	
Commodity type				
Including: Chemical bulk drugs	1,538,952,813.09			1,538,952,813.09
Preparations		1,344,752,815.46		1,344,752,815.46
Pharmaceutical intermediates and other products			402,067,088.02	402,067,088.02
Total	<u>1,538,952,813.09</u>	<u>1,344,752,815.46</u>	<u>402,067,088.02</u>	<u>3,285,772,716.57</u>
Classification by operating regions				
Including: China (including Hong Kong)	386,300,267.47	1,297,078,869.18	265,095,810.78	1,948,474,947.43
Americas	482,145,629.38		44,010,426.27	526,156,055.65
Europe	420,888,313.19	47,673,946.28	81,613,027.01	550,175,286.48
Others	249,618,603.05		11,347,823.96	260,966,427.01
Total	<u>1,538,952,813.09</u>	<u>1,344,752,815.46</u>	<u>402,067,088.02</u>	<u>3,285,772,716.57</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	Preparations	Pharmaceutical	Total
	Bulk Drugs		Intermediates and Other Products	
Classification by contract performance obligation				
Among: Revenue recognized at a certain point of time	1,538,952,813.09	1,344,752,815.46	402,067,088.02	3,285,772,716.57
Revenue recognized within a certain period	_____	_____	_____	_____
Total	<u>1,538,952,813.09</u>	<u>1,344,752,815.46</u>	<u>402,067,088.02</u>	<u>3,285,772,716.57</u>

(3) Information related to the performance obligations

According to the contractual agreement, the Group performs as the main responsible person to provide goods in accordance with the customers' demand of category and standard. For sales contracts in China, the Group fulfills the contract duty when the goods are delivered to customers or carriers, at which point when customers obtain control of the goods; as for sales contracts outside of China, the Group fulfills the performance obligations when the goods are dispatched, loaded at the port of shipment and departed from the port, at which point when the customer obtains control over the relevant goods.

The terms of payment differ from customers and goods. Part of the Group's sales are made in the form of advanced payment, while the rest are granted with a credit period of certain time limit.

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

At the end of the current period, the amount of revenue where contracts were signed but unfulfilled or with uncompleted performance obligation was RMB303,928,854.89, and of this amount RMB292,114,851.22 is expected to be recognized from July 2020 to June 2021; RMB11,814,003.67 is expected to be recognized from July 2021 to June 2022.

(5) The income amount including the book value of the contract liabilities recognized by the Group from January to June 2020 is RMB140,737,606.43.

Notes to the Interim Financial Statements (Continued)

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

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

37. Taxes and surcharges

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
City maintenance and construction tax	9,570,399.08	10,566,243.47
Land use tax	7,493,337.04	4,507,745.44
Property tax	7,916,671.97	7,317,081.37
Educational surcharges	6,785,994.38	7,547,316.74
Stamp duty	584,953.36	495,191.10
Local water conservancy fund	678,599.38	753,821.66
Vehicle and vessel use tax	36,531.36	38,507.76
	33,066,486.57	31,225,907.54
Total	33,066,486.57	31,225,907.54

38. Selling expenses

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Payroll	50,204,098.94	60,885,790.62
Market development and terminal sales fees	209,746,078.17	261,406,169.94
Transportation expenses	34,389,607.86	31,429,197.51
Consultation expenses	10,235,393.49	64,536,515.19
Advertising expenses	10,705,155.42	5,643,309.28
Travel expenses	4,544,555.13	8,677,330.43
Office expenses	691,762.59	1,402,735.11
Conference expenses	263,135.63	1,821,523.23
Others	5,870,496.36	11,109,293.02
	326,650,283.59	446,911,864.33
Total	326,650,283.59	446,911,864.33

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. Administrative expenses

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Payroll	72,409,897.44	72,357,592.83
Depreciation cost	22,448,671.51	19,062,885.03
Amortization of intangible assets	6,066,877.22	4,894,365.08
Warehouse expenses	11,863,523.43	10,479,522.97
Business entertainment expenses	2,034,653.10	2,133,328.20
Office expenses	1,237,267.33	1,664,245.35
Travel expenses	763,969.82	1,425,564.67
Water, electricity and gas charges	1,821,144.44	3,177,708.52
Royalty fee of trademark	4,756,792.32	4,720,411.29
Annual listing fee, audit fee and expenses of the Board	2,151,674.51	1,532,197.36
Repair costs	2,660,025.56	2,026,136.68
Share-based payment	4,182,348.00	4,182,349.00
Others	22,704,173.31	20,774,100.76
Total	<u>155,101,017.99</u>	<u>148,430,407.74</u>

40. Research and development costs

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
New products	36,648,141.52	23,521,564.42
New technology and new process	120,518,590.52	109,097,510.81
Total	<u>157,166,732.04</u>	<u>132,619,075.23</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. Financial expenses

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Interest expenditure	31,476,188.17	28,097,193.31
Less: Interest income	2,101,311.70	1,864,104.60
Add: Exchange gains or losses	-2,657,156.74	-1,668,680.69
Add: Commission charges and other expenditure	3,436,206.22	2,465,852.76
Total	<u>30,153,925.95</u>	<u>27,030,260.78</u>

Details of interest expenditure are listed as follows :

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Interest expenditure of bank loans	30,345,790.79	25,576,557.36
Interest expenditure of sale and leaseback	1,096,694.54	2,472,087.39
Interest expenditure of lease liabilities	33,702.84	48,548.56
Total	<u>31,476,188.17</u>	<u>28,097,193.31</u>

42. Other income

Sources of Other Income	Amount Incurred In Current Period	Amount Incurred In Previous Period
Government grants	16,171,604.82	16,083,994.50
Including: Received in current period	7,161,600.61	7,287,567.00
Use/amortization of deferred income in the year	9,010,004.21	8,796,427.50
Total	<u>16,171,604.82</u>	<u>16,083,994.50</u>

Notes to the Interim Financial Statements (Continued)

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

Details of government subsidies

Category of Subsidies	Amount Incurred In Current Period	Amount Incurred In Previous Period	Source and Basis	Related to Assets/ Related to Income
Government grants received in this period				
Subsidies for talent policy	2,600,000.00	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 stable posts	2,191,519.86	1,969,252.00	LRSF (2015) NO. 23	Related to income
Subsidies for green factory	1,000,000.00		ZCZFZ (2019) NO. 75	Related to income
2018 Special Funds for Consistency of Generic Drugs		3,000,000.00	ZCQZ (2019) NO. 34	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
Others	1,370,080.75	468,315.00		Related to income
Subtotal	7,161,600.61	7,287,567.00		
Amortization of deferred income	9,010,004.21	8,796,427.50		Related to assets
Subtotal	9,010,004.21	8,796,427.50		
Total	16,171,604.82	16,083,994.50		

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. Investment income

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Investment income from long-term equity accounted by equity method	-2,245,254.87	-694,074.12
Dividend income from other equity instruments investment during holding period	6,000,000.00	
Total	3,754,745.13	-694,074.12

44. Credit impairment loss

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Bad debt loss of accounts receivable	-1,708,693.27	-3,019,811.29
Bad debt loss of other receivables	277,241.49	1,358,042.85
Total	-1,431,451.78	-1,661,768.44

45. Assets impairment loss

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Inventory falling price provision	-5,369,396.50	-8,837,908.34
Total	-5,369,396.50	-8,837,908.34

46. Gains from asset disposal

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period	Amount Recognized in Non-recurring Profit or Loss of Current Period
Gains from disposal of non-current assets	-210,969.28	276,072.47	-210,969.28
Including: Gains from disposal of fixed assets	-210,969.28	276,072.47	-210,969.28
Total	-210,969.28	276,072.47	-210,969.28

Notes to the Interim Financial Statements (Continued)

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

47. Non-operating income

(1) Details of non-operating income

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period	Amount Recognized in Non-recurring Profit or Loss of Current Period
Government grants	682,000.00	530,000.00	682,000.00
Others	92,125.65	1,015,298.01	92,125.65
Total	<u>774,125.65</u>	<u>1,545,298.01</u>	<u>774,125.65</u>

Note: In the current period, the amount recognized into non-recurring profit or loss was RMB774,125.65 (previous period's amount: RMB1,545,298.01).

