



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)



2021
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 2021 (the "Reporting Period") has not been audited.

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

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

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

Company Information

Chinese Name of the Company	:	山東新華製藥股份有限公司
English Name of the Company	:	SHANDONG XINHUA PHARMACEUTICAL COMPANY LIMITED
Legal Representative	:	Mr. Zhang Daiming
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	Six months ended	Change as compared to the same period last year
	30 June 2021 (unaudited)	30 June 2020 (unaudited)	
Operating income	3,551,043,752.95	3,285,772,716.57	8.07%
Total profits	260,359,756.30	231,016,986.90	12.70%
Income tax expense	51,043,087.07	42,980,002.53	18.76%
Net profits	209,316,669.23	188,036,984.37	11.32%
Minority interest income	9,234,315.68	15,725,122.80	(41.28%)
Net profits attributable to shareholders of listed company	200,082,353.55	172,311,861.57	16.12%
Net profits attributable to shareholders of listed company after deduction of non-recurring profit and loss	185,863,658.77	154,280,634.28	20.47%
Net cash flow from operating activities	165,101,447.08	200,601,673.34	(17.70%)
Basic earnings per share	0.32	0.28	14.29%
Diluted earnings per share	0.32	0.28	14.29%
Return on equity	6.00%	5.68%	Increased by 0.32 percentage points

Item	As at	As at 31	Change as compared to the End of Last Year
	30 June 2021 (unaudited)	December 2020 (the “End of Last Year”) (audited)	
Total assets	7,271,501,429.27	7,092,952,190.04	2.52%
Total liabilities	3,747,286,649.76	3,701,662,448.12	1.23%
Minority shareholders' equity	194,021,885.73	167,495,922.67	15.84%
Total net assets attributable to the shareholders of listed company	3,330,192,893.78	3,223,793,819.25	3.30%

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	(109,945.02)	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	12,009,356.99	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	6,500,000.00	Investment bonus and revenue from other equity interests instruments
Other non-operating income and cost except the above items	(3,073,358.61)	
Less: Effect of income tax	1,080,644.58	
Impact on minority interest income	<u>26,714.00</u>	
Total	<u><u>14,218,694.78</u></u>	

Items measured at fair value

Unit: RMB Yuan

Items	Amount as at 1 January 2021	Profit or loss from change in fair value	Cumulative Change of fair value recorded in equity	Provision impairment	Amount as at 30 June 2021
Financial assets:					
1. Investment in other equity instruments	258,822,016.00	-	139,313,947.70	-	<u>215,124,080.00</u>
2. Accounts receivable financing	<u>138,638,879.69</u>	-	-	-	<u>121,307,768.19</u>
Subtotal of financial assets	<u><u>397,460,895.69</u></u>	-	<u><u>139,313,947.70</u></u>	-	<u><u>336,431,848.19</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 2021	Six months ended 30 June 2020
1. Change in fair value of investment in other equity instruments	(43,697,936.00)	(57,059,600.00)
Less: Income tax impact arising from investment in other equity instruments	(6,554,690.40)	(8,558,940.00)
Net profit or loss carried from amounts previously recognized in other comprehensive income	-	-
Subtotal	(37,143,245.60)	(48,500,660.00)
2. Conversion difference of financial statements in foreign currency	(485,553.67)	689,238.59
Less: net profit or loss carried from amounts incurred by disposal of foreign operation	-	-
Subtotal	(485,553.67)	689,238.59
Total	<u>(37,628,799.27)</u>	<u>(47,811,421.41)</u>

Changes in Share Capital Structure and Information on Shareholders

1. SHARE CAPITAL STRUCTURE

Class of shares	30 June 2021		1 January 2021	
	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	615,952	0.098	11,602	0.002
State-owned shares	–	–	–	–
Shares owned by domestic legal persons	–	–	–	–
Conditional tradable shares owned by senior management (A shares)	615,952	0.098	11,602	0.002
Others	–	–	–	–
2. Total number of unconditional tradable shares	626,751,495	99.902	621,847,845	99.998
Renminbi-denominated ordinary shares (A shares)	431,751,495	68.820	426,847,845	68.640
Overseas listed foreign shares (H shares)	195,000,000	31.082	195,000,000	31.358
3. Total number of shares	627,367,447	100.00	621,859,447	100.00

Note: The first exercise period of the 2018 A-share stock option Incentive plan was completed on January 19, 2021, and the number of exercised shares was 5.508 million.

Changes in Share Capital Structure and Information on Shareholders

2. SHAREHOLDERS INFORMATION

- (1) As at 30 June 2021, the Company had on record a total of 32,152 shareholders (the "Shareholders"), including 46 holders of H Shares and 32,106 holders of A Shares.
- (2) As at 30 June 2021, the ten largest Shareholders were as follows:

Unit: share

Name of Shareholders	Nature of Shareholders	% of the total share capital	Number of shares held as at the end of the Reporting Period	Class of shares
華魯控股集團有限公司 (Hualu Holdings Group Co. Ltd.) ^(H) ("HHC")	State-owned	32.65	204,864,092	RMB-denominated ordinary shares
香港中央結算(代理人)有限公司 HKSCC Nominees Limited	H Shares	30.77	193,048,227	Overseas listed foreign shares
上海馳泰資產管理有限公司—淄博馳泰誠運證券投資合夥企業(有限合夥) Shanghai Chitai Asset Management Co., Ltd. - Zibo Chitai Chengyun Securities Investment Partnership (Limited Partnership)	Fund	4.71	29,563,016	RMB-denominated ordinary shares
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)	Fund	3.72	23,310,176	RMB-denominated ordinary shares
華魯投資發展有限公司 Hualu Investment Development Co., Ltd ("Hualu Investment")	State-owned	0.66	4,143,168	RMB-denominated ordinary shares
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	Share Ownership Scheme	0.64	4,042,592	RMB-denominated ordinary shares
林穗賢 Lin Suixian	Natural person in the territory	0.64	3,996,554	RMB-denominated ordinary shares
香港中央結算有限公司 HKSCC Limited	Overseas Legal Person	0.33	2,060,121	RMB-denominated ordinary shares
劉理彬 Liu Libin	Natural person in the territory	0.27	1,714,267	RMB-denominated ordinary shares
杜文生 Du Wensheng	Natural person in the territory	0.24	1,500,000	RMB-denominated ordinary shares

Changes in Share Capital Structure and Information on Shareholders

- (3) As at 30 June 2021 the ten largest Shareholders of the unconditional tradable shares of the Company were as follows:

Unit: share

Name of Shareholders	Nature of Shareholders	% of the total share capital	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	State-owned	32.65	204,864,092	RMB-denominated ordinary shares
香港中央結算(代理人)有限公司 HKSCC Nominees Limited	H Shares	30.77	193,048,227	Overseas listed foreign shares
上海馳泰資產管理有限公司－淄博馳泰誠運證券投資合夥企業(有限合夥) Shanghai Chitai Asset Management Co., Ltd. - Zibo Chitai Chengyun Securities Investment Partnership (Limited Partnership)	Fund	4.71	29,563,016	RMB-denominated ordinary shares
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)	Fund	3.72	23,310,176	RMB-denominated ordinary shares
華魯投資發展有限公司 Hualu Investment	State-owned	0.66	4,143,168	RMB-denominated ordinary shares
山東新華製藥股份有限公司－第一期員工持股計劃 Shandong Xinhua Share Ownership Pharmaceutical Company Limited- Phase I of Employee Stock Ownership Scheme	Scheme	0.64	4,042,592	RMB-denominated ordinary shares
林穗賢 Lin Suixian	Natural person in the territory	0.64	3,996,554	RMB-denominated ordinary shares
香港中央結算有限公司 HKSCC Limited	Overseas Legal Person	0.33	2,060,121	RMB-denominated ordinary shares
劉理彬 Liu Libin	Natural person in the territory	0.27	1,714,267	RMB-denominated ordinary shares
杜文生 Du Wensheng	Natural person in the territory	0.24	1,500,000	RMB-denominated ordinary shares

Notes:

- i. Such figure excludes the 4,143,168 A Shares held by Hualu Investment, a direct wholly owned subsidiary of HHC. As of 30 June 2021, each of Hualu Investment and Well Bring Limited ("Well Bring") is a direct wholly owned subsidiary and an indirect wholly owned subsidiary of HHC, respectively. Well Bring owns 20,827,800 H Shares of the Company (being overseas listed foreign shares), representing approximately 3.32% of the issued share capital of the Company. Hualu Investment owns 4,143,168 A Shares of the Company, representing approximately 0.66% of the issued share capital of the Company.

Changes in Share Capital Structure and Information on Shareholders

- ii. The following is a description of any association relationship and party acting in concert in relation to the above Shareholders under applicable PRC laws and regulations: Except for Hualu Investment which is a subsidiary of HHC, to the best of their knowledge, the Directors are not aware as to whether there is any association relationship (as defined in the Rules Governing Listing of Stocks On Shenzhen Stock Exchange) amongst the remaining of the abovementioned Shareholders, nor if any of them is a person acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies (“Administration Measures for Takeover”) issued by the China Securities Regulatory Commission (the “CSRC”). In addition, the Directors are not aware of 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 of 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, or if any of them is a person acting in concert as defined in the Administration Measures for Takeover.
- iii. Save as disclosed above, the only domestic Shareholder directly holding more than 5% of the total issued shares of the Company is HHC.
- iv. Save as disclosed above and so far as the Directors are aware, as at 30 June 2021, no other person (other than the Directors, Supervisors of the Company, chief executive (if applicable) or members of Senior Management of the Company had an interest or short position in the Company’s shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”) and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial Shareholder (as defined in the Listing Rules) of the Company.

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

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

Changes in Share Capital Structure and Information on Shareholders

4. NON-PUBLIC ISSUANCE OF A SHARES

The shareholders of the Company considered and approved on 30 June 2021 the relevant resolutions regarding the non-public issuance of A Shares of the Company (the “Proposed A Share Issue”). The A Shares will be issued to a specific target through non-public issuance, which will be implemented during the validity period of the approval from the CSRC. The target subscriber of the non-public issuance of the A Shares shall be Hualu Investment. The shares are domestically-listed and RMB-denominated ordinary shares (A Shares) with a par value of RMB1.00 per share at an adjusted issue price of RMB6.74 per A Share, totaling 37,091,988 A Shares. The final issue size shall be subject to the approval of the issuance by the CSRC. There was no issue for cash of equity securities by the Company during the Reporting Period.

For further details, please refer to the announcement of the Company dated 14 April 2021 concerning the Proposed A Share Issue; the announcement of the Company dated 27 April 2021 concerning the approval of the Proposed A Share Issue by HHC; the poll results announcement of the Company dated 30 June 2021 concerning, among others, the passing of the resolutions of the annual general meeting, the A Shareholders’ class meeting, and the H Shareholders’ class meeting of the Company on 30 June 2021 in relation to, inter alia, approval of the Proposed A Share; the announcement of the Company dated 19 July 2021 concerning the acceptance by the CSRC of the Company’s application in relation to the Proposed A Shares Issue; the announcement of the Company dated 2 August 2021 concerning the receipt of the “Notice regarding First Feedback Comments on the Review by the China Securities Regulatory Commission of Administrative Permission Items” (the “Feedback”), the announcement dated 13 August 2021 concerning the adjustment to issue price and number of shares to be issued under the Proposed A Share Issue; the announcement of the Company dated 16 August 2021 concerning the Company’s reply to the Feedback; and the circular of the Company dated 31 May 2021 concerning, among others, details of the Proposed A Share Issue.

Directors, Supervisors, Senior Officers and Staff

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

Name	Position	Number of A Shares as at 30 June 2021	Approximate percentage of shareholding in total issued A Shares as at 30 June 2021 (%)	Approximate percentage of shareholding in total issued share capital as at 30 June 2021 (%)	Number of A Shares as at 1 January 2021
Directors:					
Mr. Zhang Daiming	Chairman	117,470(L) ^(note 2)	0.0272	0.0187	15,470(L)
		174,888(L) ^(note 3)	0.0404	0.0279	174,888(L)
Mr. Du Deping	Executive Director, General Manager	151,568(L) ^(note 3)	0.0351	0.0242	151,568(L)
		91,800(L) ^(note 4)	0.0212	0.0146	
Mr. Xu Lie	Non-executive Director	81,614(L) ^(note 3)	0.0189	0.0130	81,614(L)
		74,800(L) ^(note 4)	0.0173	0.0119	
Mr. He Tongqing	Executive Director, Deputy General Manager	116,592(L) ^(note 3)	0.0270	0.0186	116,592(L)
		74,800(L) ^(note 4)	0.0173	0.0119	
Mr. Cong Kechun	Non-executive Director	Nil	–	–	Nil
Mr. Pan Guangcheng	Independent non-executive Director	Nil	–	–	Nil
Mr. Zhu Jianwei	Independent non-executive Director	Nil	–	–	Nil
Mr. Lo Wah Wai	Independent non-executive Director	Nil	–	–	Nil
Supervisors:					
Mr. Liu Chengtong	Chairman of Supervisory Committee	Nil	–	–	Nil
Mr. Tao Zhichao	Independent Supervisor	Nil	–	–	Nil
Ms. Hu Yanhua	Employee Supervisor	34,977(L) ^(note 3)	0.0081	0.0056	34,977(L)
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(L) ^(note 3)	0.0189	0.0130	81,614(L)
		74,800(L) ^(note 4)	0.0173	0.0119	
Mr. Du Deqing	Deputy General Manager	81,614(L) ^(note 3)	0.0189	0.0130	81,614(L)
		74,800(L) ^(note 4)	0.0173	0.0119	
Mr. Hou Ning	Financial Controller	116,592(L) ^(note 3)	0.0270	0.0186	116,592(L)
		74,800(L) ^(note 4)	0.0173	0.0119	
Mr. Zheng Zhonghui	Deputy General Manager	23,318(L) ^(note 3)	0.0054	0.0037	23,318(L)
		74,800(L) ^(note 4)	0.0173	0.0119	
Mr. Wei Changsheng	Deputy General Manager	34,977(L) ^(note 3)	0.0081	0.0056	34,977(L)
		54,400(L) ^(note 4)	0.0126	0.0087	
Mr. Xu Wenhui	Deputy General Manager	46,636(L) ^(note 3)	0.0108	0.0074	46,636(L)
		54,400(L) ^(note 4)	0.0126	0.0087	
Mr. Cao Changqiu	Secretary to the Board	2,331(L) ^(note 3)	0.0005	0.0004	2,331(L)
		54,400(L) ^(note 4)	0.0126	0.0087	
Total		1,767,991	0.4089	0.2818	962,191

(L) – Long Position

Directors, Supervisors, Senior Officers and Staff

Notes:

- i. 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.
- ii. Mr. Zhang Daiming personally holds 117,470 A Shares (among them 102,000 Shares were issued pursuant to first exercise of options under the stock option incentive plan).
- iii. The relevant Shares are held under the Employee Share Ownership Scheme of the Company of which the relevant person is a participant.
- iv. The relevant Shares were issued pursuant to the first exercise of options under the stock option incentive plan.
- v. So far as the Directors, the Senior Management and Supervisors are aware, save as disclosed above, as at 30 June 2021, no Director, Senior Management and Supervisor had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO (Chapter 571 of the Laws of Hong Kong)) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Management or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

CHANGE OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

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	8 January 2021	No
Mr. Xu Lie	SXPGC	Director	13 January 2011	8 January 2021	No
Cong Kechun	HHC	Board Secretary	17 November 2020	–	Yes
Liu Chengtong	HHC	General manager of investment and development department, department head of legal affairs and deputy general counsel	17 May 2019	–	Yes

Directors, Supervisors, Senior Officers and Staff

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making process for remuneration of Directors, Supervisors and Senior Management	The Directors' and the Supervisors' remuneration are subject to the approval in the general meetings of the Company, whereas the remuneration of the Senior Management is subject to the approval of the Board.
Basis for determining the remuneration of Directors, Supervisors and Senior Management	The remuneration of Directors, Supervisors and other Senior Management is determined with reference to state policies, the Company's financial standing, personal performance and the general remuneration standard of society.
Payment of remuneration to Directors, Supervisors and Senior Management	RMB1,957,964.00 was paid during this Reporting Period · the exercised share options amount to RMB2,506,038.00.

Staff and remuneration information (As of 30 June 2021)

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

As at 30 June 2021, the number of staff employed by the Group was 6,365, and the total amount of their salaries and wages for the half year was RMB317,569,000.

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

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

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.

As at 28 December 2020, the first vesting period for the Company to grant share options to the grantees expired, one of the grantees of the Company's Incentive Plan left due to personal reasons. According to the provisions of the Incentive Plan, such person is no longer an eligible grantee, and the total of 50,000 share options granted but not yet exercised were cancelled. Accordingly, the total number of grantees under the Incentive Plan has been adjusted from 185 to 184, the number of options granted has been adjusted from 16,250,000 to 16,200,000, and 50,000 share options have been cancelled.

Directors, Supervisors, Senior Officers and Staff

The Company issued ordinary A shares in the Company to the eligible grantees in January 2021. During the first exercise period of share options, there were 184 eligible grantees in total and the number of exercised share options amounted to 5,508,000, with an adjusted exercise price of RMB5.76 per share option.

A summary of the movements of share options of the Company during the six months ended 30 June 2021 is set out in the following table:

No.	Grantees	Position	Number of outstanding share options at the beginning of the Reporting Period	Number of share options granted during the Reporting Period	Number of share options exercisable during the Reporting Period	Number of share options exercised during the Reporting Period (Note 1)	Number of share options cancelled during the Reporting Period	Number of share options lapsed during the Reporting Period	Number of outstanding share options at the end of the Reporting Period
1.	Zhang Daiming	Chairman	300,000	0	102,000	102,000	0	0	198,000
2.	Ren Fulong	Former Non-executive Director	270,000	0	91,800	91,800	0	0	178,200
3.	Du Deping	Executive Director & General Manager	270,000	0	91,800	91,800	0	0	178,200
4.	Xu Lie	Non-executive Director	220,000	0	74,800	74,800	0	0	145,200
5.	Wang Xiaolong	Deputy General Manager	220,000	0	74,800	74,800	0	0	145,200
6.	Du Deqing	Deputy General Manager	220,000	0	74,800	74,800	0	0	145,200
7.	He Tongqing	Executive Director & Deputy General Manager	220,000	0	74,800	74,800	0	0	145,200
8.	Dou Xuejie	Former Deputy General Manager	220,000	0	74,800	74,800	0	0	145,200
9.	Hou Ning	Financial Controller	220,000	0	74,800	74,800	0	0	145,200
10.	Zheng Zhonghui	Deputy General Manager	220,000	0	74,800	74,800	0	0	145,200
11.	Wei Changsheng	Deputy General Manager	160,000	0	54,400	54,400	0	0	105,600
12.	Xu Wenhui	Deputy General Manager	160,000	0	54,400	54,400	0	0	105,600
13.	Cao Changjiu	Secretary to the Board	160,000	0	54,400	54,400	0	0	105,600
	Subtotal		<u>2,860,000</u>	<u>0</u>	<u>972,400</u>	<u>972,400</u>	<u>0</u>	<u>0</u>	<u>1,887,600</u>
	Other staff members (174 grantees)		<u>13,340,000</u>	<u>0</u>	<u>4,535,600</u>	<u>4,535,600</u>	<u>0</u>	<u>0</u>	<u>8,804,400</u>
	Total (184 grantees)		<u><u>16,200,000</u></u>	<u><u>0</u></u>	<u><u>5,508,000</u></u>	<u><u>5,508,000</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>10,692,000</u></u>

Note 1: The weighted average closing price of A Share of the Company on the Shenzhen Stock Exchange on the trading day before the date of exercising was RMB8.81 per A share.

Directors, Supervisors, Senior Officers and Staff

At the date of this report, the Company had 10,692,000 share options outstanding under the Incentive Plan, which represented approximately 1.70% of the Company's shares in issue as at the date of this report.

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 2020 Annual Report of the Company.

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

Area of Work	Number of Staff
Production	3,671
Engineering & Technical	522
Administration	262
Finance	81
Product R&D	290
Procurement	52
Sales	964
Quality inspection	523
Total	<u>6,365</u>

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

Education level by category	Number of Staff
Universities or above	1,364
Tertiary institutions other than universities	1,923
Intermediate institutions and technical schools	2,314
Senior high schools or below	764
Total	<u>6,365</u>

The Company formulated and implemented staff education and training plan in 2021. In the first half of 2021, 35 company-level training programs were carried out, with 86 employees sent out to study, including special training for new employees, safety skills and knowledge improvement training, training of professional environmental protection knowledge, production equipment and special facilities training, technical quality management training, information security, internal auditor training and other aspects. 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 2021.

In the first half of the year 2021, the operating income of the Group prepared under the CASBE was RMB3,551,044,000, representing an increase of 8.07% as compared with the same period last year. The Group recorded its net profits attributable to the Shareholders as RMB200,082,000, representing an increase of 16.12% 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 2021.

BUSINESS REVIEW

In the first half of the year, the Group overcame the impact of adverse factors, such as the global pandemic and fluctuations in the international market, exchange rate changes, rising raw material prices and intensified market competition, and worked together to capture opportunities. Therefore, we continued to maintain a good momentum of growth and its major operating indicators hit a record high.

1. Capturing market opportunities and achieving new breakthroughs in business operation

The Group vigorously promoted its internationalization strategy. To actively respond to rapid changes in the global economy and foreign trade, the Group seized market opportunities, fully exploiting its enterprising advantage in providing comprehensive services, and actively explored the international market for its traditional leading products. As the same time, the export sales volume of featured bulk drugs, namely polycarbophil calcium, EPA, carbidopa and hormone products increased by 25%, 86%, 373% and 216.8% respectively, while we commenced the export of sevelamer with an export volume of 4.2 tonnes. Solid preparations of 760 million tablets were exported to the UK and European markets, representing a year-on-year increase of 26.05%. 42.5 million ANDA ibuprofen tablets were officially exported to the US market, and Roche Madopar cooperation project officially commenced commercial production.

The Group stepped up its efforts in developing the domestic market, seized the opportunity arising from the recovery of the domestic bulk drugs market, and achieved a sales revenue of RMB461 million, representing a year-on-year increase of 17.44%, of which the sales volume of carbasalate calcium, a new veterinary drug product, reached 546 tonnes, representing a year-on-year increase of 50% respectively, and domestic sales of carbidopa achieved a zero breakthrough.

The Group actively promoted its preparations strategy, strengthened internal reform as well as the proactivity and creativity of its front-line marketing personnel. The Group's preparations products sales revenue amounted to RMB824 million, representing a year-on-year increase of 12.36%, of which the sales volume of the top ten strategic preparations recorded a year-on-year increase of 32.5%. Sales of branded generic drugs achieved a relatively rapid growth, while ibuprofen tablets won the bid for the fourth batch of national centralized procurement, with a total sales revenue of RMB29.73 million in the first half of the year, representing a year-on-year increase of 90.5%.

Chairman's Statement

The Group empowered Shandong Xinhua Health Technology Co., Ltd with a brand new system and mechanism, continued to promote brand alliance strategy, actively cultivated its own brand and market ecosystem, and promoted the characteristic Internet + Healthcare services of Xinhua. The Group accelerated the layout of two-way cross-border business in the Belt and Road and the RECP Free Trade Zone, and e-commerce business maintained stable development.

2. Implementing the Big Research and Development (“R&D”) Strategy and new momentum has emerged in scientific research

The Group continuously increased its investment in R&D, with RMB164 million invested in R&D in the first half of the year, representing a year-on-year increase of 10.28%.

In the first half of the year, the Group obtained 6 drug (document) approvals including for irbesartan. The completion of Sino-U.S. bilateral report on raw materials and preparations of sevelamer carbonate has been done. Currently, 10 products are pending review at CDE. Key innovative drugs such as OAB-14, a jointly-developed anti-dementia drug, are in good progress.

Xinhua Pharm and XinCat Pharmaceutical were successfully approved as high-tech enterprises in Shandong Province. The Group obtained 8 licensed patents in the first half of the year and one project was awarded the third prize of Science and Technology Progress of Shandong Province.

In the first half of the year, the Group completed the launch of several research centers and signed agreements with China Pharmaceutical University, to jointly establish a joint research center for innovative drugs and high-end preparations and a major public safety and emergency drug R&D innovation center. The Group cooperated with Australian Academician Rose and Academician Zhen Chongli, to establish the international center for nanoscale drug research, and signed an agreement with Beijing Institute of Technology to jointly build an employment practice base.

In the first half of the year, the Group signed a contract with 1 external academician and introduced 117 employees with a bachelor's degree or above, including 60 with a master's degree or above. The Group was listed as the first unit of Zibo City to carry out evaluation of special technicians.

3. Promoting precise management and project construction presented new horizons

Ibuprofen technical renovation project will soon commence trial production. The new injection project has entered into the final stage, and purification renovation and equipment installation will soon be completed.

The installation of equipment for the veterinary drugs project of Xinhua Pharmaceutical (Gaomi) Co., Ltd. has been completed, and the design of high-end pet medication project has begun.

Shouguang Company's bulk drugs project has commenced construction, and the registration for the newly-established esterification project of Shandong Tongxin Pharmaceutical Co., Ltd. (“Tongxin Pharmaceutical”) has been completed, which is preparing for commencement of construction.

Chairman's Statement

4. Strengthening basic management to enhance the comprehensive competitiveness of the enterprise

In the first half of the year, the Group's lifeline project remained stable, successfully passed various provincial and municipal safety and environmental protection professional inspections, passed 78 on-site quality checks by its customers, and completed the international registration of five products.

The Group accelerated automation, intelligence enhancement and digital transformation. The building of ultra-integrated cloud data center project was completed. The contract management and print control integrated platform project progressed as scheduled. The combustible gas video big data intelligent management platform and intelligent electricity safety inspection are in progress. The Modern Medicine Center for International Cooperation was recognized as the smart workshop of Zibo City, excellent project of integration of information technology and industrialization, and typical application scenario of digital transformation of provincial SASAC.

The Group vigorously promoted process optimization and technological progress, and completed 15 technical quality projects in the first half of the year, saving RMB16.34 million in raw materials and power consumption.

5. Carrying out capital operation in an orderly manner to enhance corporate influence

At the beginning of the year, phase I of the 2018 equity incentive scheme of Xinhua Pharm was completed.

In the first half of the year, an agreement was signed with Hubei Gongtong Pharmaceutical Co., Ltd. to establish Tongxin Pharmaceutical with a capital contribution of RMB120 million. The esterification project with a production capacity of 500 tonnes/year will soon commence construction.

The non-public issuance of A Shares was initiated in the second quarter and the due diligence by intermediaries has been completed. The relevant resolution has been successfully passed at the general meeting, and the SFC has accepted the application for additional issuance and other relevant information.

PROSPECTS

For some time in the future, the pandemic will continue to affect the world. The international freight rates will continue to run high, and exchange rates will continue to fluctuate, putting greater pressure on the export of company products. The high price of bulk commodities makes it difficult to increase the price of pharmaceutical products with a lagging cycle, causing an impact on the improvement of the Company's profitability.

Despite the various difficulties facing the enterprise in its development, the Group will still take practical measures to ensure the overall stability of product exports. As the Group's characteristic APIs maintain rapid development, the market share of strategic formulations continues to increase, international cooperation projects for formulations and commercial production are rapidly advancing, and new growth points for the Company are taking shape. It is believed that the Group will be able to overcome numerous difficulties and maintain a strong momentum for development.

