



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)

2018

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 2018 (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@thebanskoball.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	:	
E-mail Address of the Company	:	xhzy@thebanskoball.com
PRC newspaper for information disclosure	:	Securities Times
Website designated by the China Securities Regulatory Commission (the "CSRC") for the publication of the interim report	:	http://www.cninfo.com.cn
Listing Information		
H Shares	:	The Stock Exchange of Hong Kong Limited (the "SEHK")
Stock Short Name	:	Shandong Xinhua
Stock Code	:	00719
A Shares	:	Shenzhen Stock Exchange
Stock Short Name	:	Xinhua Pharm
Stock Code	:	000756

Key Financial Data and Financial Indicators prepared in accordance with CASBE

Unit: RMB Yuan

Item	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)	Change as compared to the same period last year (%)
Operating income	2,687,680,140.23	2,403,274,161.26	11.83
Total profits	163,340,602.00	147,562,389.11	10.69
Income tax expense	29,495,994.75	33,522,526.85	(12.01)
Net profits	133,844,607.25	114,039,862.26	17.37
Minority interest income	10,480,791.91	7,264,909.40	44.27
Net profit attributable to shareholders of listed company	123,363,815.34	106,774,952.86	15.54
Net profit attributable to shareholders of listed company after deduction of non-recurring profit and loss	120,200,530.53	87,258,441.96	37.75
Net cash flow from operating activities	136,331,240.88	9,557,583.42	1,326.42
Basic earnings per share (RMB/Share)	0.26	0.23	13.04
Diluted earnings per share (RMB/Share)	0.26	0.23	13.04
Weighted average rate of return on net assets	4.90%	5.19%	decrease by 0.29 percentage point
	As at 30 June 2018 (unaudited)	As at 31 December 2017 (audited)	Change as compared to the End of Last Year (%)
Total assets	5,671,642,001.29	5,273,647,124.63	7.55
Total liabilities	2,994,519,647.01	2,694,193,743.82	11.15
Minority shareholders' equity	141,296,760.40	99,429,604.22	42.11
Net assets attributable to the shareholders of listed company	2,535,825,593.88	2,480,023,776.59	2.25

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	(823,404.33)	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)	5,212,300.00	Received and amortized government grants that are recorded into current profits and losses
Profit or loss from change in fair value of held-for-trading financial assets and held-for-trading financial liabilities, and investment gain from disposal of held-for-trading financial assets, held-for-trading financial liabilities and investment in other equity instruments, other than effective hedging business relating to the normal operations of the Company	807,370.99	Investment income
Other non-operating income and cost except the above items	(1,414,036.56)	
Less: Impact on minority interest income	38,946.21	
Effect of income tax	579,999.08	
Total	<u>3,163,284.81</u>	

Items measured at fair value

Unit: RMB Yuan

Items	Amount as at 1 January 2018	Profit or loss from change in fair value	Cumulative Change of fair value recorded in equity	Provision impairment	Amount as at 30 June 2018
Financial assets:					
Financial assets which are measured at fair value and whose changes are included into other comprehensive income	258,141,232.00	-	157,422,456.50	-	206,428,208.00
Including: Investment in other equity instruments	<u>258,141,232.00</u>	<u>-</u>	<u>157,422,456.50</u>	<u>-</u>	<u>206,428,208.00</u>
Subtotal of financial assets	<u>258,141,232.00</u>	<u>-</u>	<u>157,422,456.50</u>	<u>-</u>	<u>206,428,208.00</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 2018	Six months ended 30 June 2017
1. Change in fair value of investment in other equity instruments	(51,713,024.00)	33,705,488.00
Less: Income tax impact arising from investment in other equity instruments	(7,576,953.60)	5,055,823.20
Net profit or loss carried from amounts previously recognized in other comprehensive income	—	—
Subtotal	(43,956,070.40)	28,649,664.80
2. Conversion difference of financial statements in foreign currency	385,959.73	471,823.09
Less: net profit or loss carried from amounts incurred by disposal of foreign operation	—	—
Subtotal	385,959.73	471,823.09
Total	(43,570,110.67)	29,121,487.89

Changes in Share Capital Structure and Information on Shareholders

1. CHANGES IN SHARE CAPITAL STRUCTURE

Unit: share

Class of shares	30 June 2018		1 January 2018	
	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				
State-owned shares	21,049,516	4.400	21,049,516	4.400
Shares owned by domestic legal persons	–	–	–	–
Conditional tradable shares owned by senior management (A shares)	21,040,591	4.398	21,040,591	4.398
Others	8,925	0.002	8,925	0.002
	–	–	–	–
2. Total number of unconditional tradable shares				
Renminbi-denominated ordinary shares (A shares)	457,303,905	95.600	457,303,905	95.600
Overseas listed foreign shares (H shares)	307,303,905	64.242	307,303,905	64.242
	150,000,000	31.358	150,000,000	31.358
3. Total number of shares	478,353,421	100.00	478,353,421	100.00

Changes in Share Capital Structure and Information on Shareholders

2. SHAREHOLDERS INFORMATION

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

Unit: share

Name of shareholders	Nature of shareholders	Number of shares held as at the end of the Reporting Period (Long position)	% of the total issued shares	Number of conditional tradable shares held	Number of shares being charged or frozen
山東新華醫藥集團有限責任公司 Shandong Xinhua Pharmaceutical Group Co. Ltd.	State-owned shares	157,587,763	32.94	-	-
香港中央結算(代理人)有限公司 HKSCC (Nominees) Limited	Others	148,907,598	31.13	-	Unknown
巨能資本管理有限公司 - 山東聚羣產業基金合夥企業(有限合伙) Ju Neng Capital Management Company Limited - Shandong JuYing Industrial Fund Partnership (Limited Partnership)	Others	17,930,905	3.75	17,930,905	-
全國社保基金一零七組合 National Social Security Fund 107 Portfolio	Others	3,309,367	0.69	-	-
深圳前海瑞豐基金管理有限公司 - 深圳前海瑞豐價值1號私募投資基金 Shenzhen Qianhai Ruifeng Fund Management Co., Ltd.-Shenzhen Qianhai Ruifeng Value No. 1 Private Equity Investment Fund	Others	3,294,919	0.69	-	-
山東新華製藥股份有限公司 - 第一期員工持股計劃 Shandong Xinhua Pharmaceutical Company Limited-Phase I of Employee Stock Ownership Scheme	Others	3,109,686	0.65	3,109,686	-
廈門國際信託有限公司 - 廈門信託 - 鯤凌17號集合資金信託計劃 Xiamen International Trust Co., Ltd. - Xiamen Trust- Kun Ling No. 17 Collective Fund Trust Plan	Others	2,071,840	0.43	-	-
中國農業銀行股份有限公司 - 安信消費醫藥主題股票型證券投資基金 Agricultural Bank of China Limited-An Xin Consumer Medicine-themed Stock Securities Investment Fund	Others	1,611,012	0.34	-	-
李松青 Mr. Li Songqing	Others	1,353,228	0.28	-	-
林穗賢 Mr. Lin Huixian	Others	1,305,434	0.27	-	-

Changes in Share Capital Structure and Information on Shareholders

- (3) As far as the Company is aware, there had been no change of Controlling Shareholder (as defined under the Listing Rules) of the Company during the Reporting Period.
- (4) As at 30 June 2018, the ten largest shareholders of the unconditional tradable shares of the Company were as follows:

Unit: share

Name of shareholders	Number of unconditional listed shares as at the end of the Reporting Period (Long position)	Class of shares
山東新華醫藥集團有限責任公司 Shandong Xinhua Pharmaceutical Group Co. Ltd. ("SXPGC")	157,587,763	RMB-denominated ordinary Shares (A share)
HKSCC (Nominees) Limited	148,883,598	Overseas listed foreign shares (H share)
全國社保基金一零七組合 National Social Security Fund 107 Portfolio	3,309,367	RMB-denominated ordinary Shares (A share)
深圳前海瑞豐基金管理有限公司 - 深圳前海瑞豐價值1號私募投資基金 Shenzhen Qianhai Ruifeng Fund Management Co., Ltd.-Shenzhen Qianhai Ruifeng Value No. 1 Private Equity Investment Fund	3,294,919	RMB-denominated ordinary Shares (A share)
廈門國際信託有限公司 - 廈門信託 - 鯤凌17號集合資金信託計劃 Xiamen International Trust Co., Ltd. - Xiamen Trust - Kun Ling No. 17 Collective Fund Trust Plan	2,071,840	RMB-denominated ordinary Shares (A share)
中國農業銀行股份有限公司 - 安信消費醫藥主題股票型證券投資基金 Agricultural Bank of China Limited - An Xin Consumer Medicine-themed Stock Securities Investment Fund	1,611,012	RMB-denominated ordinary Shares (A share)
李松青 Mr. Li Songqing	1,353,228	RMB-denominated ordinary Shares (A share)
林穗賢 Mr. Lin Huixian	1,305,434	RMB-denominated ordinary Shares (A share)
中海信託股份有限公司 - 中海 - 浦江之星353號集合資金信託 Zhonghai Trust Co., Ltd. - Zhonghai-Pujiang Star No. 353 Collective Fund Trust	1,121,500	RMB-denominated 353 ordinary Shares (A share)
中國建設銀行股份有限公司 - 安信價值精選股票型證券投資基金 China Construction Bank Corporation - An Xin Value-selected Stock Securities Investment Fund	1,001,100	RMB-denominated ordinary Shares (A share)

Changes in Share Capital Structure and Information on Shareholders

Notes:

- i. As of 30 June 2018, SXPGC and Well Bring Limited ("Well Bring") were a directly wholly owned subsidiary and an indirectly wholly owned subsidiary of 華魯集團有限公司(Hualu Holdings Co., Ltd.) ("Hualu Holdings") respectively. Well Bring owns 13,686,000 H shares of the Company (being overseas listed foreign shares), representing approximately 2.86% of the issued share capital of the Company. As such, Hualu Holdings is deemed to be interested in the abovementioned shares held by SXPGC and Well Bring.

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

To the best knowledge of the Directors, they are not aware as to whether there is any Association Relationship (as defined in the Rules Governing Listing of Stocks On Shenzhen Stock Exchange) amongst the ten largest shareholders of the Company, nor if any of them are persons acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies ("Administration Measures for Takeover") issued by the CSRC. In addition, the Directors are not aware whether there is any association amongst the shareholders of H Shares of the Company or if any of them are persons acting in concert as defined in the Administration Measures for Takeover.