(2) Government grants charged to profit or loss in the current period

Project Granted	Issuing Party	Issuing Reason	Nature of Grants	Effect on Current Period's Profit and Loss	Whether Identified as Special Subsidy	Amount Incurred In Current Period	Amount Incurred In Previous Period	Related to Assets/Related to Income
National tuition assistance	Education Bureau, Finance Bureau of Zibo	Assistantship	Assistantship	No	No	682,000.00	530,000.00	Related to income
Total						<u>682,000.00</u>	<u>530,000.00</u>	

(3) Details of government grants

Project Granted	Amount Incurred In Current Period	Amount Incurred In Previous Period	Source and Basis	Related to Assets/Related to Income
National tuition assistance	682,000.00	530,000.00	ZCKJZ (2019) NO. 103	Related to income
Total	<u>682,000.00</u>	<u>530,000.00</u>		

Notes to the Interim Financial Statements (Continued)

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

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

48. Non-operating expenditure

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period	Amount Recognized in Non-recurring Profit or Loss of Current Period
Losses from disposal of scrapped non-current assets	344,579.65	223,810.42	344,579.65
Relocation losses	123,050.71	2,594,863.07	123,050.71
Others	2,010,441.74	1,396,246.53	2,010,441.74
Total	2,478,072.10	4,214,920.02	2,478,072.10

Note: In the current period, the amount recognized into non-recurring profit or loss was RMB2,478,072.10 (previous period's amount: RMB4,214,920.02).

49. Income tax expenses

(1) Income tax expenses

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
The current income tax calculated in accordance with the tax law and related regulations	42,006,507.14	42,684,671.04
– PRC enterprise income tax	40,874,511.91	42,560,486.32
– Hong Kong profits tax		
– USA federal and state tax	28,835.47	124,184.72
– Dutch corporation tax	1,103,159.76	
Deferred income tax expense	652,761.48	-5,726,352.06
Under (or over) recognized amount in previous years	320,733.91	390,931.65
Total	42,980,002.53	37,349,250.63

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) Reconciliation process between accounting profit and income tax expense

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Total consolidated profit for the current period	231,016,986.90	200,812,483.61
Income tax expense calculated in accordance with statutory/applicable tax rate	34,558,700.29	29,523,106.26
Effect of different tax rate applicable to subsidiaries	8,663,780.11	7,512,497.42
Effect of turning over income tax to previous years	320,733.91	390,931.65
Effect of non-taxable income	-563,211.78	-77,284.70
Income tax expenses	42,980,002.53	37,349,250.63

50. Other comprehensive income

See the related details in Note "VI. 32. Other comprehensive income".

51. Earnings per share

The basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the parent company, RMB172,311,861.57 (2019: RMB149,112,301.39), by the weighted average of outstanding common stock issued by the Company, 621,859,447 shares (2019: 621,859,447 shares).

The specific calculation process of basic earnings per share is as follows:

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Net profits attributable to shareholders of the parent company	172,311,861.57	149,112,301.39
Weighted average of outstanding common stock issued by the Company	621,859,447.00	621,859,447.00
Basic earnings per share	0.28	0.24

Basic earnings per share and diluted earnings per share are the same as there were no events that would have a possible dilutive impact during the six months ended 30 June 2019 and six months ended 30 June 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))

52. Cash Flow Statement

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

1) Other cash received in relation to operating activities

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Interest income	2,101,311.70	1,855,332.89
Government grants income	37,439,600.61	22,158,377.00
Security deposit of bank acceptance bills		9,195,432.93
Security deposit of sales	8,526,161.64	9,592,679.09
Others	7,688,969.09	7,535,517.59
Total	55,756,043.04	50,337,339.50

2) Other cash paid in relation to operating activities

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Office expenses	3,670,060.77	4,468,526.66
Travel expenses	4,446,057.52	11,045,891.33
Annual listing fee, audit fee, expenses of the Board	1,170,327.23	1,787,748.23
Advertising and market development fees	239,537,656.65	266,005,059.23
Transportation expense	16,120,936.92	9,175,613.91
Business entertainment expenses	1,907,190.43	2,168,714.31
Research and development expenses	43,242,999.95	15,055,722.44
Security deposit of bank acceptance bills	44,019,340.43	7,059,185.61
Royalty fee of trademark	5,000,000.00	5,000,000.00
Security deposit of sales	2,916,875.92	5,380,545.78
Others	24,858,691.17	31,392,214.87
Total	386,890,136.99	358,539,222.37

Notes to the Interim Financial Statements (Continued)

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

3) Other cash received related to financing activities

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Payments received for sale and leaseback	21,000,000.00	
Borrowing from the controlling Shareholder	600,000,000.00	
Total	621,000,000.00	

4) Other cash paid related to financing activities

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Payments of the principal and interest of sale and leaseback and lease	29,297,001.57	49,173,149.01
Payments of service fees for sale and leaseback	1,500,000.00	
Purchase of minority equity of subsidiaries	15,906,834.00	
Payments of security deposit for sale and leaseback	3,000,000.00	
Total	49,703,835.57	49,173,149.01

(2) Supplementary information of consolidated cash flow statement

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
1. Reconciliation of net profit to cash flows from operation activities:		
Net Profit	188,036,984.37	163,463,232.98
Add: Impairment loss of credit	1,431,451.78	1,661,768.44
Provision for impairment of assets	5,369,396.50	8,837,908.34
Depreciation of fixed assets	184,657,357.92	165,192,390.02
Depreciation of right-of-use assets	421,145.34	323,674.06
Amortization of intangible assets	6,308,250.30	5,329,309.66
Loss from disposal of fixed assets, intangible assets and other long-term assets (gains listed with "-")	210,969.28	-276,072.47
Losses from scrapping of fixed assets (gains listed with "-")	344,579.65	223,810.42

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 Previous Period
Gains or losses from changes in fair value (gains listed with "-")		
Financial expenses (gains listed with "-")	30,269,031.48	28,029,068.33
Investment loss (gains listed with "-")	-3,754,745.13	694,074.12
Decrease of deferred income tax assets (increases listed with "-")	-5,151,351.15	-9,072,401.53
Increase of deferred income tax liabilities (decreases listed with "-")	5,804,112.63	3,346,049.47
Decrease of inventory (increases listed with "-")	342,036,839.87	162,144,101.29
Decrease of operational receivables (increases listed with "-")	-427,349,358.58	-359,391,150.80
Increase of operating payables (decreases listed with "-")	-132,215,338.92	-18,148,362.07
Others	4,182,348.00	4,182,349.00
Net cash flows from operating activities	200,601,673.34	156,539,749.26
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		
3. Net change in cash and cash equivalents:		
Ending balance of cash	965,939,868.41	576,318,745.03
Less: Beginning Balance of cash	577,624,593.37	687,243,142.56
Add: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase in cash and cash equivalents	388,315,275.04	-110,924,397.53

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) Significant operating activities not related to cash receipts and payments

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Payments by endorsement of notes receivable *	381,331,545.22	496,867,588.82

* The Company endorsed part of the bank acceptance bills received in sales of products to pay for materials procurement, etc.