To this end, the principal work of the Group in the second half of 2021 are as follows:

1. Seize opportunities and strive for market initiative

The Group will coordinate the international and domestic markets, the overall market resources of intermediates, APIs and preparations, and implement a proactive price strategy to ensure the stability of the bulk API market.

The Group will highlight the market promotion of multiple series of specialty products including EPA series, hormone series and polymer drugs, and continuously increase the development of the veterinary drug market, so as to achieve rapid development of specialty products and accelerate the formation of new growth points for APIs. Meanwhile, the Group will put more efforts into developing emerging markets including the "Belt and Road" and countries along the route, strengthen marketing capabilities, and make every effort to speed up product registration to achieve new market sales growth.

The Group will exploit the Company's strong and advanced preparation production capacity and brand quality advantages. In terms of the domestic preparations, we will seize the opportunity of centralized procurement and medical reform to actively seek changes and respond, and implement "one policy for one product" for large varieties of quality generic drugs to seek increment with a focus on the ten major development strategies and large varieties. While capturing the development of international preparations, on the basis of introducing more cooperation projects and steadily expanding entrusted processing, we will accelerate the commercialized production of existing cooperation projects by taking the high-end market as a breakthrough, and rapidly expand the export scale of our own-brand preparations, forming a new scene in which the development of preparations complements each other, with mutual progression and positive development both internationally and domestically.

While maintaining the steady growth of each business segment of Shandong Xinhua Health Technology Co., Ltd., we will accelerate our strategic cooperation with the Medical Insurance Bureau and the "Internet + Medical (Medicine)" field, and build more public hospitals to establish a new Internet medical ecosystem. At the same time, we will accelerate the development of two-way cross-border businesses and integrate high-quality resources, so as to expand and strengthen the international cooperation in the health sector to ensure new breakthroughs in sales throughout the year.

Chairman's Statement

2. Make scientific decisions and accelerate project construction

Through the construction of the project and taking advantage of raw materials, key technologies and core markets as the core of the chain, the Group will extend the industrial chain upstream and downstream to cultivate derivative products of the industrial chain, so as to realize a strong chain and supplementary chain, and further expands its advantages of scale, the ancillary advantages of the industry chain and the leading advantages in costs.

On the basis of consolidating the advantages of the existing industry chain, the Group will further strengthen the industry chain of ibuprofen, EPA series, dopa series, polymer medicine series and hormone series, so as to strengthen competitiveness and vigorously develop series of health products.

3. Dare to compete and accelerate the advancement of science and technology

The Group will accelerate the development and consistency evaluation of new products, and strive to obtain 4 more consistency evaluation approvals in the second half of the year, 2 key new product approvals, and 12 drug production approvals throughout the year.

The Group will continue to carry out mass rationalization proposed activities and technical quality improvement activities, strengthen production process research and optimize production control and production processes. At the same time, we will implement key technical quality research projects to further improve the quality.

The Group will complete the certification of the "integration of industrialization" system, so as to ensure the completion of 45 automation and continuous transformation projects throughout the year, and accelerate the construction of digital workshops. The Group will also coordinate the Company's ERP, OA, energy online management system, video monitoring management system, equipment management system, etc., so as to accelerate the formation of a comprehensive data management and control platform for enterprise management, and accelerate the realization of digital transformation and upgrading.

We will accelerate the transformation of new products, strengthen technological progress, reduce manufacturing costs, so as to accelerate the transformation of scientific and technological achievements into new growth points for enterprise development.

4. Consolidate basic management and strengthen the lifeline project

To ensure that the lifeline project cannot possibly go wrong, we will continue to deepen the promotion of 7S management and CTPM management to improve the standard of on-site management. We will speed up the implementation of security measures, environmental measures and technical measures, and use new technologies, new materials and new equipment to improve guarantee capabilities and standards, continuously improve intrinsic safety, environmental protection source governance, and product quality. We will continue to strengthen the lifeline awareness education of all employees, improve the quality and skills of all employees, strengthen the training and drills and the rectification of hidden risks to ensure the stability of the lifeline project.

On the premise of maintaining reasonable inventory and capital occupation, the Group will make overall arrangements for the production plans of key products, seasonal products and new products and strive to overcome the impact of various constraints to maintain high-level stable production and precise production, expand emergency production capacity, respond in a timely manner, and ensure market demand.

5. Speed up the pace of reform and stimulate the vitality of enterprise development

We will accelerate the work of each node of the non-public issuance of A Shares, and strive to complete the additional issuance of A Shares as soon as possible.

We will implement mid- and long-term incentive plans in eligible subsidiaries in due course.

We will strengthen market capitalization management, strengthen communication with investors and analysts to further enhance market confidence.

We will optimize and deepen the “six-specific” management, and actively promote three system reforms of the Company.

We will advance the reform of the personnel structure and improve the post withdrawal mechanism. Those who are capable will be promoted while those who are less capable will be laid off. Employees who do not have outstanding performance and fail to complete their tasks will resign on their own accord, so as to promote the improvement of labor productivity per capita and profitability per capita.

Chairman
Zhang Daiming
27 August 2021

Management Discussion and Analysis

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

ANALYSIS OF FINANCIAL SITUATION AND OPERATING RESULT IN ACCORDANCE WITH CASBE

1. Analysis of Assets and Liabilities

Assets and Liabilities constituting changes

Unit: RMB Yuan

Item	As at 30 June 2021 (unaudited)		As at 31 December 2020 (the "End of Last Year") (audited)		Percentage increase or decrease	Description of changes
	Amounts	Proportion of total assets	Amounts	Proportion of total assets		
Monetary funds	948,751,542.45	13.05%	855,770,803.34	12.07%	0.98%	-
Accounts receivable	823,760,793.14	11.33%	379,909,305.44	5.36%	5.97%	-
Inventories	844,467,098.24	11.61%	1,124,364,262.39	15.85%	(4.24%)	-
Investment real estate	47,891,276.57	0.66%	50,016,899.09	0.71%	(0.05%)	-
Long-term equity investment	58,392,290.58	0.80%	57,795,818.99	0.81%	(0.01%)	-
Fixed assets	3,031,574,143.37	41.69%	3,117,313,128.81	43.95%	(2.26%)	-
Projects under construction	568,190,833.24	7.81%	416,989,876.51	5.88%	1.93%	-
Right-of-use assets	3,765,143.77	0.05%	4,549,357.11	0.06%	(0.01%)	-
Short-term borrowing	331,073,689.08	4.55%	200,420,484.28	2.83%	1.72%	-
Contract liability	165,919,106.40	2.28%	377,793,225.44	5.33%	(3.05%)	-
Long-term borrowings	367,967,405.22	5.06%	462,737,939.80	6.52%	(1.46%)	-
Lease liabilities	1,689,225.17	0.02%	1,762,899.65	0.02%	0.00%	-

Management Discussion and Analysis

Analysis of major changes of items

Unit: RMB Yuan

Items	As at 30 June 2021 (unaudited)	As at 31 December 2020 (the "End of Last Year") (audited)	Change as compared to the End of Last Year	Description of changes
Accounts receivable	823,760,793.14	379,909,305.44	116.83%	(1)
Other current assets	35,455,443.33	114,067,003.20	(68.92%)	(2)
Projects under construction	568,190,833.24	416,989,876.51	36.26%	(3)
Total assets	7,271,501,429.27	7,092,952,190.04	2.52%	
Short-term borrowing	331,073,689.08	200,420,484.28	65.19%	(4)
Notes payable	377,549,872.73	289,972,897.58	30.20%	(5)
Contract liability	165,919,106.40	377,793,225.44	(56.08%)	(6)
Taxes and dues payable	32,246,964.89	23,061,985.11	39.83%	(7)
Other current liabilities	13,113,720.71	32,721,948.43	(59.92%)	(6)
Total liabilities	3,747,286,649.76	3,701,662,448.12	1.23%	
Total equity attributable to the shareholders of parent company	<u>3,330,192,893.78</u>	<u>3,223,793,819.25</u>	<u>3.30%</u>	

Reasons for the change of more than 30% as the end of last year:

- (1) The increase of accounts receivable was mainly due to the expanded scale of sales and that payments for part of the sales business had not yet been due during the Reporting Period.
- (2) The decrease of other current assets was mainly due to reduction of the prepaid income tax and value-added tax allowance at the end of the Reporting Period.
- (3) The main reason for the increase of the projects under construction was the continuous investment in high-end new medical preparation industrialization injection workshop and other projects during the Reporting Period.
- (4) The main reason for the rise in short-term borrowing was to reduce financing costs and optimize the debt structure during the Reporting Period.
- (5) The increase in notes payable was mainly due to an increase in bank acceptances payable during the Reporting Period.
- (6) The decrease in contractual liabilities and other current liabilities was mainly due to the timely performance of contractual obligations during the Reporting Period and the decrease in advance payments under contracts.
- (7) The increase in taxes and dues payable is mainly due to the increase in income tax payable and value-added tax at the end of the Reporting Period.

Management Discussion and Analysis

2. Analysis of major changes in income statement items and research input

Unit: RMB Yuan

Items	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)	Change as compared to the same period last year	Description of changes
Operating revenue	3,551,043,752.95	3,285,772,716.57	8.07%	
Operating costs	2,511,033,846.02	2,363,827,869.47	6.23%	
Selling expenses	358,406,776.11	326,650,283.59	9.72%	
Administration expenses	169,041,206.93	155,101,017.99	8.99%	
Financial expenses	26,568,776.18	30,153,925.95	(11.89%)	
Investment income	7,096,471.59	3,754,745.13	89.00%	(1)
Credit impairment loss(losses to be listed with brackets)	(4,756,660.63)	(1,431,451.78)	232.30%	(2)
Assets impairment loss(losses to be listed with brackets)	(34,950,730.05)	(5,369,396.50)	550.92%	(3)
Income tax expenses	51,043,087.07	42,980,002.53	18.76%	
Research input	163,835,401.81	148,558,090.65	10.28%	

Reasons for the change of more than 30% over the same period:

- (1) The main reason for the year-on-year increase in investment income is the increase in investment income of associated corporations obtained during the Reporting Period.
- (2) The credit impairment loss increased year over year mainly due to the increase in bad debt provisions for accounts receivable and other accounts receivables set aside during the Reporting Period.
- (3) The main reason for the year-on-year increase in asset impairment losses is the increase in inventory falling price reserves set aside during the current Reporting Period.

Management Discussion and Analysis

3. Analysis of significant changes in cash flow statement items

Unit: RMB Yuan

Items	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)	Change as compared to the same period last year	Description of changes
Net cash flow generated from operating activities	165,101,447.08	200,601,673.34	(17.70%)	
Net cash flow generated from investing activities	(104,001,628.28)	(106,496,215.94)	(2.34%)	
Net cash flow generated from financing activities	38,850,695.37	294,170,661.32	(86.79%)	(1)
Net increase in cash and cash equivalents	98,149,083.00	388,315,275.04	(74.72%)	(2)

Reasons for the change of more than 30% over the same period:

- (1) The year-over-year decrease in net cash inflow from financing activities was mainly due to the company's acquisition of a controlling shareholder loan of RMB600,000,000 in the same period last year.
- (2) The year-over-year decrease in net increase in cash and cash equivalents was mainly due to a year-over-year decrease in net cash inflow from financing activities during the Reporting Period.

Management Discussion and Analysis

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

Items	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	1,532,854,894.06	1,048,579,120.29	31.59%	(0.40%)	3.77%	Decreased by 2.75 percentage points
Preparations	1,487,975,516.03	1,020,141,030.82	31.44%	10.65%	2.63%	Increased by 5.36 percentage points
Medical intermediates and other products	530,213,342.86	442,313,694.91	16.58%	31.87%	23.10%	Increased by 5.95 percentage points
Total	3,551,043,752.95	2,511,033,846.02	29.29%	8.07%	6.23%	Increased by 1.23 percentage points
By product						
Antipyretic and analgesic active pharmaceutical ingredients	1,532,854,894.06	1,048,579,120.29	31.59%	(0.40%)	3.77%	Decreased by 2.75 percentage points
Preparations such as tablets, injections, capsules etc.	1,487,975,516.03	1,020,141,030.82	31.44%	10.65%	2.63%	Increased by 5.36 percentage points
Medical intermediates and others	530,213,342.86	442,313,694.91	16.58%	31.87%	23.10%	Increased by 5.95 percentage points
Total	3,551,043,752.95	2,511,033,846.02	29.29%	8.07%	6.23%	Increased by 1.23 percentage points
By geographical location						
PRC(including Hong Kong)	2,411,287,478.75	1,580,254,064.67	34.46%	23.75%	15.52%	Increased by 4.67 percentage points
Americas	424,001,453.81	333,620,941.23	21.32%	(19.42%)	(15.39%)	Decreased by 3.74 percentage points
Europe	510,266,545.20	416,548,870.06	18.37%	(7.25)	2.47%	Decreased by 7.74 percentage points
Others	205,488,275.19	180,609,970.06	12.11%	(21.26%)	(7.40%)	Decreased by 13.15 percentage points
Total	3,551,043,752.95	2,511,033,846.02	29.29%	8.07%	6.23%	Increased by 1.23 percentage points

Management Discussion and Analysis

Analysis of profit composition as compared to 2020 is as follows:

Items	Amount (RMB Yuan)		Percentage of the Total Profit (%)	
	Six months ended 30 June 2021	2020	Six months ended 30 June 2021	2020
Operating profits	263,189,820.50	422,485,470.27	101.09	102.64
Net non-operating income	(2,830,064.20)	(10,847,489.52)	(1.09)	(2.64)
Total profits	260,359,756.30	411,637,980.75	100.00	100.00

There was no significant change in the profit composition in the Reporting Period 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 2021, the Group's current ratio was 113.60%; the quick ratio was 79.92%; the turnover rate of accounts receivable (annualised operating revenue/average net accounts receivable × 100%) and the rate of inventory turnover (annualised operating costs/average net inventories × 100%) were 1,180.07% and 510.16% respectively.

The current ratio and the quick ratio increased from the end of the previous year respectively, primarily because of the increase in accounts receivable 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 2021, the Group's total borrowing was RMB1,734,486,000. As at 30 June 2021, the Group's monetary funds amounted to RMB948,752,000. The Group is in good credit condition and has sufficient bank credit line available to meet the demand for working capital at any time.

As at 30 June 2021, the Company's subsidiary Xinhua (Zibo) Real Estate Co., Ltd., had a mortgage deposit of RMB689,000 and received in advance regulated payments of RMB41,320,000 for property sales. The Company's subsidiary Xinhua Pharmaceutical (Shou Guang) Co., Ltd., had a wage deposit of RMB243,000 for migrant workers, and the Company's subsidiary Shandong Xinhua Pharmaceutical Import and Export Co., LTD. has a letter of credit deposit of RMB300,000. The Company and Shandong Zibo XinCat Pharmaceutical Co., Ltd., the Company's subsidiary, pledged the monetary funds of RMB76,877,000 and RMB8,610,000 respectively to the bank for arrangement of bank acceptance bills. Besides, the ownership of the Company's fixed assets of RMB84,466,000 and the right-of-use assets of RMB3,765,000 does not belong to the Group. Save as disclosed, the Group did not have other assets mortgaged.

On 13 April 2021, the Company and the relevant investors jointly invested to establish Tongxin Pharmaceutical. As of 30 June 2021, the Company had actually invested RMB21,600,000, with a shareholding ratio of 60%. As at 30 June 2021, the total assets of Tongxin Pharmaceutical was RMB44,202,000, and the Shareholders' equity was RMB36,000,000. Tongxin Pharmaceutical is still in the period of preparation and has not had any actual business operations, which has not had a significant impact on the overall production, operation and performance of the Group.

Management Discussion and Analysis

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

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

As at 30 June 2021, the number of the Group's employees was 6,365. The total employee salaries in the first half of 2021 amounted to RMB317,569,000.

As at 30 June 2021, the Group's asset-liability ratio was 51.53% (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 2021, the Group had a gross gearing ratio (ie, gross liabilities divided by adjusted capital) of 52.11%, and a net gearing ratio (ie, net liabilities divided by adjusted capital) of 23.62%. 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 of 2021, the Group's export revenue was USD174,508,000, 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 arrangements in advance 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.

Management Discussion and Analysis

OPERATIONS AND RESULTS ANALYSIS OF PRINCIPAL SUBSIDIARIES AND COMPANIES IN WHICH THE COMPANY HAS INTEREST

Company Name	Company Type	Primary Service	Registered Capital	Total Assets	Net assets	Operating Incomes	Operating Profits	Net profits
Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd.	Subsidiary	Production and sales of APIs and solid preparations	US\$20,949,000	320,244,231.14	264,900,936.64	118,250,366.68	19,758,785.79	14,363,463.42
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Subsidiary	Production and sales of chemical products	RMB230,000,000	887,988,562.53	528,847,334.14	446,820,826.30	2,339,530.28	887,523.19
Xinhua (Zibo) Real Estate Co., Ltd.	Subsidiary	Property Management	<u>RMB20,000,000</u>	<u>261,666,395.08</u>	<u>71,794,609.66</u>	<u>146,071,708.45</u>	<u>47,749,248.37</u>	<u>35,645,188.03</u>

- (1) The total registered capital of Zibo Xinhua-Perrigo Pharmaceutical Company Limited is US\$20,949,000, and the Company holds 50.1% of its equity interest. This company is mainly engaged in producing and selling APIs and solid preparations. As at 31 June 2020, the total assets of the company were RMB320,244,000, and equity attributable to shareholders of the company was RMB264,901,000. For the first half of 2021, the operating income of the company was RMB118,250,000, basically flat from the same period last year. The total profits of the company was RMB19,762,000, representing a decrease of 38.08% as compared with the same period last year. The decrease was mainly due to the higher product costs in the new development stage of pharmaceutical product sales.
- (2) The total registered capital of Xinhua Pharmaceutical (Shouguang) Company Limited is RMB230,000,000, and the Company holds 100% of its equity interest. This subsidiary is mainly engaged in producing and selling chemical products. As at 30 June 2021, the total assets of the subsidiary were RMB887,989,000, and equity attributable to shareholders of the subsidiary was RMB528,847,000. In the first half of 2021, the operating income was RMB446,821,000, representing a increase of 7.07% as compared with the same period last year. The total profits of the company was RMB1,078,000, representing a decrease of 96.02% as compared with the same period last year. The decline was mainly due to the rising cost of purchasing raw materials.
- (3) Xinhua (Zibo) Real Estate Company Limited has changed its business scope on 5 July 2021 and cancelled the business of “real estate development and sales”, and the Company holds 100% of its equity interest. At present, the registered capital of this subsidiary is RMB20,000,000, mainly engaged in property management. As at 30 June 2021, the total assets of the subsidiary were RMB261,666,000, and equity attributable to shareholders of the subsidiary was RMB71,795,000. In the first half of 2021, the operating income was RMB146,072,000. The total profits of the company was RMB35,645,000, both operating income and net profit increased significantly compared with the same period last year, mainly due to the increase in property sales income during the Reporting Period .

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 2021(2020 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 stay abreast of 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 R&D. 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 face 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 strengthens internal control standards and the monitoring of key sewage discharge points, reduces the environmental risks, and complies with 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 2020 has been approved at the Annual General Meeting for year 2020.
3. For this Reporting Period and the six months ended 30 June 2020, 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 Parties 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 RMB3,765,000 from other companies; and the other companies leased assets of RMB47,891,000 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 2021, 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.

Review of Major Events

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

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
Undertaking made on initial public offering or refinancing	HHC	Other	<p>1. Within six months before the price determination date for the non-public issue of the Company (the announcement date of the resolution of the second extraordinary meeting of the 10th session of the Board of Directors of the Company in 2021), HHC and its concert parties do not reduce their shares in the Company;</p> <p>2. There is no plan for reduction in shares of the Company within six months after the completion of the non-public issue from the price determination date for the non-public issue;</p> <p>3. HHC undertakes to reduce its shares and perform the information disclosure obligations involved in the changes in rights and interests in strict accordance with the laws and regulations such as the Securities Law of the People's Republic of China, Management Measures on Takeover of Listed Companies, and the relevant regulations of the stock exchanges of the places where the shares of HHC are listed;</p> <p>4. If HHC violates the above-mentioned commitment and reduced its shares, HHC undertakes that all the proceeds from the reduction shall be owned by the Company and HHC shall bear all legal liabilities and consequences arising therefrom.</p>	9 August 2021	Long-term	In progress
	HHC	Horizontal competition	<p>1. There is no horizontal competition between HHC and other enterprises controlled by HHC and the Company;</p> <p>2. During the period of being the controlling shareholder of the Company, HHC shall take necessary and possible measures in accordance with the law to avoid business or activities that have horizontal competition and conflict of interest with the main business of the Company, and urge other enterprises controlled by HHC to avoid business or activities that have horizontal competition and conflict of interest with the main business of the Company;</p> <p>3. When HHC and other enterprises controlled by HHC intend to carry out new business, investment and research that may compete horizontally with the main business of the Company, HHC shall promptly notify the Company, and the Company will have priority in development and priority to participate in the project. HHC will try its best to make the price of relevant transactions on the basis of fair and reasonable and normal commercial transactions with independent third parties. HHC has the ability to fulfill the above commitments. This letter of commitment shall take effect immediately after being signed by HHC and shall remain valid during the period when HHC has control over the Company.</p>	9 August 2021	Long-term	In progress

Review of Major Events

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
	HHC	Other	<p>1. HHC undertakes not to act beyond its powers to interfere with the Company's operating and management activities or misappropriate the Company's interests;</p> <p>2. From the date of issuance of this undertaking to the completion of the Company's non-public issue, if the state and securities regulatory authorities make other new regulatory requirements on measures for listed companies to compensate the diluted current returns, and this undertaking cannot meet the requirements of the state and securities regulations, it promises to issue an undertaking in accordance with the latest regulations of the state and securities regulatory authorities;</p> <p>3. HHC undertakes to take the relevant measures to compensate for the diluted current returns formulated by the Company and fulfill this undertaking. If any loss is caused to the Company or investors due to the breach of this undertaking or the refusal to fulfill this undertaking, HHC is willing to assume the corresponding liability and compensate the losses in accordance with the law.</p>	14 April 2021	Long-term	In progress

10. Purchase, Sales and Redemption of shares:

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

11. Entrusted Management of Funds:

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

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	0.05%	144,850,000.00	6,500,000.00	(40,077,500.00)
601328	BANKCOMM	14,225,318.00	0.01%	40,274,080.00	-	2,934,254.40
Total		<u>21,225,318.00</u>	<u></u>	<u>185,124,080.00</u>	<u>6,500,000.00</u>	<u>(37,143,245.60)</u>

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

Review of Major Events

14. Performance of other social responsibilities

The Company, Xinhua-Perrigo, a holding subsidiary, and Xinhua Pharmaceutical (Shouguang) Shandong Xinhua Wanbo Chemical Industry Co., Ltd and 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 Discharge		Number of Discharge Outlets	Distribution of Discharge Outlets	Discharge Concentration	Implemented	Total Amount of Discharge	Approved Total Amount of Discharge	Excessive Discharge
	Pollutants	Mode				Standards for Discharge of Pollutants			
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 450 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
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 300 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 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

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	Total Amount of Discharge	Approved Total	Excessive Discharge
	Standards for Discharge of Pollutants	Amount of Discharge								
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 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
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Wastewater: chemical oxygen Demand, ammonia Nitrogen etc.	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, ammonia nitrogen less than 15 mg/L; total phosphate less than 2 mg/L; total nitrogen less than 30 mg/L.	Wastewater: COD concentration less than or equal to 500 mg/L, ammonia nitrogen less than 45 mg/L; total phosphate less than 8 mg/L; total nitrogen less than 70 mg/L.	Total amount of COD less than 19.8 tons/half a year.; total phosphate less than 0.1 tons/half a year; total nitrogen less than 1 tons/half a year; ammonia nitrogen less than 0.5 tons/half a year.	90 tons/year of COD; 1.44 tons/year of total phosphate; 12.6 tons/year of total nitrogen; 8.1 tons/year of ammonia nitrogen.	None
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Exhaust gas: volatile organic compound (VOC).	Exhaust gas emission at interval	3	Raw material medicine synthesis factory, preparation production baset		VOC concentration less than 60 mg/m ³ .	Exhaust gas: VOC concentration less than 60 mg/m ³ .	Total amount of VOC less than 1 tons/year.	3.8 tons/year of VOC.	None
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Wastewater: chemical oxygen demand, ammonia Nitrogen	Continuous discharge	1	Main wastewater outlet		COD less than 400 mg/L; ammonia nitrogen less than 25 mg/L; total phosphate less than 8 mg/L; total nitrogen less than 70 mg/L.	COD 400 mg/L; ammonia nitrogen 25 mg/L; total phosphate 8 mg/L; total nitrogen 70 mg/L.	Total amount of COD less than 31.8 ton/year, ammonia nitrogen less than 1 ton/year.	COD concentration 110.81 tons/year, ammonia nitrogen 9.975 tons.	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	Total Amount of Discharge	Approved Total	Excessive Discharge
						Standards for Discharge of Pollutants		Amount of Discharge	
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Exhaust outlets: sulfur dioxide, nitrogen oxide, NMHC, etc..	Discharge at Interval	17	Pyrazolone: 3; Ziurea: 2; DK workshop: 6; chloropropionyl chloride: 1; sulfuric acid: 1; Neopentyl glycol 1, sewage treatment 3	Sulfur dioxide less than 50 mg/m ³ ; nitrogen oxide less than 100 mg/m ³ ; particulate matter less than 10 mg/m ³ ; NMHC less than 60 mg/m ³ .	Sulfur dioxide less than 50 mg/m ³ ; nitrogen oxide less than 100 mg/m ³ ; particulate matter less than 10 mg/m ³ ; NMHC less than 60 mg/m ³ .	Total amount of sulfur dioxide less than 1 tons/year; nitrogen oxide less than 5 tons/year; particulate matter less than 1 tons/year; NMHC less than 10 tons/year.	Total amount of sulfur dioxide 6.52 tons/half a year; nitrogen oxide 16.145 tons/half a year; particulate matter 1.935 tons/half a year; NMHC 34.645 tons/half a year.	None
Shandong Xinhua Wanbo Chemical Industry Co., Ltd	Exhaust gas: sulfur dioxide, volatile organic compound (VOC), particulate matter, nitrogen oxide.	Discharge at Interval	3	dimethyl sulfate 1, 8-diazabicyclo (5,4,0) undec-7-ene 1; RTO 1.	sulfur dioxide less than 9 mg/m ³ ; volatile organic compound (VOC) less than 8.51 mg/m ³ ; particulate matter less than 2.5 mg/m ³ ; nitrogen oxide less than 24 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 oxide less than 100 mg/m ³ .	sulfur dioxide 0.9238 tons/year, volatile organic compound (VOC) 0.2678 tons/year, particulate matter 0.2995 tons/year, nitrogen oxide 0.184 tons/year.	sulfur dioxide 3.33 tons/year, volatile organic compound (VOC) 4.093 tons/year, particulate matter 0.651 tons/year, nitrogen oxide 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 500 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, and they will be transported to sewage treatment systems of No. 1 factory and No. 2 factory for biochemical treatment, after which the wastewater will be discharged into the water purification plant of Everbright Water (Zibo) Limited.