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

- iii. Save as disclosed above, the only domestic shareholder directly holding more than 5% of the total issued shares of the Company is SXPGC.
- iv. Save as disclosed above and so far as the Directors are aware, as at 30 June 2018, no other person (other than the Directors, supervisors, chief executives of the Company (if any)), had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")), or an interest as recorded in the register required to be kept under section 336 of the SFO or was otherwise a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the SEHK ("the Listing Rules")) of the Company.

Directors, Supervisors, Senior Officers and Staff

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

Name	Position	Number of Shares as 30 June 2018	Number of Shares as 1 January 2018
Directors:			
Mr. Zhang Daiming	Chairman	11,900 <i>note2</i>	11,900
		134,529 <i>note3</i>	134,529
Mr. Ren Fulong	Non-executive Director	44,843 <i>note3</i>	44,843
Mr. Du Deping	Executive Director, General Manager	116,591 <i>note3</i>	116,591
Mr. Xu Lie	Non-executive Director	62,780 <i>note3</i>	62,780
Mr. Zhao Bin	Non-executive Director	Nil	Nil
Mr. Chan Chung Kik, Lewis	Independent non-executive Director (resigned with effect from 29 June 2018)	Nil	Nil
Mr. Du Guanhua	Independent non-executive Director	Nil	Nil
Mr. Li Wenming	Independent non-executive Director	Nil	Nil
Mr. Lo Wah Wai	Independent non-executive Director (appointed with effect from 29 June 2018)	Nil	Nil
Supervisors:			
Mr. Li Tianzhong	Chairman of Supervisory Committee	71,748 <i>note3</i>	71,748
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil
Ms. Hu Yanhua	Employee Supervisor	26,905 <i>note3</i>	26,905
Mr. Wang Jianping	Employee Supervisor	Nil	Nil
Mr. Xiao Fangyu	Independent Supervisor	Nil	Nil
Other senior management:			
Mr. Wang Xiaolong	Deputy General Manager	62,780 <i>note3</i>	62,780
Mr. Dou Xuejie	Deputy General Manager	26,905 <i>note3</i>	26,905
Mr. Du Deqing	Deputy General Manager	62,780 <i>note3</i>	62,780
Mr. He Tongqing	Deputy General Manager	89,686 <i>note3</i>	89,686
Mr. Hou Ning	Financial Controller	89,686 <i>note3</i>	89,686
Mr. Zheng Zhonghui	Deputy General Manager	17,937 <i>note3</i>	17,937
Mr. Cao Changqiu	Secretary to the Board	1,793 <i>note3</i>	1,793
Total		820,863	820,863

Notes:

As of the relevant date:

- all relevant interests in the securities of the Company above are A Shares with a long position.
- Mr. Zhang Daiming held 11,900 A Shares under his personal name.
- the relevant shares were held by the Employee Stock Ownership Scheme of the Company of which the relevant person was a participant.

Directors, Supervisors and, Senior Officers and Staff

4. Save as disclosed above and so far as the Directors are aware, as at 30 June 2018, no Director, chief executive or Supervisor of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (as defined in Part XV of the SFO (Chapter 571 of the Laws of Hong Kong)) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Management or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

CHANGE OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

On 29 June 2018, Mr. Chan Chung Kik, Lewis, who had served as an independent non-executive director, resigned from his position in the Company with immediate effect. Mr. Lo Wah Wai was elected as an independent non-executive director of the ninth session of the Board of even date with immediate effect. For details, please refer to the announcement of the Company dated 29 June 2018.

POSITION HELD IN THE HOLDING COMPANY

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

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making process for remuneration of Directors, Supervisors and Senior Management	The Directors' and the Supervisors' remuneration are subject to the approval in the general meetings of the Company, whereas the remuneration of the Senior Management is subject to the approval of the Board.
Basis for determining the remuneration of Directors, Supervisors and Senior Management	The remuneration of Directors, Supervisors and other Senior Management is determined with reference to state policies, the Company's financial position, performance and the general remuneration standard of society.
Payment of remuneration to Directors, Supervisors and Senior Management	RMB1,583,452.20 was paid during this Reporting Period.

Specific details in relation to relevant amounts including emoluments, social insurance and provident funds are as follows:

Item	Emoluments	Social insurance	Provident funds	Total
Remuneration of major management	1,140,474.00	397,518.00	45,460.20	1,583,452.20

Directors, Supervisors, Senior Officers and Staff

Staff and remuneration information (As of 30 June 2018)

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 2018, the number of staff employed by the Group was 6,361, and the total amount of their salaries and wages for the half year was RMB263,404,000.

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.

Staff portfolio

Staff portfolio	Number of Staff
Production	3,448
Engineering & Technical	631
Administration	538
Finance	89
Product R&D	181
Procurement	41
Sales	1,015
Quality inspection	418
Total	6,361

Education level

Education level by category	Number of Staff
Universities or above	1,202
Tertiary institutions other than universities	1,806
Intermediate institutions	1,190
Senior high schools and technical schools	1,591
Junior high schools or below	572
Total	6,361

Staff training

The Company formulated and implemented staff education and training plan in 2018. The training programme implemented or to be implemented in 2018 includes orientation for new staff, safety skills and knowledge improvement training, training of professional environmental protection knowledge, production equipment and special facilities training, technical quality management training, management skill upgrading training and strategic training for mid-level and senior management. The Company actively enriched the content of its training and innovated the forms of training to further enhance the results of training.

Chairman's Statement

To all Shareholders:

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

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

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

BUSINESS REVIEW

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

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

By proactively taking advantage of market opportunities and making full use, the Group recorded a growth of 11.79% in the revenue of its active pharmaceutical ingredients, among which, export income reached US\$128 million, representing an increase of 21.96% year-on-year. Preparations brought in revenue of RMB725 million, representing an increase of 18.54% as compared with the same period last year, of which, revenue from six strategic varieties of preparations including Rabeprazole and Glimepiride totalled RMB148 million, representing a year-on-year increase of 52%.

By vigorously enhancing its internationalization strategy, the Group achieved a revenue of RMB87.53 million for its international cooperation products in the first half of the year, representing a year-on-year increase of 57.23%. The stock capital of Xinhua Perrigo increased with a newly increased production capacity of 5 billion pieces of solid preparation. Other key international cooperation projects progressed smoothly.

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

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

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

Chairman's Statement

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

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

3. Accelerating the development and reformation projects

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

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

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

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

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

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

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

PROSPECTS

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

1. Attending to the overall deployment to further improve the comprehensive competitiveness of the Company

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

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

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

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

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

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

Chairman's Statement

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

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

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

4. Strengthening internal management to consolidate the foundation for development

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

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

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

PRINCIPAL RISKS

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

Besides:

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

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

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

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

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

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

Chairman's Statement

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

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

By order of the Board

Zhang Daiming

Chairman

Zibo, Shandong, the PRC

16 August 2018

Management Discussion and Analysis

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

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

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

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

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

As at 30 June 2018, the Company and Shandong Zibo Xincat Pharmaceutical Co., Ltd., a subsidiary of the Company, charged the monetary capital of RMB64,440,000 and RMB14,300,000 to the bank for arrangement of bank acceptance bill respectively. Shandong Xinhua Pharmaceutical Trading Co., LTD., a subsidiary, pledged 835,000 yuan of accounts receivable to handle accounts receivable factoring. Besides, RMB80,829,000 worth of the Company's fixed asset was charged as security for loans. Save as disclosed, the Group did not have other assets charged. For details of the Group's loans and debts including maturity profile, please refer to Notes VI. 14 and 22 to the Financial Statements of this Report.

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

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

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

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

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

Management Discussion and Analysis

The assets and liabilities of the Group were mainly recorded in Renminbi. For the first half year of 2018, the revenue from the Group's exports was approximately US\$128,241,000, which exposed the Group to the risks associated with the fluctuation of exchange rates. Therefore, the Group has taken the following measures to lower the risks from the fluctuation of exchange rates: (1) the Group has increased export prices; (2) the Group has made arrangements with overseas customers, when entering into material export contracts that the risks associated with the fluctuation in exchange rates shall be borne by both parties if the fluctuation exceeds the range agreed by both parties.

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

Total assets of the Group as at 30 June 2018 were approximately RMB5,671,642,000, representing an increase of 7.55% as compared with the beginning of the year. The increase in total assets was mainly due to profits from operations in the Reporting Period. As at 30 June 2018, loan amount was approximately RMB2,994,520,000, representing an increase of 11.15% as compared with the beginning of the year. The main reasons for the increase were the appropriate increase in bank loan, notes payable and accounts payable.

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

As at 30 June 2018, notes receivable and accounts receivable of the Group were RMB616,718,000,000 yuan. The Group's notes receivable increased by 41.49% as compared with the beginning of the year, mainly because of the expansion of scale of sale and that some of the payments for the sale have yet not fallen due during the Reporting Period.

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

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

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

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

Management Discussion and Analysis

As at 30 June 2018, the Group's deferred income tax liabilities was RMB24,049,000, representing an increase of 40.73% from the beginning of the year. The main reason for the increase was that the Company deducted the depreciation expense of machinery and equipment with a unit value of newly purchased not more than RMB5 million in the calculation of taxable income during the Reporting Period, according to the Ministry of Finance and the State Administration of Taxation [2018] No. 54 document.

The operating income of the Group amounted to RMB2,687,680,000 for the first half year, representing an increase of 11.83% as compared with the same period last year; and the operating profit of the Group amounted to RMB166,134,000, increasing by RMB11.13% as compared with the same period last year. The increase of operating income and operating profit are mainly attributable to active market exploration and enhanced marketing and sales efforts, with relatively rapid growth in the sales of APIs and preparation products.

The Group's selling expense amounted to RMB336,145,000 for the first half of 2018, representing an increase of 27.23% as compared with the same period last year, and the increase was mainly attributable to active market exploration, strengthening the preparation strategy brand construction, and marketing cost increases.

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

For the first half of 2018, net cash flow from operating activities of the Group was approximately RMB136,331,000, representing an increase of RMB126,774,000 as compared with the same period last year. The main reason is that the fund operation management was continuously strengthened during the Reporting Period. Through reasonable allocation of funds, the net cash flow from operating activities increased significantly as compared with the same period last year.

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

For the first half of 2018, net cash flow from financing activities of the Group was RMB123,039,000, representing a decrease of RMB25,386,000 as compared with the same period last year. The decrease was mainly due to repayment for part of the loan due.

For the first half year of 2018, the Group's net increase in cash and cash equivalents was RMB143,273,000, representing an increase of RMB94,770,000 as compared with the same period last year, attributable mainly to the increase of net cash flow from operating activities.