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

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Long-term assets purchased by endorsement of notes receivable *	182,404,131.61	162,780,719.03

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

(5) Cash and cash equivalents

Item	Amount Incurred In Current Period	Amount Incurred In Previous Period
Cash	965,939,868.41	577,624,593.37
Including: Cash on hand	76,835.68	84,364.78
Bank deposit available for payment at any time	959,860,726.92	577,540,228.59
Other monetary funds available for payment at any time	6,002,305.81	
Cash equivalents		
Ending balance of cash and cash equivalents	965,939,868.41	577,624,593.37
Including: Restricted cash and cash equivalents 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))

53. Assets with limited ownership or use right

Item	Ending Book Value	Reason for the Limitation
Monetary funds	148,434,506.73	Security deposit of bank acceptance bills, advance receipts of house sale under supervision, etc.
Fixed assets	100,588,504.42	Ownership does not belong to the Group
Right-of-use asset	1,471,096.33	Ownership does not belong to the Group

54. Monetary items for foreign currency

(1) Foreign currency monetary items

Item	Ending Balance Of Foreign Currency	Exchange Rate for Conversion	Amount Converted Into RMB At Period End
Monetary funds			
Including: USD	16,847,325.31	7.0795	119,270,639.53
GBP	511,812.81	8.7144	4,460,141.55
HKD	30,878.81	0.91344	28,205.94
EUR	258,636.79	7.961	2,059,007.49
JPY	6,217.00	0.065808	409.13
Accounts receivable			
Including: USD	31,360,736.37	7.0795	222,018,333.13
GBP	2,510,816.18	8.7144	21,880,256.52
EUR	317,083.53	7.961	2,524,301.98
Prepayments			
Including: USD	1,153,225.37	7.0795	8,164,259.01
Other receivables			
Including: USD	55,000.00	7.0795	389,372.50
Accounts payable			
Including: USD	195,672.64	7.0795	1,385,264.45
Contract liabilities			
Including: USD	2,283,859.07	7.0795	16,168,580.29
EUR	129,518.70	7.961	1,031,098.37
Other payables			
Including: USD	379,951.29	7.0795	2,689,865.16

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) Oversea operating entities

Subsidiaries	Principal Place of Business	Bookkeeping Base Currency	Basis for Currency Selection
Shandong Xinhua Pharmaceutical (Europe) B.V.	The Hague, Holland	USD	Statutory currency of the operating place
Shandong Xinhua Pharmaceutical (USA) Inc.	Los Angeles, USA	USD	Statutory currency of the operating place

55. Government grants

Category	Increase in Current Period	Presentation Item	Amount Included into Current Profit and Loss
Please see the Note VI. 28 for the details	17,096,000.00	Deferred income	
Please see the Note VI. 42 for the details	7,161,600.61	Other income	7,161,600.61
Please see the Note VI. 47 for the details	682,000.00	Non-operating income	682,000.00
Please see the Note VI. 27 for the details	12,500,000.00	Special payables	
Total	<u>37,439,600.61</u>		<u>7,843,600.61</u>

56. Lease

Category	Amount
Interest expenses of lease liabilities	33,702.84
Short-term lease expenses charged to current profit and loss	
Lease expenses of low-value assets	
Variable lease payments not included in lease liabilities	
Income from the transfer of right-of-use assets	
Total cash outflows related to lease	638,970.56
Related profit and loss of sale and leaseback	2,596,694.54
	<u>2,596,694.54</u>

Notes to the Interim Financial Statements

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

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

VII. CHANGES IN CONSOLIDATION SCOPE

There were no changes in the Company's consolidation scope.

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of the Group

Name of Subsidiary	Enterprise Nature	Principal Place of Business	Registration Place	Nature of Business	Registered Capital (monetary unit: 10,000 RMB)	Proportion of Shareholding (%)		Acquisition Method
						Direct	Indirect	
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Limited liability company	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.	Limited liability company	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.	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical design	600.00	100.00		Establishment
Zibo Xinhua Pharmacy Chain Co., Ltd.	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical sales	200.00	100.00		Establishment
Shandong Xinhua Pharmaceutical (Europe) B.V.	Limited liability company(Sino-foreign joint venture)	Hague, Holland	Hague, Holland	Pharmaceutical and chemical sales	EURO.769 million	65.00		Establishment
Zibo Xinhua- Perrigo Pharmaceutical Co., Ltd.	Limited liability company(Sino-foreign joint venture)	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical manufacturing	USD20.949 million	50.10		Establishment
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Limited liability company	Shouguang City, Shandong Province	Shouguang City, Shandong Province	Pharmaceutical and chemical manufacturing	23,000.00	100.00		Establishment

Notes to the Interim Financial Statements (Continued)

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

Name of Subsidiary	Enterprise Nature	Principal Place of Business	Registration Place	Nature of Business	Registered Capital (monetary unit: 10,000 RMB)	Proportion of Shareholding (%)		Acquisition Method
						Direct	Indirect	
Xinhua (Zibo) Real Estate Co., Ltd.	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Real estate development	2,000.00	100.00		Establishment
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	Limited liability company	Gaomi City, Shandong Province	Gaomi City, Shandong Province	Pharmaceutical and chemical manufacturing	1,900.00	100.00		Acquisition
Shandong Xinhua Pharmaceutical (USA) Inc.	Limited liability company	Los Angeles, USA	Los Angeles, USA	Pharmaceutical and chemical sales	USD1.5 million	100.00		Establishment
Shandong Xinhua Mechanical and Electrical Engineering Co., Ltd.	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Electric installation	800.00	100.00		Establishment
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical manufacturing	8,493.00	100.00		Merger and Acquisition
Wanbo Chemical	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical manufacturing	4,662.45	100.00		Merger and Acquisition

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	Minority Shareholding Proportion (%)	Profit and Loss 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 Declared and Distributed to Minority Shareholders in the Current Period	Ending Balance of Minority Equity
Shandong Xinhua Pharmaceutical (Europe) B.V.	35.00	3,236,488.37	150,422.33	3,386,910.70		11,740,067.73
Zibo Xinhua- Perrigo Pharmaceutical Co., Ltd.	49.90	11,753,235.36		11,753,235.36	14,970,000.00	117,570,802.54
Total		14,989,723.73	150,422.33	15,140,146.06	14,970,000.00	129,310,870.27

Unit: RMB 0,000

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

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.	9,321.38		9,321.38	5,933.81		5,933.81	2,932.09		2,932.09	512.21		512.21
Zibo Xinhua- Perrigo Pharmaceutical Co., Ltd.	13,577.98	17,259.88	30,837.86	4,702.31	2,545.99	7,248.30	12,872.43	15,992.37	28,864.80	2,449.13	2,181.48	4,630.61

Name of Subsidiary	Amount Incurred in Current Period				Amount Incurred in Previous Period			
	Operating Revenue	Net Profit	Total Comprehensive Income	Cash Flow Of Operating Activities	Operating Revenue	Net Profit	Total Comprehensive Income	Cash Flow Of Operating Activities
Shandong Xinhua Pharmaceutical (Europe) B.V.	13,191.43	924.71	967.69	803.35	19,182.29	714.98	749.33	890.09
Zibo Xinhua- Perrigo Pharmaceutical Co., Ltd.	11,779.49	2,355.36	2,355.36	3,946.27	12,472.62	2,310.27	2,310.27	3,698.12

Notes to the Interim Financial Statements (Continued)

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

(4) Others

As of June 30, 2020, none of the Company's subsidiaries issued share capital or debt securities.

2. Transactions that resulted in changes in the shareholders' equity of the subsidiaries and still control of the subsidiaries

(1) Explanation of changes in the shareholders' equity of subsidiaries

On April 20, 2020, the Company acquired 27% equity interest of Wanbo Chemical through bidding at a listing price of RMB15,906,834. From its original 73% shareholding to 100% shareholding, Wanbo Chemical became a wholly-owned subsidiary of the Company.