Review of Major Events

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

The production wastewater generated by Xinhua Perrigo is 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. High salt 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 though special conveying pipelines. After mixing with sanitary sewage, it then enters the Xinhua Perrigo's sewage treatment system for biochemical treatment. The general outlet of the Company is equipped with standardised online monitoring facilities, which are operated and maintained by authorized qualified three party. 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 300 m³, 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.

Review of Major Events

(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 part of the exhausting in the reaction process into closed circulation to prevent gas emissions.

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.

Review of Major Events

Xinhua Perrigo has set up standardized hazardous waste storage warehouses, strictly implemented relevant laws and regulations on hazardous waste, and strengthened standardized management of hazardous waste. 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 re-identified hazardous waste according to the requirements and specifications, compiled annual hazardous waste management plan, and built hazardous waste warehouse according to the standards 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.

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 "Self monitoring 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 Jiayu Testing Technology Co., Ltd., 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. and Shandong Jiayu Testing Technology Co., Ltd., two independent third parties, to test the exhaust outlets of workshops on a regular basis, and they were up to standard. Wanbo Chemical has entrusted Zibo Yuantong Environmental Testing Co., Ltd. to regularly conduct organized and unorganized exhaust gas testing, and they were up to standard.

Review of Major Events

15. Please refer to the Company's announcements dated 2 April 2021 and 21 April 2021 on <http://www.cninfo.com.cn> for the details of research, communication and interview activities during the Reporting Period.
16. The Group had no material contingent liabilities as at 30 June 2021.
17. On 19 January 2021, 5.508 million stock options that can be exercised during the first exercise period of the Company's A share stock option incentive plan in 2018 have been registered and listed for circulation. For details, please refer to the overseas regulatory announcement of the Company dated 14 January 2021 and announcement on the website (www.cninfo.com.cn) on and before 15 January 2021.
18. Events after the Reporting Period: save as disclosed in this report, there were no significant events or material changes after the Reporting Period up to the date of this report.
19. Except on disclosed herein, as of the date of this report, the Company did not have any future plans for material investments or capital assets, material acquisition and disposal of subsidiary, associates or joint ventures in the coming year.

Corporate Governance

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

AUDIT COMMITTEE

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

The audit committee along with the management of the Company has reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting including the unaudited interim accounts for the six months ended 30 June 2021.

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 2021 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 2020 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

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current assets:			
Monetary funds	VI.1	948,751,542.45	855,770,803.34
Trading financial assets			
Derivative financial assets			
Notes receivable			
Accounts receivable	VI.2	823,760,793.14	379,909,305.44
Accounts receivable financing	VI.3	121,307,768.19	138,638,879.69
Prepayments	VI.4	48,581,811.00	48,957,684.70
Other receivables	VI.5	26,107,597.06	25,163,102.98
Including: Interest receivable			
Dividends receivable			
Inventories	VI.6	844,467,098.24	1,124,364,262.39
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets	VI.7	35,455,443.33	114,067,003.20
		2,848,432,053.41	2,686,871,041.74
Total current assets		2,848,432,053.41	2,686,871,041.74
Non-current assets:			
Debt investment			
Other debt investment			
Long-term accounts receivable			
Long-term equity investments	VI.8	58,392,290.58	57,795,818.99
Other equity instrument investments	VI.9	215,124,080.00	258,822,016.00
Other non-current financial assets			
Investment properties	VI.10	47,891,276.57	50,016,899.09
Fixed assets	VI.11	3,031,574,143.37	3,117,313,128.81
Construction in progress	VI.12	568,190,833.24	416,989,876.51
Productive biological assets			
Oil and gas assets			
Right-of-use asset	VI.13	3,765,143.77	4,549,357.11
Intangible assets	VI.14	454,184,928.13	449,247,076.67
Development expenditure			
Goodwill	VI.15		
Long-term deferred expenses	VI.16	10,683,642.86	11,916,370.88
Deferred income tax assets	VI.17	21,589,688.26	23,517,396.65
Other non-current assets	VI.18	11,673,349.08	15,913,207.59
		4,423,069,375.86	4,406,081,148.30
Total non-current assets		4,423,069,375.86	4,406,081,148.30
		7,271,501,429.27	7,092,952,190.04
Total assets		7,271,501,429.27	7,092,952,190.04

Consolidated Balance Sheet (Continued)

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current liabilities:			
Short-term borrowings	VI.19	331,073,689.08	200,420,484.28
Trading financial liabilities			
Derivative financial liabilities			
Notes payable	VI.20	377,549,872.73	289,972,897.58
Accounts payable	VI.21	528,004,297.96	452,930,287.37
Contract liabilities	VI.22	165,919,106.40	377,793,225.44
Payroll payable	VI.23	66,163,204.58	86,354,297.27
Taxes payable	VI.24	32,246,964.89	23,061,985.11
Other payables	VI.25	566,113,918.72	495,166,878.89
Including: Interest payable			
Dividends payable	VI.25.1	99,415,716.58	5,310,599.53
Liabilities held for sale			
Non-current liabilities due within one year	VI.26	427,183,642.00	422,617,238.22
Other current liabilities	VI.27	13,113,720.71	32,721,948.43
Total current liabilities		2,507,368,417.07	2,381,039,242.59
Non-current liabilities:			
Long-term loans	VI.28	367,967,405.22	462,737,939.80
Lease liabilities	VI.29	1,689,225.17	1,762,899.65
Long-term payables	VI.30	640,367,868.30	638,556,123.79
Deferred incomes	VI.31	141,472,015.97	144,690,236.46
Deferred income tax liabilities	VI.17	84,860,218.03	69,314,505.83
Other non-current liabilities	VI.32	3,561,500.00	3,561,500.00
Total non-current liabilities		1,239,918,232.69	1,320,623,205.53
Total liabilities		3,747,286,649.76	3,701,662,448.12

Consolidated Balance Sheet (Continued)

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Shareholders' equity:			
Capital stock	VI.33	627,367,447.00	621,859,447.00
Capital reserve	VI.34	675,415,853.85	644,906,623.85
Less: Treasury stock			
Other comprehensive income	VI.35	136,650,978.19	174,171,424.84
Special reserve	VI.36	4,964,429.97	3,039,375.29
Surplus reserve	VI.37	302,535,302.27	302,535,302.27
Undistributed profits	VI.38	1,583,258,882.50	1,477,281,646.00
Total equity attributable to the shareholders of parent company		3,330,192,893.78	3,223,793,819.25
Minority shareholders' interests		194,021,885.73	167,495,922.67
Total shareholders' equity		3,524,214,779.51	3,391,289,741.92
Total liabilities and shareholder's equity		7,271,501,429.27	7,092,952,190.04

Parent Company's Balance Sheet

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current assets:			
Monetary funds		381,132,542.05	349,849,841.84
Trading financial assets			
Derivative financial assets			
Notes receivable			
Accounts receivable	XVI.1	625,220,451.93	297,382,259.35
Accounts receivable financing	XVI.2	65,851,097.48	77,678,558.91
Prepayments		22,074,754.86	16,369,555.08
Other receivables	XVI.3	515,682,134.25	500,864,154.86
Including: Interest receivable			
Dividends receivable	XVI.3.2	18,860,182.44	18,860,182.44
Inventories		467,985,317.32	625,250,916.84
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		7,232,346.15	60,395,444.95
Total current assets		<u>2,085,178,644.04</u>	<u>1,927,790,731.83</u>
Non-current assets:			
Debt investment			
Other debt investment			
Long-term accounts receivable			
Long-term equity investments	XVI.4	751,118,893.73	728,922,422.14
Other equity instrument investments		215,124,080.00	258,822,016.00
Other non-current financial assets			
Investment properties		76,110,518.71	78,965,125.33
Fixed assets		2,431,858,264.03	2,517,927,279.62
Construction in progress		402,646,957.68	279,879,164.02
Productive biological assets			
Oil and gas assets			
Right-of-use asset		1,088,462.72	1,456,030.56
Intangible assets		276,986,935.28	269,549,066.91
Development expenditure			
Goodwill			
Long-term deferred expenses		10,683,642.86	11,916,370.88
Deferred income tax assets			
Other non-current assets		11,673,349.08	15,913,207.59
Total non-current assets		<u>4,177,291,104.09</u>	<u>4,163,350,683.05</u>
Total assets		<u>6,262,469,748.13</u>	<u>6,091,141,414.88</u>

Parent Company's Balance Sheet (Continued)

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current liabilities:			
Short-term borrowings		331,073,689.08	180,407,956.47
Trading financial liabilities			
Derivative financial liabilities			
Notes payable		382,651,518.50	406,414,226.92
Accounts payable		441,201,651.89	333,004,892.70
Contract liabilities		34,616,393.72	66,504,241.53
Payroll payable		49,064,214.56	66,206,602.80
Taxes payable		5,488,409.20	8,531,905.85
Other payables		427,349,904.90	394,295,651.57
Including: Interest payable			
Dividends payable		99,415,716.58	5,310,599.53
Liabilities held for sale			
Non-current liabilities due within one year		426,703,997.89	421,794,729.34
Other current liabilities		1,265,751.71	6,530,150.93
Total current liabilities		<u>2,099,415,531.45</u>	<u>1,883,690,358.11</u>
Non-current liabilities:			
Long-term loans		367,967,405.22	462,737,939.80
Lease liabilities		383,325.35	766,650.69
Long-term payables		640,367,868.30	638,556,123.79
Deferred incomes		138,851,934.55	141,955,918.70
Deferred income tax liabilities		70,529,852.89	59,250,257.75
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		<u>1,221,661,886.31</u>	<u>1,306,828,390.73</u>
Total liabilities		<u>3,321,077,417.76</u>	<u>3,190,518,748.84</u>

Parent Company's Balance Sheet (Continued)

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Shareholders' equity:			
Capital stock		627,367,447.00	621,859,447.00
Capital reserve		733,991,335.67	703,482,105.67
Less: Treasury stock			
Other comprehensive income		139,313,947.70	176,457,193.30
Special reserve		1,968,729.86	
Surplus reserve		296,281,315.20	296,281,315.20
Undistributed profits		1,142,469,554.94	1,102,542,604.87
Total shareholders' equity		<u>2,941,392,330.37</u>	<u>2,900,622,666.04</u>
Total liabilities and shareholder's equity		<u>6,262,469,748.13</u>	<u>6,091,141,414.88</u>

Consolidated Income Statement

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
I. Gross revenue		3,551,043,752.95	3,285,772,716.57
Including: Operating revenue	VI.39	3,551,043,752.95	3,285,772,716.57
II. Total operating cost		3,266,899,130.92	3,065,966,315.61
Including: Operating cost	VI.39	2,511,033,846.02	2,363,827,869.47
Taxes and surcharges	VI.40	31,591,207.92	33,066,486.57
Selling expenses	VI.41	358,406,776.11	326,650,283.59
Administration expenses	VI.42	169,041,206.93	155,101,017.99
Research and development expense	VI.43	170,257,317.76	157,166,732.04
Financial expenses	VI.44	26,568,776.18	30,153,925.95
Including: Interest expenses		27,119,915.02	31,476,188.17
Interest income		4,147,801.53	2,101,311.70
Add: Other income	VI.45	11,588,356.99	16,171,604.82
Investment incomes (losses to be listed with "-")	VI.46	7,096,471.59	3,754,745.13
Including: Incomes from investment into affiliates and joint ventures		596,471.59	-2,245,254.87
Credit impairment loss(losses to be listed with "-")	VI.47	-4,756,660.63	-1,431,451.78
Asset impairment loss (losses to be listed with "-")	VI.48	-34,950,730.05	-5,369,396.50
Gains from asset disposals (losses to be listed with "-")	VI.49	67,760.57	-210,969.28
III. Operating profit (losses to be listed with "-")		263,189,820.50	232,720,933.35
Add: Non-operating income	VI.50	763,855.47	774,125.65
Less: Non-operating expenditure	VI.51	3,593,919.67	2,478,072.10
IV. Total profits (total loss to be listed with "-")		260,359,756.30	231,016,986.90
Less: Income tax expense	VI.52	51,043,087.07	42,980,002.53
V. Net profit (net loss to be listed with "-")		209,316,669.23	188,036,984.37
(I) By operation continuity			
(1) Net profit from continued operations(listed with "-" for net loss)		209,316,669.23	188,036,984.37
(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)		200,082,353.55	172,311,861.57
(2) Minority interest(listed with "-" for net loss)		9,234,315.68	15,725,122.80

Consolidated Income Statement (Continued)

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
VI. Net after-tax other comprehensive income	VI.53	-37,628,799.27	-47,811,421.41
Net after-tax other comprehensive income attributable to the owners of the parent company		-37,520,446.65	-47,961,843.74
(I) Other comprehensive income not subject to reclassification to profit or loss	VI.53	-37,143,245.60	-48,500,660.00
1. change in fair value of other equity instrument investments	VI.53	-37,143,245.60	-48,500,660.00
(II) Other comprehensive income to be reclassified to profit or loss in future	VI.53	-377,201.05	538,816.26
1. Conversion difference of foreign currency statement	VI.53	-377,201.05	538,816.26
Net after-tax other comprehensive income attributable to minority shareholders		-108,352.62	150,422.33
VII. Total comprehensive income		171,687,869.96	140,225,562.96
Total comprehensive income attributable to the shareholders of parent company		162,561,906.90	124,350,017.83
Total comprehensive income attributable to the minority shareholders		9,125,963.06	15,875,545.13
VIII. Earnings per share:			
(I) Basic earnings per share	VI.54	0.32	0.28
(II) Diluted earnings per share	VI.54	0.32	0.28

Parent Company's Income Statement

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
I. Gross revenue	XVI.5	1,802,777,753.83	1,807,192,520.98
Less: Operating cost	XVI.5	1,345,149,151.86	1,313,225,942.35
Taxes and surcharges		15,142,722.41	19,531,459.07
Selling expenses		11,264,614.16	46,004,788.85
Administration expenses		126,084,771.46	108,533,978.22
Research and development expense		125,453,384.79	129,493,642.25
Financial expenses		28,073,995.33	29,888,282.10
Including: Interest expenses		27,037,161.27	31,331,685.08
Interest income		2,189,940.59	1,379,686.07
Add: Other income		9,965,213.82	15,405,848.00
Investment incomes (losses to be listed with "-")	XVI.6	22,996,471.59	49,784,745.13
Including: Incomes from investment into affiliates and joint ventures		596,471.59	-2,245,254.87
Credit impairment loss(losses to be listed with "-")		-1,223,658.26	-920,595.18
Asset impairment loss (losses to be listed with "-")		-29,634,614.31	-6,352,666.12
Gains from asset disposals (losses to be listed with "-")		15,388.14	-215,753.17
II. Operating profit (losses to be listed with "-")		153,727,914.80	218,216,006.80
Add: Non-operating income		601,733.48	747,477.56
Less: Non-operating expenditure		2,053,786.66	1,404,573.62
III. Total profits (total loss to be listed with "-")		152,275,861.62	217,558,910.74
Less: Income tax expense		18,243,794.50	24,516,948.87
IV. Net profit (net loss to be listed with "-")		134,032,067.12	193,041,961.87
(I) Net profit from continued operations(listed with "-" for net loss)		134,032,067.12	193,041,961.87
(II) Net profit from discontinued operations(listed with "-" for net loss)			
V. Net after-tax other comprehensive income		-37,143,245.60	-48,500,660.00
(I) Other comprehensive income not subject to reclassification to profit or loss		-37,143,245.60	-48,500,660.00
1. change in fair value of other equity instrument investments		-37,143,245.60	-48,500,660.00
(II) Other comprehensive income to be reclassified to profit or loss in future			
1. Conversion difference of foreign currency statement			
VI. Total comprehensive income		96,888,821.52	144,541,301.87
VII. Earnings per share:			
(I) Basic earnings per share			
(II) Diluted earnings per share			

Consolidated Cash Flow Statement

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
I. Cash flow from operating activities:			
Cash received from sales of goods or rendering services		2,671,558,029.02	2,748,887,004.39
Refunds of taxes and levies		74,392,509.97	56,962,874.26
Other cash received from operation-related activities	VI · 55	83,649,510.23	55,756,043.04
Subtotal of cash inflows from operating activities		<u>2,829,600,049.22</u>	<u>2,861,605,921.69</u>
Cash paid for goods purchased and labor services received		1,694,459,324.11	1,775,714,159.09
Cash paid to and for employees		429,029,123.31	365,863,479.38
Cash paid for taxes and surcharges		126,066,748.85	132,536,472.89
Other cash paid related to operating activities	VI · 55	414,943,405.87	386,890,136.99
Subtotal of cash outflows from operating activities		<u>2,664,498,602.14</u>	<u>2,661,004,248.35</u>
Net cash flow from operating activities		<u>165,101,447.08</u>	<u>200,601,673.34</u>
II. Cash flow generated from investing activities:			
Cash received from returns on investments			
Cash received from investment incomes		6,500,000.00	6,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		140,509.99	212,405.09
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>6,640,509.99</u>	<u>6,212,405.09</u>
Cash paid for acquisitions of fixed assets, intangible assets and long-term assets		110,642,138.27	112,708,621.03
Cash paid for investments			
Net cash paid for acquisitions of subsidiaries and other business entities			
Other cash paid related to investing activities			
Subtotal of cash outflows from investing activities		<u>110,642,138.27</u>	<u>112,708,621.03</u>
Net cash flow from investing activities		<u>-104,001,628.28</u>	<u>-106,496,215.94</u>

Consolidated Cash Flow Statement (Continued)

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
III. Cash flows from financing activities:			
Cash received from investment absorption		30,121,280.00	
Including: cash received from subsidiaries' absorption of investments from minority shareholders		17,400,000.00	
Cash received from loans		472,983,520.00	298,500,000.00
Other cash received relating to financing activities	VI · 55		621,000,000.00
Subtotal of cash inflows from financing activities		503,104,800.00	919,500,000.00
Cash paid for repayment of debts		402,770,534.58	546,885,267.29
Cash paid for distributing dividends and profits or paying interest		35,751,423.32	28,740,235.82
Including: dividends and profits paid to minority shareholders by subsidiaries			
Other cash paid related to financing activities	VI · 55	25,732,146.73	49,703,835.57
Subtotal of cash outflows from financing activities		464,254,104.63	625,329,338.68
Net cash flows from financing activities		38,850,695.37	294,170,661.32
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		-1,801,431.17	39,156.32
V. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the beginning of the period		722,563,226.56	577,624,593.37
VI. Cash and cash equivalents at the end of the period			
		820,712,309.56	965,939,868.41

Parent Company's Cash Flow Statement

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
I. Cash flow from operating activities:			
Cash received from sales of goods or rendering services		1,204,380,468.09	1,335,200,655.23
Refunds of taxes and levies		47,533,309.06	38,512,740.33
Other cash received from operation-related activities		52,594,049.58	39,557,050.85
		1,304,507,826.73	1,413,270,446.41
Subtotal of cash inflows from operating activities			
Cash paid for goods purchased and labor services received		812,362,513.60	826,757,601.57
Cash paid to and for employees		278,475,488.56	244,206,165.35
Cash paid for taxes and surcharges		24,595,092.08	43,546,235.02
Other cash paid related to operating activities		101,550,240.35	137,556,893.81
		1,216,983,334.59	1,252,066,895.75
Subtotal of cash outflows from operating activities			
		87,524,492.14	161,203,550.66
Net cash flow from operating activities			
II. Cash flow generated from investing activities:			
Cash received from redemption of investments			52,030,000.00
Cash received from returns on investments		22,400,000.00	52,030,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		60,000.00	273,555.53
Net cash received from disposal of subsidiaries and other business entities			
Other cash received related to investing activities		20,000,000.00	
		42,460,000.00	52,303,555.53
Subtotal of cash inflows from investing activities			
Cash paid for acquisitions of fixed assets, intangible assets and long-term assets		76,943,004.90	93,285,343.43
Cash paid for investments		21,600,000.00	15,906,834.00
Net cash paid for acquisitions of subsidiaries and other business entities			
Other cash paid related to investing activities		34,000,000.00	32,500,000.00
		132,543,004.90	141,692,177.43
Subtotal of cash outflows from investing activities			
		-90,083,004.90	-89,388,621.90
Net cash flow from investing activities			

Parent Company's Cash Flow Statement (Continued)

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
III. Cash flows from financing activities:			
Cash received from investment absorption		12,721,280.00	
Cash received from loans		472,983,520.00	278,500,000.00
Other cash received relating to financing activities			621,000,000.00
Subtotal of cash inflows from financing activities		485,704,800.00	899,500,000.00
Cash paid for repayment of debts		382,770,534.58	546,885,267.29
Cash paid for distributing dividends and profits or paying interest		35,663,951.10	28,618,374.71
Other cash paid related to financing activities		25,732,146.73	33,797,001.57
Subtotal of cash outflows from financing activities		444,166,632.41	609,300,643.57
Net cash flows from financing activities		41,538,167.59	290,199,356.43
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		-1,876,734.99	-768,985.26
V. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the beginning of the period		267,152,583.20	230,330,314.96
VI. Cash and cash equivalents at the end of the period			
		304,255,503.04	591,575,614.89

Consolidated Statement of Changes in Shareholder's Equity

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Equity Attributable to the Shareholders of Parent Company															
	Capital stock	Preferred stock	Perpetual bond	Other equity instrument	Capital surplus	Treasury stock	Less: comprehensive income	Other	Special reserve	Surplus reserve	General risk reserve	Undistributed profits	Others	Subtotal	Minority shareholders' equity	Total shareholders' equity
I. Balance at the end of previous year	627,859,447.00				644,906,623.85		174,171,424.84	3,038,375.29	3,038,375.29	302,535,302.27	1,477,281,646.00			3,223,783,819.25	167,495,922.67	3,391,279,741.92
Add: Changes in accounting policies																
Corrections of prior period accounting errors																
Business merger under joint control																
Other																
II. Balance at the beginning of current year	627,859,447.00				644,906,623.85		174,171,424.84	3,038,375.29	3,038,375.29	302,535,302.27	1,477,281,646.00			3,223,783,819.25	167,495,922.67	3,391,279,741.92
III. Current year increase/decrease (decrease to be listed with "+")																
(I) Total comprehensive income																
(II) Invested and decreased capital of shareholders																
1. Shareholder's contribution of capital	5,508,000.00				30,509,230.00		-37,520,446.65	1,925,054.68			105,977,236.50			106,399,074.53	26,525,963.06	132,925,037.59
2. Contribution of capital from holder of other equity instruments	5,508,000.00				28,432,230.00		-37,520,446.65				200,092,333.55			162,561,906.90	9,125,963.06	171,687,869.96
3. Amount of share-based payment recognized as share holder's interest																
4. Other																
(III) Profit distribution																
1. Appropriation of surplus reserves																
2. Appropriation of general risk reserve																
3. Distribution to shareholders																
4. Others																
(IV) Internal camyover in shareholders' equities																
1. Capital surplus converted to capital																
2. Surplus reserve converted to capital																
3. Surplus reserve to recover losses																
4. Change in defined benefit plan carried forward to retained earnings																
5. Other comprehensive income carried forward to retained earnings																
6. Other																
(V) Special reserve																
1. Appropriation in current year																
2. Amount used in current year																
(VI) Other																
IV. Balance at end of current period	627,367,447.00				675,415,853.85		136,650,978.19	4,964,423.97	4,964,423.97	302,535,302.27	1,363,258,882.50			3,330,182,833.78	194,021,885.73	3,524,204,719.51

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

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Equity Attributable to the Shareholders of Parent Company										Total shareholders' equity				
	Capital stock	Preferred stock	Perpetual bond	Other equity instrument	Capital surplus	Treasury stock	Less: comprehensive income	Other	Special reserve	Surplus reserve		General risk reserve	Undistributed profits	Others	Subtotal
I. Balance at the end of previous year	621,659,447.00				634,142,267.70		182,008,870.59	1,436,261.16	278,949,576.01	1,250,630,946.35		2,969,028,070.81	141,501,394.01	3,110,529,454.82	
Add: Changes in accounting policies															
Corrections of prior period accounting errors															
Business merger under joint control															
Other															
II. Balance at the beginning of current year	621,659,447.00				634,142,267.70		182,008,870.59	1,436,261.16	278,949,576.01	1,250,630,946.35		2,969,028,070.81	141,501,394.01	3,110,529,454.82	
III. Current year increase/decrease (decrease to be listed with "-")															
(I) Total comprehensive income															
(II) Invested and decreased capital of shareholders															
1. Shareholder's contribution of capital					1,954,673.87		-47,961,843.74	33,910,443.89		96,574,407.05		54,477,681.07	-12,190,513.74	42,287,167.33	
2. Contribution of capital from holder of other equity instruments					1,954,673.87		-47,961,843.74			173,311,861.57		124,350,017.83	15,875,545.13	140,225,562.96	
3. Amount of share-based payment recognized as share holder's interest															
4. Other															
(III) Profit distribution															
1. Appropriation of surplus reserves					4,182,348.00									4,182,348.00	
2. Appropriation of general risk reserve					-2,227,674.13									-15,906,884.00	
3. Distribution to shareholders															
4. Others															
(IV) Internal carryover in shareholders' equities															
1. Capital surplus converted to capital															
2. Surplus reserve converted to capital															
3. Surplus reserve to recover losses															
4. Change in defined benefit plan carried forward to retained earnings															
5. Other comprehensive income carried forward to retained earnings															
6. Other															
(V) Special reserve															
1. Appropriation in current year								3,910,443.89		-1,114,320.88		2,796,123.01	583,101.00	3,379,224.01	
2. Amount used in current year								10,256,608.87		1,114,320.88		10,256,608.87	583,101.00	10,839,709.87	
(VI) Other								6,346,164.98				7,460,465.86		7,460,465.86	
IV. Balance at end of current period	621,659,447.00				638,097,641.57		134,047,026.85	5,346,705.05	278,949,576.01	1,347,205,355.40		3,028,505,751.88	129,310,870.27	3,152,816,622.15	

Parent Company Statement of Changes in Shareholder's Equity

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Other equity instrument				Six months ended 30 June 2021			Total of shareholder's equity				
	Capital stock	Preferred stock	Perpetual bond	Others	Capital surplus	Treasury stock	Less: comprehensive income		Surplus reserve	Special reserve	Undistributed profits	Others
I. Balance at the end of previous year	621,859,447.00				703,482,105.67		176,457,193.30	296,281,315.20		1,102,542,604.87		2,900,622,666.04
Add: Changes in accounting policies												
Corrections of prior period accounting errors												
Other												
II. Balance at the beginning of current year	621,859,447.00				703,482,105.67		176,457,193.30	296,281,315.20		1,102,542,604.87		2,900,622,666.04
III. Current year increase/decrease (decrease to be listed with "-")												
(I) Total comprehensive income	5,508,000.00						-37,143,245.60	1,968,729.86		39,926,950.07		40,769,664.33
(II) Invested and decreased capital of shareholders	5,508,000.00				30,509,230.00		-37,143,245.60			134,032,067.12		96,868,821.52
1. Shareholder's contribution of capital	5,508,000.00				28,432,230.00		-37,143,245.60					33,940,230.00
2. Contribution of capital from holders of other equity instruments					34,063,580.00							39,571,580.00
3. Amount of share-based payment recognized as share holder's interest					-5,631,350.00							-5,631,350.00
4. Other												
(III) Profit distribution										-94,105,117.05		-94,105,117.05
1. Appropriation of surplus reserves												
2. Distribution to shareholders												
3. Others												
(IV) Internal carryover in shareholder's equities												
1. Capital surplus converted to capital												
2. Surplus reserve converted to capital												
3. Surplus reserve to recover losses												
4. Change in defined benefit plan carried forward to retained earnings												
5. Other comprehensive income carried forward to retained earnings												
6. Other												
(V) Special reserve												
1. Appropriation in current year												
2. Amount used in current year												
(VI) Other					2,077,000.00							2,077,000.00
IV. Balance at end of current period	627,367,447.00				733,991,335.67		139,313,947.70	296,281,315.20	1,968,729.86	1,142,469,554.94		2,941,392,330.37

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

June 30, 2021

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Other equity/instrument				Other			Total of shareholder's equity				
	Capital stock	Preferred stock	Perpetual bond	Others	Capital surplus	Treasury stock	Less: comprehensive income		Surplus reserve	Special reserve	Undistributed profits	Others
Six months ended 30, June 2020												
I. Balance at the end of previous year	621,659,447.00				672,137,151.96		182,111,461.30	272,695,588.94		964,894,202.19		2713,697,851.39
Add: Changes in accounting policies												
Corrections of prior period accounting errors												
Other												
II. Balance at the beginning of current year	621,659,447.00				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 "-")												
(I) Total comprehensive income												
(II) Invested and decreased capital of shareholders												
1. Shareholder's contribution of capital												
2. Contribution of capital from holders of other equity instruments												
3. Amount of share-based payment recognized as share holder's interest												
4. Other												
(III) Profit distribution												
1. Appropriation of surplus reserves												
2. Distribution to shareholders												
3. Others												
(IV) Internal carryover in shareholder's equities												
1. Capital surplus converted to capital												
2. Surplus reserve converted to capital												
3. Surplus reserve to recover losses												
4. Change in defined benefit plan carried forward to retained earnings												
5. Other comprehensive income carried forward to retained earnings												
6. Other												
(V) Special reserve												
1. Appropriation in current year												
2. Amount used in current year												
(VI) Other												
IV. Balance at end of current period	621,659,447.00				676,319,499.96		133,610,801.30	272,695,588.94	1,411,136.01	1,083,313,030.42		2,789,209,503.63

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 containing 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 to the public in Hong Kong in December 1996, and offered A share of the People’s Republic of China to the public in Shenzhen in July 1997. The Company was transformed into a foreign invested joint stock company after being approved by the Ministry of Foreign Trade and Economic Cooperation of the People’s Republic of China in November 1998. In September 2001, the Company obtained the approval to issue 30 million shares of common stock of A shares, while reducing the holding of 3 million shares of 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 transfer of capital, the total share capital of the Company was 621,859,447 shares. The registered capital of the Company was RMB621,859,447.00.