Management Discussion and Analysis

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

	Operating income	Operating costs	Gross profit rate (%)	Change in operating income as compared to the same period last year (%)	Change in operating costs as compared to the same period last year (%)	Change in gross profit rate as compared to the same period last year
By industry						
Chemical bulk drugs	1,173,577,615.67	852,207,304.84	27.38	11.79	17.70	Decrease by 3.65 percentage points
Preparations	1,182,629,382.39	782,936,942.63	33.80	10.80	(0.14)	Increase by 7.25 percentage points
Medical intermediates and other products	331,473,142.17	303,812,028.96	8.34	15.89	29.21	Decrease by 9.45 percentage points
Total	2,687,680,140.23	1,938,956,276.43	27.86	11.83	11.23	Increase by 0.40 percentage points
By product						
Antipyretic and analgesic active	1,173,577,615.67	852,207,304.84	27.38	11.79	17.70	Decrease by 3.65 percentage points
Tablet, injection, capsule etc.	1,182,629,382.39	782,936,942.63	33.80	10.80	(0.14)	Increase by 7.25 percentage points
Medical intermediates and others	331,473,142.17	303,812,028.96	8.34	15.89	29.21	Decrease by 9.45 percentage points
Total	2,687,680,140.23	1,938,956,276.43	27.86	11.83	11.23	Increase by 0.40 percentage points
By geographical location						
PRC (including Hong Kong)	1,877,197,587.18	1,306,421,716.16	30.41	12.86	12.47	Increase by 0.25 percentage points
America	404,603,284.92	322,686,697.07	20.25	21.14	9.38	Increase by 8.58 percentage points
Europe	150,797,141.32	110,233,275.00	26.90	(13.14)	(28.96)	Increase by 16.28 percentage points
Others	255,082,126.81	199,614,588.20	21.74	9.75	51.86%	Decrease by 21.71 percentage points
Total	2,687,680,140.23	1,938,956,276.43	27.86	11.83	11.23	Increase by 0.40 percentage points

Management Discussion and Analysis

An analysis of the composition of and change in profits as compared to 2017 is as follows:

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

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

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

- (1) The total registered capital of Zibo Xinhua-Perrigo Pharmaceutical Company Limited is US\$20,949,000, and the Company holds 50.1% of its equity interest. This company is mainly engaged in producing and selling APIs and solid preparations. As at 30 June 2018, the total assets of the company were RMB201,157,000, and equity attributable to shareholders of the company was RMB180,431,000. For the first half of 2018, the operating income and the total profits of the company were RMB94,264,000 and RMB18,058,000 respectively, representing an increase of 30.37% and an increase of 254.94% respectively as compared with the same period last year. The increase in the operating income and total profits was mainly due to the increase in both sales volume and sales prices.
- (2) The total registered capital of Shandong Xinhua Pharmaceutical Trade Co., Ltd. is RMB48,499,000, and the Company holds 100% of its equity interest. This subsidiary is mainly engaged in such businesses as prepared Chinese herbal medicine for decoction, traditional Chinese medicine, chemical bulk drugs, chemical preparations, antibiotics, biochemical medicine, biological products (excluding vaccine), health food, drugs and products for birth control and cosmetics. As at 30 June 2018, the total assets of the subsidiary were RMB353,729,000, and equity attributable to shareholders of the subsidiary was RMB1,869,000. In the first half of 2018, the operating income of the subsidiary was RMB794,543,000, representing a decrease of 3.36% as compared with the same period last year, which was mainly attributable to the decrease in sales of commercial preparations, and the total profits of the subsidiary was RMB3,391,000, representing a decrease of 11.37% as compared with the same period last year. The fall in the total profits was mainly attributable to the increase in selling expenses as the Company implemented its greater preparations strategy and strengthened brand building for the strategy.

Management Discussion and Analysis

- (3) The total paid-up capital of Xinhua Pharmaceutical (Shouguang) Company Limited is RMB230,000,000, and the Company holds 100% of its equity interest. This subsidiary is mainly engaged in producing and selling chemical products. As at 30 June 2018, the total assets of the subsidiary were RMB764,240,000, and equity attributable to shareholders of the subsidiary was RMB424,917,000. In the first half of 2018, the operating income and the total profits of the subsidiary were RMB444,434,000 and RMB18,789,000 respectively, representing an increase of 15.19% and an decrease of 53.99% respectively as compared with the same period last year. The increase was attributable to increased sales volume as a result of seizing market opportunities. The decrease was mainly due to the increase in the procurement cost of raw materials during the Reporting Period.
- (4) The Company holds 60% of equity interests in Shandong Zibo Xincat Pharmaceutical Co., Ltd. The paid-up capital of Zibo Xincat was RMB84,930,000, and it was mainly engaged in producing and selling drugs. As at 30 June 2018, the total assets of the subsidiary amounted to RMB227,643,000 and shareholders' equity amounted to RMB111,070,000. In the first half of 2018, it achieved an operating income of RMB178,647,000, representing an increase of 20.62% as compared with the same period last year. The increase was mainly due to a year-on-year growth in the sales volume of products due to the Company's increased efforts in the expansion in preparation market. It recorded total profits of RMB10,106,000, representing a decrease of 25.00% as compared with that of last year. The decrease was mainly due to the increase in the procurement cost of raw materials.

3. DIVIDEND DISTRIBUTION DURING THE REPORTING PERIOD

The Board did not propose distribution of half-year dividend for the six months ended 30 June 2018 (2017 interim dividend: Nil).

Review of Major Events

Save as disclosed herein:

1. The Company has generally complied with the relevant PRC regulatory requirements of corporate governance regarding listed companies.
2. The Plan for Profit Distribution and Capital Reserve Capitalisation for Year 2017 has been approved at the Annual General Meeting for year 2017, the first A Share Class Meeting in 2018 and the first H Share Class Meeting in 2018 respectively.
3. In respect of the Plan for Profit Distribution and Capital Reserve Capitalisation for Year 2017, the Company has in July 2018 by way of capitalisation of the capital reserve of the Company (3 capitalisation Shares for every 10 existing Shares) issued a total of 143,506,026 new Shares (comprising 45,000,000 new H Shares and 98,506,026 new A Shares) based on the Company's total issued Shares of 478,353,421 Shares (comprising 150,000,000 H Shares and 328,353,421 A Shares) as at 31 December 2017. As at the date of this announcement, the total issued Shares of the Company are 621,859,447 Shares (comprising 195,000,000 H Shares and 426,859,447 A Shares). For this Reporting Period and the six months ended 30 June 2017, the Board has not recommended any interim dividend or interim conversion of any capital reserve into share capital.
4. The Group was not involved in any material litigation or arbitration, whether pending or threatened, during the Reporting Period.
5. There was no material purchase or disposal of assets or asset reorganization of the Company during the Reporting Period and no such incident took place before the Reporting Period and carried over to the Reporting Period. The Company has not planned for any material investment in the coming year.
6. Material related party transactions:

Related Party transactions conducted during the Reporting Period are set out in Note XI Relationship with Related Parties transactions to the Financial Statements of this Report compiled in accordance with CASBE.
7. During the Reporting Period, there were no material entrustment, subcontracting or lease of assets between the Company and other companies.
8. The specific illustration and independent opinions of the independent non-executive directors in respect of the use of funds by related parties and foreign guarantee provided are as follows:

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

There were no guarantees provided in favour of any controlling shareholders, non-legal entities or individuals which were prejudicial to the interests of the Company and its Shareholders, in particular the minority shareholders of the Company. As of 30 June 2018, there was no overdue debt of which the Company has made foreign guarantees and the Company had no liability arising from any guarantee due to the default of a guaranteed party.
9. Disclosures that the Company or Shareholders holding more than 5% of the total number of issued Shares has/ have committed to make:

Nil

Review of Major Events

10. Purchase, Sale and Redemption of Shares:

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

11. Entrusted Management of Funds

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

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

Stock short		Initial	Proportion	Book	Profit/loss	Change in	Accounting	Share source
Stock code	name	investment	of equity	value at	over the	shareholder's		
		amount	interest in	end of the	Reporting	equity over	the Reporting	
			investee	Reporting	Period	the Reporting	Period	
601601	China Pacific Insurance	7,000,000.00	0.06%	159,250,000.00	-	(47,850,000.00)	Other equity instruments	Purchase
601328	BANKCOMM	14,225,318.00	0.01%	47,178,208.00	-	(3,863,024.00)	Other equity instruments	Purchase
Total		21,225,318.00	-	206,428,208.00	-	(51,713,024.00)		

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

14. Performance of other social responsibilities

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

Review of Major Events

Name of Company or Subsidiary	Names of Key Pollutants and Special Types of Pollutants	Discharge Mode	Number of Discharge Outlets	Distribution of Discharge Outlets	Discharge Concentration	Implemented Standards for Discharge of Pollutants	Total Amount of Discharge	Approved Total Amount of Discharge	Excessive Discharge
Shandong Xinhua Pharmaceutical Company Limited	Wastewater: chemical oxygen demand, ammonia nitrogen.	Continuous wastewater discharge	Three main wastewater outlet	Main wastewater outlet of No.1 factory: No. 13, Huagong Road, Hi-tech Industry Development Zone, Zibo City.	No. 1 factory: COD concentration less than 400 mg/L; ammonia nitrogen concentration less than 30 mg/L.	Wastewater: COD concentration less than 500 mg/L; ammonia nitrogen concentration less than 45 mg/L.	No. 1 factory: total amount of COD less than 600 tons/year; total amount of ammonia nitrogen less than 40 tons/year.	No. 1 factory: 836.33 tons/year of COD; 75.27 tons/year of ammonia nitrogen.	None
Shandong Xinhua Pharmaceutical Company Limited	Wastewater: chemical oxygen demand, ammonia nitrogen.	Continuous wastewater discharge	Three main wastewater outlet	Main wastewater outlet of No. 2 factory: No. 229, Changguodong Road, East Chemical Industrial Zone, Zhangdian District, Zibo City.	No. 2 factory: COD concentration less than 400 mg/L; ammonia nitrogen concentration less than 30 mg/L.	Wastewater: COD less than 500 mg/L; ammonia nitrogen less than 45 mg/L.	No. 2 factory: total amount of COD less than 500 tons/year; total amount of ammonia nitrogen less than 20 tons/year.	No. 2 factory: 982.5 tons/year of COD; 88.43 tons/year of ammonia nitrogen.	None
Shandong Xinhua Pharmaceutical Company Limited	Wastewater: chemical oxygen demand, ammonia nitrogen.	Continuous wastewater discharge	Three main wastewater outlet	Main wastewater outlet of general factory: No. 19, Dong Yi Road, Zhangdian District, Zibo City.	General factory: COD concentration less than 250 mg/L; ammonia nitrogen concentration less than 20 mg/L.	Wastewater: COD less than 500 mg/L; ammonia nitrogen less than 45 mg/L.	General factory: total amount of COD less than 12 tons/year; total amount of ammonia nitrogen less than 1 ton/year.	General factory: in accordance with the centralized policy measures of the Ministry of Environmental Protection, the application procedure for emission permits for chemical preparations and manufacturing industry is expected to begin in 2020.	None