(2) The impact of changes in the shareholders' equity of subsidiary on equity

Item	Wanbo Chemical
Cash	15,906,834.00
Total purchase cost	15,906,834.00
Less: Subsidiary's net assets calculated based on the proportion of acquired equity	13,679,159.87
Difference	2,227,674.13
Of which: adjusted capital reserve	2,227,674.13
adjusted surplus reserve	
adjusted undistributed profits	

3. Equity in associated enterprise or joint venture

(1) Summarized financial information of unimportant joint venture

Item	Ending Balance/ Amount Incurred In Current Period
Joint Venture:	
Total of investment book value	58,528,956.37
Total amount of following items calculated by shareholding ratio	
– Net profit	-2,245,254.87
– Other comprehensive income	
– Total amount of comprehensive income	-2,245,254.87

Notes to the Interim Financial Statements (Continued)

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

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

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

1. Objectives and policies of risk management

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

(1) Market risk

1) Exchange rate risk

The Group's foreign exchange risk is mainly related to USD, GBP and EUR. Except for the subsidiaries of the Group which uses USD for purchasing and sales transactions, other main business operations are settled in RMB. As of June 30, 2020, except for assets and liabilities in with balances in USD and small balances of EUR and GBP described below, all the other assets and liabilities of the Group are reported in RMB. The risk associated with the assets and liabilities of such balances in USD may have influence on the Group's business performance.

Notes to the Interim Financial Statements (Continued)

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

As at June 30, 2020, and December 31, 2019, the Group's foreign currency financial assets and foreign currency financial liabilities are converted into RMB as follows:

Item	June 30, 2020	December 31, 2019
Monetary funds – USD	119,270,639.53	87,167,346.57
Monetary funds – EUR	2,059,007.49	1,351,278.22
Monetary funds – HKD	28,205.94	27,731.52
Monetary funds – GBP	4,460,141.55	2,054,354.74
Monetary funds – JPY	409.13	398.42
Accounts receivable – USD	222,018,333.13	103,868,307.08
Accounts receivable – GBP	21,880,256.52	8,610,066.04
Accounts receivable – EUR	2,524,301.98	
Prepayments – USD	8,164,259.01	1,703,644.97
Other receivables – USD	389,372.50	230,574.43
Accounts payable – USD	1,385,264.45	5,195,897.27
Contract liabilities – USD	16,168,580.29	11,329,118.24
Contract liabilities – EUR	1,031,098.37	86,116.65
Other payables – USD	2,689,865.16	3,707,716.71

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

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 bank loans and liabilities with interest of shareholders' loans. Due to financial liabilities with floating interest rate, the Group faces cash flow interest rate risk; due to financial liabilities with fixed interest rate, the Group faces fair value interest rate risk. As of June 30, 2020, the Group's interest bearing debts mainly come from the loan contracts with RMB denominated floating interest rate and with the total amount of RMB961.0495 million, and RMB denominated fixed rate contracts with the amount of RMB810.00 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 borrowings. For fixed-rate loans, the Group's objective is to maintain their floating interest rate.

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

3) Price risk

The selling prices of the Group are based on the market prices of chemical bulk drugs, preparations and chemical products. Therefore, the Group is influenced by price fluctuation.

(2) Credit risk

As of June 30, 2020, the maximum credit risk exposure which may cause financial loss to the Group is mainly due to the failure of the counterparties to perform their obligations, which causes losses to financial assets to the Group, specifically including:

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

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

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

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 takes necessary policies to ensure that all the customers have good credit records. Apart from the top five entities with the largest amount in “accounts receivable”, the Group has no other significant credit concentration risk.

The total amount of the top five entities with the largest amount in “accounts receivable” is RMB134,029,744.61.

(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 the Group's liquidity risk, the Group shall ensure enough financial liquidity to fulfil its obligation to repay debts due and thus to avoid unacceptable losses or damage to the Group's credit. The Group analyzes the debts structure and duration regularly so as to make sure there will be sufficient capital. The management of the Group monitors the utilization condition of bank loans, and ensures adherence to loan agreements. Meanwhile, financing consultation will be performed with the financial institutions to keep a certain credit line and reduce the liquidity risk.

As of June 30, 2020, 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	1,114,374,375.14			1,114,374,375.14	
Accounts receivable	662,548,005.25			662,548,005.25	
Receivables financing	152,826,381.97			152,826,381.97	
Prepayments	63,055,571.01			63,055,571.01	
Other receivables	42,803,080.51			42,803,080.51	
Financial liabilities					
Short-term borrowings	230,000,000.00			230,000,000.00	
Notes payable	224,414,431.10			224,414,431.10	
Accounts payable	458,035,924.61			458,035,924.61	
Contract liabilities	330,486,893.71			330,486,893.71	
Payroll payable	73,535,280.69			73,535,280.69	
Other payables	430,106,796.26			430,106,796.26	
Including: Interest payable	8,792,482.26			8,792,482.26	
Dividends payable	94,903,733.17			94,903,733.17	
Non-current liabilities due					
within one year	517,364,183.51			517,364,183.51	
Long-term borrowings		387,541,069.16	97,967,405.22		485,508,474.38
Lease liabilities		470,000.00			470,000.00
Long-term payables		33,440,000.00	615,960,000.00		649,400,000.00

Notes to the Interim Financial Statements (Continued)

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

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

2. Sensitivity analysis

The Group adopts the sensitivity analysis method to analyze the reasonable and possible impacts on current profit and loss or owner's equity of risk variables with technical analysis. As any risk variable seldom changes alone and correlation between variables greatly accounts for the final amount influenced by change of a certain risk variable, the following is conducted under the assumption that 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 the current period's profit or loss and equity caused by the possible change of exchange rates are shown as follows:

Item	Change in Exchange Rate	Amount Incurred In Current Period		Amount Incurred In Previous Period	
		Impact on Net Profits	Impact on the Owner's Equity	Impact on Net Profits	Impact on the Owner's Equity
All foreign currencies	5% appreciated against RMB	11,048,011.90	16,624,059.86	11,820,729.49	17,405,017.30
All foreign currencies	5% depreciated against RMB	-11,048,011.90	-16,624,059.86	-11,820,729.49	-17,405,017.30

(2) Sensitivity analysis of interest rate risk

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

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

As for fixed-rate financial instruments measured in fair value, market interest rate only influences its 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 the current period's profit or loss and equity caused by the possible change of interest rates are shown as follows:

Item	Change in Exchange Rate	Amount Incurred In Current Period		Amount Incurred In Previous Period	
		Impact on Net Profits	Impact on the Owner's Equity	Impact on Net Profits	Impact on the Owner's Equity
Floating interest rate loans	Increase by 1%	-8,168,921.12	-8,168,921.12	-8,413,585.43	-8,413,585.43
Floating interest rate loans	Decrease by 1%	8,168,921.12	8,168,921.12	8,413,585.43	8,413,585.43

X. DISCLOSURE OF FAIR VALUE

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

Item	Ending Fair Value			Total
	Level 1 Fair Value Measurement	Level 2 Fair Value Measurement	Level 3 Fair Value Measurement	
Continuous fair value measurement				
Accounts receivable financing		152,826,381.97		152,826,381.97
Investment in other equity instruments	178,414,496.00			178,414,496.00
Total assets continuously measured at fair value	178,414,496.00	152,826,381.97		331,240,877.97

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

The Group's other equity instrument investments measured at fair value are the shares of the Bank of Communications and China Pacific Insurance Company (CPIC) held by the Company. The fair value at the end of the current period is determined based on the closing price on the last trading day of June, 2020.

- For continuous and non-continuous second level fair value measurement items, the use of valuation techniques and important parameters of qualitative and quantitative information

The Group has measured accounts receivable financing at fair value. Since the residual period is shorter, the fair value is close to the book value.