In January 2021, the first exercise condition of the Company’s stock option incentive plan was fulfilled, and the Company issued 5,508,000.00 shares of capital stock, adding RMB5,508,000.00 of capital stock and increasing the Company’s registered capital to RMB627,367,447.00.

As of 30 June, 2021, the registered capital of the Company is RMB627,367,447.00, 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	615,952	0.098
A share with restricted sale conditions	615,952	0.098
II. Subtotal of tradable shares without restricted sale conditions	626,751,495	99.902
RMB common stocks (A share)	431,751,495	68.820
Overseas listed foreign shares (H share)	195,000,000	31.082
III. Total number of shares	<u>627,367,447</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 Hualu Holdings Co., Ltd. (hereinafter referred to as “Hualu Holdings”). The general meeting of shareholders is the Company’s authority, which is entitled to exert decision-making rights in relation to the Company’s business policy, financing, investment, profit distribution and other resolution rights of significant events according to the law. The Board is responsible to the general meeting of shareholders, and shall exercise the business decision-making right of the Company in accordance with law; the managers are responsible for organizing the implementation of resolution matters of the general meeting of shareholders and the Board and managing the production and operation of the Company.

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

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The Group’s consolidated financial statements include 14 second-tier subsidiaries such as Shandong Xinhua Pharmaceutical Trading Co., Ltd., Xinhua Pharmaceutical (Shouguang) Co., Ltd., Shandong Zibo Xincat Pharmaceutical Co., Ltd. and one third-tier subsidiary of Zibo Xinhua Pharmacy Chain Co., Ltd. Compared with the previous year, Shandong Tongxin Pharmaceutical Co., LTD. (“Tongxin Pharmaceutical”) is jointly established by the Company and relevant investors in this period, with the Company holding 60% of the shares and Tongxin pharmaceutical becoming the holding subsidiary of the Company.

See relevant contents 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, then relevant disclosures required by the Hong Kong Companies Ordinance and the Main Board 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 to continue as a 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 to continue as a going concern. Accordingly, the financial statements are prepared on a going concern basis.

Notes to the Interim Financial Statements (Continued)

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

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

IV. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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

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

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 business merger, the difference thereof is recognized as business goodwill. Where the merging costs are less than the fair value of identifiable net assets acquired from the acquiree during business merger, the fair value of all identifiable assets, liabilities and contingent liabilities acquired from the business merger, as well as the fair value of non-cash assets of the consideration or the issued equity securities etc., are rechecked. Where the merging costs are, after rechecking, still less than the fair value of net identifiable assets acquired from the acquiree during business merger, the difference is included into current non-business income.

6. Compilation method of consolidated financial statements

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

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

All significant internal transactions, balances and unrealized profits shall be offset during 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 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 under the common 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, 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 arised 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 that 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 occur 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))*

Where the Group partially disposes of long-term equity investments in subsidiaries without losing 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 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 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 equivalent in the cash flow statement refers to the investments which have a holding period of not more than 3 months, and are of strong liquidity and readily convertible to known amounts of cash with low risk of value change.

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

(2) Conversion of financial statements in foreign currency

The asset and liability items in the foreign currency balance sheet shall be translated as per the spot exchange rate on the balance sheet date; the owner's equity items, except for the 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 of a financial instrument contract, the Group recognizes a financial asset or a 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 principals 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 is 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 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 stipulates that the cash flows generated on a specific date are only used to pay for the principles and interests which are based on the amount of unpaid principals. Such financial assets are initially measured at fair value. The relevant transaction costs are recorded in the initial recognition amount. 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 the 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 the current profits or losses.

Notes to the Interim Financial Statements (Continued)

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

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

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 measured 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 into current profits or losses, 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 into current 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.

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*(Unless otherwise indicated, all figures are stated in RMB)
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2) *Determination basis and measurement method of financial asset transfer*

Financial assets meeting one of the following conditions shall be de-recognized by the Group: ① The 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 also has 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 are corresponding 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.

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(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 profits or losses and other financial liabilities.

The financial liabilities measured at fair value and whose changes are recorded in current profits or losses 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 profits or losses. 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 profits or losses, including trading financial liabilities (including the derivative instruments belonging to financial liabilities) and the financial liabilities designated at the time of initial recognition as financial liabilities measured at fair value and whose changes recorded in current profits or losses. ②Financial asset transfer failing to meet the recognition conditions or the financial liabilities resulting from continued involvement in the transferred financial assets. ③ The 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 as the contingent consideration recognized by the buyer in the business combination not under common control are measured at fair value and recorded in current profits and losses by the Group as the basis to carry out the accounting treatment.

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*(Unless otherwise indicated, all figures are stated in RMB)
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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 is 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 lastly. 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, then such costs can represent the proper estimates of the fair value in the range of distribution.

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(4) Offset of financial assets and financial liabilities

The financial assets and financial liabilities of the Group are shown separately in the balance sheet, but are not mutually offset. Nonetheless, when meeting the following conditions, the net amount after the mutual 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; ② the Group plans to settle with the net amount, or to realize such financial assets and discharge of 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, then 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 its own equity instruments of 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 its own equity instrument of 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 instrument (such as the 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.

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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, as a whole, is responsible for the settlement of cash, other financial assets, or other financial liabilities which resulted from the instrument, 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, including 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.

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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 receivables 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 the collaterals relative to the 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 the basis of portfolio.

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 accounts receivable, the Group recognizes the difference as the impairment loss of accounts receivable, debiting the 'credit impairment loss' and crediting the 'bad debt provision'. In contrast, the Group recognizes the difference as gains from impairment, and makes the contrary accounting records.

When 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 also 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 accounts receivable that determine the expected credit losses rate 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 given default.

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Comparison Table of Ageing of Accounts Receivable–Ageing Combination and Expected Credit Loss Rate for whole duration:

Account Age	Expected credit losses rate (%)
Within 1 year	0.50–1.00
1–2 years	20.00–40.00
2–3 years	60.00–100.00
3–4 years	100.00
4–5 years	100.00

11. Accounts receivable financing

In the process of the Group exerting management over 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 of which changes 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 upon the following situations:

- (1) At the time of initial recognition, 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. The factors should only be restricted to those considered by the market participants when pricing the financial instrument, including time, etc.

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All the gains and losses arise from financial asset measured at fair value and of which changes 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 and loss.

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 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 portfolio. Therefore, the Group divides the other receivables 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 debtors, and value of collaterals relative to the 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 accounts receivable. 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.

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When 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 also 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 with regards 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.

13. Inventories

The inventories of the Group mainly include raw materials, development cost, low value consumables, products in process, development products 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 a single inventory item and its net realizable value; for other numerous raw and auxiliary materials with low prices, inventory price falling 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 until the completion date, estimated selling expenses, and related taxes.

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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 refers to the determination method and accounting treatment of notes receivable and accounts receivable contents 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 'assets 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.

When 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 'assets impairment loss' shall be debited according to the difference.

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15. Contract costs

(1) Method for determining the amount of assets related to contract costs

The Group's assets related to contract costs include contract performance costs and contract acquisition costs.

The contract performance costs refer to the costs incurred by the Group for the performance of the contracts, which do not fall within the scope of other provisions of Accounting Standards for Business Enterprises and simultaneously meet the following conditions. Such costs are taken as contract performance costs and recognized as an item of assets: the costs are directly related to a current contract or a contract expected to be obtained, including direct labor, direct materials, manufacturing expenses (or similar expenses), the costs clearly borne by the customers and other costs incurred solely because of the contract; the costs increase the Group's future resources for fulfilling its compliance obligations; the costs are expected to be recovered.

The contract acquisition costs, i.e. the incremental costs expected to be recovered by the Group in order to obtain the contract, are taken as costs to obtain the contract and are recognized as an item of assets; if the amortization period of the asset does not exceed one year, the costs are recognized in current period profits or losses at the time of occurrence. Incremental costs refer to the costs (such as sales commission etc.) that will not occur if the Group does not obtain a contract. The expenditures other than the incremental costs expected to be recovered which are incurred by the Group to obtain a contract (e.g. travel expenses incurred regardless of whether the contract was acquired etc.) are recognized in the current period profits or losses at the time of occurrence. However, the costs clearly borne by the customers are excluded.

(2) Amortization of assets related to contract costs

The Group's assets related to contract costs shall be amortized on the basis same as the basis of revenue recognition of the goods related to the assets, and shall be recognized in current period profits or losses.

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(3) Impairment of assets related to contract costs

When determining the impairment loss of assets related to contract costs, the Group first determines impairment loss of other assets which are recognized in accordance with other relevant provisions of Accounting Standards for Business Enterprises and which are related to the contract; then the Group should accrue the impairment provision according to the excess part by which the book value of the asset is higher than the sum of the following two items, i.e. the residual consideration expected to be received by the Group for the transfer of goods related to the asset and the estimated costs to be incurred for the transfer of the related goods, and the Group should recognize such difference as impairment loss.

If the factors of impairment in the previous period incur changes subsequently, so that the above-mentioned balance is higher than the book value of the asset, the originally accrued asset impairment provision will be reversed and will be recognized in current period profits or losses, but the book value of the asset after the reversal shall not exceed the book value of the asset on the date of reversal under the assumption that no impairment provision is accrued.

16. Long term equity investments

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

The Group's criterion for joint control is that all parties or group of parties jointly control the arrangement, and policies of arranging the relative 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 be formed.

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

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

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

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 adjustment.

For the disposal of long-term equity investment, the difference between the book value and actually obtained price shall be included in current investment income. For the long-term equity investment calculated by equity method, the other comprehensive income related to the accounting of the original equity method shall be treated on the same basis as the direct disposal of related assets or liabilities by the invested company when terminating the accounting of the equity method. The owner's equity recognized as a result of changes in the owner's equity of the invested entity other than net profit and loss, other comprehensive income and profit distribution shall be transferred to the current investment income when the equity method is terminated. 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 shall be calculated in accordance with the relevant provisions of the guidelines for the recognition and measurement of financial instruments, 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 the current profits and losses. For other comprehensive income recognized by the original equity investment due to the adoption of the equity method shall be treated on the same basis as the related assets or liabilities directly disposed of by the invested entity upon termination of the adoption of the equity method and carried forward in proportion. The owner's equity recognized as a result of the changes in the owner's equity of the investee other than net profit and loss, other comprehensive income and profit distribution shall be transferred to current investment income in proportion.

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For the loss of the control of the invested entity 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 changed to the equity method for calculation, the difference for disposal of book value and consideration is included in the investment income, and the residual equity is adjusted as it is calculated by the equity method since it was acquired; the residual equity after disposal, if unable to realize joint control or exert significant influence on the invested unit, is changed to accounting treatment in accordance with the relevant provisions of the guidelines for the recognition and measurement of financial instruments, 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 control-lost date is included in the income of the current period.

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

17. Investment properties

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

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

The Group shall conduct follow-up measurement of investment properties by the 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 <i>(year)</i>	Expected residual rate <i>(%)</i>	Annual depreciation rate <i>(%)</i>
Land use rights	40-50	0	2.00-2.50
Premises and buildings	20	5	4.75

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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 are 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 profits and losses.

18. 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 expenditures directly attributable to the fixed assets to the expected conditions for use; the cost of self-built fixed assets consists of the necessary expenses for building the assets to the expected conditions for use; the fixed assets invested by investors shall be taken as entry value as per the value agreed in the investment contract or agreement; however, if the value agreed in the contract or agreement is not fair, it shall be accounted at fair value; for the fixed assets for financial lease, the fair value of leased assets on the lease commencement date and the present value of minimum leasing payment shall be 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. The straight line method shall be adopted for calculating depreciation based on single item per month. The depreciation expenses shall be separately included into the costs or current expenses of related assets by purposes. The expected net 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

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

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

The depreciation policies of fixed assets acquired by financial lease shall be consistent with those of self-owned fixed assets. For fixed assets, if it can be reasonably confirmed that the ownership can be granted when the lease term expires, 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 fixed assets shall be deducted by the book value thereof and relevant taxes, and then included in current profits and losses.

19. 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.

20. 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 the capitalization conditions, shall begin capitalization when the expenditures of the assets and the borrowing costs occur and construction or production activities necessary for making the assets available for predicted use or selling begin. The construction or production assets which satisfy the capitalization conditions shall stop capitalization when the assets are available for predicted use or sale. Other borrowing costs should be determined as expenditures when incurred.

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

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The assets in compliance with capitalization conditions refer to the fixed assets, investment properties and inventory that require a considerable long time (usually referred to as more than one year) of construction or production to reach the 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.

21. Right-of-use asset

(1) **Initial recognition**

Right-of-use asset refers to the right that the Group can use the 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, and 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; and 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 in 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 profits and losses, according to the purpose of the property.

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.

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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 can't be reasonably confirmed that the Group can acquire the ownership of the leased asset at the end of the lease term, then 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.

22. Intangible assets

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

23. Research and development

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

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For independently researched and developed intangible assets, the expenditures in the research stage shall be included in the current profits and losses when incurred; and the expenditures in development stage which meet the following conditions shall be determined as that of intangible assets: 1) it is technically feasible to finish and use or sell the intangible assets; 2) there is an 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; and (5) the expenditures in development stage of the intangible assets can be measured reliably.

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

24. 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 the impairment test. Goodwill and an intangible asset with an indefinite useful 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 group or asset group combination.

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

25. Long-term deferred expenses

Long-term deferred expenses of the Group include the expenditures of housing renovation, renovation costs, etc.

The long-term deferred expenses are expenses which have been paid but will be amortized within the period over one year (excluding one year). Long-term deferred expenses are recorded according to the actual amount incurred and amortized evenly during the benefit period or the prescribed period. If the long-term deferred expenses are no longer beneficial to the subsequent accounting periods, then the amortized value of the item which has not been amortized shall all be transferred to current profits or losses.

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26. Goodwill

Goodwill is the difference by which the cost of equity investment or the cost of a business combination not under common control exceeds 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.

27. 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).

28. Employee compensation

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

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

Post-employment 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 profits and losses or relevant asset costs according to the beneficiaries. There is no defined benefit plan in the Group.

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

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29. 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 fixed payment amount and the substantial fixed payment amount, 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.

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 value is similar to the right-to-use asset under similar economic environment. The interest rate relates to the followings: 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.

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(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 Group calculates the interest expenses of the lease liability for each period of the lease term according to the fixed cyclical interest rates, and the expenses, except for the capitalized ones, should be charged to the current profit and 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 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 and loss; ① the amounts of the substantial fixed payments have changed (in this case, discounted at the original discount rate); ② the expected amounts payable of guaranteed residual value have changed (in this case, discounted at the original discount rate); ③ the index or ratio used for ascertaining the lease payments has changed (in this case, discount in revised discount rate); ④ the assessment results of the purchase option have changed (in this case, discount in revised discount rate); ⑤ the assessment results or actual exercise of the lease's renewal option or termination option have changed (in this case, discount in revised discount rate).

30. Estimated liabilities

Where the business related to external security, trade acceptance discount, pending litigations or arbitrations, product quality assurance, etc. meets the following conditions, the Group will recognize it as liabilities: 1) current obligation borne by the Group; 2) high possibility of economic benefit outflow because of performing the obligations; 3) 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 to the balance sheet date, the book value of the estimated liabilities is reviewed and adjusted (if any change) to reflect the current best estimate.

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31. 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 of 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 profits or losses.

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

32. Recognition principles and measurement method of income

(1) Income recognition principle

The Group's business income mainly includes income from sales 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 prices into each individual performance obligation according to the relative proportion of each individual selling price of goods or services committed by individual performance obligation, and recognizes the income according to the transaction price allocated to each individual performance obligation.

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

- 1) At the same time when the Group fulfills the contractual 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 by far.

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. When 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.

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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. When judging whether the customer has acquired 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 shall be listed as contract assets for the Group's transferred goods or services to customers. 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 time point, 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, that is to say, to recognize 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, that is to say, to recognize when the customer acquires control over the relevant goods.

33. 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 assistance object 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.

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As the 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 period, the government grants shall be measured based on the receivable amounts; as for the 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 revenues, and asset-related government grants recognized as deferred revenues shall be distributed equally within the service life of related assets and included into current profits or losses.

Relevant assets are sold, transferred, discarded or damaged before the end of their useful lives, and the unallocated related deferred incomes are transferred into the profits or losses of the current period when the assets are disposed of.

Revenue-related government grants used to compensate for related costs or losses during future periods shall be recognized as deferred income, and it shall be included in current profits or losses during the period when it is recognized; those used to compensate for the incurred related costs or losses shall be included in current profits or losses 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 Company obtains discounted interest on preferential loans, and distinguishes between the financial appropriation of interest-subsidized funds to the loan bank and the financial allocation of discount funds directly to the Company, it should be treated according to the following principles of accounting:

- (1) When the financial appropriation of interest-subsidized funds is to the loan bank, the loan bank provides loans to the Company at a policy of 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 of preferential interest rate.
- (2) The government will directly subsidize the interest subsidized funds to the Company, and the Company will offset the interest-related borrowing costs by the corresponding interest discount.

If the government grants that the Company has confirmed needs 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 profits or losses.
- 2) In other circumstances, it is directly included in current profits or losses.

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34. 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.

35. Leases

(1) The recognition of lease

A lease is a contract within a defined period of time and in which the lessor delivers 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, then 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 also 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. For the recognition and measurement of the right-of-use assets and lease liabilities, see “21. Right-of use assets” and “29. Lease liability”.

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 contractual 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 changes.

If the lease changes while satisfying 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 or extends the lease period 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 or the extended period 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 according to 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 arise from the partially or completely terminated lease to current profit and 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.

Notes to the Interim Financial Statements (Continued)

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

2) *Short-term 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 single new leased asset is of low value. 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 and 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 substantially 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 of the lease, it can be reasonably confirmed that the lessee shall exercise the option; ③ although the ownership of the asset is not transferred, the lease term accounts for the vast majority of the useful life of the leased asset (not less than 75% of the useful 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 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 contract shall be borne by the lessee; ② gains or losses 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.

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) *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 its 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 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, 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 with 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 (under the circumstances of the 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.

Notes to the Interim Financial Statements (Continued)

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

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 and 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.

Notes to the Interim Financial Statements (Continued)

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

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

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 and 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.

36. Held for sale

The Group shall classify a non-current asset or a disposal group as held for sale, if it satisfies 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 terms that are usual and customary for sales of such assets (or disposal groups). (2) For the sale to be highly probable, an active programme to locate a buyer and complete the plan must have been initiated, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. Initial measurement or remeasurement of non-current assets held for sale or disposal group on the balance sheet date, the carrying amount 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 profit or loss for the current period, 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 recognition, 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.

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

Notes to the Interim Financial Statements (Continued)

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

If the net value of the fair value of 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 which is held for sale and 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 held-for-sale category or non-current assets are removed from the disposal group because of no longer meeting the condition classified as held for sale, which shall be measured according to the lower of the following two amounts: (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 held for sale of non-current assets or disposal groups, the unrecognized gains or losses shall be included in the current profits or losses.

37. Discontinued operations

Discontinued operations mean 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.

Notes to the Interim Financial Statements (Continued)

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

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

38. Accounting of income tax

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

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

39. Other important accounting policies and accounting estimates

(1) Safety production costs

The Company makes provision, uses and accounts for the safe production costs in accordance with the relevant rules from the Management Measures for the Extraction and Utilization of Enterprise Safety Production Cost (Cai Qi [2012] No.16) issued by the Ministry of Finance of the People's Republic of China and State Administration of Work Safety on February 14, 2012.

The Company was involved in the production and storage of dangerous goods, and based on the actual operating income of the previous year, adopted the excess regressive method to extract averagely and monthly according to the following standard:

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

Notes to the Interim Financial Statements (Continued)

*(Unless otherwise indicated, all figures are stated in RMB)
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The Company shall accrue the safety production cost according to the stipulated standards and the accrued safety production cost shall be included in the current profits or losses, as well as included in special reserves, which shall be 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 expenditures are 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 profits or losses according to 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:

- 1) The part can generate income and incur expenses in daily activities;
- 2) The senior management of the Group can evaluate the operating results of this part at regular intervals so as to decide to allocate resources to it and evaluate its performance;
- 3) The 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.

40. 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 this Reporting Period.

(2) Changes in important accounting estimates

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

Notes to the Interim Financial Statements (Continued)

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

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

V. TAXES

1. Main taxes and rates

Tax Category	Taxation Basis	Tax Rate
Value-added tax (VAT, Note)	The difference after the input tax of the goods purchased is deducted from the 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%/19%

Explanation of tax payers with different corporate income tax rates:

Taxpaying Bodies	Income Tax Rate
The Company	15%
Shandong Zibo Xincat Pharmaceutical Co., Ltd	15%
Shandong Xinhua Pharmaceutical (Europe) B.V	25%/19%
Shandong Xinhua Pharmaceutical (USA) Inc	Federal tax rate: 21%, State tax rate: 8.84%
Other 11 subsidiaries	25%

Notes to the Interim Financial Statements (Continued)

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

2. Tax preference

(1) Income Tax

According to the approval of the document Lu Ke Zi [2021] No.10 by Department of Science and Technology of Shandong province, Shandong Province Finance Department, Shandong State Tax Bureau, the Company was identified as high and new technology enterprise. The certificate of high and new technology enterprises No. GR202037002800, of which the validity period is 3 years. According to the Enterprise Income Tax Law of the People's Republic of China, the Company enjoys the preferential tax policy of corporate income tax levied at the rate of 15%. In 2021, 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 approval of the document Lu Ke Zi [2021] No.10 by Department of Science and Technology of Shandong province, Shandong Province Finance Department, Shandong State Tax Bureau, the subsidiary of the Company, Shandong Zibo Xincat Pharmaceutical Co., Ltd (hereinafter referred to as Xincat Pharmaceutical) was identified as high and new technology enterprise. The certificate of high and new technology enterprises No. GR202037003952, of which the validity period is 3 years. According to the Enterprise Income Tax Law of the People's Republic of China, Xincat Pharmaceutical enjoys the preferential tax policy of corporate income tax levied at the rate of 15%. In 2021, 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's export products enjoy preferential policies for VAT exemption, credit and refund.

Notes to the Interim Financial Statements (Continued)

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

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

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENT

In the following notes to the financial statements, unless otherwise indicated, the term of 'beginning of the period' refers to 1 January 2021, 'end of the period' refers to 30 June 2021. "End of the previous year" refers to 31 December 2020; 'Current period' refers to period from 1 January to 30 June 2021. 'Previous period' refers to period from 1 January 2020 to 30 June 2020, and all figures are stated in RMB.

1. Currency funds

Item	Ending Balance	Beginning Balance
Cash in hand	81,153.07	71,127.09
Bank deposit	814,129,891.08	722,492,099.47
Other monetary funds	134,540,498.30	133,207,576.78
Total	<u>948,751,542.45</u>	<u>855,770,803.34</u>
Including: total amount deposited abroad	<u>16,134,878.97</u>	<u>7,394,345.73</u>

At the end of the period, the Group has frozen funds of RMB128,039,232.89 in bank deposits (the opening balance: RMB133,207,576.78), including frozen funds of a wage deposit of RMB242,725.14 for migrant workers in bank deposits (the opening balance: RMB0.00); deposits of bank acceptance bills of other monetary funds amount of RMB85,487,039.01 (the opening balance: RMB90,987,258.64), letter of Credit Deposit RMB300,027.50 (the opening balance: RMB200,000.00), deposits of housing loans amounting to RMB688,782.63 (the opening balance: RMB699,659.53), and the pre-sale amount of the buildings which is under the Supervision of the Pre-sale Money Regulations is up to RMB41,320,658.61 (the opening balance: RMB41,320,658.61).

2. Accounts receivable

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

Item	Book Balance		Ending Balance		Book Value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
To recognize the bad debt provision based on single item	1,152,406.66	0.13	1,152,406.66	100.00	
To recognize the bad debt provision based on combination	<u>884,567,520.90</u>	<u>99.87</u>	<u>60,806,727.76</u>	<u>6.87</u>	<u>823,760,793.14</u>
Total	<u>885,719,927.56</u>	<u>100.00</u>	<u>61,959,134.42</u>		<u>823,760,793.14</u>

Notes to the Interim Financial Statements (Continued)

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

Item	Book Balance		Beginning Balance		Book Value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
To recognize the bad debt provision based on single item	1,152,406.66	0.26	1,152,406.66	100.00	
To recognize the bad debt provision based on combination	437,534,628.28	99.74	57,625,322.84	13.17	379,909,305.44
Total	438,687,034.94	100.00	58,777,729.50		379,909,305.44

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

As of June 30, 2021, it is expected that the amount of RMB1,152,406.66 in accounts receivable is unlikely to recover, so the Group recognized the bad-debt provision of the single item at the full amount of RMB1,152,406.66.