Review of Major Events

Name of Company or Subsidiary	Names of Key Pollutants and Special Types of Pollutants	Discharge Mode	Number of Discharge Outlets	Distribution of Discharge Outlets	Discharge Concentration	Implemented Standards for Discharge of Pollutants	Total Amount of Discharge	Approved Total Amount of Discharge	Excessive Discharge
Shandong Xinhua Pharmaceutical Company Limited	Exhaust gas: volatile organic compound (VOC) (calculated according to Non-methane hydrocarbons, *NMHC*), sulfur dioxide, nitrogen oxide, particulate matter.	Exhaust gas emission at interval	There are more exhaust outlets. Please refer to appendix of the emission permit.	Three production areas	No. 1 factory: NMHC concentration less than 80 mg/m ³ .	Exhaust gas: NMHC concentration less than 120 mg/m ³ .	No. 1 factory: total amount of NMHC concentration less than 80 tons/year.	No. 1 factory: 149.11 tons/year of VOC.	None
Shandong Xinhua Pharmaceutical Company Limited	Exhaust gas: volatile organic compound (VOC) (calculated according to NMHC), sulfur dioxide, nitrogen oxide, particulate matter.	Exhaust gas emission at interval	There are more exhaust outlets. Please refer to appendix of the emission permit.	Three production areas	No. 2 factory: NMHC concentration less than 80 mg/m ³ ; sulfur dioxide concentration less than 45 mg/m ³ ; nitrogen oxide concentration less than 90 mg/m ³ ; particulate matter concentration less than 8 mg/m ³ .	Exhaust gas: NMHC concentration less than 120 mg/m ³ ; sulfur dioxide concentration less than 50 mg/m ³ ; nitrogen oxide concentration less than 100 mg/m ³ ; particulate matter concentration less than 10 mg/m ³ .	No. 2 factory: total amount of NMHC concentration less than 80 tons/year; total amount of sulfur dioxide concentration less than 10 tons/year; total amount of nitrogen oxide concentration less than 20 tons/year; total amount of particulate matter concentration less than 5 tons/year.	No. 2 factory: 150.21 tons/year of VOC; 19.19 tons/year of sulfur dioxide; 39 tons/year of nitrogen oxide; 9.18 tons/year of particulate matter.	None

Review of Major Events

Name of Company or Subsidiary	Names of Key Pollutants and Special Types of Pollutants	Discharge Mode	Number of Discharge Outlets	Distribution of Discharge Outlets	Discharge Concentration	Implemented Standards for Discharge of Pollutants	Total Amount of Discharge	Approved Total Amount of Discharge	Excessive Discharge
Shandong Xinhua Pharmaceutical Company Limited	Exhaust gas: volatile organic compound (VOC) (calculated according to NMHC), sulfur dioxide, nitrogen oxide, particulate matter.	Exhaust gas emission at interval	There are more exhaust outlets. Please refer to appendix of the emission permit.	Three production areas	General factory: NMHC concentration less than 80 mg/m ³ .	Exhaust gas: NMHC concentration less than 120 mg/m ³ ;	General factory: NMHC concentration less than 15 tons/year.	General factory: in accordance with the centralized policy measures of the Ministry of Environmental Protection, the application procedure for emission permits for chemical preparations and manufacturing industry is expected to begin in 2020.	None
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Wastewater: chemical oxygen demand.	Continuous wastewater discharge	1	Wastewater discharged into the sewage treatment plant of the No. 1 factory from the Department of Environmental Protection of Shandong Xinhua Pharmaceutical Company Limited.	COD concentration less than 400 mg/L.	Wastewater: COD concentration less than or equal to 500 mg/L.	Total amount of COD less than 80 tons/year.	90 tons/year of COD.	None
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Exhaust gas: volatile organic compound (VOC).	Exhaust gas emission at interval	3	Composite plant	VOC concentration less than 80 mg/L.	Exhaust gas: VOC concentration less than 120 mg/m ³ .	Total amount of VOC less than 10 tons/year.	18.526 tons/year of VOC.	None

Review of Major Events

Name of Company or Subsidiary	Names of Key Pollutants and Special Types of Pollutants	Discharge Mode	Number of Discharge Outlets	Distribution of Discharge Outlets	Discharge Concentration	Implemented Standards for Discharge of Pollutants	Total Amount of Discharge	Approved Total Amount of Discharge	Excessive Discharge
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Wastewater (chemical oxygen demand, ammonia nitrogen).	Continuous discharge	1	Main wastewater outlet	COD (400 mg/L); ammonia nitrogen (250 mg/L)	COD (500 mg/L); ammonia nitrogen (45 mg/L).	Total amount of COD less than 10 ton/year, ammonia nitrogen less than 0.65 ton/year.	COD concentration (21.7366 tons/year), ammonia nitrogen (0.76 tons).	None
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Exhaust outlets (sulfur dioxide, nitrogen oxide, NMHC, etc.).	Discharge at Interval	13	Pyrazolone: 2; Ziurea: 2; DK workshop: 7; chloropropionyl chloride: 1; sulfuric acid: 1	Sulfur dioxide (45 mg/m ³); nitrogen oxide (95 mg/m ³); NMHC (80 mg/m ³)	Sulfur dioxide (50 mg/m ³); nitrogen oxide (100 mg/m ³); NMHC (120 mg/m ³).	Total amount of sulfur dioxide less than 12 tons/year; nitrogen oxide less than 12 tons/year.	Total amount of sulfur dioxide (13.04 tons/year); nitrogen oxide (15.1 tons/year); no approved amount for NMHC.	None

Construction and operation of pollution prevention & treatment facilities

(1) Waste water treatment

The Company, Xinhua-Perrigo and Shouguang have in place respectively three, one and six sewage treatment facilities with treatment capacity of 12,000 tons/day, 400 tons/day and 3,000 tons/day respectively, to fully meet the requirement of consistently reaching the wastewater discharge standards.

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

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

Review of Major Events

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

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

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

(2) Waste gas control and treatment

We mainly apply source point control:

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

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

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

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

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

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

Review of Major Events

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

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

(3) Hazardous Wastes Treatment

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

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

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

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

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

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

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

Review of Major Events

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

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

Content and reason of accounting policy change	Approval	Remarks
"CAS No.22 – Financial Instruments: Recognition and Measurement", "CAS No.23 – Transfer of Financial Assets" and "CAS No.24 – Hedging Accounting", as revised by the Ministry of Finance of PRC by CK [2017] No.7, No. 8 and No.9, and "CAS No.37 – Financial Instruments: Presentation" as revised by the Ministry of Finance of PRC on 2 May 2017, have all come into force on 1 January 2018. In preparing the interim financial reporting of 2018, the Group has implemented the updated accounting standards and made the relevant treatments pursuant to the relevant transitional arrangements.	The relevant accounting policy changes were approved by the third meeting of the ninth Board of Directors of the Company on 19 April 2018.	Note 1
"CAS No.14 –Revenue" as revised by the Ministry of Finance of PRC by CK [2017] No.22 has been in force since 1 January 2018. In preparing the interim financial reporting of 2018, the Group has implemented the updated accounting standards and made the relevant treatments pursuant to the relevant transitional arrangements.	The relevant accounting policy changes were approved by the third meeting of the ninth Board of Directors of the Company on 19 April 2018.	Note 2
<i>Note 1 :</i> The above-mentioned changes in accounting policies in respect of financial instruments had no significant effect on the Company's retained earnings and other comprehensive income at the beginning of 2018 and retrospective application is not required.		
<i>Note 2 :</i> The above changes in accounting policies in respect of income did not cause material changes to the Company's revenue recognition method, have no significant effect on the Company's net profit, total assets and net assets during the current period and the preceding period, and are not required to retrospectively apply.		

Corporate Governance

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

AUDIT COMMITTEE

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

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

The audit committee agreed to the accounting standards, principles and methods adopted by the Group for the unaudited interim accounts for the six months ended 30 June 2018, and agreed that adequate disclosure had been made.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of a sufficient number of independent non-executive Directors and at least one independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive Directors, including one with financial management expertise. The biographical details were set out in the 2017 Annual Report of the Company and the announcements on Juchao website (<http://www.cninfo.com.cn>), HKExnews and on the Company’s website dated 29 June 2018.

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

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

Consolidated Balance Sheet

30 June 2018

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

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current assets:			
Monetary funds	VI(1)	904,875,827.43	731,126,274.34
Notes receivable and accounts receivable	VI(2)	616,717,514.07	435,871,810.21
Prepayments	VI(3)	31,556,431.76	22,806,947.53
Other receivables	VI(4)	35,825,821.08	45,017,383.05
Inventories	VI(5)	670,637,678.24	713,210,692.52
Other current assets	VI(6)	43,672,572.74	61,956,321.18
Total current assets		2,303,285,845.32	2,009,989,428.83
Non-current assets:			
Other equity instrument investment	VI(7)	206,428,208.00	258,141,232.00
Investment real estate	VI(8)	71,837,725.25	73,441,754.87
Fixed assets	VI(9)	2,247,412,338.30	2,152,905,567.58
Projects in progress	VI(10)	497,566,401.65	434,545,877.52
Intangible assets	VI(11)	319,920,868.08	323,563,478.78
Goodwill	VI(12)	—	—
Deferred income tax assets	VI(13)	25,190,614.69	21,059,785.05
Total non-current assets		3,368,356,155.97	3,263,657,695.80
Total assets		5,671,642,001.29	5,273,647,124.63

Consolidated Balance Sheet (Continued)