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. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

(I) Relationships with Related Parties

1. Controlling shareholder and ultimate controlling party

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

Name of Controlling Shareholder	Registration Place	Nature of Business	Registered Capital	Proportion of Shareholding in the Company (%)	Proportion of Voting Right in the Company (%)
HHC	22/F, Block A, Huachuang Guanli Center, No. 219 Shunhai Road, Lixia District, Jinan, Shandong Province, China	Investment in chemical, medical, and environmental protection (industries); asset management and operations, consulting	310,300.00	32.94	32.94

(2) Registered capital of the controlling shareholder and changes

Name of Controlling Shareholder	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
HHC	3,103,000,000.00			3,103,000,000.00

(3) Shares or equity of controlling shareholders and changes

Name of Controlling Shareholder	Amount of Shareholding		Proportion of Shareholding	
	Balance In Current Period	Balance In Previous Period	Proportion in Current Period (%)	Proportion in Previous Period (%)
HHC	204,864,092.00	204,864,092.00	32.94	32.94

(4) The ultimate controller of the Company is Shandong SASAC.

2. Subsidiaries

The details of the subsidiaries were 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 associated enterprises

The following are other joint ventures or associated enterprises that have conducted related-party transactions with the Group in the current period, or had a balance for the related-party transactions incurred in the earlier period:

Name of Joint Ventures or Associated Enterprises	Relationship with the Company
---	--------------------------------------

Centrient Pharmaceuticals (Zibo) Co., Ltd.	An associate of the Company
--	-----------------------------

4. Other related parties

Name of Related Party	Relationship with the Company
------------------------------	--------------------------------------

Shandong Xinghua Pharmaceutical Branch of HHC	Branch of the controlling shareholder
Shandong Hualu Hengsheng Chemical Co., Ltd.	Controlled by the same controlling shareholder
Shandong Lukang Pharmaceutical Co., Ltd.	Controlled by the same controlling shareholder
Qinghai Lukang Dadi Pharmaceutical Co., Ltd.	Controlled by the same controlling shareholder
Shandong Lukang Pharmaceutical Group Saite Co., Ltd.	Controlled by the same controlling shareholder
Shandong Lukang Shelile Pharmaceutical Co., Ltd.	Controlled by the same controlling shareholder
Perrigo Company	Subsidiary's participating shareholder

(II) Related-party Transactions

1. Pricing policy

The price of the products (including labour service) sold by the Group to related parties and the price of the products (including labour service) purchased from the related parties shall be determined based on the market price.

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. Related transactions of purchase or sale of goods and provision or acceptance of services

(1) Purchase of goods/acceptance of services

Name of Related Parties	Content of Related-party Transaction	Amount Incurred in Current Period	Approved Transaction Amount	Whether Exceeding the Approved Amount	Amount Incurred In previous Period
Centrient Pharmaceuticals (Zibo) Co., Ltd.*	Purchase of raw materials of preparations	7,383,694.69	140,000,000.00	No	8,694,288.61
Shandong Hualu Hengsheng Chemical Co., Ltd.*	Purchase of chemical raw materials	58,933,971.62	330,000,000.00	No	62,770,882.97
Shandong Lukang Pharmaceutical Co., Ltd.*	Purchase of preparation products	943,133.89			
Shandong Lukang Pharmaceutical Group Saite Co., Ltd.*	Purchase of preparation products	50,303.65	15,000,000.00	No	
Shandong Lukang Pharmaceutical Co., Ltd.*	Purchase of chemical raw materials	26,327.43			
Total		67,337,431.28			71,465,171.58

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 Parties	Details of Related-party Transaction	Amount Incurred in Current Period	Amount Incurred in Previous Period
Centrient Pharmaceuticals (Zibo) Co., Ltd.*	Sales of Power	4,236,722.51	5,178,110.38
Centrient Pharmaceuticals (Zibo) Co., Ltd.*	Provision of labor service	405,042.68	65,316.44
Shandong Xinghua Pharmaceutical Branch of HHC*	Sales of Power	4,220.94	5,136.99
Shandong Xinghua Pharmaceutical Branch of HHC*	Provision of labor service		8,512.95
Shandong Lukang Pharmaceutical Co., Ltd.*	Sales of chemical raw materials and bulk drugs	417,345.13	
Shandong Lukang Pharmaceutical Co., Ltd.*	Provision of labor service	245,283.02	
Qinghai Lukang Dadi Pharmaceutical Co., Ltd.*	Sales of bulk drugs	119,469.03	
Shandong Lukang Pharmaceutical Group Saite Co., Ltd.*	Sales of bulk drugs	522,123.89	
High-tech Branch of Shandong Lukang Shelile Pharmaceutical Co., Ltd.*	Sales of bulk drugs	337,168.14	
Perrigo Company	Sales of bulk drugs	116,803,820.80	123,278,661.42
Perrigo Company*	Sales of bulk drugs	3,769,598.44	11,767,162.77
Total		126,860,794.58	140,302,900.95

3. Borrowing and lending funds between related parties

Name of Related Parties	Borrowing/Lending	Amount	Starting Date	Maturity Date
HHC	Borrowing	100,000,000.00	2015-11-30	2020-11-30
HHC	Borrowing	600,000,000.00	2020-03-27	2023-03-27

4. Payment of interest on loans and underwriting fee

Name of related parties	Details of Related-party Transaction	Amount Incurred in Current Period	Amount Incurred in Previous Period
HHC	Interest on loans	6,942,000.00	2,190,000.00
HHC	Underwriting fee	566,037.72	

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 Parties	Details of Related-party Transaction	Amount Incurred in Current Period	Amount Incurred in Previous Period
Shandong Xinghua Pharmaceutical Branch of HHC*	Royalty fee of using trademark	<u>4,716,981.00</u>	<u>4,716,981.00</u>

The Company has renewed a supplementary agreement (“Supplementary Agreement”) on the trademark license agreement with Shandong Xinhua Pharmaceutical Group Co., Ltd on October 30, 2017. The Supplementary Agreement has a valid period from January 1, 2018 to December 31, 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 kind of related party transactions constitutes the connected transactions and the continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Note: In 2019, the Company acquired 33% of the equity interests of Wanbo Chemical. Upon completion of the transaction, the Company’s shareholding reached 73%, which constituted business combination under common control, thus the Group shall made retrospective adjustments to the financial statements. During the first half of 2019, the Group purchased chemical raw materials from Wanbo Chemical in the amount of RMB29,101,389.62, and sold power to Wanbo Chemical in the amount of RMB1,288,203.83.

Notes to the Interim Financial Statements (Continued)

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

(III) Balance of transactions with related parties

1. Items receivable

Item	Related Parties	Ending Balance		Beginning Balance	
		Book Balance	Provision for Bad Debt	Book Balance	Provision for Bad Debt
Accounts receivable	Shandong Lukang Pharmaceutical Co., Ltd.	320,492.63	1,602.46	373,164.63	1,865.82
Accounts receivable	Centrient Pharmaceuticals (Zibo) Co., Ltd.	447,839.90	2,239.20	10,701.82	53.51
Accounts receivable	Perrigo Company	20,455,257.60	102,276.29	20,132,764.80	100,663.82
Prepayments	Shandong Hualu Hengsheng Chemical Co., Ltd	3,856,542.66		4,786,057.20	

2. Items payable

Item	Related Parties	Ending Balance	Beginning Balance
Accounts payable	Centrient Pharmaceuticals (Zibo) Co., Ltd.	2,088,963.46	1,341,087.43
Accounts payable	Shandong Lukang Pharmaceutical Co., Ltd.	3,374,390.72	5,837,323.72
Accounts payable	Shandong Lukang Pharmaceutical Group Saite Co., Ltd.	11,252.59	17,701.39
Contract liabilities	Perrigo Company	1,132,318.24	394,457.02
Contract liabilities	Shandong Lukang Pharmaceutical Co., Ltd.		24,000.00
Contract liabilities	Shandong Lukang Pharmaceutical Group Saite Co., Ltd.	39,000.00	
Other payables	Shandong Xinghua Pharmaceutical Branch of HHC	1,452,745.61	1,452,745.61
Other payables	HHC	7,307,000.00	365,000.00

Note: In 2019, the Company acquired 33% of the equity interests of Wanbo Chemical. Upon completion of the transaction, the Company's shareholding reached 73%, which constituted business combination under common control, thus the Group shall made retrospective adjustments to the financial statements. As of June 30, 2019, the accounts payable balance of Wanbo Chemical was RMB7,641,774.41.