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

Item	Ending Balance			Beginning Balance		
	Account Receivable	Provision for Bad Debt	Accrual Proportion (%)	Account Receivable	Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	829,432,403.26	6,385,809.82	0.77	382,670,901.65	2,818,179.78	0.74
1-2 years	941,210.92	233,011.22	24.76	76,555.01	25,971.44	33.93
2-3 years	94,320.89	88,320.89	93.64	110,776.15	104,776.15	94.58
3-4 years	48,415.26	48,415.26	100.00	88,076.28	88,076.28	100.00
4-5 years	59,539.82	59,539.82	100.00	41,810.00	41,810.00	100.00
Over 5 years	53,991,630.75	53,991,630.75	100.00	54,546,509.19	54,546,509.19	100.00
Total	884,567,520.90	60,806,727.76		437,534,628.28	57,625,322.84	

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) Ageing schedule 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.

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

Account Age	Ending Balance		Accrual Proportion (%)
	Account Receivables	Provision for Bad Debt	
Within 1 year	829,432,403.26	6,385,809.82	0.77
1-2 years	1,860,227.78	1,152,028.08	61.93
2-3 years	319,585.69	313,585.69	98.12
3-4 years	56,540.26	56,540.26	100.00
4-5 years	59,539.82	59,539.82	100.00
Over 5 years	53,991,630.75	53,991,630.75	100.00
Total	<u>885,719,927.56</u>	<u>61,959,134.42</u>	

Account Age	Beginning Balance		Accrual Proportion (%)
	Account Receivables	Provision for Bad Debt	
Within 1 year	382,670,901.65	2,818,179.78	0.74
1-2 years	995,571.87	944,988.30	94.92
2-3 years	336,040.95	330,040.95	98.21
3-4 years	96,201.28	96,201.28	100.00
4-5 years	41,810.00	41,810.00	100.00
Over 5 years	54,546,509.19	54,546,509.19	100.00
Total	<u>438,687,034.94</u>	<u>58,777,729.50</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))

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

Item	Beginning Balance	Amount Incurred in Current period			Ending Balance
		Recognized	Recovered or reversed	Transferred or written-off	
To recognize the bad debt provision based on single item	1,152,406.66				1,152,406.66
To recognize the bad debt provision based on combination	57,625,322.84	3,181,404.92			60,806,727.76
Total	58,777,729.50	3,181,404.92			61,959,134.42

(4) Account receivables 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 account receivables (%)	Ending balance of bad-debt provision
Shandong Xin Kang Qi Pharmaceutical Co., Ltd.	40,405,087.51	Over 5 years	4.56	40,405,087.51
F. Hoffmann-La Roche AG	38,766,607.89	Within 1 year	4.38	193,833.04
Galpharm International Limited	34,916,883.26	Within 1 year	3.94	174,584.42
Zibo Central Hospital	32,428,327.20	Within 1 year	3.66	324,283.27
Huantai Peoples Hospital	27,433,272.76	Within 1 year	3.10	274,332.73
	21,665.13	Over 5 years	0.00	21,665.13
Total	173,971,843.75		19.64	41,393,786.10

Notes to the Interim Financial Statements (Continued)

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

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

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>121,307,768.19</u>		<u>121,307,768.19</u>	
Total	<u>121,307,768.19</u>		<u>121,307,768.19</u>	

Item	Initial cost	Beginning Balance		Provision for impairment
		Fair value changes	Book value	
Notes receivable	<u>138,638,879.69</u>		<u>138,638,879.69</u>	
Total	<u>138,638,879.69</u>		<u>138,638,879.69</u>	

At the end of the current period, all accounts receivable financing were bank acceptance bills. The Group considers that the book value of the bank acceptance bills is close to their fair value due to the short maturity of the bank acceptance bills held by the Group. None of the bank acceptance bills held by the Group had significant credit risk, therefore, no provision for impairment was recognized.

(2) Undue notes receivables that have been endorsed or discounted at the end of the current period

Item	Derecognized amount at the end of the current period	Not derecognized amount at end of the current period
Bank acceptance bills	<u>660,538,626.27</u>	
Total	<u>660,538,626.27</u>	

Notes to the Interim Financial Statements (Continued)

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

4. Prepayments

(1) Age of prepayments

Account Age	Ending Balance		Beginning Balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	45,596,759.00	93.86	48,957,684.70	100.00
1-2 years	2,985,052.00	6.14		
2-3 years				
Over 3 years				
Total	<u>48,581,811.00</u>	<u>100.00</u>	<u>48,957,684.70</u>	<u>100.00</u>

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

(2) The top five prepayments compiled by prepaid objects at the period end

At the period end, the aggregate amount of the top five prepayments was RMB13,665,427.25, accounting for 28.13% of the ending balance of prepayments.

5. Other receivables

Item	Ending Balance	Beginning Balance
Interest receivable		
Dividends receivable		
Other receivables	<u>26,107,597.06</u>	<u>25,163,102.98</u>
Total	<u>26,107,597.06</u>	<u>25,163,102.98</u>

5.1 Interest receivable: None

5.2 Dividends receivable: 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))

5.3 Other receivables

(1) Other receivables classified by nature

Nature	Ending Balance	Beginning Balance
Bid security, deposit	7,329,965.73	4,734,086.59
Petty cash	805,446.88	670,000.00
Tax receivable	7,374,419.62	8,457,419.04
Sales and leaseback deposit	18,000,000.00	18,000,000.00
Others	9,351,991.01	8,480,567.82
Total	<u>42,861,823.24</u>	<u>40,342,073.45</u>

(2) Bad-debt provision of 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 of January 1, 2021	1,764,206.91		13,414,763.56	15,178,970.47
Balance of other receivable as of January 1, 2021 in the current period				
– Transferred to stage 2				
– Transferred to stage 3				
– Reversed to stage 2				
– Reversed to stage 1				
Accrued in current period	827,148.01		748,107.70	1,575,255.71
Reversed in current period				
Transferred out in current period				
Written-off in current period				
Other changes				
Balance of June 30, 2021	<u>2,591,354.92</u>		<u>14,162,871.26</u>	<u>16,754,226.18</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) Ageing analysis of other accounts receivable

Account Age	Other receivables	Ending Balance	Proportion (%)
		Provision for Bad Debt	
Within 1 year	8,932,016.75	1,228,395.13	13.75
1-2 years	9,431,747.20	1,028,331.76	10.90
2-3 years	10,335,188.03	334,628.03	3.24
3-4 years	784,361.46	784,361.46	100.00
4-5 years	499,707.11	499,707.11	100.00
Over 5 years	12,878,802.69	12,878,802.69	100.00
Total	42,861,823.24	16,754,226.18	

Account Age	Other receivables	Beginning Balance	Proportion (%)
		Provision for Bad Debt	
Within 1 year	10,608,430.40	664,033.83	6.26
1-2 years	5,481,268.00	340,200.80	6.21
2-3 years	10,837,611.49	759,972.28	7.01
3-4 years	316,689.59	316,689.59	100.00
4-5 years	252,211.57	252,211.57	100.00
Over 5 years	12,845,862.40	12,845,862.40	100.00
Total	40,342,073.45	15,178,970.47	

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	Changes in Current period		Ending Balance
		Provision	Recovered or reversed	
Bad-debt provision	15,178,970.47	1,575,255.71		16,754,226.18
Total	15,178,970.47	1,575,255.71		16,754,226.18

(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 period end:

Name	Nature of other receivables	Ending Balance	Account Age	Proportion to the Total Ending Balance of Other Receivables (%)	Ending Balance of Bad-debt Provision
Ping An International Financial Leasing Co., Ltd.	Guarantee deposit	10,000,000.00	2-3 years	23.33	
Ping An Dian Chuang International Financial Leasing Co., Ltd.	Guarantee deposit	5,000,000.00	1-2 years	11.67	
International Far Eastern Leasing Co., Ltd.	Guarantee deposit	3,000,000.00	1-2 years	7.00	
Chen Weisen	Current account	1,900,409.00	Over 5 years	4.43	1,900,409.00
The People's Hospital of Gaoqing county	Guarantee deposit	1,000,000.00	Within 1 year	2.33	60,000.00
Total		20,900,409.00		48.76	1,960,409.00

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

As at June 30, 2021, 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) Classifications of inventories

Item	Ending Balance			Beginning Balance		
	Book Balance	Provision for Inventories	Book Value	Book Balance	Provision for Inventories	Book Value
Raw materials	130,065,420.92	4,486,434.29	125,578,986.63	137,528,366.77	7,177,078.19	130,351,288.58
Products in process	128,308,638.09	21,219,060.90	107,089,577.19	182,933,104.01	23,646,943.43	159,286,160.58
Goods in stock	433,176,642.87	21,436,116.62	411,740,526.25	629,037,101.43	23,908,138.17	605,128,963.26
Development costs				161,477,825.86		161,477,825.86
Development Products*	142,288,863.04		142,288,863.04			
Low-value consumables	17,186,429.50	389,742.18	16,796,687.32	15,778,281.24	389,816.88	15,388,464.36
Materials reserved with special approval	1,839,696.49		1,839,696.49	1,839,696.49		1,839,696.49
Goods in transit	39,132,761.32		39,132,761.32	51,282,689.91	390,826.65	50,891,863.26
Total	<u>891,998,452.23</u>	<u>47,531,353.99</u>	<u>844,467,098.24</u>	<u>1,179,877,065.71</u>	<u>55,512,803.32</u>	<u>1,124,364,262.39</u>

* As of June 30, 2021, Xinhua (Zibo) Real Estate Co., Ltd. has completed the development of real estate into development products.

(2) Provision for impairment of inventories

Classification of inventories	Beginning Balance	Amount	Decrease in Current Period		Ending Balance
		Accrued In Current Period	Other Transfer-out	Write-off	
Raw materials	7,177,078.19	3,946,486.14		6,637,130.04	4,486,434.29
Products in process	23,646,943.43	13,730,710.80		16,158,593.33	21,219,060.90
Goods in stock	23,908,138.17	16,883,790.93		19,355,812.48	21,436,116.62
Low-value consumables	389,816.88	389,742.18		389,816.88	389,742.18
Goods in transit	390,826.65			390,826.65	
Total	<u>55,512,803.32</u>	<u>34,950,730.05</u>		<u>42,932,179.38</u>	<u>47,531,353.99</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) Method of recognizing the provision for impairment of inventories

Item	Specific Basis For Determining Net Realizable Value	Reasons for Reversal or Write-off In Current Period
Raw materials	See descriptions in note “IV. Important Accounting Policy and Accounting Estimate 13. Inventory”	Produced and sold
Products in process		Completed and sold
Goods in stock		Sold
Goods in transit		Sold
Low-value consumables		Produced and sold

7. Other current assets

Item	Ending Balance	Beginning Balance	Nature
Deductible VAT input tax	16,728,695.93	63,445,738.29	Deductible VAT input tax
Prepayment of corporate income tax	4,873,226.38	34,235,067.20	Prepayment of corporate income tax
Prepayment of VAT	7,001,325.97	8,094,076.05	Prepayment of VAT
Prepayment of other taxes	5,252,013.00	7,148,905.65	Prepayment of other taxes
Contract acquisition cost	1,600,182.05	1,143,216.01	Commission on pre-sale housing commercial
Total	35,455,443.33	114,067,003.20	

Notes to the Interim Financial Statements (Continued)

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

8. Long-term equity investment

Invested company	Beginning balance	Added investment	Reduced investment	Increase or decrease in current period					Ending balance	Ending of impairment provision
				Investment gains and losses recognized under equity method	Adjustment of other comprehensive income	Other changes in equity	Declared cash dividends or profit	Accrued impairment		
I. Joint ventures										
Centrient Pharmaceutical (Zibo) Co., Ltd.	57,795,818.99			596,471.59						58,392,290.58
Total	57,795,818.99			596,471.59						58,392,290.58

9. Investments of other equity instruments

(1) Investments of other equity instruments

Item	Ending balance	Beginning balance
Bank of Communications Co., Ltd.	40,274,080.00	36,822,016.00
China Pacific Insurance (Group) Co., Ltd	144,850,000.00	192,000,000.00
North Health Medical Big Data Technology Co., Ltd	30,000,000.00	30,000,000.00
Total	215,124,080.00	258,822,016.00

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

Item	Dividend income recognized in current period	Cumulative gains	Cumulative losses	comprehensive incomes	Reasons of being designated as equity instruments measured at fair value and changes are recognized through other comprehensive incomes	Reasons of transferring other comprehensive into retained earnings
Bank of Communications Co., Ltd.		46,644,891.28			Group invests for equity purposes	
China Pacific Insurance (Group) Co., Ltd	6,500,000.00	163,667,396.00			Group invests for equity purposes	
North Health Medical Big Data Technology Co., Ltd					Group invests for equity purposes	
Total	6,500,000.00	210,312,287.28				

Notes to the Interim Financial Statements (Continued)

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

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

10. Investment properties

(1) Investment properties measured by costs

Item	Premises and Buildings	Land Use Right	Total
I. Original book value			
1. Beginning Balance	92,977,425.83	11,574,770.18	104,552,196.01
2. Increased amount in the Current Period			
(1) Purchase			
3. Decreased amount in the current period			
(1) Disposal			
4. Ending Balance	92,977,425.83	11,574,770.18	104,552,196.01
II. Accumulated depreciation and accumulated amortization			
1. Beginning Balance	51,153,415.91	3,381,881.01	54,535,296.92
2. Increased amount in the Current Period	1,893,056.64	232,565.88	2,125,622.52
(1) Accrual or amortization	1,893,056.64	232,565.88	2,125,622.52
3. Decreased amount in the current period			
(1) Disposal			
4. Ending Balance	53,046,472.55	3,614,446.89	56,660,919.44
III. Provision for impairment			
IV. Book value			
1. Ending book value of the period	39,930,953.28	7,960,323.29	47,891,276.57
2. Beginning book value of the year	41,824,009.92	8,192,889.17	50,016,899.09

In current period, an amount of RMB2,125,622.52 of depreciation and amortization for investment properties was charged to profits or losses (last period: RMB1,881,828.68).

Notes to the Interim Financial Statements (Continued)

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

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

(3) *Investment properties with incomplete certificate of title*

At the end of the current period, an amount of RMB32,865,653.30 (beginning balance: RMB33,766,018.42) of house properties in investment properties was 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 board of directors confirms that the transfer of the property rights will not be prevented from 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	26,328,341.89	In progress
No. 1 Scientific Research Center in the Headquarters	6,069,958.41	In progress
The house along Xinhua Street	467,353.00	In progress
Total	<u>32,865,653.30</u>	

11. Fixed assets

Item	Ending Book Value	Beginning Book Value
Fixed assets	3,031,574,143.37	3,117,313,128.81
Disposal of fixed assets	_____	_____
Total	<u>3,031,574,143.37</u>	<u>3,117,313,128.81</u>

Notes to the Interim Financial Statements (Continued)

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

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

11.1 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	1,949,345,439.57	3,534,196,921.56	33,174,721.36	136,472,063.11	5,653,189,145.60
2. Increased amount in the period	9,444,713.18	101,522,655.39	911,219.16	7,346,944.17	119,225,531.90
(1) Purchase	6,682,596.04	34,510,873.96	911,219.16	6,484,112.33	48,588,801.49
(2) Transferred from construction in progress	2,762,117.14	67,011,781.43		862,831.84	70,636,730.41
3. Decreased amount in the period		3,709,094.51	928,084.00	165,395.42	4,802,573.93
(1) Disposal or scrapping		3,709,094.51	928,084.00	165,395.42	4,802,573.93
4. Ending balance	1,958,790,152.75	3,632,010,482.44	33,157,856.52	143,653,611.86	5,767,612,103.57
II. Accumulated depreciation					
1. Beginning balance	734,537,242.73	1,692,803,456.05	24,017,095.73	68,916,074.67	2,520,273,869.18
2. Increased amount in the period	49,775,287.59	144,836,625.24	1,160,938.73	8,950,179.59	204,723,031.15
(1) Purchase	49,775,287.59	144,836,625.24	1,160,938.73	8,950,179.59	204,723,031.15
3. Decreased amount in the period		3,522,093.65	881,679.80	157,314.29	4,561,087.74
(1) Disposal or scrapping		3,522,093.65	881,679.80	157,314.29	4,561,087.74
4. Ending balance	784,312,530.32	1,834,117,987.64	24,296,354.66	77,708,939.97	2,720,435,812.59
III. Provision for impairment					
1. Beginning balance	1,409,671.38	14,186,023.76		6,452.47	15,602,147.61
2. Increased amount in the period					
(1) Accrual					
3. Decreased amount in the period					
(1) Disposal or scrap					
4. Ending balance	1,409,671.38	14,186,023.76		6,452.47	15,602,147.61
IV. Book value					
1. Ending book value	1,173,067,951.05	1,783,706,471.04	8,861,501.86	65,938,219.42	3,031,574,143.37
2. Beginning book value	1,213,398,525.46	1,827,207,441.75	9,157,625.63	67,549,535.97	3,117,313,128.81

The amount of fixed assets' depreciation recognized as profits or losses was RMB204,723,031.15 (last term's amount: RMB183,011,258.54) in current period.

Notes to the Interim Financial Statements (Continued)

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

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

At the end of the period, the fixed assets with a book value of RMB84,466,002.75 (original value of RMB191,424,916.63) are acquired by sale and leaseback. The specific analysis is as follows:

Ending balance	Original Book Value	Accumulated Depreciation	Provision for Impairment	Book Value
Machinery and equipment	191,424,916.63	106,257,233.63	701,680.25	84,466,002.75
Total	191,424,916.63	106,257,233.63	701,680.25	84,466,002.75

- (4) Fixed assets with incomplete certificate of title

At the end of the current period, an amount of RMB467,292,231.30 (beginning balance: RMB600,994,173.94) of house properties in fixed assets was 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 board of directors confirms that the transfer of the property rights will not be prevented from 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.

Item	Book Value	Reason for incomplete Certificate of Title
House property of No. 1 factory	79,844,745.37	In progress
House property of No. 2 factory	238,620,614.98	In progress
House property of the headquarter park	85,948,768.59	In progress
House property of Shouguang park	62,878,102.36	In progress
Total	467,292,231.30	

11.2 Disposal of fixed assets: 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))

12. Construction in progress

Item	Ending Balance	Beginning Balance
Construction in progress	568,190,833.24	416,989,876.51
Project materials	_____	_____
Total	<u>568,190,833.24</u>	<u>416,989,876.51</u>

12.1 Construction in progress

(1) Details of construction in progress

Item	Ending Balance		Beginning Balance			
	Book Balance	Impairment Provision	Book Value	Book Balance	Impairment Provision	Book Value
High-end new pharmaceutical preparation industrialization project – Injection workshop	132,338,024.21	_____	132,338,024.21	101,709,562.02	_____	101,709,562.02
Expansion of Ibuprofen capacity and synthesis process improvement project	90,721,746.91	_____	90,721,746.91	57,246,627.03	_____	57,246,627.03
Pharmaceutical Industry Base Phase II Project – Veterinary Preparation Project	44,322,015.49	_____	44,322,015.49	33,345,067.55	_____	33,345,067.55
Calcium acetyl acetone (zinc) project	36,921,578.43	_____	36,921,578.43	24,255,724.78	_____	24,255,724.78
Purple ureic acid series product renovation and expansion project	29,955,281.68	_____	29,955,281.68	16,795,349.27	_____	16,795,349.27
International processing technology renovation of solid preparation project	26,882,802.25	_____	26,882,802.25	51,131,819.27	_____	51,131,819.27
Roche Medoba production expansion technical transformation project	6,825,238.92	_____	6,825,238.92	_____	_____	_____
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch I site	_____	_____	_____	13,308,946.06	_____	13,308,946.06
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch II site	_____	_____	_____	10,974,051.53	_____	10,974,051.53
Others	200,224,145.35	_____	200,224,145.35	108,222,729.00	_____	108,222,729.00
Total	<u>568,190,833.24</u>	<u>_____</u>	<u>568,190,833.24</u>	<u>416,989,876.51</u>	<u>_____</u>	<u>416,989,876.51</u>

At the end of the period, the balance of construction in progress increased due to the increase investment of the high-end new pharmaceutical preparation industrialization project – injection workshop, etc.

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 Amount of Current Period	Decrease Amount of Current Period Transferred to		Ending Balance
			Fixed Assets/ Investment Properties	Other Decreases	
High-end new pharmaceutical preparation industrialization project – Injection workshop	101,709,562.02	30,628,462.19			132,338,024.21
Expansion of Ibuprofen capacity and synthesis process improvement project	57,246,627.03	33,475,119.88			90,721,746.91
Pharmaceutical Industry Base Phase II Project – Veterinary Preparation Project	33,345,067.55	10,976,947.94			44,322,015.49
Calcium acetyl acetone (zinc) project	24,255,724.78	12,665,853.65			36,921,578.43
Purple ureic acid series product renovation and expansion project	16,795,349.27	13,159,932.41			29,955,281.68
International processing technology renovation of solid preparation project	51,131,819.27	1,086,337.77	25,335,354.79		26,882,802.25
Roche Medoba production expansion technical transformation project		6,825,238.92			6,825,238.92
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch I site	13,308,946.06	3,288,490.10	16,597,436.16		
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch II site	10,974,051.53	5,938,169.68	16,912,221.21		
Others	108,222,729.00	103,793,134.60	11,791,718.25		200,224,145.35
Total	416,989,876.51	221,837,687.14	70,636,730.41		568,190,833.24

Notes to the Interim Financial Statements (Continued)

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

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

Name of Project	Estimated Budget	Estimated Productivity	Construction Cycle	Proportion of	Engineering Schedule	Accumulated Amount of Interest Capitalization	Including:	Capitalization Rate of Interest in Current Period	Capital Source
				Investment in Budget (%)			Amount of Capitalized Interest in Current Period (%)		
High-end new pharmaceutical preparation industrialization project – Injection workshop	212,340,000.00	224 million/year	2 years	62.00	75.00	1,583,360.16	424,955.07	2.82	Self-provided/Specifically borrowed funds/ General borrowed funds
Expansion of Ibuprofen capacity and synthesis process improvement project	98,230,000.00	10,000 tonnes/year	1.5 years	92.36	99.00				Self-provided
Pharmaceutical Industry Base Phase II Project – Veterinary Preparation Project	47,160,000.00	Powder, premix: 2,000 tons/year, injection: 19 million/year	2 years	93.98	99.00				Self-provided
Calcium acetyl acetone (zinc) project	40,000,000.00	10,000 tonnes/year	1.5 years	92.30	93.00				Self-provided
Purple ureic acid series product renovation and expansion project	48,000,000.00	15,000 tonnes/year	1.5 years	62.41	80.00				Self-provided
International processing technology renovation of solid preparation project	174,290,000.00	5 billion tablets/year	5 years	63.83	70.00				Self-provided
Roche Medoba production expansion technical transformation project	19,860,000.00	400 million tablets/year	1 year	34.37	35.00				Self-provided
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch I site	16,000,000.00	45,000Nm ³ /h	1 year	103.73	100.00				Self-provided
Regenerative thermal oxidizers (RTO) project for the waster water treatment of Branch II site	17,000,000.00	70,000Nm ³ /h	1 year	99.48	100.00				Self-provided
Total	672,880,000.00					1,583,360.16	424,955.07		

(3) At the period end, there was no indication of the impairment for construction in progress, thus the impairment provision for those projects was not required.

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 assets

Item	Premises and Buildings	Total
I. Original book value		
1. Beginning balance	6,623,972.51	6,623,972.51
2. Increased amount in current period		
3. Decreased amount in current period		
4. Ending balance	6,623,972.51	6,623,972.51
II. Accumulated depreciation		
1. Beginning balance	2,074,615.40	2,074,615.40
2. Increased amount in current period	784,213.34	784,213.34
(1) Accrual	784,213.34	784,213.34
3. Decreased amount in current period		
4. Ending balance	2,858,828.74	2,858,828.74
III. Impairment Provision		
IV. Book value		
1. Ending book value	3,765,143.77	3,765,143.77
2. Beginning book value	4,549,357.11	4,549,357.11

The amount of depreciation and amortization for right-of-use asset recognized as profits or losses was RMB784,213.34 (last term's amount: RMB421,145.34) in current period.

(2) Right-of-use assets of the Group mainly are stores rented by Zibo Xinhua Pharmacy Chain Co., Ltd for daily operations.

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	548,956,438.67	16,564,653.86	23,496,005.93	2,614,923.24	591,632,021.70
2. Increased amount in the current period		649,949.80	11,792,452.86		12,442,402.66
(1) Purchase		649,949.80	11,792,452.86		12,442,402.66
3. Decreased amount in the current period					
(1) Disposal					
4. Ending balance	548,956,438.67	17,214,603.66	35,288,458.79	2,614,923.24	604,074,424.36
II. Accumulated amortization					
1. Beginning balance	105,632,057.96	10,641,957.90	23,496,005.93	2,614,923.24	142,384,945.03
2. Increased amount in the current period	5,866,773.62	851,614.06	786,163.52		7,504,551.20
(1) Accrual	5,866,773.62	851,614.06	786,163.52		7,504,551.20
3. Decreased amount in the current period					
(1) Disposal					
4. Ending balance	111,498,831.58	11,493,571.96	24,282,169.45	2,614,923.24	149,889,496.23
III. Provision for impairment					
IV. Book value					
1. Ending book value	437,457,607.09	5,721,031.70	11,006,289.34		454,184,928.13
2. Beginning book value	443,324,380.71	5,922,695.96			449,247,076.67

* "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 amortization for intangible assets recognized as profits or losses was RMB7,504,551.20 (amount in the last term: RMB6,072,521.00) in the current period.

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

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
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(3) Intangible assets with incomplete certificate of title:

At the end of the period, an amount of RMB7,088,706.68 (beginning balance: RMB40,932,701.34) of land use right in fixed assets was in the process of obtaining the title certificate. In view of the fact that the aforesaid right are carried out in accordance with the relevant legal procedures, the board of directors confirms that the transfer of the property rights will not be prevented from any material legal obstacles or have negative effects on the normal use of the land use right, which does not constitute a material impact on the Group's operation, therefore, no provision for the impairment of the fixed assets is required.

Item	Book Value	Reason for incomplete certificate of title
Land use right of the headquarter park	7,088,706.68	In progress
Total	<u>7,088,706.68</u>	

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 Estimate, 24. Impairment of Long-term Assets". The Group fully recognized the impairment provision for goodwill in 2014.