30 June 2018

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

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

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current liabilities:			
Short-term loans	VI(14)	235,835,230.51	151,837,507.11
Notes payable and accounts payable	VI(15)	889,668,443.16	738,293,026.61
Contract liability	VI(16)	135,268,638.54	123,295,214.99
Payroll payable	VI(17)	36,452,415.98	68,460,743.73
Taxes and dues payable	VI(18)	26,265,286.98	11,997,561.61
Other payables	VI(19)	355,249,530.78	302,014,632.23
Non-current liabilities due within one year	VI(20)	433,870,832.30	89,621,673.88
Other current liabilities	VI(21)	5,827,410.00	5,319,000.00
Total current liabilities		2,118,437,788.25	1,490,839,360.16
Non-current liabilities:			
Long-term loans	VI(22)	618,500,000.00	931,500,000.00
Long-term payables	VI(23)	94,918,449.99	119,501,721.66
Deferred income	VI(24)	135,052,907.02	131,701,917.02
Deferred income tax liabilities	VI(13)	24,049,001.75	17,089,244.98
Other non-current liabilities	VI(25)	3,561,500.00	3,561,500.00
Total non-current liabilities		876,081,858.76	1,203,354,383.66
Total liabilities		2,994,519,647.01	2,694,193,743.82

Consolidated Balance Sheet (Continued)

30 June 2018

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

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Owners' equity:			
Capital stock	VI(26)	478,353,421.00	478,353,421.00
Capital reserves	VI(27)	728,450,324.94	728,450,324.94
Less: Treasury stock		—	—
Other comprehensive income	VI(28)	155,741,079.07	199,385,406.07
Special reserve	VI(29)	—	—
Surplus reserve	VI(30)	235,321,577.01	235,509,229.07
Undistributed profits	VI(31)	937,959,191.86	838,325,395.51
Total of equity attributable to the owners of parent company		2,535,825,593.88	2,480,023,776.59
Minority shareholders' equities		141,296,760.40	99,429,604.22
Total of owner's equity		2,677,122,354.28	2,579,453,380.81
Total of liabilities and owner's equity		5,671,642,001.29	5,273,647,124.63

Parent Company's Balance Sheet

30 June 2018

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

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

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current assets:			
Monetary funds		564,886,637.58	491,558,318.58
Trading financial assets		—	—
Notes receivable and accounts receivable	XVII(1)	552,078,964.42	363,499,995.20
Prepayments		13,907,387.69	15,726,914.49
Other receivables	XVII(2)	453,253,828.48	392,877,759.37
Inventories		365,522,648.23	402,460,268.50
Contract assets		—	—
Assets held for sale		—	—
Non-current assets due within one year		—	—
Other current assets		25,846,784.52	46,592,707.87
Total current assets		1,975,496,250.92	1,712,715,964.01
Non-current assets:			
Debt investment		—	—
Other debt investment		—	—
Long-term accounts receivable		—	—
Long-term equity investment	XVII(3)	506,637,432.56	468,244,841.06
Other equity instrument investment		206,428,208.00	258,141,232.00
Investment real estate		71,837,725.25	73,441,754.87
Fixed assets		1,677,819,452.25	1,584,557,779.57
Projects in progress		429,521,738.64	408,318,133.61
Productive biological assets		—	—
Oil and gas assets		—	—
Intangible assets		181,564,280.73	183,493,684.34
Development expenditure		—	—
Goodwill		—	—
Long-term expenditures to be amortized		—	—
Deferred income tax assets		—	—
Other non-current assets		—	—
Total non-current assets		3,073,808,837.43	2,976,197,425.45
Total assets		5,049,305,088.35	4,688,913,389.46

Parent Company's Balance Sheet (Continued)

30 June 2018

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

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

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current liabilities:			
Short-term loans		235,000,000.00	150,000,000.00
Tradable financial liabilities		—	—
Notes payable and accounts payable		763,319,607.90	551,017,319.74
Accounts received in advance		—	—
Contract liability		23,976,029.38	42,454,561.29
Payroll payable		33,762,778.03	62,614,572.86
Taxes and dues payable		6,806,787.96	7,446,536.94
Other payables		292,978,609.12	266,752,020.94
Liabilities held for sale		—	—
Non-current liabilities due within one year		433,870,832.30	89,621,673.88
Other current liabilities		5,827,410.00	5,319,000.00
Total current liabilities		1,795,542,054.69	1,175,225,685.65
Non-current liabilities:			
Long-term loan		618,500,000.00	931,500,000.00
Bonds payable		—	—
Including: Preferred stocks		—	—
Perpetual bond		—	—
Long-term payables		94,918,449.99	119,501,721.66
Long-term payroll payable		—	—
Estimated liabilities		—	—
Deferred income		135,052,907.02	131,701,917.02
Deferred income tax liabilities		22,280,107.07	17,077,542.22
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		874,312,964.08	1,203,342,680.90
Total liabilities		2,669,855,018.77	2,378,568,366.55

Parent Company's Balance Sheet (Continued)

30 June 2018

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

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

Unit: RMB Yuan

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Owners' equity:			
Capital stock		478,353,421.00	478,353,421.00
Other equity instruments		—	—
Including: Preferred stocks		—	—
Perpetual bond		—	—
Capital surplus		743,199,658.14	743,199,658.14
Less: Treasury stock		—	—
Other comprehensive income		157,422,456.50	201,378,526.90
Special reserve		—	—
Surplus reserve		229,067,589.94	229,067,589.94
General MSK reserve			
Undistributed profits		771,406,944.00	658,345,826.93
Total shareholders' equity		2,379,450,069.58	2,310,345,022.91
Total liabilities and shareholder's equity		5,049,305,088.35	4,688,913,389.46

Consolidated Income Statement

From January to June 2017

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

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

Unit: RMB Yuan

Item	Notes	Amount in the current period	Amount in the previous period
I. Gross operating income		2,687,680,140.23	2,403,274,161.26
Including: Operating income	VI(32)	2,687,680,140.23	2,403,274,161.26
II. Total operating costs		2,528,121,668.33	2,273,416,875.20
Including: Operating costs	VI(32)	1,938,956,276.43	1,743,223,368.05
Taxes and surcharges	VI(33)	30,449,981.00	32,208,204.39
Selling expenses	VI(34)	336,144,937.35	264,204,922.60
Administration expenses	VI(35)	112,700,479.79	108,935,545.13
R&D expenses	VI(36)	86,133,750.67	96,515,407.67
Financial expenses	VI(37)	20,038,707.52	36,124,129.67
Where: Interest payment		26,822,807.00	29,301,634.58
Interest income		1,550,160.56	1,535,252.61
Assets impairment loss	VI(38)	3,697,535.57	(7,794,702.31)
Add: Other incomes	VI(39)	5,212,300.00	6,055,999.98
Investment incomes (losses to be listed with brackets)	VI(40)	807,270.99	50,054.83
Gains from asset disposal (losses to be listed with brackets)	VI(41)	555,591.93	13,534,933.26
Including: Profit from sale of property (losses to be listed with brackets)		–	5,445,014.70
III. Operating profits (losses to be listed with brackets)		166,133,634.82	149,498,274.13
Add: Non-operating income	VI(42)	1,232,885.38	2,173,694.77
Less: Non-operating expenditure	VI(43)	4,025,918.20	4,109,579.79
IV. Total profits (total loss to be listed with brackets)		163,340,602.00	147,562,389.11
Less: Income tax expense	VI(44)	29,495,994.75	33,522,526.85
V. Net profits (net loss to be listed with brackets)		133,844,607.25	114,039,862.26
(I) According to operation continuity			
1 Net profit from continued operations (net losses to be listed in brackets)		133,844,607.25	114,039,862.26
2 Net profit from discontinued operations (net losses to be listed in brackets)			
(II) According to ownership			
Net profit attributable to shareholders of parent company		123,363,815.34	106,774,952.86
Minority interest income		10,480,791.91	7,264,909.40

Consolidated Income Statement (Continued)

From January to June 2017

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

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

Unit: RMB Yuan

Item	Notes	Amount in the current period	Amount in the previous period
VI. Net amount of other comprehensive income after tax		(43,570,110.67)	29,121,487.89
Net amount of other comprehensive income after tax attributable to the shareholders of parent company	VI(45)	(43,644,327.00)	28,851,695.89
(I) Other comprehensive income that cannot be reclassified to profit or loss		(43,956,070.40)	28,649,664.80
1. Changes in the fair value of other equity instrument investment	VI(45)	(43,956,070.40)	28,649,664.80
(II) Other comprehensive income to be reclassified to profit or loss	VI(45)	311,743.40	202,031.09
1. Exchange difference of foreign currency statement	VI(45)	311,743.40	202,031.09
Net amount of other comprehensive income after tax attributable to the minority shareholders		74,216.33	269,792.00
VII. Total comprehensive income		90,274,496.58	143,161,350.15
Total comprehensive income attributable to the shareholders of parent company		79,719,488.34	135,626,648.75
Total comprehensive income attributable to the minority shareholders		10,555,008.24	7,534,701.40
VIII. Earnings per share:			
(I) Basic earnings per share	XIX(2)	0.26	0.23
(II) Diluted earnings per share	XIX(2)	0.26	0.23

Parent Company's Income Statement

From January to June 2018

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

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

Unit: RMB Yuan

Item	Notes	Amount in the current period	Amount in the previous period
I. Operating income	XVII (4)	1,457,638,366.97	1,268,969,116.79
Less: Operating costs	XVII (4)	1,080,776,896.16	936,536,355.09
Taxes and surcharges		17,998,326.99	19,452,219.14
Selling expenses		44,358,582.92	24,149,694.53
Administration expenses		80,941,073.40	75,759,656.92
R&D cost		75,337,954.33	88,713,735.26
Financial expenses		23,328,805.82	35,531,679.13
Where: Interest payment		26,822,807.00	29,301,634.58
Interest income		1,145,194.05	1,226,821.51
Assets impairment loss		1,625,078.50	(1,068,037.72)
Add: Other incomes		5,212,300.00	6,055,999.98
Investment incomes (losses to be listed with brackets)	XVII (5)	19,830,820.24	2,691,554.92
Including: Income from investment into associates and joint ventures		—	—
Incomes from changes in fair value (losses to be listed with brackets)		—	—
Profit from sale of property (losses to be listed with brackets)		1,221,827.51	7,878,677.98
II. Operating profit (loss to be listed with brackets)		159,536,596.60	106,520,047.32
Add: Non-operating income		777,950.58	2,049,041.63
Less: Non-operating expenditure		3,822,295.24	2,461,899.71
III. Total profits (total loss to be listed with brackets)		156,492,251.94	106,107,189.24
Less: Income tax expense		19,513,463.82	16,615,552.69
IV. Net profit (net loss to be listed with brackets)		136,978,788.12	89,491,636.55
(I) Net profit from continued operations (net losses to be listed in brackets)		136,978,788.12	89,491,636.55
(II) Net profit from discontinued operations (net losses to be listed in brackets)			
V. Net amount of other comprehensive income after tax		(43,956,070.40)	28,649,664.80
(I) Other comprehensive income that cannot be reclassified to profit or loss			
1. Changes in the fair value of other equity instrument investment		(43,956,070.40)	28,649,664.80
(II) Other comprehensive income to be reclassified to profit or loss		(43,956,070.40)	28,649,664.80
VI. Total comprehensive income		93,022,717.72	118,141,301.35
VII. Earnings per share			
(I) Basic earnings per share		—	—
(II) Diluted earnings per share		—	—