Notes to the Interim Financial Statements (Continued)

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

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

(IV) Principal management's remuneration

The principal management's remuneration (including amounts paid and payable to the Directors, Supervisors and Senior Management) is as follows:

Item	Amount Incurred in Current Period	Amount Incurred in Previous Period
Salary and subsidies	1,613,037.00	1,305,707.00
Social insurance premium, housing fund and retirement pension	344,927.00	498,411.40
Bonus		
Share-based payment*		
Total	<u>1,957,964.00</u>	<u>1,804,118.40</u>

Note: The principal management's remuneration did not include the share options that have been granted but not exercised in the amount of RMB65,733.18.

(V) Borrowings receivable from directors and the companies related with directors

There were no borrowings receivable from directors and the 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 last 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 lapsed in the current period	
The scope of exercise price of the share option issued by the Company at the end of the period and the remaining contractual period	At the end of the period, as for the share option Xinhua JLC1 issued by the Company, of which the code is 037071 and the exercise price is RMB5.98 per share, the remaining contractual period is 1.5 years.
The scope of exercise price of the other equity instruments issued by the Company at the end of the period and the remaining contractual 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 excisable 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 excisable rights, and modifying the estimated number of excisable equity instruments.
Reasons for the significant difference of estimate between the current period and the previous period	None
Cumulative amount of equity settled share-based payment recognized into capital reserves	12,616,750.73
Total recognized fees of share-based payment settled in equity in the current period	4,182,348.00

XIII. CONTINGENCIES

As of June 30, 2020, the Group has no significant contingencies that require disclosure.

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 ready for performance

<u>Item</u>	<u>Contract Amount</u>	<u>Unpaid Amount</u>
Preparation workshop II of Modern Medicine Center for International Cooperation	218,419,611.01	71,176,950.91
High-end new pharmaceutical preparation industrialization project– Injection workshop	86,019,873.15	66,692,030.00
Development of innovative medicine and preparations	100,000,000.00	95,000,000.00
Total	<u>404,439,484.16</u>	<u>232,868,980.91</u>

2. There was no other significant commitments to be disclosed by the Group as of June 30, 2020, save as 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 as of June 30, 2020.

XVI. OTHER MAJOR MATTERS

1. Segment information

(1) Determination basis and accounting policies of reportable segments

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

- 1) Operating profits, assets and liabilities of the segments classified according to the products or business

Reporting segments of six months ended June 30, 2020

Item	Chemical Bulk drugs	Preparations	Chemical Intermediates and Other Products	Unallocated Item	Offset Amount	Total
Operating revenue	1,546,337,290.98	1,748,653,348.89	813,936,041.31		-823,153,964.61	3,285,772,716.57
Including: Revenues from external transactions	1,538,952,813.09	1,344,752,815.46	402,067,088.02			3,285,772,716.57
Revenues from transactions within segments	7,384,477.89	403,900,533.43	411,868,953.29		-823,153,964.61	
Operating cost	1,090,990,352.94	1,342,526,321.81	707,419,460.75		-777,108,266.03	2,363,827,869.47
Cost offset	80,460,588.96	348,549,379.04	348,098,298.03		-777,108,266.03	
Period expenses	262,908,856.51	347,224,563.22	58,938,539.84			669,071,959.57
Operating profits				324,003,415.14	-91,282,481.79	232,720,933.35
Total assets	3,555,043,281.39	1,753,681,581.17	1,172,047,772.04	2,140,219,149.80	-1,825,198,006.26	6,795,793,778.14
Total liabilities	970,429,122.62	866,335,374.47	730,098,284.61	2,200,575,140.61	-1,124,460,766.32	3,642,977,155.99

Reporting segments of six months ended June 30, 2019

Item	Chemical Bulk Drugs	Preparations	Chemical Intermediates and Other Products	Unallocated Item	Offset Amount	Total
Operating revenue	1,397,106,920.39	1,694,090,841.77	693,253,005.52		-661,803,610.22	3,122,647,157.46
Including: Revenues from external transactions	1,392,041,059.08	1,404,184,796.94	326,421,301.44			3,122,647,157.46
Revenues from transactions within segments	5,065,861.31	289,906,044.83	366,831,704.08		-661,803,610.22	
Operating cost	915,828,582.45	1,234,990,827.49	590,451,067.81		-603,156,625.46	2,138,113,852.29
Cost offset	4,919,412.07	276,676,813.39	321,560,400.00		-603,156,625.46	
Period expenses	233,925,170.61	472,022,102.10	49,044,335.37			754,991,608.08
Operating profits				264,518,208.40	-61,036,102.78	203,482,105.62
Total assets	3,593,763,209.81	1,721,714,549.56	1,314,874,799.17	1,386,650,548.27	-1,580,978,497.33	6,436,024,609.48
Total liabilities	1,051,366,014.88	965,364,634.23	647,413,957.22	1,596,991,919.29	-935,641,370.96	3,325,495,154.66

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 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)	3,775,240,954.71	3,745,963,012.67
Americas	174,204.42	194,131.84
Europe		
Total	<u>3,775,415,159.13</u>	<u>3,746,157,144.51</u>

2. As of June 30 2020, the Group does not have any other material matters to disclose other than the above matters.

Notes to the Interim Financial Statements (Continued)

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

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

1. 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 (%)	
Accounts receivable which is set aside for bad debts in single item	289,641.86	0.06	289,641.86	100.00	
Accounts receivable which is set aside for bad debts in combination					
Including: Combination of account age	220,659,133.40	43.16	1,525,141.04	0.69	219,133,992.36
Combination of related parties within consolidation scope	290,335,668.36	56.78			290,335,668.36
Subtotal of combination	510,994,801.76	99.94	1,525,141.04	0.30	509,469,660.72
Total	511,284,443.62	100.00	1,814,782.90	0.35	509,469,660.72

Item	Book Balance		Beginning Balance		Book Value
	Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable which is set aside for bad debts in single item	289,641.86	0.11	289,641.86	100.00	
Accounts receivable which is set aside for bad debts in combination					
Including: Combination of account age	68,074,422.80	24.76	664,297.13	0.98	67,410,125.67
Combination of related parties within consolidation scope	206,608,117.37	75.13			206,608,117.37
Subtotal of combination	274,682,540.17	99.89	664,297.13	0.24	274,018,243.04
Total	274,972,182.03	100.00	953,938.99	0.35	274,018,243.04

Notes to the Interim Financial Statements (Continued)

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

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

- 1) To recognize the bad-debt provision for accounts receivable based on single item

As of June 30, 2020, the Company expected that the amount of RMB289,641.86 in accounts receivable is unlikely to recover. The Company recognized the bad-debt provision of the single item at the full amount of RMB289,641.86.