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

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16. Long-term deferred expenses

Item	Beginning Balance	Increase in Current Period	Amortization amount this period	Other Decrease in Current Period	Ending Balance
Decoration and renovation fee for the Pharmaceutical Innovation Park	11,916,370.88		1,232,728.02		10,683,642.86
Total	<u>11,916,370.88</u>		<u>1,232,728.02</u>		<u>10,683,642.86</u>

17. Deferred income tax assets and liabilities

(1) Deferred income tax assets without being 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	15,566,712.35	2,669,514.27	15,566,712.35	2,669,514.27
Provision for bad debt	75,116,527.77	17,831,413.60	73,788,925.09	17,503,493.08
Provision for inventory falling price	55,996,416.07	9,671,869.36	55,254,009.34	9,363,562.60
Salaries and wages unpaid	11,898,923.80	1,784,838.57	11,548,923.80	1,732,338.57
Deferred incomes	9,540,333.27	1,636,174.99	11,546,333.33	1,937,075.00
Unrealized internal profits arising from transactions with subsidiaries	19,647,053.97	4,852,892.59	31,609,731.90	7,205,253.14
Deductible loss	15,633,260.27	2,344,989.04	95,826,531.94	14,373,979.79
Share-based payment	42,516,900.00	6,377,535.00	42,516,900.00	6,377,535.00
Others	6,487,558.65	1,191,882.92	5,616,838.24	999,762.35
Total	<u>252,403,686.15</u>	<u>48,361,110.34</u>	<u>343,274,905.99</u>	<u>62,162,513.80</u>

Notes to the Interim Financial Statements (Continued)

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

(2) Deferred income tax liabilities without being offset

Item	Ending Balance		Beginning Balance	
	Temporary Taxable Difference	Deferred Income Tax Liability	Temporary Taxable Difference	Deferred Income Tax Liability
Changes in fair value of other equity instruments investments	163,898,762.00	24,584,814.30	207,596,698.00	31,139,504.70
Depreciation of fixed assets	529,537,367.80	87,046,825.81	473,709,913.42	76,820,118.28
Total	<u>693,436,129.80</u>	<u>111,631,640.11</u>	<u>681,306,611.42</u>	<u>107,959,622.98</u>

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

Item	Amount By Which the Deferred Income Tax Assets are Offset With Liabilities At Period End	Ending Balance of Deferred Income Tax Assets or Liabilities After Offset	Amount By Which the Deferred Income Tax Assets are Offset With Liabilities at Beginning Of Year	Beginning Balance of Deferred Income Tax Assets or Liabilities after Offset
	Deferred Income Tax Assets	26,771,422.08	21,589,688.26	38,645,117.15
Deferred Income Tax Liabilities	26,771,422.08	84,860,218.03	38,645,117.15	69,314,505.83

Note: The net amounts of deferred income tax assets and liabilities after offset of the Company and some subsidiaries were 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	462,004.12	462,004.12
Deductible loss	6,325,790.23	9,411,653.16
Total	<u>6,787,794.35</u>	<u>9,873,657.28</u>

Notes to the Interim Financial Statements (Continued)

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

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

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

Year	Ending Balance	Beginning Balance	Note
2021	5,580,137.43	5,323,400.53	
2022			
2023			
2024			
2025	745,652.80	988,135.14	
2026			
2027			
2028			
2029			
2030		3,100,117.49	
Total	<u>6,325,790.23</u>	<u>9,411,653.16</u>	

18. Other non-current assets

Item	Ending Balance			Beginning Balance		
	Book Balance	Impairment Provision	Book Value	Book Balance	Impairment Provision	Book Value
Outsourcing patent payments in advance	11,673,349.08		11,673,349.08	15,913,207.59		15,913,207.59
Total	<u>11,673,349.08</u>		<u>11,673,349.08</u>	<u>15,913,207.59</u>		<u>15,913,207.59</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))

19. Short-term borrowing

(1) Classification of short-term borrowing

<u>Category</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>
Credit loans*	<u>331,073,689.08</u>	<u>200,420,484.28</u>
Total	<u>331,073,689.08</u>	<u>200,420,484.28</u>

* At the end of the period, the credit loan included a principal of RMB330,678,155.00 and an unexpired interest payable of RMB395,534.08.

(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 0.58%-3.35% as at June 30, 2021.

20. Notes payable

<u>Category</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>
Bank acceptance bill	<u>377,549,872.73</u>	<u>289,972,897.58</u>
Total	<u>377,549,872.73</u>	<u>289,972,897.58</u>

The age of all 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 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))

21. Accounts payable

(1) Presentation of accounts payable

Item	Ending Balance	Beginning Balance
Payment for goods	528,004,297.96	452,930,287.37
Total	528,004,297.96	452,930,287.37

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

Item	Ending Balance	Beginning Balance
Within 1 year	517,045,460.86	437,538,282.67
1–2 years	5,549,513.35	7,324,446.46
2–3 years	495,905.85	2,458,059.36
Over 3 years	4,913,417.90	5,609,498.88
Total	528,004,297.96	452,930,287.37

22. Contract liabilities

(1) Presentation of contract liabilities

Item	Ending Balance	Beginning Balance
Payments of goods sales received in advance	62,561,850.44	181,517,324.89
Payments of house sales received in advance	103,357,255.96	196,275,900.55
Total	165,919,106.40	377,793,225.44

Note: The revenue recognized in the current period includes RMB159.4331 million of payments for goods sales received in advance and RMB145.0732 million of payments for house sales received in advance at the beginning of the year. The remaining contract liabilities at the beginning of the year and unrecognized income in this year are mainly due to the fact that some of the properties developed by the Company's subsidiary Xinhua (Zibo) Real Estate Co., Ltd. have not yet reached the delivery deadline in the contract.

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

Item	Changing amount	Reason
Payments of goods sales received in advance	-118,955,474.45	At the beginning of the year, the order was fulfilled, and the advance payment was reduced.
Payments of house sales received in advance	-92,918,644.59	Some of the real estate reached the delivery date, and revenue was recognized
Total	<u>-211,874,119.04</u>	

(3) Payments of house 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 2#	2,990,000.00	Completed	December 2021	100.00
Jinding Huajun Building 3#	5,279,155.05	Completed	December 2021	94.20
Jinding Huajun Building 4#	3,779,631.19	Completed	December 2021	91.00
Jinding Huajun Building 5#	47,653,893.58	Completed	December 2021	77.00
Jinding Huajun Building 6#	43,654,576.14	Completed	December 2021	76.00
Total	<u>103,357,255.96</u>			

Notes to the Interim Financial Statements (Continued)

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

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

23. Employee compensation payable

(1) Classification of employee compensation payable

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Short-term remuneration	86,354,297.27	368,929,873.15	389,120,965.84	66,163,204.58
Post-employment benefits				
–Defined contribution plans		39,908,157.47	39,908,157.47	
Dismissal benefits				
Total	<u>86,354,297.27</u>	<u>408,838,030.62</u>	<u>429,029,123.31</u>	<u>66,163,204.58</u>

(2) Short-term remuneration

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Salary, bonus, allowance and subsidy	81,884,970.32	296,960,905.20	317,568,523.83	61,277,351.69
Employee welfare expenses		12,138,201.56	12,069,001.56	69,200.00
Social insurance premiums		21,116,543.13	21,116,543.13	
Including: Medical insurance premiums		19,045,322.09	19,045,322.09	
Work-related injury insurance premiums		2,071,221.04	2,071,221.04	
Housing fund		22,521,736.68	22,521,736.68	
Labor union expenditure and employee education fund	4,305,326.95	6,681,213.59	6,215,805.89	4,770,734.65
Labor costs	<u>164,000.00</u>	<u>9,511,272.99</u>	<u>9,629,354.75</u>	<u>45,918.24</u>
Total	<u>86,354,297.27</u>	<u>368,929,873.15</u>	<u>389,120,965.84</u>	<u>66,163,204.58</u>

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
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(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 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		38,245,898.58	38,245,898.58	
Unemployment insurance premium		1,662,258.89	1,662,258.89	
Total		39,908,157.47	39,908,157.47	

The endowment insurance, and unemployment insurance premium that the Group planned to pay on June 30, 2021 had been fully paid.

24. Taxes payable

Item	Ending Balance	Beginning Balance
VAT	9,104,705.34	6,947,290.67
Income tax payable	13,521,202.60	4,416,782.80
Urban maintenance and construction tax	1,754,128.97	458,734.91
Individual income tax	410,503.74	4,442,387.74
Property tax	4,645,367.15	4,531,620.79
Land use tax	1,142,759.34	1,211,884.26
Stamp duty	108,053.58	391,682.69
Educational surcharges	750,653.62	196,600.32
Local Educational surcharges	508,386.13	130,328.38
Local Water Conservancy Fund	29,753.02	46,564.29
Other tax	271,451.40	288,108.26
Total	32,246,964.89	23,061,985.11

As at June, 2021, the tax payable of the Group included Hong Kong income tax payable of RMB0.00, Netherlands income tax payable of RMB121,466.61, and U.S. income tax payable of RMB139,628.73.

Notes to the Interim Financial Statements (Continued)

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

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

25. Other payables

Item	Ending Balance	Beginning Balance
Dividends payable	99,415,716.58	5,310,599.53
Other payables	466,698,202.14	489,856,279.36
Total	566,113,918.72	495,166,878.89

25.1 Dividends payable

Item	Ending Balance	Beginning Balance
Common stock dividend*	99,415,716.58	5,310,599.53
Total	99,415,716.58	5,310,599.53

* The ending balance of dividends payable is RMB99,415,716.58, and RMB5,310,599.53 of it was dividend unpaid for more than one year.

25.2 Other payables

(1) Classification of other payables by nature

Nature of Payments	Ending Balance	Beginning Balance
Payments payable for engineering and equipment	324,308,425.80	362,431,720.47
Cash deposit and guarantee deposit	42,359,724.37	43,153,697.26
Power expense and consulting fees	77,032,257.92	44,312,614.70
Stock options incentive		19,004,800.00
Others	22,997,794.05	20,953,446.93
Total	466,698,202.14	489,856,279.36
Including: payments above 1 year	83,342,656.89	74,300,704.69

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

At the end of the period, there were no any significant amount of other payables of the Group aged over 1 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))

26. Non-current liabilities due within one year

Item	Ending Balance	Beginning Balance
Long-term loans due within one year*	393,089,662.14	356,546,284.57
Long-term payables due within one year**	32,863,664.60	64,513,753.16
Lease liabilities due within one year	1,230,315.26	1,557,200.49
Total	427,183,642.00	422,617,238.22

* The long-term loans due within one year included the principal of the long-term loans due within one year of RMB387,541,069.16, and the unexpired interest payable of RMB5,548,592.98.

** The long-term payables due within one year included the long-term payable principals due within one year of RMB33,440,000, unrecognized financing expenses due within one year of RMB797,966.18, and unexpired interest payables of RMB221,630.78.

27. Other current liabilities

Item	Ending Balance	Beginning Balance
Amount of prepaid output tax	13,113,720.71	32,721,948.43
Total	13,113,720.71	32,721,948.43

28. Long-term loans

(1) Classification of long-term loans

Category	Ending Balance	Beginning Balance
Guaranteed loans	270,000,000.00	228,500,000.00
Credit loans	97,967,405.22	234,237,939.80
Total	367,967,405.22	462,737,939.80

Note: As at June 30, 2021, the range of long-term loan interest rate of guaranteed loans was 3.85%, and credit loans was 4.90%.

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) Analysis of the maturity date of long-term loans' maturity date

Item	Ending Balance	Beginning Balance
1-2 years	313,541,069.16	386,541,069.16
2-5 years	54,426,336.06	76,196,870.64
Total	367,967,405.22	462,737,939.80

29. Lease liabilities

(1) Detail of lease liabilities

Item	Ending Balance	Beginning Balance
Lease liabilities	1,689,225.17	1,762,899.65
Total	1,689,225.17	1,762,899.65

(2) Analysis of the maturity date of lease liabilities

Item	Ending Balance	Beginning Balance
1-2 years	1,706,278.79	1,810,434.50
2-5 years		296,404.00
Total	1,706,278.79	2,106,838.50

30. Long-term payables

Item	Ending Balance	Beginning Balance
Long-term payables	615,657,668.30	622,169,123.79
Special payables	24,710,200.00	16,387,000.00
Total	640,367,868.30	638,556,123.79

Notes to the Interim Financial Statements (Continued)

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

30.1 Long-term payables

(1) Classifications of long-term payables by nature

Nature	Ending Balance	Beginning Balance
Sale and leaseback	15,657,668.30	22,169,123.79
Loans from the controlling Shareholder*	600,000,000.00	600,000,000.00
Total	<u>615,657,668.30</u>	<u>622,169,123.79</u>

* The Company and its controlling shareholder HHC signed the "Capital Use Agreement" on March 30, 2020. HHC provided RMB600,000,000.00, which was raised from its publicly issued corporate bonds (for QFII) (Phase I) (epidemic prevention and control bonds), to the Company for a period of three years, with a maturity date of March 27, 2023, and a fixed interest rate of 2.97%.

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

Item	Ending Balance	Beginning Balance
1-2 years	615,960,000.00	20,160,000.00
2-5 years		602,520,000.00
Total	<u>615,960,000.00</u>	<u>622,680,000.00</u>

30.2 Special payables

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance	Reason
Technical transformation projects for continuous synthesis of ibuprofen	12,500,000.00	2,500,000.00		15,000,000.00	
Injection, solid preparation project	1,810,000.00			1,810,000.00	
RTO project for the waste gas treatment	2,077,000.00		2,077,000.00		
The project to improve the supply and guarantee capacity of small varieties of medicines prone to shortage.		7,900,200.00		7,900,200.00	
Total	<u>16,387,000.00</u>	<u>10,400,200.00</u>	<u>2,077,000.00</u>	<u>24,710,200.00</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))

31. Deferred income

(1) Classification of deferred income

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Government grants	144,690,236.46	6,016,500.00	9,234,720.49	141,472,015.97
Total	<u>144,690,236.46</u>	<u>6,016,500.00</u>	<u>9,234,720.49</u>	<u>141,472,015.97</u>

(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
Innovation ability construction project of technology center	833,333.32		250,000.00			583,333.32	Related to assets
Aspirin series product GMP renovation project	2,332,583.33		608,500.00			1,724,083.33	Related to assets
Cultivation for famous and excellent varieties of aspirin	3,912,500.00		787,500.00			3,125,000.00	Related to assets
Special funds for MVR energy-saving renovation	1,680,000.00		240,000.00			1,440,000.00	Related to assets
Organic gas (dichloromethane) recovery and comprehensive air pollution prevention and control project	28,191,250.00		1,780,500.00			26,410,750.00	Related to assets
Modern medicine International Cooperation Center project*1	59,410,650.00	1,016,500.00	3,779,954.15			56,647,195.85	Related to assets
East garden new 2,000T/d sewage treatment system project	3,035,500.00		233,500.00			2,802,000.00	Related to assets
Modern Pharmaceuticals Industrialization Center (II) project	1,740,037.50		127,315.00			1,612,722.50	Related to assets
Xinhua Pharmaceuticals E-Commerce Health Innovation Industrial Park project	820,333.34		53,500.00			766,833.34	Related to assets
Technological transformation of hormones project	4,491,245.83		294,000.00			4,197,245.83	Related to assets
Polycarbophil calcium and troche research and industrialization projects	2,663,000.00		168,000.00			2,495,000.00	Related to assets

Notes to the Interim Financial Statements (Continued)

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

Project	Beginning Balance	Increased Amounts		Other Changes	Other Decreases	Ending Balance	Related to assets/Related to Income
		Amount of Grants in Current Period	Amounts Included in Other Income in Current Period				
Technical reform of aspirin project	3,000,000.00		200,000.00			2,800,000.00	Related to assets
High-tech zone medical and health industry support project	683,067.76		62,986.34			620,081.42	Related to assets
Caffeine green key technology and continuous system construction project	1,600,000.00					1,600,000.00	Related to assets
Government subsidies for equipment*2	7,047,366.68	5,000,000.00	285,700.00			11,761,666.68	Related to assets
Injection GMP modification project (high-end new pharmaceutical preparation industrialization project)	19,419,000.00					19,419,000.00	Related to assets
Discounted Interest Rate on Policy Preferential Loans	51,250.00				51,250.00		Related to assets
Other deferred incomes	3,779,118.70		312,015.00			3,467,103.70	Related to assets
Total	144,690,236.46	6,016,500.00	9,183,470.49		51,250.00	141,472,015.97	

- * 1. According to zibo Finance Bureau's Notice on Assigning Budget Indicators of Technical Improvement Subsidies for Equipment (Software) Purchase of Epidemic Prevention Emergency Supplies Production Enterprises "Zibo Finance Industrial Index (2020) No. 93, the company received RMB1,016,500 yuan, which was recorded in the deferred income account, and the company carried forward the profits and losses in 10 years.
- * 2. According to zibo Finance Bureau's Notice on Assigning Budget Indicators for Enterprise Technical Transformation Equipment (Software) Purchase Subsidy Funds, Zical Industrial Index (2021) No. 32, the company received 5 million yuan, which was included in the deferred income account, and the company carried forward the profits and losses in 10 years.

32. Other non-current liabilities

Item	Ending Balance	Beginning Balance
Specially reserve fund	3,561,500.00	3,561,500.00
Total	3,561,500.00	3,561,500.00

Notes to the Interim Financial Statements (Continued)

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

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

33. Capital stock

Item	Beginning Balance	New Shares Issued	Increase (+)/decrease (-) during the period			Subtotal	Ending Balance
			Stock Dividend Offered	Capital Reserve Converted into Capital Stock	Others		
Total shares	621,859,447.00	5,508,000.00				5,508,000.00	627,367,447.00

The change in share capital represents an increase in the Company's registered capital of 5,508,000.00 shares as a result of the first vesting condition of the Company's stock option incentive plan for the current period.

34. Capital reserves

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Capital stock premium*	450,353,719.23	34,063,580.00		484,417,299.23
Other capital reserves**	194,552,904.62	4,291,150.00	7,845,500.00	190,998,554.62
Total	644,906,623.85	38,354,730.00	7,845,500.00	675,415,853.85

* The change in equity premium is due to the vesting effect of the equity incentive Plan Phase I.

** The increase of other capital reserve in this period is RMB2,214,150.00 in consideration of the waiting period equity instrument in accordance with the company's equity incentive plan, and RMB2,077,000.00 in funds transferred from the central budget. The decrease of other capital reserve in this period is RMB7,845,500.00 in equity premium due to the achievement of the first exercise condition of the stock option incentive plan.

Notes to the Interim Financial Statements (Continued)

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

35. 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 Profits Or Losses in Current Period	Less: Income Tax Expense	After-tax Amount Attributable to the Parent Company	After-tax Amount Attributable to Minority Shareholders	
I. Other comprehensive income that cannot be reclassified into profits or losses in future	176,457,193.30	-43,697,936.00		-6,554,690.40	-37,143,245.60		139,313,947.70
Including: Changes in fair value of other equity instrument investments	176,457,193.30	-43,697,936.00		-6,554,690.40	-37,143,245.60		139,313,947.70
II. Other comprehensive income to be reclassified into profit or loss in future	-2,285,768.46	-377,201.05			-377,201.05		-2,662,969.51
Including: Translation difference of foreign currency financial statement	-2,285,768.46	-377,201.05			-377,201.05		-2,662,969.51
Total other comprehensive incomes	174,171,424.84	-44,075,137.05		-6,554,690.40	-37,520,446.65		136,650,978.19

36. Special reserve

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Safe production expenses	3,039,375.29	9,454,757.32	7,529,702.64	4,964,429.97
Total	3,039,375.29	9,454,757.32	7,529,702.64	4,964,429.97

Note: For more details, see IV.39 Other important accounting policies and accounting estimates.

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. Surplus reserves

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Statutory surplus reserves	237,739,428.53			237,739,428.53
Discretionary surplus reserves	64,795,873.74			64,795,873.74
Total	<u>302,535,302.27</u>	<u></u>	<u></u>	<u>302,535,302.27</u>

38. Undistributed profits

Item	Current period	Previous year
Ending balance of previous year	1,477,281,646.00	1,250,630,948.35
Add: Beginning adjustment for undistributed profit Including: Retrospective adjustment according to new regulation of ASBE Changes of accounting policies Change of consolidation scope under common control		
Beginning balance of current period	1,477,281,646.00	1,250,630,948.35
Add: Net profits attributable to the parent company's shareholders in the current period Others	200,082,353.55	172,311,861.57
Less: Accrual of statutory surplus reserves Common stock dividends payable Others	94,105,117.05	74,623,133.64 1,114,320.88
Ending balance of current period	<u>1,583,258,882.50</u>	<u>1,347,205,355.40</u>

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

(1) For the six months ended on June 30, 2021

According to the 2020 annual general meeting of shareholders held on June 30, 2021, the Company paid a cash dividends of RMB1.50 (tax included) for every 10 shares of all shareholders, totally paid RMB94,105,117.05, and there were no bonus shares given and no increase of capital stock by converting the provident fund.

Pursuant to the resolution of the Company's Board on August 27, 2021, the Company proposed not to distribute the semi-annual dividend, with 0 bonus share delivered. No capital reserve will be converted to increase the share capital.

Notes to the Interim Financial Statements (Continued)

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

(2) For the six months ended on June 30, 2020

According to the 2019 annual general meeting of shareholders held on June 29, 2020, the Company paid a cash dividends of RMB1.20 (tax included) for every 10 shares of all shareholders, totally paid RMB74,623,133.64, and there were no bonus shares given and no increase of capital stock by converting the provident fund.

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

39. Operating revenues and operating costs

(1) Details of operating revenues and operating costs

Item	Amount Incurred in Current Period		Amount Incurred in Previous Period	
	Revenue	Cost	Revenue	Cost
Main business	3,498,614,624.23	2,443,852,643.07	3,259,378,950.67	2,315,358,600.32
Other business	52,429,128.72	67,181,202.95	26,393,765.90	48,469,269.15
Total	<u>3,551,043,752.95</u>	<u>2,511,033,846.02</u>	<u>3,285,772,716.57</u>	<u>2,363,827,869.47</u>

(2) Details of revenues generated from contracts

Classification of contract	Chemical bulk drugs	Preparations	Pharmaceutical intermediates and other products	Total
Commodity type				
Including: Chemical bulk drugs	1,532,854,894.06			1,532,854,894.06
Preparations		1,487,975,516.03		1,487,975,516.03
Pharmaceutical intermediates and other products			530,213,342.86	530,213,342.86
Total	<u>1,532,854,894.06</u>	<u>1,487,975,516.03</u>	<u>530,213,342.86</u>	<u>3,551,043,752.95</u>
Classification by operating regions				
Including: China (including Hong Kong)	586,048,538.79	1,405,182,012.92	420,056,927.04	2,411,287,478.75
Americas	378,917,987.63	16,905,953.64	28,177,512.54	424,001,453.81
Europe	379,488,425.39	65,887,549.47	64,890,570.34	510,266,545.20
Others	188,399,942.25		17,088,332.94	205,488,275.19
Total	<u>1,532,854,894.06</u>	<u>1,487,975,516.03</u>	<u>530,213,342.86</u>	<u>3,551,043,752.95</u>

Notes to the Interim Financial Statements (Continued)

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

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

Classification of contract	Chemical bulk drugs	Preparations	Pharmaceutical intermediates and other products	Total
Classification by contractual performance obligation				
Among : Revenue recognized at a certain point of time	1,532,854,894.06	1,487,975,516.03	526,907,222.05	3,547,737,632.14
Revenue recognized within a certain period				
Rental income			3,306,120.81	3,306,120.81
Total	1,532,854,894.06	1,487,975,516.03	530,213,342.86	3,551,043,752.95

(3) Information related to the performance obligations

According to the agreement of contract, 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 the 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 the control over the relevant goods.

The terms of payment differ from customers and goods, part of the Group's sales are made in receipt 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 Reporting Period, the amount of revenue where contracts were signed but unfulfilled or with uncompleted performance obligation was RMB165,919,106.40, and of this amount RMB110,091,931.25 is expected to be recognized within one year.

(5) The income amount including the book value of the contract liabilities recognized at the beginning of the year is RMB304,506,334.69.

Notes to the Interim Financial Statements (Continued)

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

40. Taxes and surcharges

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Urban maintenance and construction tax	8,500,464.15	9,570,399.08
Land use tax	4,986,410.90	7,493,337.04
Property tax	8,377,157.51	7,916,671.97
Educational surcharges	6,071,202.51	6,785,994.38
Stamp duty	635,527.89	584,953.36
Local water conservancy fund	12,038.67	678,599.38
Vehicle and vessel use tax	38,380.44	36,531.36
Land Appreciation Tax	2,970,025.85	
Total	31,591,207.92	33,066,486.57

41. Selling expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Employee compensation	48,597,526.97	50,204,098.94
Market development and terminal sales fees	288,628,807.06	219,981,471.66
Advertising expenses	5,203,914.40	10,705,155.42
Travel expenses	6,931,532.86	4,544,555.13
Office expenses	487,328.10	691,762.59
Conference expenses	794,436.67	263,135.63
Others	7,763,230.05	40,260,104.22
Total	358,406,776.11	326,650,283.59

Notes to the Interim Financial Statements (Continued)

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

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

42. Administrative expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Employee compensation	83,465,056.33	72,409,897.44
Depreciation cost	27,423,078.55	22,448,671.51
Amortization of intangible assets	7,392,607.14	6,066,877.22
Warehouse expenses	10,948,771.16	11,863,523.43
Business entertainment expenses	2,464,006.47	2,034,653.10
Office expenses	1,275,680.05	1,237,267.33
Travel expense	1,484,125.79	763,969.82
Water, electricity and gas charges	2,082,790.35	1,821,144.44
Royalty fee of trademark	4,726,143.00	4,756,792.32
Annual fee of listing, audit fee and expenses of the Board	1,198,528.68	2,151,674.51
Repair costs	1,965,707.92	2,660,025.56
Share-based payment	2,214,150.00	4,182,348.00
Others	22,400,561.49	22,704,173.31
Total	<u>169,041,206.93</u>	<u>155,101,017.99</u>

43. Research and development costs

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
New products	73,313,286.50	36,648,141.52
New technology and new process	96,944,031.26	120,518,590.52
Total	<u>170,257,317.76</u>	<u>157,166,732.04</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))

44. Financial expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Interest expenditure	27,119,915.02	31,476,188.17
Less: Interest income	4,147,801.53	2,101,311.70
Add: Exchange gains or losses	797,288.58	-2,657,156.74
Add: Commission charges and other expenditures	2,799,374.11	3,436,206.22
Total	26,568,776.18	30,153,925.95

Details of interest expenditure are listed as follows:

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Interest expenditure of bank loans	26,614,700.60	30,345,790.79
Interest expenditure of sale and leaseback	413,500.88	1,096,694.54
Interest expenditure of lease liabilities	91,713.54	33,702.84
Total	27,119,915.02	31,476,188.17

45. Other incomes

Sources of other incomes	Amount Incurred In Current Period	Amount Incurred In Last Period
Government grants	11,588,356.99	16,171,604.82
Including: Received in current period	2,343,711.67	7,161,600.61
Use/amortization of deferred income in Current Period	9,244,645.32	9,010,004.21
Total	11,588,356.99	16,171,604.82

Notes to the Interim Financial Statements (Continued)

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

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

Details of government grants

Category of grants	Amount Incurred In Current Period	Amount Incurred In Last Period	Source and Basis	Related to Assets/ Related to Income
Government grants received in this period				
Talent Policy Subsidy Fund	300,000.00	2,600,000.00		Related to income
Subsidies for stable post	69,500.00	2,191,519.86	LRSZ (2015) NO.23	Related to income
Subsidies for Green factory		1,000,000.00	ZCFZ (2019) NO.75	Related to income
Grants for consistency evaluation of generic drugs	1,000,000.00		ZCGZ (2020) No. 10	Related to income
Others	974,211.67	1,370,080.75		Related to income
Subtotal	2,343,711.67	7,161,600.61		
Amortization of deferred income	9,183,470.49	9,010,004.21		Related to assets
Others	61,174.83			Related to income
Subtotal	9,244,645.32	9,010,004.21		
Total	11,588,356.99	16,171,604.82		

46. Investment income

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Investment income of long-term equity accounted by equity method	596,471.59	-2,245,254.87
Dividends income of other equity instruments investment during holding period	6,500,000.00	6,000,000.00
Total	7,096,471.59	3,754,745.13

47. Credit impairment loss

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Bad debt loss of accounts receivable	-3,181,404.92	-1,708,693.27
Bad debt loss of other receivables	-1,575,255.71	277,241.49
Total	-4,756,660.63	-1,431,451.78

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. Assets impairment loss

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Inventory falling price provision	-34,950,730.05	-5,369,396.50
Total	-34,950,730.05	-5,369,396.50

49. Gains from asset disposal

Item	Amount Incurred In Current Period	Amount Incurred In Last Period	Amount Recognized in Non-recurring Profits or Losses of Current Period
Gains from disposal of non-current assets	67,760.57	-210,969.28	67,760.57
Including: Gains from disposal of fixed assets	67,760.57	-210,969.28	67,760.57
Total	67,760.57	-210,969.28	67,760.57

50. Non-operating income

(1) Details of non-operating income

Item	Amount Incurred In Current Period	Amount Incurred In Last Period	Amount Recognized in Non-recurring Profits or Losses of Current Period
Government grants	421,000.00	682,000.00	421,000.00
Others	342,855.47	92,125.65	342,855.47
Total	763,855.47	774,125.65	763,855.47

Note: In current period, the amount recognized into non-recurring profit or loss was RMB763,855.47 (last term's amount: RMB774,125.65).