Consolidated Cash Flow Statement

From January to June 2018

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

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

Unit: RMB Yuan

Item	Notes	Amount in the current period	Amount in the previous period
I. Cash flow from operating activities:			
Cash received from sales of goods and rendering of services		1,970,011,784.72	1,544,119,974.47
Refunds of taxes received		34,729,313.93	15,184,383.69
Other cash received from operating-related activities	VI.46(1)	17,190,914.42	74,408,057.43
Subtotal of cash inflows from operating activities		2,021,932,013.07	1,633,712,415.59
Cash paid for goods purchased and labor services received		1,090,311,618.99	945,934,708.77
Cash paid to and for employees		349,855,202.56	288,591,684.50
Cash paid for taxes and surcharges		128,573,384.58	153,655,602.87
Other cash paid related to operating activities	VI.46(2)	316,860,566.06	235,972,836.03
Subtotal of cash outflows from operating activities		1,885,600,772.19	1,624,154,832.17
Net cash flow from operating activities		136,331,240.88	9,557,583.42
II. Cash flow generated from investing activities:			
Cash received from redemption of investments		—	—
Cash received from returns on investments		807,270.99	50,054.83
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		845,937.00	8,383,694.00
Net cash received from disposal of subsidiaries and other business entities		—	—
Other cash received related to investing activities	VI.46(3)	—	30,000,000.00
Subtotal of cash inflows from investing activities		1,653,207.99	38,433,748.83
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		120,776,063.74	146,577,927.00
Cash paid for investments		—	—
Net cash paid for acquisitions of subsidiaries and other business entities		—	—
Other cash paid related to investing activities		—	—
Subtotal of cash outflow from investing activities		120,776,063.74	146,577,927.00
Net cash flow from investing activities		(119,122,855.75)	(108,144,178.17)

Consolidated Cash Flow Statement (Continued)

From January to June 2018

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

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

Unit: RMB Yuan

Item	Notes	Amount in the current period	Amount in the previous period
III. Cash flows from financing activities:			
Cash received from capital contributions		46,942,796.00	–
Including: Cash received from subsidiaries' absorption of investments from minority shareholders		46,942,796.00	–
Cash received from acquisitions of loans		305,000,000.00	1,024,000,000.00
Cash received from bond issues		–	–
Other cash received related to financing activities	VI.46(4)	16,986,600.00	72,000,000.00
Subtotal of cash inflows from financing activities		368,929,396.00	1,096,000,000.00
Cash paid for repayment of debts		163,000,000.00	875,000,000.00
Cash paid for distributing dividends and profits or paying interest		36,520,679.36	29,912,175.64
Including: Dividends and profits paid to minority shareholders by subsidiary		–	1,448,025.08
Other cash paid related to financing activities	VI.46(5)	46,369,891.84	42,663,228.23
Subtotal of cash outflows from financing activities		245,890,571.20	947,575,403.87
Net cash flows from financing activities		123,038,824.80	148,424,596.13
IV. Effect of foreign exchange rate changes on cash and cash equivalents		3,025,965.75	(1,334,540.30)
V. Net increase in cash and cash equivalents		143,273,175.68	48,503,461.08
Add: Cash and cash equivalents at the beginning of the period		682,862,651.75	493,092,656.71
VI. Cash and cash equivalents at the end of the period		826,135,827.43	541,596,117.79

Parent Company's Cash Flow Statement

From January to June 2017

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

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

Unit: RMB Yuan

Item	Notes	Amount in the current period	Amount in the previous period
I. Cash flow from operating activities:			
Cash received from sales of goods and rendering services		948,601,033.66	791,273,402.60
Refunds of taxes received		27,578,215.69	10,437,486.97
Other cash received from operating-related activities		6,497,302.69	65,431,407.60
Subtotal of cash inflows from operating activities		982,676,552.04	867,142,297.17
Cash paid for goods purchased and labor services received		516,943,753.43	535,976,478.14
Cash paid to and for employees		217,083,120.48	198,404,932.34
Cash paid for taxes and surcharges		51,340,067.32	59,327,132.73
Other cash paid related to operating activities		88,608,248.84	54,758,132.99
Subtotal of cash outflows from operating activities		873,975,190.07	848,466,676.20
Net cash flow from operating activities		108,701,361.97	18,675,620.97
II. Cash flow generated from investing activities:			
Cash received from redemption of investments		—	—
Cash received from returns on investments		807,270.99	2,691,554.92
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		715,000.00	8,383,694.00
Net cash received from disposal of subsidiaries and other business entities		7,539,637.21	—
Other cash received related to investing activities		—	—
Subtotal of cash inflows from investing activities		9,061,908.20	11,075,248.92
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		95,232,627.75	102,047,481.84
Cash paid for investments		—	—
Net cash paid for acquisitions of subsidiaries and other business entities		—	—
Other cash paid related to investing activities		49,000,000.00	150,000,000.00
Subtotal of cash outflow from investing activities		144,232,627.75	117,047,481.84
Net cash flow from investing activities		(135,170,719.55)	(105,972,232.92)

Parent Company's Cash Flow Statement (Continued)

From January to June 2017

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

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

Unit: RMB Yuan

Item	Notes	Amount in the current period	Amount in the previous period
III. Cash flows from financing activities:			
Cash received from capital contributions			
Cash received from acquisitions of loans		305,000,000.00	1,024,000,000.00
Cash received from bond issues		—	—
Other cash received relating to financing activities		6,576,600.00	72,000,000.00
Subtotal of cash inflows from financing activities		311,576,600.00	1,096,000,000.00
Cash paid for repayment of debts		163,000,000.00	875,000,000.00
Cash paid for distributing dividends and profits or paying interest		36,520,679.36	28,464,150.56
Other cash paid related to financing activities		43,312,698.74	42,663,228.23
Subtotal of cash outflows from financing activities		242,833,378.10	946,127,378.79
Net cash flows from financing activities		68,743,221.90	149,872,621.21
IV. Effect of foreign exchange rate changes on cash and cash equivalents		508,077.27	(1,021,368.79)
V. Net increase in cash and cash equivalents		42,781,941.59	61,554,640.47
Add: Balance of cash and cash equivalents at the beginning of the period		457,664,695.99	358,666,787.39
VI. Balance of cash and cash equivalents at the end of the period		500,446,637.58	420,221,427.86

Consolidated Statement of Changes in Owner's Equity

From January to June 2017

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

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

Unit: RMB Yuan

Amount in the current period													
Item	Equity attributable to the shareholders of parent company												
	Capital stock	Other equity instruments			Capital surplus	Treasury stock	Less: comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits	Minority shareholders' equity	Total owner's equity
		Preferred stocks	Perpetual bond	Others									
I. Balance at the end of the previous year	478,353,421.00	-	-	-	728,450,324.94	-	199,385,406.07	-	235,509,229.07	-	838,325,395.51	99,429,604.22	2,579,453,380.81
Add: changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of the previous period accounting errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business merger under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of the current year	478,353,421.00	-	-	-	728,450,324.94	-	199,385,406.07	-	235,509,229.07	-	838,325,395.51	99,429,604.22	2,579,453,380.81
III. Increase/decrease in the current period (decrease to be listed with "bracket")	-	-	-	-	-	-	(43,644,327.00)	-	(187,652.06)	-	99,633,796.35	41,867,156.18	97,668,973.47
(I) Total comprehensive income	-	-	-	-	-	-	(43,644,327.00)	-	-	-	123,363,815.34	10,555,008.24	90,274,496.58
(II) Invested and decreased capital of shareholders	-	-	-	-	-	-	-	-	(187,652.06)	-	187,652.06	43,885,602.90	43,885,602.90
1. Ordinary shares contributed by the shareholders	-	-	-	-	-	-	-	-	-	-	-	46,942,796.00	46,942,796.00
2. Capital contributed by holder of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment included in as share holder's equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	(187,652.06)	-	187,652.06	(3,057,193.10)	(3,057,193.10)
(III) Profit distribution	-	-	-	-	-	-	-	-	-	-	(23,917,671.05)	(12,573,454.96)	(36,491,126.01)
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Appropriation of general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owners (or shareholders)	-	-	-	-	-	-	-	-	-	-	(23,917,671.05)	(12,573,454.96)	(36,491,126.01)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal carryover in shareholder's equities	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital surplus converted to capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserve converted to capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve to recover losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Changes in defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current period	-	-	-	-	-	-	-	7,414,945.29	-	-	-	-	7,414,945.29
2. Amount used in the current period	-	-	-	-	-	-	-	7,414,945.29	-	-	-	-	7,414,945.29
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at end of the current period	478,353,421.00	-	-	-	728,450,324.94	-	155,741,079.07	-	235,321,577.01	-	937,959,191.86	141,296,760.40	2,677,122,354.28

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

From January to June 2017

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

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

Unit: RMB Yuan

Item	Amount in the previous year													
	Equity attributable to the shareholders of parent company												Minority shareholders' equity	Total owner's equity
	Capital stock	Preferred stocks	Perpetual bond	Others	Capital surplus	Treasury stock	Less: Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits			
I. Balance at the end of the previous year	457,312,830.00	-	-	-	513,092,452.66	-	139,421,221.69	-	221,217,539.36	-	657,375,780.62	90,887,601.32	2,079,307,425.65	
Add: changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	
Corrections of previous period accounting errors	-	-	-	-	-	-	-	-	-	-	-	-	-	
Business merger under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	
II. Balance at the beginning of the current year	457,312,830.00	-	-	-	513,092,452.66	-	139,421,221.69	-	221,217,539.36	-	657,375,780.62	90,887,601.32	2,079,307,425.65	
III. Increase/decrease of the current period (decrease to be listed with "bracket")	21,040,591.00	-	-	-	215,357,872.28	-	59,964,184.38	-	14,291,689.71	-	180,949,614.89	8,542,002.90	500,145,955.16	
(I) Total comprehensive income	-	-	-	-	-	-	59,964,184.38	-	-	-	209,591,907.23	11,487,027.98	281,043,119.59	
(II) Invested and decreased capital of shareholders	21,040,591.00	-	-	-	215,357,872.28	-	-	-	-	-	-	-	236,398,463.28	
1. Ordinary shares contributed by the shareholders	21,040,591.00	-	-	-	202,357,872.28	-	-	-	-	-	-	-	223,398,463.28	
2. Capital contributed by holder of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Amount of share-based payment included on shareholder's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	
4. Others	-	-	-	-	13,000,000.00	-	-	-	-	-	-	-	13,000,000.00	
(III) Profit distribution	-	-	-	-	-	-	-	-	14,291,689.71	-	(28,642,292.34)	(2,945,025.08)	(17,295,627.71)	
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	14,291,689.71	-	(14,291,689.71)	-	-	
2. Appropriation of general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Distribution to owners (or shareholders)	-	-	-	-	-	-	-	-	-	-	(14,350,602.63)	(2,945,025.08)	(17,295,627.71)	
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	
(IV) Internal carryover in shareholder's equities	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Capital surplus converted to capital	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Surplus reserve converted to capital	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Surplus reserve to recover losses	-	-	-	-	-	-	-	-	-	-	-	-	-	
4. Changes in defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	
5. Other comprehensive transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	
6. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Appropriation in the current year	-	-	-	-	-	-	-	13,913,749.64	-	-	-	-	13,913,749.64	
2. Amount used in the current year	-	-	-	-	-	-	-	13,913,749.64	-	-	-	-	13,913,749.64	
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-	-	
IV. Balance at end of the current period	478,353,421.00	-	-	-	728,450,324.94	-	199,385,406.07	-	235,509,229.07	-	838,325,395.51	99,429,604.22	2,579,453,380.81	