- 2) To recognize the bad-debt provision for accounts receivable based on combination

Item	Ending Balance			Beginning Balance		
	Accounts Receivable	Provision for Bad Debt	Accrual Proportion (%)	Accounts Receivable	Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	510,027,642.54	1,106,584.87	0.22	274,175,869.96	337,838.76	0.12
1-2 years	685,753.81	137,150.76	20.00	225,264.80	45,052.96	20.00
2-3 years						
3-4 years						
4-5 years				66,820.81	66,820.81	100.00
Over 5 years	281,405.41	281,405.41	100.00	214,584.60	214,584.60	100.00
Total	510,994,801.76	1,525,141.04		274,682,540.17	664,297.13	

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) Aging analysis of accounts receivable

Part of the Group's sales are collected in advance, while the rest are granted with a credit period for a certain time limit.

Account Age	Accounts Receivable	Ending Balance Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	510,309,159.40	1,388,101.73	0.27
1-2 years	685,753.81	137,150.76	20.00
2-3 years			
3-4 years	8,125.00	8,125.00	100.00
4-5 years			
Over 5 years	281,405.41	281,405.41	100.00
Total	511,284,443.62	1,814,782.90	

Account Age	Accounts Receivable	Beginning Balance Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	274,457,386.82	619,355.62	0.23
1-2 years	225,264.80	45,052.96	20.00
2-3 years	8,125.00	8,125.00	100.00
3-4 years			
4-5 years	66,820.81	66,820.81	100.00
Over 5 years	214,584.60	214,584.60	100.00
Total	274,972,182.03	953,938.99	

Notes to the Interim Financial Statements (Continued)

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

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

(3) The bad-debt provision recognized or reversed (recovered) in the current period

Item	Beginning Balance	Changes of Amount in Current Period			Ending Balance
		Recognized	Recovered or Reversed	Transferred or Written off	
To recognize the bad-debt provision based on single item	289,641.86				289,641.86
To recognize the bad-debt provision based on combination	664,297.13	860,843.91			1,525,141.04
Total	953,938.99	860,843.91			1,814,782.90

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

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

(5) The top five debtors ranked by the balance of accounts receivable at the period end

Organization Name	Ending Balance	Account Age	Proportion in Total Ending Balance of Accounts Receivable (%)	Ending Balance of Bad Debt Provision
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	229,337,119.17	Within 1 year	44.86	
Shandong Xinhua Pharmaceutical (Europe) B.V.	57,331,065.31	Within 1 year	11.21	
Galpharm International Limited	21,880,256.52	Within 1 year	4.28	109,401.28
F.Hoffmann-La Roche AG	12,561,691.35	Within 1 year	2.46	62,808.46
DASTECH INTERNATIONAL.INC.	9,514,848.00	Within 1 year	1.86	47,574.24
Total	330,624,980.35		64.67	219,783.98

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 financing

(1) Details of accounts receivable financing

Item	Initial Cost	Ending Balance		Provision for Impairment
		Fair Value Changes	Book Value	
Notes receivable	<u>80,519,081.55</u>		<u>80,519,081.55</u>	
Total	<u><u>80,519,081.55</u></u>		<u><u>80,519,081.55</u></u>	

Item	Initial Cost	Beginning Balance		Provision for Impairment
		Fair Value Changes	Book Value	
Notes receivable	<u>94,079,080.33</u>		<u>94,079,080.33</u>	
Total	<u><u>94,079,080.33</u></u>		<u><u>94,079,080.33</u></u>	

At the end of the period, all accounts receivable financing were bank acceptance bills. The Group is of the view that none of the bank acceptance bills held by the Company had significant credit risk, so no provision for credit impairment was recognized.

(2) Notes receivable that have been endorsed or discounted but not yet due on the balance sheet date at the period end

Item	Derecognized Amount At Period End	Amount Not Derecognized At Period End
Bank acceptance bills	<u>239,622,404.37</u>	
Total	<u><u>239,622,404.37</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))

3. Other receivables

Item	Ending Balance	Beginning Balance
Interest receivable		
Dividends receivable	18,860,182.44	18,889,843.19
Other receivables	475,978,186.75	437,166,623.48
Total	494,838,369.19	456,056,466.67

3.1 Interest receivable: None

3.2 Dividends receivable

Item (or invested entity)	Ending Balance	Beginning Balance
Centrient Pharmaceuticals (Zibo) Co., Ltd.		29,660.75
Shandong Zibo Xincat Pharmaceutical Co., Ltd.*	18,860,182.44	18,860,182.44
Total	18,860,182.44	18,889,843.19

* The dividends receivable of the wholly-owned subsidiary Shandong Zibo XinCat Pharmaceutical Co., Ltd. is RMB18,860,182.44. The account age of the dividends receivable has exceeded 1 year. The amounts are recoverable and there had not been any indications of impairment.

3.3 Other receivables

(1) Classification of other receivables by account nature

Nature	Ending Book Balance	Beginning Book Balance
Related party transactions within the scope of consolidation	456,206,195.34	421,721,926.98
Petty cash	961,653.22	361,653.22
Tax receivable	6,427,529.12	6,195,910.06
Sale and lease back deposit	18,000,000.00	15,000,000.00
Others	2,071,942.08	1,516,514.96
Total	483,667,319.76	444,796,005.22

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 for other receivables

Bad Debt Provision	Stage 1	Stage 2	Stage 3	Total
	The Expected Credit Losses in the Next 12 Months	The Expected Credit Losses of the Entire Duration (Without Any Credit Impairment Occurred)	The Expected Credit Losses of the Entire Duration (With Credit Impairment Already Occurred)	
Balance as of January 1, 2020	85,802.31	7,543,579.43		7,629,381.74
Balance of other receivables as of January 1, 2020 in the current year				
– Transferred to stage 2				
– Transferred to stage 3				
– Reversed to stage 2				
– Reversed to stage 1				
Accrued in current period	59,751.27			59,751.27
Reversed in current period				
Transferred out in current period				
Written-off in current period				
Other changes				
Balance as of June 30, 2020	<u>145,553.58</u>	<u>7,543,579.43</u>		<u>7,689,133.01</u>

(3) Aging analysis of other receivables

Account Age	Other Receivables	Ending Balance Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	136,238,779.25	73,832.98	0.05
1–2 years	4,920,911.61		
2–3 years	51,492,595.60	71,720.60	0.14
3–4 years	26,117,453.21		
4–5 years	1,220,548.64	210,000.00	17.21
Over 5 years	263,677,031.45	7,333,579.43	2.78
Total	<u>483,667,319.76</u>	<u>7,689,133.01</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))

Account Age	Other Receivables	Beginning Balance Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	98,299,087.60	16,606.93	0.02
1–2 years	52,601,870.43	69,195.38	0.13
2–3 years	16,040,825.03		
3–4 years	11,033,151.49	110,000.00	1.00
4–5 years	689,015.45	111,653.22	16.20
Over 5 years	<u>266,132,055.22</u>	<u>7,321,926.21</u>	<u>2.75</u>
Total	<u>444,796,005.22</u>	<u>7,629,381.74</u>	

(4) *Provision for bad debt of other receivables*

Item	Beginning Balance	Changes in Current Period		Ending Balance	
		Accrual	Recovered or Reversed	Transferred or Written off	Ending Balance
Bad-debt provision	<u>7,629,381.74</u>	<u>59,751.27</u>			<u>7,689,133.01</u>
Total	<u>7,629,381.74</u>	<u>59,751.27</u>			<u>7,689,133.01</u>

(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) The top five debtors ranked by the balance of other receivables at the period end

Name of Enterprise	Ending Balance	Account Age	Proportion (%)	Ending Balance of Bad Debt Provision	Nature or Content
Xinhua Pharmaceutical (Shouguang) Co.,Ltd.	230,000,000.00	Over 5 years	47.55		Related party transactions within the scope of consolidation
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	86,053,393.00	Within 1 year	17.79		Related party transactions within the scope of consolidation
Zibo Xinhua Pharmacy Chain Co., Ltd.	18,363,054.66	Within 1 year	15.18		Related party transactions within the scope of consolidation
	2,556,191.87	1-2 years			
	40,464,589.17	2-3 years			
	5,175,933.18	3-4 years			
	159,815.60	4-5 years			
	6,722,032.94	Over 5 years			
Xinhua (Zibo) Real Estate Co., Ltd.	6,918,533.48	Within 1 year	10.68		Related party transactions within the scope of consolidation
	2,364,719.74	1-2 years			
	956,285.83	2-3 years			
	20,941,520.03	3-4 years			
	850,733.04	4-5 years			
	19,621,419.08	Over 5 years			
Shandong Xinhua Pharmaceutical Trade Co.,Ltd.	15,000,000.00	Within 1 year	3.10		Related party transactions within the scope of consolidation
Total	<u>456,148,221.62</u>		<u>94.30</u>		

(7) Other receivables of employees' borrowings in the current period

As at June 30, 2020, there were no employees' borrowings in other receivables.