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) Government grants charged to profits or losses in current period

Project granted	Issuing party	Issuing reason	Nature of grants	Effect on current period's profit and loss	Identified as Special subsidy	Amount Incurred In Current Period	Amount Incurred In Last Period	Related to Assets/ Related to Income
National tuition assistance	Education Bureau, Finance Bureau of Zibo	Assistantship	Assistantship	No	No	421,000.00	682,000.00	Related to income
Total						<u>421,000.00</u>	<u>682,000.00</u>	

(3) Details of government grants

Project granted	Amount Incurred In Current Period	Amount Incurred In Last Period	Source and basis	Related to Assets/ Related to Income
National tuition assistance	421,000.00	682,000.00	ZCKJZ (2020) NO.189	Related to income
Total	<u>421,000.00</u>	<u>682,000.00</u>		

51. Non-operating expenditure

Item	Amount Incurred In Current Period	Amount Incurred In Last Period	Amount Recognized in Non-recurring Profits or Losses of Current Period
Losses from disposal of scrapped non-current assets	177,705.59	344,579.65	177,705.59
Relocation losses	632,100.40	123,050.71	632,100.40
Others	2,784,113.68	2,010,441.74	2,784,113.68
Total	<u>3,593,919.67</u>	<u>2,478,072.10</u>	<u>3,593,919.67</u>

Note: In current period, the amount recognized into non-recurring profits or losses was RMB3,593,919.67 (last term's amount: RMB2,478,072.10).

Notes to the Interim Financial Statements (Continued)

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

52. Income tax expenses

(1) Income tax expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
The current income tax calculated in accordance with the tax law and related regulations	23,797,149.64	42,006,507.14
– PRC enterprise income tax	23,797,149.64	40,874,511.91
– Hong Kong profits tax		
– USA federal and state tax		28,835.47
– Dutch corporation tax		1,103,159.76
Deferred income tax expense	24,028,110.99	652,761.48
Under (or over) recognized amount in previous years	3,217,826.44	320,733.91
Total	51,043,087.07	42,980,002.53

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

Item	Amount Incurred In Current Period
Total consolidated profit for the current period	260,359,756.30
Income tax expense calculated in accordance with statutory/applicable tax rate	39,053,963.45
Effect of different tax rate applicable to subsidiaries	11,276,134.48
Effect of turning over income tax to previous years	3,217,826.44
Effect of non-taxable income	-1,064,470.74
Effect of non-deductible cost, expense and loss	117,256.40
Effect of using the deductible loss of the unrecognized deferred income assets in prior period	-1,557,622.96
Income tax expenses	51,043,087.07

53. Other comprehensive income

See the related contents for details in Note “VI.35. Other comprehensive income”.

Notes to the Interim Financial Statements (Continued)

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

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

54. Earnings per share

(1) Basic earnings per share

The basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the parent company, RMB200,082,353.55 (2020: RMB172,311,861.57), by the weighted average of outstanding ordinary shares issued by the Company, 626,819,690.09 shares (2020: 621,859,447.00 shares).

Calculation process of basic earnings per share are as follows:

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Net profits attributable to shareholders of the parent company	200,082,353.55	172,311,861.57
Weighted average of outstanding ordinary shares issued by the Company	626,819,690.09	621,859,447.00
Basic earnings per share	0.32	0.28

(2) Diluted earnings per share

Diluted earnings per share is defined as net profit attributable to the shareholders of the parent company of RMB200,082,353.55 (2020: RMB172,311,861.57), divided by the adjusted weighted average of the outstanding common shares of the Company of 629,699,946.13 (2020: 626,106,637.83 shares).

The specific calculation of diluted earnings per share is as follows:

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Net profit attributable to shareholders of the parent company	200,082,353.55	172,311,861.57
A weighted average of the company's outstanding common shares	626,819,690.09	621,859,447.00
Dilutive potential ordinary share	2,880,256.04	4,247,190.83
Adjusted weighted average of the company's outstanding common shares	629,699,946.13	626,106,637.83
Diluted earnings per share	0.32	0.28

Notes to the Interim Financial Statements (Continued)

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

55. 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 Last Period
Interest income	4,147,801.53	2,101,311.70
Government grants income	19,181,411.67	37,439,600.61
Security deposit of bank acceptance bills acceptance bills	15,310,219.63	
Security deposit of sales	9,824,880.32	8,526,161.64
Funds due to/from other parties/Others	35,185,197.08	7,688,969.09
Total	83,649,510.23	55,756,043.04

2) Other cash paid in relation to other operating activities

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Office expenses	1,938,274.02	3,670,060.77
Travel expenses	8,740,468.89	4,446,057.52
Annual fee of listing, audit fee, expenses of the Board	2,120,862.70	1,170,327.23
Advertising and market development fees	280,868,279.82	239,537,656.65
Business entertainment expenses	1,814,925.14	1,907,190.43
Technology development expenses expenses	57,223,659.81	43,242,999.95
Security deposit of bank acceptance bills	10,290,747.69	44,019,340.43
Royalty fee of trademark	5,000,000.00	5,000,000.00
Security deposit of sales	9,510,915.58	2,916,875.92
Others	37,435,272.22	40,979,628.09
Total	414,943,405.87	386,890,136.99

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) Other cash received in relation to financing activities

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
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 payment in relation to financing activities

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Payments of the principal and interest of sale and leaseback	25,732,146.73	29,297,001.57
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	25,732,146.73	49,703,835.57

(2) Supplementary information of consolidated cash flow statement

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
1. Reconciliation of net profit to cash flows from operation activities:		
Net Profit	209,316,669.23	188,036,984.37
Add: Impairment loss of credit	4,756,660.63	1,431,451.78
Provision for impairment of assets	-7,981,449.33	5,369,396.50
Depreciation of fixed assets	206,616,087.79	184,657,357.92
Depreciation of right-of-use assets	784,213.34	421,145.34
Amortization of intangible assets	7,737,117.08	6,308,250.30
Amortization of long-term deferred expenses	1,232,728.02	
Loss from disposal of fixed assets, intangible assets and other long- term assets (gains listed with "-")	-67,760.57	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))

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Losses from scrapping of fixed assets (gains listed with "-")	177,705.59	344,579.65
Gains or losses from changes in fair value (gains listed with "-")		
Financial expenses (gains listed with "-")	30,592,265.74	30,269,031.48
Investment loss (gain listed with "-")	-7,096,471.59	-3,754,745.13
Decrease of deferred income tax assets (increases listed with "-")	1,927,708.39	-5,151,351.15
Increase of deferred income tax liabilities (decreases listed with "-")	22,100,402.60	5,804,112.63
Decrease of inventory (increases listed with "-")	287,878,613.48	342,036,839.87
Decrease of operational receivables (increases listed with "-")*	-589,579,168.61	-427,349,358.58
Increase of operating payables (decreases listed with "-")*	-5,508,024.71	-132,215,338.92
Others	2,214,150.00	4,182,348.00
Net cash flows from operating activities	165,101,447.08	200,601,673.34

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	820,712,309.56	965,939,868.41
Less: Beginning Balance of cash	722,563,226.56	577,624,593.37
Add: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase in cash and cash equivalents	98,149,083.00	388,315,275.04

* "Decrease of operating items receivable" and "Increase of operating Items payable" are based on the analysis of related items such as receivables and payables in the consolidated financial statements, and "increase or decrease of margin not considered as cash and cash equivalents" shall be deducted in the preparation process (see Note VI, and 1 of this article for details). Monetary funds), "long-term asset purchase adjustments not paid as cash and cash equivalents in notes receivable" (see Note VI, 55, Item (4) in the statement of cash flows), "Other payables of engineering equipment, dividends payable" (see Note VI, 25 for details. Other payables), etc.

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 Last Period
Payments by endorsement of notes receivable*	448,222,661.04	381,331,545.22

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

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

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Long-term assets purchased by endorsement of notes receivable*	236,415,558.23	182,404,131.61

* 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 Last Period
Cash	820,712,309.56	722,563,226.56
Including: Cash on hand	81,153.07	71,127.09
Bank deposit available for payments at any time	814,129,891.08	722,492,099.47
Other monetary funds available for payments at any time	6,501,265.41	
Cash equivalents		
Ending balance of cash and cash equivalents	820,712,309.56	722,563,226.56
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))

56. Assets with limited ownership or use right

Item	Ending Book Value	Reason
Monetary funds	128,039,232.89	Deposits of bank acceptance bills, advance receipts of house sale under supervision, etc.
Fixed assets	84,466,002.75	Ownership does not belongs to the Group
Right-of-use asset	3,765,143.77	Ownership does not belongs to the Group

57. Monetary items for foreign currency

(1) Foreign currency monetary items

Item	Ending Balance Of Foreign Currency	Translating Exchange Rate	Amount Translated into RMB At Period End
Monetary funds			
Including: USD	8,603,992.73	6.4601	55,582,653.44
GBP	235,532.23	7.6862	1,810,347.83
HKD	13,540.25	0.8321	11,266.57
EUR	30,455.66	8.9410	272,304.06
JPY	1,217.00	0.0584	71.11
Accounts receivable			
Including: USD	45,505,638.91	6.4601	293,970,977.92
GBP	3,905,254.81	8.9410	34,916,883.26
Other receivables			
Including: USD	55,000.00	6.4601	355,305.50
Short-term borrowings			
Including: USD	31,550,000.00	6.4601	203,816,155.00
EUR	10,000,000.00	7.6862	76,862,000.00
Accounts payable			
Including: USD	1,929,258.39	6.4601	12,463,202.13
Other payable			
Including: USD	125,799.51	6.4601	812,677.41

Notes to the Interim Financial Statements (Continued)

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

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

(2) Oversea operating entities

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

58. Government grants

Category	Increase in Current Period	Presentation Item	Amount included into Current Profit and Loss
Please see the Note VI. 30 for the details	10,400,200.00	Long-term payable	
Please see the Note VI. 31 for the details	6,016,500.00	Deferred income	42,354.15
Please see the Note VI. 45 for the details	2,404,886.50	Other income	2,404,886.50
Please see the Note VI. 50 for the details	421,000.00	Non-operating income	421,000.00
Total	<u>19,242,586.50</u>		<u>2,868,240.65</u>

59. Lease

Category	Amount
Interest expenses of lease liabilities	59,059.34
Short-term lease expenses charged to current profits and losses	
Lease expenses of low-value assets	
Variable lease payments not included in lease liabilities	
Incomes from the transfer of right-of-use assets	
Total cash outflows related to lease	479,428.57
Related profits and losses of sale and leaseback	<u>2,084,420.43</u>

Notes to the Interim Financial Statements (Continued)

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

VII. CHANGES IN CONSOLIDATION SCOPE

In this period, Shandong Tongxin Pharmaceutical Co., LTD., jointly funded by the Company and relevant investors, is a holding subsidiary of the company with a shareholding ratio of 60%. For details, see “VIII. 1. Interests in subsidiaries” in the note.

VIII. INTERESTS IN SUBSIDIARIES

1. Interests in subsidiaries

(1) Composition of the Group

Name of Subsidiary	Enterprise Nature	Business Premise	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
Shandong Xinhua Pharmaceutical (Europe) B.V.	Limited liability company (Sino-foreign joint venture)	Hague, Holland	Hague, Holland	Pharmaceutical and chemical sales	EUR0.769 million	65.00		Establishment
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	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
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		Purchase
Shandong Xinhua Pharmaceutical (USA) Inc.	Limited liability company	Los Angeles, USA	Los Angeles, USA	Pharmaceutical and chemical sales	USD1.5 million	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	Business Premise	Registration Place	Nature of Business	Registered Capital* (monetary unit: 10,000 RMB)	Proportion of Shareholding (%)		Acquisition Method
						Direct	Indirect	
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 Company Limited	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical manufacturing	8,493.00	100.00		Merger
Shandong Xinhua Wanbo Chemical Industry Co., Ltd.	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical manufacturing	4,662.45	100.00		Merger
Shandong Xinhua Health Technology Co., Ltd**	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Science and technology promotion and application services	10,000.00	49.00		Establishment
Zibo Xinhua Pharmacy Chain Co., Ltd.***	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical sales	200.00		49.00	Establishment
Shandong Tongxin Pharmaceutical Co., Ltd.	Limited liability company	Shouguang City, Shandong Province	Shouguang City, Shandong Province	Pharmaceutical and chemical manufacturing	12,000.00	60.00		Establishment

* Xinhua (Zibo) Real Estate Co., LTD has changed its business scope on July 5, 2021, and will no longer engage in "real estate development and sales".

** According to the articles of association of Shandong Xinhua Health Technology Co., Ltd. (hereinafter referred to as "Xinhua Health"), Xinhua Health has a board of directors with a total of 5 members. Among the members of the board of directors, the Company nominated 3 directors. The chairman of the board is nominated by the Company and elected by more than half of all directors of the board of directors. Therefore, the Company has the right to appoint and dismiss most of Xinhua Health's directors, can control Xinhua Health's financial and operating policies, and has substantial control rights.

*** Xinhua health holds 100% equity of Zibo Xinhua Pharmacy Chain Co., Ltd.. The Company indirectly holds 49% of its shares, and can indirectly control the financial and operating policies of Zibo Xinhua Pharmacy Chain Co., Ltd..

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 subsidiaries which are not wholly-owned

Name of Subsidiary	Shareholding Proportion of Minority Shareholders (%)	Profits and Losses Attributable to Minority Shareholders in the Current Period	Net Other	Total Other	Dividends to	Ending Balance of Minority Equities
			Comprehensive Income after Tax Attributable to Minority Shareholders in the Current Period	Comprehensive Income Attributable to Minority Shareholders in the Current Period	be Declared and Distributed to Minority Shareholders in the Current Period	
Shandong Xinhua Pharmaceutical (Europe) B.V.	35.00	2,197,184.51	-108,352.62	2,088,831.89		11,707,634.46
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	49.90	7,167,368.25		7,167,368.25		132,044,488.35
Shandong Xinhua Health Technology Co., Ltd	51.00	-130,134.86		-130,134.86		35,869,865.14
Shandong Tongxin Pharmaceutical Co., LTD.	40.00	-102.22		-102.22		14,399,897.78
Total		9,234,315.68	-108,352.62	9,125,963.06		194,021,885.73

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

Unit: RMB 0,000

Name of Subsidiary	Ending Balance						Beginning Balance					
	Current Assets	Non-current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Total Liabilities	Current Assets	Non-current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Total Liabilities
Shandong Xinhua Pharmaceutical (Europe) B.V.	6,997.27	2.30	6,999.57	3,621.51		3,621.51	4,171.08	1.67	4,172.75	1,391.49		1,391.49
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	13,938.13	18,086.29	32,024.42	2,753.51	2,780.82	5,534.33	12,158.74	17,669.30	29,828.04	2,409.05	2,365.24	4,774.29
Shandong Xinhua Health Technology Co., Ltd	19,924.64	526.33	20,450.97	12,751.95	168.92	12,920.87	23,871.86	559.25	24,431.11	16,999.20	176.29	17,175.49
Shandong Tongxin Pharmaceutical Co., LTD.	3,522.26	897.92	4,420.18	26.70	793.51	820.21						

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.	11,423.21	627.77	596.81	799.09	13,191.43	924.71	967.69	803.35
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	11,825.04	1,436.35	1,436.35	3,633.44	11,779.49	2,355.36	2,355.36	3,946.27
Shandong Xinhua Health Technology Co., Ltd	18,654.59	-25.52	-25.52	-3,472.25	19,942.72	544.28	544.28	-1,833.70
Shandong Tongxin Pharmaceutical Co., LTD.		-0.03	-0.03	-0.03				

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) Significant restrictions on the use of group assets and the settlement of group debts

None.

(5) Financial support or other support provided to structured entities included in the scope of consolidated financial statements

None.

(6) Others

As of June 30, 2021 none of the Company's subsidiaries issued share capital or debt securities.

2. Equity in cooperative 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	58,392,290.58
Total amount of following items calculated by shareholding ratio	
– Net profit	596,471.59
– Other comprehensive income	
– Total amount of comprehensive income	596,471.59

(2) There were no significant restrictions on the ability of the Group's joint ventures to transfer funds to the Company; here were no unconfirmed commitments related to the joint venture in the Group; and there was no contingent liability related to the joint venture investment in the Group.

(3) The joint ventures did not incur excess losses.

Notes to the Interim Financial Statements (Continued)

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

Major financial instruments of the Group include loan, 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 Euro. Except for the subsidiaries of the Group which uses USD for purchasing and sales transactions, other main business operations are settled in RMB. As of June 30, 2021, except for assets and liabilities in with balances in USD described as below, all other assets and liabilities of the Group are reported in RMB. The risk associated with the assets and liabilities of such balances in USD may have influence on the Group's business performance.

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, 2021 and December 31, 2020, the Group's foreign currency financial assets and foreign currency financial liabilities are converted into RMB as follows:

Item	June 30, 2021	December 31, 2020
Monetary funds – USD	55,582,653.44	39,623,093.71
Monetary funds – EUR	1,810,347.83	188,943.57
Monetary funds – HKD	11,266.57	11,664.76
Monetary funds – GBP	272,304.06	2,410,810.30
Monetary funds – JPY	71.11	76.96
Accounts receivable – USD	293,970,977.92	96,816,128.47
Accounts receivable – GBP	34,916,883.26	21,518,980.48
Other receivables – USD	355,305.50	358,869.50
Short-term borrowing– USD	203,816,155.00	
Short-term borrowing– EUR	76,862,000.00	80,250,000.00
Accounts payable – USD	12,463,202.13	1,433,798.49
Other payables – USD	812,677.41	305,979.57

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, 2021, the Group's interest bearing debts mainly come from the RMB denominated floating interest rate loan contracts with the total amount of RMB999.3115 million and RMB denominated fixed rate contracts with the amount of RMB686.8752 million.

The Group's risk of changes in fair value of financial instrument 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 instrument 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 raw medicine, preparations and chemical product. Therefore, the Group is influenced by price fluctuation.

(2) Credit risk

As of June 30, 2021, maximum credit risk exposure which may cause financial loss to the Group is mainly due to the failure of the counter parties 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 low.

Notes to the Interim Financial Statements (Continued)

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

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

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

The total amount of the top five entities with the largest amount in “account receivables” is RMB173,971,843.75.

(3) Liquidity risk

Liquidity risk is the risk that the Group will not be able to fulfil its financial obligations on the due date. For management of 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 damages 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 institutes to keep a certain credit line and reduce the liquidity risk. As of June 30, 2021, 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 following:

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Monetary funds	948,751,542.45			948,751,542.45	
Accounts receivable	885,719,927.56			885,719,927.56	
Receivables financing	121,307,768.19			121,307,768.19	
Other receivables	42,861,823.24			42,861,823.24	
Financial liabilities					
Short-term borrowings	331,073,689.08			331,073,689.08	
Notes payable	377,549,872.73			377,549,872.73	
Accounts payable	528,004,297.96			528,004,297.96	
Other payables	558,504,178.71			558,504,178.71	
Including: Interest payable					
Dividends payable	99,415,716.58			99,415,716.58	
Non-current liabilities due within one year	427,183,642.00			427,183,642.00	
Long-term borrowings		13,541,069.16	54,426,336.06		367,967,405.22
lease liabilities		1,706,278.79			1,706,278.79
Long-term payables		615,960,000.00			615,960,000.00

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 sensitivity analysis method to analyze the reasonable and possible impacts on current profits and losses 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 content 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 current period profits or losses 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 Last 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	49,744.76	3,877,986.92	11,048,011.90	16,624,059.86
All foreign currencies	5% depreciated against RMB	-49,744.76	-3,877,986.92	-11,048,011.90	-16,624,059.86

(2) Sensitivity analysis of interest rate risk

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

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

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

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

Notes to the Interim Financial Statements (Continued)

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

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

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

Item	Change in Exchange Rate	Amount Incurred In Current Period		Amount Incurred In Last 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%	-8,494,147.53	-8,494,147.53	-8,168,921.12	-8,168,921.12
Floating interest rate loans	Decrease by 1%	8,494,147.53	8,494,147.53	8,168,921.12	8,168,921.12

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		121,307,768.19		121,307,768.19
Investment in other equity instruments	185,124,080.00		30,000,000.00	215,124,080.00
Total assets continuously measured at fair value	185,124,080.00	121,307,768.19	30,000,000.00	336,431,848.19

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

The items measured by the fair value of Group are the shares of the Bank of Communications and China Pacific Insurance Company (CPIC). The fair value at the end of the year is determined based on the closing price on the last trading day of June, 2021.

- 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's financial instruments of level 2 fair value measurement are the bank acceptance bills (accounts receivable financing) that are measured at fair value and the changes recorded into other comprehensive income. The bank acceptance bills held by the group is mainly the large commercial banks with higher credit rating, because the remaining maturity period is short and the credit risk is very low. At the balance sheet date, the book value of the bank's acceptance bills was close to the fair 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))

4. For continuous and non-continuous level 3 fair value measurement items, the use of valuation techniques and important parameters of qualitative and quantitative information

The Group's financial instruments of level 3 fair value measurement are mainly unlisted equity investments held by the Company. As the operating environment, operating conditions and financial position of the invested entity, Northern Health Big Data Technology Co., Ltd., have not changed significantly, the Group measures the investment cost as a reasonable estimate of fair value.

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 (%)
Hualu Holdings Co., Ltd.	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	32.65	32.65

(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
Hualu Holdings Co., Ltd.	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		Proportions of shares	
	Balance In This Period	Balance In Last Period	Proportion of Current Period (%)	Proportion of Last Period (%)
Hualu Holdings Co., Ltd.	204,864,092.00	204,864,092.00	32.65	32.94

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) 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”.

3. Joint ventures and associate enterprises

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

Name of joint ventures or associate enterprises	Relationship with the Company
Centrient Pharmaceutical (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 Hualu Holding Co., Ltd	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
Hualu Group Co. Ltd.	Controlled by the same controlling shareholder
Perrigo Company	Subsidiary's participating shareholder
Hubei Common Pharmaceutical Co., LTD	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 goods or receive services

Name of related parties	Content of Related-party Transaction	Amount Incurred in Current Period	Approved Transaction Amount	Whether exceed the Approved Amount	Amount Incurred In Last Period
Centrient Pharmaceutical (Zibo) Co., Ltd.*	Purchase of raw materials of preparations	8,970,464.60	155,000,000.00	No	7,383,694.69
Shandong Hualu Hengsheng Chemical Co., Ltd.*	Purchase of chemical raw material	96,402,452.83	340,000,000.00	No	58,933,971.62
Shandong Lukang Pharmaceutical Co., Ltd.*	Purchase of chemical raw material		14,000,000.00	No	26,327.43
Shandong Lukang Pharmaceutical Co., Ltd.*	Purchase of preparation product	2,331,282.34		No	943,133.89
Shandong Lukang Pharmaceutical Group Saite Co., Ltd.*	Purchase of preparation product	20,044.25		No	50,303.65
Total		<u>107,724,244.02</u>			<u>67,337,431.28</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))

(II) Sale of goods/provision of services

Name of related parties	Content of Related-party Transaction	Amount Incurred in Current Period	Amount Incurred in Previous Period
Centrient Pharmaceutical (Zibo) co., Ltd.*	Sales of Power	4,076,661.14	4,236,722.51
Centrient Pharmaceutical (Zibo) co., Ltd.*	Provide labor service	113,013.30	405,042.68
Shandong Xinghua Pharmaceutical Branch of Hualu Holding Co., Ltd.*	Sales of Power	3,760.62	4,220.94
Shandong Lukang Shelile Pharmaceutical Co., Ltd.*	Provide labor service	55,660.37	
Shandong Lukang Pharmaceutical Co., Ltd.*	Sales of chemical raw materials and bulk drugs	733,738.95	417,345.13
Shandong Lukang Pharmaceutical Co., Ltd.*	Provide labor service	153,773.58	245,283.02
Qinghai Lukang Dadi Pharmaceutical Co., Ltd.*	Sales of bulk drugs	114,159.29	119,469.03
Shandong Lukang Pharmaceutical Group Saite Co., Ltd.*	Sales of bulk drugs	612,389.40	522,123.89
Shandong Lukang Shelile Pharmaceutical Co., Ltd.*	Sales of Preparation products	752,035.38	337,168.14
Perrigo Company*	Sales of bulk drugs	7,799,208.34	3,769,598.44
Perrigo Company	Sales of bulk drugs	105,276,061.51	116,803,820.80
Perrigo Company	Sales of Preparation products	11,850,179.86	
Hualu Group Co. Ltd.*	Sales of bulk drugs	12,589,032.85	
Total		144,129,674.59	126,860,794.58

3. Borrowing and lending funds between related parties

Name of related parties	Borrowing/ lending	Amount	Starting date	Expiration date
Hualu Holdings Co., Ltd.*	Borrowing	600,000,000.00	2020-03-27	2023-03-27

* The Company and its controlling shareholder Hualu Holdings signed the "Capital Use Agreement" on March 30, 2020. Hualu Holdings provided RMB600,000,000.00 which was raised from its publicly issued corporate bonds (for QFII) (Phase I) (epidemic prevention and control bond) to the Company for a period of three years, with a maturity date of March 27, 2023, and a fixed interest rate of 2.97%. The above-mentioned interest rate is the coupon rate of the bonds issued by the controlling shareholder Hualu Holdings. The Company has borne the corresponding issuance cost of RMB600,000.00 according to the proportion of the use of funds, and the pricing of interest rate is fair.

Notes to the Interim Financial Statements (Continued)

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

4. Payment of interest on loans

Name of related parties	Content of Related-party Transaction	Amount Incurred in Current Period	Amount Incurred in Previous Period
Hualu Holdings Co., Ltd.	Interest on loans	8,712,000.00	6,942,000.00
Hualu Holdings Co., Ltd.	Apportioned underwriting fee		566,037.72

5. Accept the guarantee

The Company has entered into a loan agreement with Shandong Branch of The Export-Import Bank of China with a loan principal of RMB80 million yuan. The loan term is from May 29, 2020 to May 28, 2022 and is guaranteed by HHC, the controlling shareholder of the Company.

The Company has signed a loan agreement with Shandong Branch of The Export-Import Bank of China with the loan principal of RMB150 million yuan, and the actual loan amount is RMB148.5 million yuan. The loan term is from June 15, 2020 to June 14, 2022 and is guaranteed by HHC, the controlling shareholder of the Company.