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

From January to June 2017

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

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

Unit: RMB Yuan

Item	Amount in the current period										
	Capital stock	Other equity instruments			Capital surplus	Treasury stock	Less: comprehensive income	Other reserve	Surplus reserve	Undistributed profits	Total owner's equity
		Preferred stocks	Perpetual bond	Others							
I. Balance at the end of the previous year	478,353,421.00	-	-	-	743,199,658.14	-	201,378,526.90	-	229,067,589.94	658,345,826.93	2,310,345,022.91
Add: changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of the previous period accounting errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of the current year	478,353,421.00	-	-	-	743,199,658.14	-	201,378,526.90	-	229,067,589.94	658,345,826.93	2,310,345,022.91
III. Increase/decrease in the period (decrease to be listed with "bracket")	-	-	-	-	-	-	(43,956,070.40)	-	-	113,061,117.07	69,105,046.67
(I) Total comprehensive income	-	-	-	-	-	-	(43,956,070.40)	-	-	136,978,788.12	93,022,717.72
(II) Invested and decreased capital of shareholders	-	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares contributed by the shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by holder of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment included in shareholder's equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution	-	-	-	-	-	-	-	-	-	(23,917,671.05)	(23,917,671.05)
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	-	-	-
2. Distribution to owners (or shareholders)	-	-	-	-	-	-	-	-	-	(23,917,671.05)	(23,917,671.05)
3. Others	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal carryover in shareholder's equities	-	-	-	-	-	-	-	-	-	-	-
1. Capital surplus converted to capital	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserve converted to capital	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve to recover losses	-	-	-	-	-	-	-	-	-	-	-
4. Changes in defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current period	-	-	-	-	-	-	-	4,699,073.82	-	-	4,699,073.82
2. Amount used in the current period	-	-	-	-	-	-	-	4,699,073.82	-	-	4,699,073.82
(VI) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at end of the current period	478,353,421.00	-	-	-	743,199,658.14	-	157,422,456.50	-	229,067,589.94	771,406,944.00	2,379,450,069.58

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

From January to June 2017

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

Unit: RMB Yuan

Item	Amount in the previous year										
	Capital stock	Other equity instruments			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total owner's equity
		Preferred stocks	Perpetual bond	Others							
I. Balance at the end of the previous year	457,312,830.00	-	-	-	527,841,785.86	-	140,292,046.10	-	214,775,900.23	544,071,222.15	1,884,293,784.34
Add: changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of the previous period accounting errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of the current year	457,312,830.00	-	-	-	527,841,785.86	-	140,292,046.10	-	214,775,900.23	544,071,222.15	1,884,293,784.34
III. Increase/decrease in the current year (decrease to be listed with "bracket")	21,040,591.00	-	-	-	215,357,872.28	-	61,086,480.80	-	14,291,689.71	114,274,604.78	426,051,238.57
(I) Total comprehensive income	-	-	-	-	-	-	61,086,480.80	-	-	142,916,897.12	204,003,377.92
(II) Invested and decreased capital of shareholders	21,040,591.00	-	-	-	215,357,872.28	-	-	-	-	-	236,398,463.28
1. Ordinary shares contributed by the shareholders	21,040,591.00	-	-	-	202,357,872.28	-	-	-	-	-	223,398,463.28
2. Capital contributed by holder of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment included in share holder's interest	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	13,000,000.00	-	-	-	-	-	13,000,000.00
(III) Profit distribution	-	-	-	-	-	-	-	-	14,291,689.71	(28,642,292.34)	(14,350,602.63)
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	14,291,689.71	(14,291,689.71)	-
2. Distribution to owners (or shareholders)	-	-	-	-	-	-	-	-	-	(14,350,602.63)	(14,350,602.63)
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. Changes in defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current year	-	-	-	-	-	-	-	8,894,559.72	-	-	8,894,559.72
2. Amount used in the current year	-	-	-	-	-	-	-	8,894,559.72	-	-	8,894,559.72
(VI) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at end of the current period	478,353,421.00	-	-	-	743,199,658.14	-	201,378,526.90	-	229,067,589.94	658,345,826.93	2,310,345,022.91

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

Shangdong Xinhua Pharmaceutical Company Limited (hereinafter referred to as the "Company"; collectively referred to as the "Group" when containing subsidiaries) was established in 1993, through the reorganization of Shandong Xinhua Pharmaceutical Factory. The Company was listed in Hong Kong and issued its H Shares of the People's Republic of China to the Public in December 1996. The Company was also listed in Shenzhen and issued its A Shares of the People's Republic of China to the Public in July 1997. The Company became a foreign invested joint stock company in November 1998, with approval of the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China. In September 2001, it approved the issuance of 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.

In September 2017, the Company issued and placed 21,040,591 RMB-denominated shares to 2 subscribers at an issue price of RMB11.15 after approval, and the registered capital of the Company increased by RMB21,040,591. As of 30 June 2018, the Company's registered capital is RMB478,353,421.00 and the capital structure is as follows:

Class of shares	Number of shares	Proportion of total share capital (%)
I. Total number of shares subject to conditions of trading	21,049,516.00	4.40
A shares subject to conditions of trading	21,049,516.00	4.40
II. Total number of shares not subject to conditions of trading	457,303,905.00	95.60
RMB ordinary shares (A share)	307,303,905.00	64.24
Overseas listed foreign shares (H share)	150,000,000.00	31.36
III. Total number of shares	478,353,421.00	100.00

The company belongs to the pharmaceutical manufacturing industry. The Group is principally engaged in the development, manufacturing and sale of chemical APIs, pharmaceutical preparations and chemical products; the main products are antipyretics, analgesics, drugs for cardiovascular and cerebrovascular diseases, anti-infectives, drugs for central nervous system disorders, etc. under the brand of "Xinhua".

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

The Company's registered address is Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, PRC. The Company's office address is No. 1 Lutai Ave., Hi-tech Industry Development Zone, Zibo City, Shandong Province, PRC.

Notes to the Interim Financial Statements (Continued)

*(Unless otherwise indicated, all figures are stated in RMB)
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II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements consist of 13 companies, including Shandong Xinhua Pharmaceutical Co., Ltd., Xinhua Pharmaceutical (Shouguang) Co., Ltd. and Shandong Zibo Xincat Pharmaceutical Co., Ltd. Compared with previous year, due to the expiration of the business period, the Group reduced one subsidiary of Zibo Xinhua- Eastwest Pharmaceutical Co., Ltd. in the current period,

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

III. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. Basis of preparation

On a going-concern basis, the financial statements of the Company have been prepared based on transactions and items that have actually occurred, and in accordance with the China Accounting Standards (CAS) and other regulations issued by the Ministry of Finance of the PRC, the disclosure requirements in the Companies Ordinance of Hong Kong and the Listing Rules by the Stock Exchange of Hong Kong, and "IV. Important Accounting Policies and Accounting Estimates" of these Notes.

2. Going concern

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

IV. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Declaration on compliance with CASBE

The financial statements of the Company have met the requirements of CASBE and truly and fully reflected the financial conditions, operating results and cash flow of the Company and the Group.

2. Accounting period

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

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3. Bookkeeping base currency

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

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

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

The assets and liabilities acquired by the Group, as the merging party, in the business merger under common control are calculated based on the book value in the final 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 the capital reserve is not sufficient for off-setting, retained earnings are adjusted.

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

5. Compilation method of consolidated financial statements

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

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

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

Notes to the Interim Financial Statements (Continued)

*(Unless otherwise indicated, all figures are stated in RMB)
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All significant internal transactions, balances and unrealized profits shall be offset during preparation of consolidated financial statements. The portion of subsidiary owners' equity which does not belong to the parent company and the portion of minority equity in the current net profits and losses, other comprehensive income and total comprehensive income must be respectively listed under "minority 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 into the consolidated financial statements from the beginning of the current period of the merger. During the preparation and comparison of consolidated financial statements, related items in the financial statements of the previous year are adjusted, and it is deemed that the entity of financial statements formed after the merger has existed since the beginning of control by the ultimate controlling party.

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

6. Cash and cash equivalents

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

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

(1) Foreign currency transaction

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

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) Translation of foreign currency financial statements

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

8. Financial assets and financial liabilities

A financial asset or a financial liability will be recognised when the Group becomes a party to a financial investment contract.

I. Financial assets

1. Classification and reclassification of financial assets

The group classifies financial assets into three principal categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through current profit or loss (FVPL). The classification of financial assets is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Only when the Group changes its business model of managing financial assets, the financial asset affected thereby will be reclassified in accordance with Chapter 6 of the "CAS No.22 – Financial Instruments: Recognition and Measurement".

2. Financial assets recognition

Financial assets measured at amortised cost refer to financial assets that meet all the following conditions: (a).The business model of the enterprise managing financial assets is to collect contractual cash flows. (b).The contractual terms of the financial asset stipulate that the cash flow generated on a specific date is solely payments of principal and interest based on the outstanding principal amount.

Financial assets measured at FVOCI refer to financial assets that meet all the following conditions: (a).The business model for the enterprise to manage the financial assets is aimed at both the collection of contractual cash flows and the trading of the financial assets. (b).The contractual terms of the financial asset stipulate that the cash flow generated on a specific date is solely payments of principal and interest based on the outstanding principal amount.