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. Long-term equity investments

(1) Classification of long-term equity investments

Item	Ending Balance		Book Value	Beginning Balance		Book Value
	Book Balance	Provision for Impairment		Book Balance	Provision for Impairment	
Investment in subsidiaries	626,513,177.28		626,513,177.28	610,606,343.28		610,606,343.28
Investment in joint ventures and associates enterprises	58,528,956.37		58,528,956.37	60,774,211.24		60,774,211.24
Total	685,042,133.65		685,042,133.65	671,380,554.52		671,380,554.52

(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 for Impairment as 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 Co., Ltd.	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 Co., Ltd.	138,073,454.68			138,073,454.68		
Wanbo Chemical	33,295,110.72	15,906,834.00		49,201,944.72		
Total	610,606,343.28	15,906,834.00		626,513,177.28		

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 associated enterprises

Invested Entity	Beginning Balance	Increase or Decrease in Current Period								Ending Balance	Provision of Impairment
		Increased investment	Reduced Investment	Investment Gains and Losses Recognized under Equity Method	Adjustment of Other Comprehensive Income	Other Changes in Equity	Declared Cash Dividends or Profit	Accrued Impairment Provision	Others		
I. Joint ventures											
Centriant Pharmaceuticals (Zibo) Co., Ltd.	60,774,211.24			-2,245,254.87							58,528,956.37
Total	60,774,211.24			-2,245,254.87							58,528,956.37

5. 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
Principal business activities	1,780,457,383.25	1,276,777,050.28	1,585,674,965.70	1,140,839,372.83
Other business activities	26,735,137.73	36,448,892.07	35,212,063.76	33,536,692.86
Total	1,807,192,520.98	1,313,225,942.35	1,620,887,029.46	1,174,376,065.69

Notes to the Interim Financial Statements (Continued)

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

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

(2) Revenues from contracts

Classification of Contract	Chemical Bulk Drugs	Preparations	Medical Intermediates and Other Products	Total
Commodity type				
Including: Chemical bulk drugs	1,429,533,470.18			1,429,533,470.18
Preparations		350,923,913.07		350,923,913.07
Medical Intermediates and other products			26,735,137.73	26,735,137.73
Total	1,429,533,470.18	350,923,913.07	26,735,137.73	1,807,192,520.98
Classification by operating region				
Including: China (including Hong Kong)	393,684,745.36	303,249,966.79	26,735,137.73	723,669,849.88
Americas	365,341,808.58			365,341,808.58
Europe	420,888,313.19	47,673,946.28		468,562,259.47
Others	249,618,603.05			249,618,603.05
Total	1,429,533,470.18	350,923,913.07	26,735,137.73	1,807,192,520.98
Classification by contract performance obligation				
Including: To recognize revenues at a certain point of time	1,429,533,470.18	350,923,913.07	26,735,137.73	1,807,192,520.98
To recognize revenues within a certain period				
Total	1,429,533,470.18	350,923,913.07	26,735,137.73	1,807,192,520.98

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 agreement, the Company performs as the main responsible person to provide goods in accordance with the customers' demand of category and standard. For sales contracts in China, the Company fulfills the contract duty when the goods are delivered to customers or carriers, at which point when customers obtain control of the goods; as for sales contracts outside of China, the Company fulfills the performance obligations when the goods are dispatched, loaded at the port of shipment and departed from the port, at which point when the customer obtains control over the relevant goods.

The terms of payment differ from customers and goods. Part of the Company's sales are made in the form of advanced payment, while the rest are granted with a credit period of certain time limit.

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

At the end of the current period, the amount of revenue where contracts were signed but unfulfilled or with uncompleted performance obligation was RMB37,351,841.48, and it is expected to be recognized from July 2020 to June 2021.

(5) The income amount including the book value of the contract liabilities recognized by the Group from January to June 2020 is RMB65,139,617.96.

6. Investment income

Item	Amount Incurred in the Current Period	Amount Incurred in the Previous Period
Dividend from subsidiaries	46,030,000.00	2,681,957.96
Investment income from long-term equity calculated by equity method	-2,245,254.87	515,231.31
Investment income from disposal of long-term equity instruments investment		
Dividends income from other equity instruments investment during holding period	6,000,000.00	
Total	49,784,745.13	3,197,189.27

XVIII. APPROVAL OF FINANCIAL REPORTS

The financial report was released after being approved by the Board of the Company on August 21, 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))

XIX. SUPPLEMENTARY INFORMATION

1. List of non-recurring profit and loss

Based on provisions in the 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 of the Company during the Reporting Period is listed below:

Item	Amount Incurred in the Current Period	Notes
Profit and loss from disposal of non-current assets	-555,548.93	Profit and loss from disposal of fixed assets
Government grants recognized in current profit or loss (related to corporate business closely, except for the government grants according to the national uniform standard quota or quantity)	16,853,604.82	Receipt and amortization of government grants booked into current profit and loss
Net profit and loss of subsidiaries for the period from the beginning of the year to the acquisition date, which arise from business combination under common control		
Except for the effective hedging related to normal businesses, profit or loss generated from changes in fair value for holding of trading financial assets, derivative financial assets and trading financial liabilities, fair value changes in profit and loss arising from derivative financial liabilities, and investment income from disposal of trading financial assets, derivative financial assets, trading financial liabilities, derivative financial liabilities and other debt	6,000,000.00	Dividend income from other equity instruments investment
Other non-operating income or expenditure except the above items	-2,041,366.80	
Subtotal	20,256,689.09	
Less: Effect of income tax	2,144,130.53	
Impact on minority interest income (after-tax)	81,331.27	
Total	18,031,227.29	

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. Return on net worth and earnings per share

Based on the provisions in the Information Disclosure and Reporting Rules No. 9 on Companies that Publicly Issue Securities.– Calculation and Disclosure of Rate of Return on Equity (ROE) and Earnings per Share (EPS) (Revised in 2010) issued by the China Securities Regulatory Commission, the weighted average ROE, basic EPS and diluted EPS of the Group in the current period are set out below:

Profit for the Reporting Period	Weighted	EPS	
	Average ROE (%)	Basic EPS	Diluted EPS
Net profit attributable to shareholders of the parent company	5.68	0.28	0.28
Net profit attributable to shareholders of the parent company after deducting non-recurring profit or loss	<u>5.09</u>	<u>0.25</u>	<u>0.25</u>

Shandong Xinhua Pharmaceutical Co., Ltd.
21 August 2020

Documents Available for Inspection

(1) DOCUMENTS AVAILABLE FOR INSPECTION

1. The Company's 2020 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 finance department of the Company.
3. All original copies of the Company's announcements and Company's documents publicly disclosed in PRC newspapers in the Reporting Period.

(2) PLACE FOR INSPECTION

Office of the secretary to the Board of the Company

Shandong Xinhua Pharmaceutical Co., Ltd.
21 August 2020