The Company has entered into a loan agreement with The Shandong Branch of the Export-Import Bank of China with a loan principal of RMB270 million yuan. The loan term is from March 23, 2021 to March 22, 2023 and is guaranteed by HHC, the controlling shareholder of the Company.

6. Related party's commitment

On April 14, 2021, Hualu Holdings commits to: (1) HHC undertakes not to act beyond its powers to interfere with Xinhua Pharmaceutical's operating and management activities or misappropriate Xinhua Pharmaceutical's interests; (2) From the date of issuance of this undertaking to the completion of the Xinhua Pharmaceutical's non-public issue, if the state and securities regulatory authorities make other new regulatory requirements on measures for listed companies to compensate the diluted current returns, and this undertaking cannot meet the requirements of the state and securities regulations, it promises to issue an undertaking in accordance with the latest regulations of the state and securities regulatory authorities; (3) HHC undertakes to take the relevant measures to compensate for the diluted current returns formulated by Xinhua Pharmaceutical and fulfill this undertaking. If any loss is caused to Xinhua Pharmaceutical or investors due to the breach of this undertaking or the refusal to fulfill this undertaking, HHC is willing to assume the corresponding liability and compensate the losses in accordance with the law.

Notes to the Interim Financial Statements (Continued)

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

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

On August 9, 2021, when the Company implemented the 2021 non-public Offering plan of A-shares, Hualu Holding, the controlling shareholder, issued the Letter of Commitment on Avoiding competition in the same industry for this non-public offering: (1) There is no horizontal competition between HHC and other enterprises controlled by HHC and Xinhua Pharmaceutical; (2) During the period of being the controlling shareholder of Xinhua Pharmaceutical, HHC shall take necessary and possible measures in accordance with the law to avoid business or activities that have horizontal competition and conflict of interest with the main business of Xinhua Pharmaceutical, and urge other enterprises controlled by HHC to avoid business or activities that have horizontal competition and conflict of interest with the main business of Xinhua Pharmaceutical; (3) When HHC and other enterprises controlled by HHC intend to carry out new business, investment and research that may compete horizontally with the main business of Xinhua Pharmaceutical, HHC shall promptly notify Xinhua Pharmaceutical, and Xinhua Pharmaceutical will have priority in development and priority to participate in the project. HHC will try its best to make the price of relevant transactions on the basis of fair and reasonable and normal commercial transactions with independent third parties. HHC has the ability to fulfill the above commitments. This letter of commitment shall take effect immediately after being signed by HHC and shall remain valid during the period when HHC has control over Xinhua Pharmaceutical.

On August 9, 2021, Hualu Holdings commits to: (1) Within six months before the price determination date for the non-public issue of Xinhua Pharmaceutical (the announcement date of the resolution of the second extraordinary meeting of the 10th session of the Board of Xinhua Pharmaceutical in 2021), HHC and its concert parties do not reduce their shares in Xinhua Pharmaceutical; (2) There is no plan for reduction in shares of Xinhua Pharmaceutical within six months after the completion of the non-public issue from the price determination date for the non-public issue; (3) HHC undertakes to reduce its shares and perform the information disclosure obligations involved in the changes in rights and interests in strict accordance with the laws and regulations such as the Securities Law of the People's Republic of China, Management Measures on Takeover of Listed Companies, and the relevant regulations of the stock exchanges of the places where the shares of HHC are listed; (4) If HHC violates the above-mentioned commitment and reduced its shares, HHC undertakes that all the proceeds from the reduction shall be owned by Xinhua Pharmaceutical and HHC shall bear all legal liabilities and consequences arising therefrom.

7. Other transactions

(1) Royalty fee of using trademark

Name of related parties	Content of Related-party Transaction	Amount Incurred in Current Period	Amount Incurred in Previous Period
Shandong Xinghua Pharmaceutical Branch of Hualu Holding Co., Ltd*	Royalty fee of using trademark	<u>4,716,981.00</u>	<u>4,716,981.00</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))

The Company has renewed a supplementary agreement (“Supplementary Agreement”) on the trademark license agreement with Shandong Xinhua Pharmaceutical Group Co., Ltd on October 22, 2020. The Supplementary Agreement has a valid period from January 1, 2021 to December 31, 2023. 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 of the Hong Kong Stock Exchange.

(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.	93,869.00	469.35	218,000.00	1,090.00
Accounts receivable	Shandong Lukang Shelile Pharmaceutical Co., Ltd.	20,000.00	100.00		
Accounts receivable	Centrient Pharmaceutical (Zibo) co., Ltd.	157,651.20	788.26	73,001.20	365.01
Accounts receivable	Perrigo Company	15,566,981.59	77,834.91	28,498,901.58	142,494.51
Accounts receivable	Hualu Group Co. Ltd.	7,437,357.05	37,186.79		
Prepayments	Shandong Hualu Hengsheng Chemical Co., Ltd	4,934,191.20		6,195,481.83	

Notes to the Interim Financial Statements (Continued)

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

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

2. Items payable

Item	Related parties	Ending Balance	Beginning Balance
Accounts payable	Centrient Pharmaceutical (Zibo) co., Ltd.	1,997,736.85	3,068,443.87
Accounts payable	Shandong Lukang Pharmaceutical Co., Ltd.	2,294,114.08	3,329,422.08
Accounts payable	Shandong Lukang Pharmaceutical Group Saite Co., Ltd.	15,782.59	12,740.59
Contract liabilities	Shandong Lukang Pharmaceutical Co., Ltd.		50,000.00
Contract liabilities	Shandong Lukang Shelile Pharmaceutical Co., Ltd.		39,000.00
Other payables	Hualu Holdings Co., Ltd.	4,752,000.00	13,860,000.00

(IV) Principal management remunerations

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

Item	Amount Incurred in Current Period	Amount Incurred in Previous Period
Salary and subsidies	2,075,823.00	1,613,037.00
Social insurance premium, housing fund and retirement pension	496,566.00	344,927.00
Bonus		
Share-based payment*	2,506,038.00	
Total	5,078,427.00	1,957,964.00

* The compensation of the main management includes the exercised share option amount of RMB2,506,038.00, but excludes the granted but unexercised share option amount of RMB323,921.93.

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

There was 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 current period	5,508,000.00
Total amount of equity instruments of the Company lapsed in current period	
The scope of exercise price of the share options issued by the Company at the end of the year and the residual 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 RMB5.76 per share, the remaining period of the contract is 0.5 years.
The scope of exercise price of the other equity instruments issued by the Company at the end of the year and the remaining period of contracts	None

Description of share payment:

According to the Company's "A Share Share Option Incentive Plan of 2018 (Draft)", the share options granted to the incentive grantees is exercised in three phases after 24 months from the grant date (that is, December 28, 2018). The proportion of each exercise period is 34%, 33% and 33% respectively. Among them, the first exercise period is from the first trading day after 24 months to the last trading day within 36 months after the granting date.

According to the "Proposal on Adjusting the Exercise Price of the 2018 A-share Share Option Incentive Plan, the List of Grantees and the Number of Options Granted and Cancelling Some of the Options", and the "Proposal on the Achievement of the Conditions for the First Exercise of the 2018 A-share Share Option Incentive Plan", adopted by the 10th Board at its first extraordinary meeting in 2020 and the 10th board of supervisors at its first extraordinary meeting in 2020, held on December 28, 2020, the exercise price under the Company's incentive plan was adjusted from RMB5.98 per share to RMB5.76 per share. The number of grantees under the incentive plan was adjusted from 185 to 184, due to one person's resignation for personal reasons, and the total number of options granted was adjusted from 16.25 million to 16.20 million, and 50,000 share options were written off.

According to the "2018 A-share Stock Option Incentive Plan (Draft)", the conditions for the exercise of stock options in the first exercise period have been achieved. By June 30, 2021, the number of 5,508,000 stock options available in the first exercise period for 184 incentive objects has been fully exercised.

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. The situation of 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 this period and the previous period	Not applicable
Cumulative amount of equity settled share-based payment recognized into capital reserves	14,953,422.44
Total recognized fees of share-based payment settled in equity in the current period	2,214,150.00

XIII. CONTINGENCIES

As of June 30, 2021, the Group has no significant contingencies to 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

Item	Contract Amount	Unpaid Amount
High-end new pharmaceutical preparation industrialization project– Injection workshop	211,759,912.25	90,711,121.22
Preparation workshop II of Modern Medicine Center for international cooperation	159,650,317.70	43,038,783.30
Technical transformation projects for continuous synthesis of ibuprofen	111,011,260.80	57,605,743.13
Development of innovative medicine and preparations	<u>100,000,000.00</u>	<u>95,000,000.00</u>
Total	<u><u>582,421,490.75</u></u>	<u><u>286,355,647.65</u></u>

2. There was no other significant commitment to be disclosed by the Group as of June 30, 2021, except for the aforementioned commitments.

XV. EVENTS AFTER BALANCE SHEET DATE

1. Significant non-adjustment items

Item	Content	Amount of impacts on financial position and operating results	Reason why the influence number cannot be estimated
Issuance of stocks and bonds	The Company intends to issue not more than 36,284,470 A shares in A non-public offering, and the pre-plan of the company's non-public offering of A shares has been passed by resolution of the general meeting of shareholders on June 30, 2021. This non-public offering shall not be implemented until the approval of the China Securities Regulatory Commission.	The number of shares to be issued by the company shall not exceed 36,284,470 (including this number), and the total amount of funds to be raised shall not exceed RMB250 million, which will be used to repay interest-bearing liabilities and supplement working capital after deducting issuing expenses.	

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

Notes to the Interim Financial Statements (Continued)

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

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

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: (1) this part can generate income and incur expenses in daily activities; (2) the management of the Group can evaluate the operating results of this part at regular intervals so as to decide to allocate resources to it and evaluate its performance; (3) the Company can access the relevant accounting information of this part such as financial position, operating results and cash flow, etc. If two or more operating units share the similar economic characteristics and meet certain conditions, they can be merged into an operating segment.

(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, 2021

Item	Chemical bulk drugs	Preparations	Chemical intermediates and other products	Unallocated item	Offset amount	Total
Operating revenue	1,630,328,299.38	1,854,677,116.80	868,039,630.32		-802,001,293.55	3,551,043,752.95
Including: Revenues						
from external transactions	1,532,854,894.06	1,487,975,516.03	530,213,342.86			3,551,043,752.95
Revenues from transactions within segments	97,473,405.32	366,701,600.77	337,826,287.46		-802,001,293.55	
Operating cost	1,192,777,178.36	1,384,293,930.58	740,718,045.44		-806,755,308.36	2,511,033,846.02
Cost offset	144,198,058.07	364,152,899.76	298,404,350.53		-806,755,308.36	
Period expenses	238,764,925.56	424,543,689.81	60,965,461.61			724,274,076.98
Operating profits				273,989,086.39	-10,799,265.89	263,189,820.50
Total assets	3,620,898,935.24	2,723,868,343.51	1,450,356,275.80	1,354,612,147.32	-1,878,234,272.60	7,271,501,429.27
Total liabilities	1,135,349,737.34	1,229,379,688.67	626,402,536.30	1,918,696,604.78	-1,162,541,917.33	3,747,286,649.76

Notes to the Interim Financial Statements (Continued)

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

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	3,388,513,614.78	2,551,174,989.18	1,462,457,191.66	1,476,954,850.26	-1,786,148,455.84	7,092,952,190.04
Total liabilities	<u>1,138,234,242.41</u>	<u>1,147,025,114.98</u>	<u>738,740,914.23</u>	<u>1,766,732,663.46</u>	<u>-1,089,070,486.96</u>	<u>3,701,662,448.12</u>

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)	4,186,192,581.98	4,123,567,379.08
Americas	139,952.68	157,698.50
Europe	23,072.94	16,658.07
Total	<u>4,186,355,607.60</u>	<u>4,123,741,735.65</u>

2. As of June 30 2021, 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 (%)	
To recognize the bad- debt provision based on single item	1,152,406.66	0.18	1,152,406.66	100.00	
To recognize the bad-debt provision based on combination					
Including: Combination of age	311,417,913.14	49.57	1,837,087.95	0.59	309,580,825.19
Combination of related parties within consolidation scope	315,639,626.74	50.25			315,639,626.74
Subtotal of combination	627,057,539.88	99.82	1,837,087.95	0.29	625,220,451.93
Total	628,209,946.54	100.00	2,989,494.61		625,220,451.93

Item	Book Balance		Beginning Balance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
To recognize the bad- debt provision based on single item	1,152,406.66	0.39	1,152,406.66	100.00	
To recognize the bad-debt provision based on combination					
Including: Combination of age	87,295,932.93	29.17	716,478.05	0.82	86,579,454.88
Combination of related parties within consolidation scope	210,802,804.47	70.44			210,802,804.47
Subtotal of combination	298,098,737.40	99.61	716,478.05	0.24	297,382,259.35
Total	299,251,144.06	100.00	1,868,884.71		297,382,259.35

Notes to the Interim Financial Statements (Continued)

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

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

As of June 30, 2021, it is expected that the amount of RMB1,152,406.66 in accounts receivable is unlikely to recover, so the Company recognized the bad-debt provision of the single item at the full amount of RMB1,152,406.66.

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

Item	Ending Balance		Accrual proportion (%)	Beginning Balance		Accrual proportion (%)
	Accounts Receivable	Provision for Bad Debt		Accounts Receivable	Provision for Bad Debt	
Within 1 year	626,776,134.47	1,555,682.54	0.25	297,817,331.99	435,072.64	0.15
1-2 years						
2-3 years						
3-4 years						
4-5 years						
Over 5 years	<u>281,405.41</u>	<u>281,405.41</u>	<u>100.00</u>	<u>281,405.41</u>	<u>281,405.41</u>	<u>100.00</u>
Total	<u><u>627,057,539.88</u></u>	<u><u>1,837,087.95</u></u>		<u><u>298,098,737.40</u></u>	<u><u>716,478.05</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))

(1) Ageing schedule 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.

The ageing analysis of accounts receivable based on transaction date (including accounts receivable from related parties) is as follows:

Account Age	Accounts Receivable	Ending Balance Provision for Bad Debt	Accrual proportion (%)
Within 1 year	626,776,134.47	1,555,682.54	0.25
1-2 years	919,016.86	919,016.86	100.00
2-3 years	225,264.80	225,264.80	100.00
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	628,209,946.54	2,989,494.61	
		Beginning Balance	
Account Age	Accounts Receivable	Provision for Bad Debt	Accrual proportion (%)
Within 1 year	297,817,331.99	435,072.64	0.15
1-2 years	919,016.86	919,016.86	100.00
2-3 years	225,264.80	225,264.80	100.00
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	299,251,144.06	1,868,884.71	

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) The bad-debt provision recognized or reversed (recovered) in 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	1,152,406.66				1,152,406.66
To recognize the bad-debt provision based on combination	1,837,087.95	1,120,609.90			716,478.05
Total	2,989,494.61	1,120,609.90			1,868,884.71

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

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

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

Organization Name	Ending Balance	Account Age	Proportion of Total Ending Balance of Accounts Receivables (%)	Ending Balance of Bad Debt Provision
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	283,546,157.61	Within 1 year	45.14	
F. Hoffmann-La Roche AG	38,766,607.89	Within 1 year	6.17	193,833.04
Galpharm International Limited	34,916,883.26	Within 1 year	5.56	174,584.42
Shandong Xinhua Pharmaceutical (Europe) B.V	25,152,956.21	Within 1 year	4.00	
DASTECH INTERNATIONAL.INC.	17,738,788.59	Within 1 year	2.82	88,693.94
Total	400,121,393.56		63.69	457,111.40

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>65,851,097.48</u>		<u>65,851,097.48</u>	
Total	<u><u>65,851,097.48</u></u>		<u><u>65,851,097.48</u></u>	

Item	Initial cost	Beginning Balance		Provision for impairment
		Fair value changes	Book value	
Notes receivable	<u>77,678,558.91</u>		<u>77,678,558.91</u>	
Total	<u><u>77,678,558.91</u></u>		<u><u>77,678,558.91</u></u>	

At the end of the period, all accounts receivable financing were bank acceptance bills. None of the bank acceptance bills held by the Company had significant credit risk, therefore, no provision for impairment was recognized.

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

Item	Derecognized Amount	Not Derecognized Amount
	At Period End	At Period End
Bank acceptance bills	<u>291,524,972.33</u>	
Total	<u><u>291,524,972.33</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 receivables		
Dividends receivables	18,860,182.44	18,860,182.44
Other receivables	496,821,951.81	482,003,972.42
Total	515,682,134.25	500,864,154.86

3.1 Interest receivables: None

3.2 Dividends receivables

Item	Ending Balance	Beginning Balance
Shandong Zibo Xincat Pharmaceutical Company Limited*	18,860,182.44	18,860,182.44
Total	18,860,182.44	18,860,182.44

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

Notes to the Interim Financial Statements (Continued)

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

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

3.3 Other receivables

(1) Classification of other receivables by account nature

Nature	Ending Book Balance	Beginning Book Balance
Transaction of related party within the scope of consolidation	476,157,402.56	463,142,654.45
Petty cash	521,868.78	670,000.00
Tax receivable	6,195,910.06	6,195,910.06
Sales and leaseback deposit	18,000,000.00	18,000,000.00
Others	3,615,655.55	1,561,244.69
Total	504,490,836.95	489,569,809.20

(2) Bad-debt provision for 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, 2021	243,910.57		7,321,926.21	7,565,836.78
Balance of other receivable as of January 1, 2021 in the current period				
– Transferred to stage 2				
– Transferred to stage 3				
– Reversed to stage 2				
– Reversed to stage 1				
Accrued in current period	114,451.45		-11,403.09	103,048.36
Reversed in current period				
Transferred out in current period				
Written-off in current period				
Other changes				
Balance as of June 30, 2021	358,362.02		7,310,523.12	7,668,885.14

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) Ageing analysis of other receivables

Account Age	Other receivables	Ending Balance Provision for Bad Debt	Proportion (%)
Within 1 year	107,667,639.43	260,362.02	0.24
1–2 years	96,311,129.57	48,000.00	0.05
2–3 years	52,536,544.79	50,000.00	0.10
3–4 years	5,653,542.42		
4–5 years	1,735.32		
Over 5 years	242,320,245.42	7,310,523.12	3.02
Total	504,490,836.95	7,668,885.14	

Account Age	Other receivables	Beginning Balance Provision for Bad Debt	Proportion (%)
Within 1 year	72,610,923.83	77,510.57	0.11
1–2 years	94,938,735.61	116,400.00	0.12
2–3 years	52,536,544.79	50,000.00	0.10
3–4 years	16,040,825.03		
4–5 years	9,614,452.71		
Over 5 years	243,828,327.23	7,321,926.21	3.00
Total	489,569,809.20	7,565,836.78	

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	Changes in Current Period			Ending Balance
		Accrued	Recovered or reversed	Transferred or written off	
Bad-debt provision	7,565,836.78	103,048.36			7,668,885.14
Total	7,565,836.78	103,048.36			7,668,885.14

(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 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	46.98		Related party transaction within the scope of consolidation
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	32,057,844.94	Within 1 year	21.83		Related party transaction within the scope of consolidation
	78,052,555.06	1-2 years			Related party transaction within the scope of consolidation
Zibo Xinhua Pharmacy Chain Co., Ltd.	33,889,903.10	Within 1 year	17.50		Related party transaction within the scope of consolidation
	2,882,825.83	1-2 years			Related party transaction within the scope of consolidation
	41,500,614.19	2-3 years			Related party transaction within the scope of consolidation
	5,001,317.42	3-4 years			Related party transaction within the scope of consolidation
	1,735.32	4-5 years			Related party transaction within the scope of consolidation
	5,009,722.30	Over 5 years			Related party transaction within the scope of consolidation
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	35,000,000.00	Within 1 year	6.94		Related party transaction within the scope of consolidation
Xinhua (Zibo) Real Estate Co., Ltd.	3,469,819.95	Within 1 year	2.46		Related party transaction within the scope of consolidation
	7,295,748.68	1-2 years			Related party transaction within the scope of consolidation
	985,930.60	2-3 years			Related party transaction within the scope of consolidation
	652,225.00	3-4 years			Related party transaction within the scope of consolidation
Total	475,800,242.39		94.31		

Notes to the Interim Financial Statements (Continued)

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

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

As at June 30, 2021, there were no employees' borrowings in other receivables.

4. Long-term equity investments

(1) *Classifications of long-term equity investment*

Item	Ending Balance		Beginning Balance			
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	692,726,603.15		692,726,603.15	671,126,603.15		671,126,603.15
Investment in joint ventures and associate enterprises	58,392,290.58		58,392,290.58	57,795,818.99		57,795,818.99
Total	<u>751,118,893.73</u>		<u>751,118,893.73</u>	<u>728,922,422.14</u>		<u>728,922,422.14</u>

Notes to the Interim Financial Statements (Continued)

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

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

(2) Investment in subsidiaries

Invested Entity	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance	Impairment	Balance of
					Provision Accrued in Current Period	Provision for Impairment as at the end of Period
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	48,582,509.23			48,582,509.23		
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	230,712,368.00			230,712,368.00		
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	35,000,000.00			35,000,000.00		
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd	3,037,700.00			3,037,700.00		
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	72,278,174.60			72,278,174.60		
Shandong Xinhua Pharmaceutical (Europe) B.V.	4,596,798.56			4,596,798.56		
Xinhua (Zibo) Real Estate Co., Ltd.	20,000,000.00			20,000,000.00		
Shandong Xinhua Pharmaceutical Import and Export Co., Ltd.	5,500,677.49			5,500,677.49		
Shandong Xinhua Pharmaceutical (USA) Inc.	9,370,650.00			9,370,650.00		
Shandong Xinhua Mechanical & Electrical Engineering Co., Ltd.	8,000,000.00			8,000,000.00		
Shandong Zibo Xincat Pharmaceutical Company Limited	138,073,454.68			138,073,454.68		
Shandong Xinhua Wanbo Chemical Industry Co., Ltd.	46,974,270.59			46,974,270.59		
Shandong Xinhua Health Technology Co., Ltd	49,000,000.00			49,000,000.00		
Shandong Tongxin Pharmaceutical Co., Ltd.*		21,600,000.00		21,600,000.00		
Total	671,126,603.15	21,600,000.00		692,726,603.15		

* On 13 April 2021, Shandong Tongxin Pharmaceutical Co., LTD., jointly funded by the Company and relevant investors, is a holding subsidiary of the company with a shareholding ratio of 60%.

Notes to the Interim Financial Statements (Continued)

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

(3) Investment in joint ventures and cooperative enterprises

Invested Entity	Beginning Balance	Increase or decrease in current period								Ending Balance	Provision of Impairment
		Add 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	Others		
I. Joint ventures											
Centrient Pharmaceuticals (Zibo) Co., Ltd.	57,795,818.99			596,471.59							58,392,290.58
Total	57,795,818.99			596,471.59							58,392,290.58

5. Operating revenues and costs

(1) Operating revenues and costs

Item	Amount Incurred in Current Period		Amount Incurred in Previous Period	
	Revenue	Cost	Revenue	Cost
Principal business activities	1,760,094,502.09	1,294,718,318.47	1,780,457,383.25	1,276,777,050.28
Other business activities	42,683,251.74	50,430,833.39	26,735,137.73	36,448,892.07
Total	1,802,777,753.83	1,345,149,151.86	1,807,192,520.98	1,313,225,942.35

Notes to the Interim Financial Statements (Continued)

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

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

(2) Revenues from contracts

Classification of contract	Chemical bulk drugs	Preparations	Medical intermediates and other products	Total
Commodity type				
Including: Chemical bulk drugs	1,413,757,187.30			1,413,757,187.30
Preparations		346,337,314.79		346,337,314.79
Medical Intermediates and other products			42,683,251.74	42,683,251.74
Total	1,413,757,187.30	346,337,314.79	42,683,251.74	1,802,777,753.83
Classification by operation regions				
Including: China (including Hong Kong)	608,558,138.02	278,330,991.56	42,683,251.74	929,572,381.32
Americas	276,578,926.12	5,256,005.22		281,834,931.34
Europe	340,220,180.91	62,750,318.01		402,970,498.92
Others	188,399,942.25			188,399,942.25
Total	1,413,757,187.30	346,337,314.79	42,683,251.74	1,802,777,753.83
Classification by contract performance obligation				
Including: To recognize revenues at a certain time	1,413,757,187.30	346,337,314.79	38,123,252.77	1,798,217,754.86
To recognize revenues within a certain period				
Rental income			4,559,998.97	4,559,998.97
Total	1,413,757,187.30	346,337,314.79	42,683,251.74	1,802,777,753.83

Notes to the Interim Financial Statements (Continued)

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

(3) Information related to performance obligations

According to the agreement of contract, 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 the 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 the control over the relevant goods.

The terms of payment differ from customers and goods, part of the Company's sales are made in receipt 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 Reporting Period, the amount of revenue where contracts were signed but unfulfilled or with uncompleted performance obligation was RMB34,616,393.72, and it is expected to be recognized within one year.

(5) The income amount including the book value of the contract liabilities at the beginning of the year is RMB61,411,994.54.

6. Investment income

Item	Amount Incurred in Current Period	Amount Incurred in Previous Period
Dividend from subsidiaries	15,900,000.00	46,030,000.00
Investment income of long-term equity calculated by equity method	596,471.59	-2,245,254.87
Dividends income from other equity instruments investment during holding period	6,500,000.00	6,000,000.00
Total	22,996,471.59	49,784,745.13

XVIII. APPROVAL OF FINANCIAL REPORTS

The financial report was released after being approved by the Board of the Company on August 27, 2021.

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 Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public–Non-recurring Profit and Loss (2008) issued by the China Securities Regulatory Commission, the non-recurring profit and loss for the Company during this Reporting Period is listed below:

Item	Amount Incurred in Current Period	Notes
Profits and losses from disposal of non-current assets	-109,945.02	Profit or loss of disposal of fixed assets
Government grants recognized in current profits or losses (related to enterprise business closely, except for the government grants according to the national uniform standard quota or quantity)	12,009,356.99	Government grants that are recorded into current profits and losses Investment income
Except for the effective hedging related to normal businesses, profits or losses generated from changes in fair value for holding of trading financial assets, derivative financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, derivative financial assets, trading financial liabilities, derivative financial liabilities and other creditor's rights investments	6,500,000.00	Investment bonus and revenue from other equity interests instruments
Other non-operating income or expenditure except the above items	-3,073,358.61	
Subtotal	15,326,053.36	
Less: Effect of income tax	1,080,644.58	
Impact on minority interest income (after-tax)	26,714.00	
Total	14,218,694.78	

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 provisions in 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 return on equity, basic EPS and diluted EPS for the Group in the current period is listed below:

Profit for the Reporting Period	Weighted	Earnings per share (EPS)	
	Average ROE (%)	Basic EPS	Diluted EPS
Net profit attributable to shareholders of the parent company	6.00	0.32	0.32
Net profit attributable to shareholders of the parent company after deducting non-recurring profit or loss	<u>5.58</u>	<u>0.30</u>	<u>0.30</u>

Documents Available for Inspection

(1) DOCUMENTS AVAILABLE FOR INSPECTION

1. The Company's 2021 interim report signed by the Chairman of the Board.
2. Financial report signed and stamped by the legal representative, the financial controller and the chief of the accounting department of the Company.
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.
29 August, 2021