Notes to the Interim Financial Statements (Continued)

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The Group designates equity instrument investment not held for trading as financial assets at FVOCI.

Financial assets at FVPL refer to financial assets other than those measured at amortised cost and at FVOCI.

If financial assets are constituted with contingent consideration recognized by the Group in a business combination not under common control, it is classified as financial assets measured at FVPL.

3. *Financial assets measurement*

The Group initially measures all financial assets at fair value. For financial assets and liabilities measured at FVPL, the related party transactions expense is directly recognised in profit or loss; for other categories of financial assets, the relevant transaction costs should be included in the initial recognition amount. However, the Group's initial confirmed accounts receivable do not include the significant financing components defined in the "CAS No.14 – Revenue" or are not considered the financing component of the contract for no more than one year in accordance with the "CAS No.14 – Revenue", it is initially measured in accordance with the transaction price defined in the "CAS No.14 – Revenue".

The subsequent measurement of financial assets measured at amortised cost (not part of any hedging relationship) is based on amortized cost. Gains or losses arising from amortisation, impairment and derecognition are recognised in profit or loss.

The gain or losses from financial assets measured at FVOCI (unless the group makes an election to designate the equity investment not held for trading at FVOCI) are recognised in other comprehensive income, except gains or losses arising from impairment, exchange and interest on the financial assets calculated using the effective interest method recognised in profit or loss. The Group makes an election to designate the equity investment not held for trading purposes as FVOCI such that subsequent changes in fair value are recognised in other comprehensive income. Subsequent changes in fair value of financial asset at FVPL are recognised in profit or loss.

The interest income of financial assets shall be treated in accordance with Article 39 of "CAS No.22 – Financial Instruments: Recognition and Measurement".

The dividend income of financial assets shall be treated in accordance with Article 65 of "CAS No.22 – Financial Instruments: Recognition and Measurement".

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4. *Financial assets derecognition*

Financial assets meeting one of the following conditions shall be derecognized: (a).the contract right to collect the financial asset cash flow has been terminated; (b).the financial assets have been transferred and the Group has substantially transferred all the risks and rewards on the financial asset ownership to the transferee; (c). the financial assets have been transferred, even if the Group neither transferred nor retained the risks and rewards on the financial asset ownership, and the Group give up the control over the financial assets. If the entire transfer of the financial assets meets derecognition conditions, the difference between the book value of transferred financial assets and the sum of consideration received from the transfer and accumulated amount (the contractual terms of the financial asset stipulate that the cash flow generated on a specific date is solely payments of principal and interest based on the outstanding principal amount) of changes in fair value previously recognized in other comprehensive income should be included in current profit and loss.

Where the partial transfer of the financial assets meets derecognition conditions, the book value of the transferred financial assets should be amortized between the derecognized and non-derecognized portions as per their relative fair values respectively; and the difference between the sum of consideration received from the transfer and accumulated amount (the contractual terms of the financial asset stipulate that the cash flow generated on a specific date is solely payments of principal and interest based on the outstanding principal amount) of changes in fair value previously recognized in other comprehensive income and amortized to the derecognized portion, and the aforesaid book value amortized should be included in current profits and losses.

The equity investment not held for trading is designated as financial assets measured at FVOCI, when the financial assets shall be derecognized, its amount of gains or losses accumulated in other comprehensive income is transferred to retained earnings.

5. *Test method and accounting treatment method for financial assets impairment*

The Group applies Expected Credit Losses (ECL) assessment, financial assets measured at amortised cost and FVOCI(unless the Group makes an election to designate the investment held for trading purposes at FVOCI) are subject to the ECL assessment to impairment and confirm loss provision. Details as follows:

- (a) Whether the credit risk of the financial instrument has increased significantly since initial recognition, the Group measures its loss provision based on the amount of ECL for the entire life of the financial instrument.

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- (b) Whether the credit risk of the financial instrument has not increased insignificantly since initial recognition, the Group measures its loss provision based on the amount equivalent to the expected credit loss of the financial instrument in the next 12 months.
- (c) The Group measured its loss provision based on the amount equivalent to the ECL for the entire life of the financial instrument during the previous accounting period. However, the credit risk of a financial instrument has not increased insignificantly since initial recognition on the current balance sheet date, the Group measures its loss provision based on the amount equivalent to the expected credit loss of the financial instrument in the next 12 months.

II. Financial liabilities

1. Classification and reclassification of financial liabilities

Apart from the following, the Group classifies financial liabilities as financial liabilities measured at amortised cost: (a).financial liabilities measured at FVPL, including financial liabilities held for trading (including financial liabilities derivatives) and financial liabilities designated as at fair value through profit or loss. (b).The transfer of financial assets does not meet the conditions for derecognition or continuing to involve financial liabilities arising from the transferred financial assets. For such financial liabilities, the Group measures in accordance with "CAS No.23 – Transfer of Financial Assets". (c). Financial guarantee contracts that do not fall into the above (a).or (b). cases, And loan commitments are below the market rate that are not subject to the above (a). situation. Where the Group is the issuer of such financial liabilities, after initial recognition, measurement shall be carried out at the amount of loss provision determined in accordance with Chapter 8 of the Standard or balance of the initially recognized amount after deducting the cumulative amortization amount determined in accordance with "CAS No. 14 – Revenue", whichever is higher.

The financial liabilities arising from contingent consideration, which recognized by the Group as the purchaser during the business combination not under the common control, are measured at fair value through profit or loss.

2. Financial liabilities derecognition

Where the current obligation of financial liability has been terminated entirely or partially, the financial liability or obligation that has been terminated shall be derecognized. Where the Company and the creditors signed an agreement to replace the existing financial liabilities with new financial liabilities and the contractual terms of the new financial liability is substantially different from the existing financial liabilities, the existing financial liabilities are derecognised and the new financial liabilities are recognized. Where the company makes substantial changes to the all or part of contractual terms of the existing financial liabilities, the existing financial liabilities or part of them are derecognised, At the same time, the financial liabilities after the modification of the terms are recognized as a new financial liability.

The difference between the book value of the derecognized part and the paid consideration shall be included in current profit and loss.

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9. Bad debt provision for receivables

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

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

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

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

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

Basis for determining combinations

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

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Method for bad-debt provision accrued by combination

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

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

Account age	Accrual proportion of account receivables (%)	Accrual proportion of other account receivables (%)
Within 1 year	0.50	0.50
1-2 years	20.00	20.00
2-3 years	60.00	60.00
Over 3 years	100.00	100.00

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

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

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

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

Notes to the Interim Financial Statements (Continued)

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10. Inventories

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

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

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

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

11. Long term equity investments

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

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

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

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

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

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

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

For long-term equity investments subsequently calculated by the cost method, when more investments 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 profit in accordance with the amount to be enjoyed.

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

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

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

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

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

12. Investment real estate

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

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

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

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

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

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

13. Fixed assets

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

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

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

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

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

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

Treatment for subsequent expenditure of fixed assets: if the subsequent expenditures 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 profit and loss when occurred.

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

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

14. Projects in progress

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

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

15. Loans costs

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

Notes to the Interim Financial Statements (Continued)

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

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

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

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

16. Intangible assets

- (1) Valuation methods of intangible assets: intangible assets of the Group mainly included land use right, software license and non-patented technology. For intangible assets purchased, the actual cost represents the actual payment and other relevant expenditures; for intangible assets injected by investors, actual cost represents the value as agreed in the investment contract or agreement; however, if the value as agreed in the investment contract or agreement is not fair, its actual cost shall be confirmed as per fair value.
- (2) Amortization methods and period of intangible assets: land use right of the Group shall be amortized evenly according to its transfer years from the starting date of transferring; software license and non-patented technology of the Group shall be amortized evenly by stages according to the shortest one among the expected service life, the benefit period under contract and the effective period stated by law. The land use right shall be amortized as per the benefit and transfer period, and the software license shall be amortized as per the expected benefit period (5 years). The amortized amounts shall be included into current profit and loss 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 handled as changes in accounting estimates. The Company shall review the expected service life of intangible assets with uncertain service life in each accounting period. If any evidences indicate that the service life of intangible assets is limited, the service life shall be estimated and amortized within the expected service life.

Notes to the Interim Financial Statements (Continued)

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

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

17. Research and development

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

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

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

18. Impairment of long-term assets

The Group shall check long-term equity investments, fixed assets, projects in progress, intangible assets with a definite service life, etc. on each balance sheet date. When the following signs exist, it indicates that asset impairment may occur, and the Group will perform the impairment test. For the intangible assets with undetermined goodwill and benefit period, no matter there is an impairment sign or not, the impairment test shall be performed at the end of each year. 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. Impairment loss of aforementioned assets, once recognized, shall not be reversed in 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.

19. Goodwill

Goodwill is the excess of the stock investment cost or the business merger cost not under common control over the fair value of the identifiable net assets that should be enjoyed or acquired from the invested entity or the acquiree in the business merger on the date when it is acquired or purchased.

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

Notes to the Interim Financial Statements (Continued)

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

20. Payroll

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

Short-term remunerations mainly include salaries, welfare. 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 profit or loss or relevant asset cost based on different beneficiaries.

Post-employment welfare mainly includes basic endowment insurance, unemployment insurance and classified as defined contribution plan and defined benefit plan depending on the risk and obligation the Company undertakes. As for the defined contribution plans, the contributions which are made for individual subjects in exchange for the staff's services rendered in the accounting period shall be recognized as liabilities on the balance sheet date and included in current profit and loss or relevant asset cost 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 related to reorganization concerning the dismissal welfare payment are recognized (whichever is earlier), the liabilities of the employee compensation arising from dismissal welfare shall be recognized and included in current profit and loss.

21. Estimated liabilities

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

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

Notes to the Interim Financial Statements (Continued)

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

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

22. Revenue

(1) *Recognition principle for revenue*

The operating income of the Group is mainly derived from transferring goods and rendering of services (hereinafter referred to as "transfer of goods"). The Group has fulfilled its performance obligations in the contract, and revenue is recognised when the customer obtains control on relevant goods.

When the contract between the Group and the customer meets the following conditions at the same time, the Group recognizes the revenue when the customer obtains control on relevant goods:

- 1) The parties to the contract have approved the contract and promised to perform their respective obligations;
- 2) The contract clarifies the rights and obligations of the parties related to transferred goods;
- 3) The contract has clear payment terms associated with the transferred goods;
- 4) The contract has commercial substance, that is, the performance of the contract will change the risk, time distribution or amount of the company's future cash flow;
- 5) The consideration that the company is entitled to for the transfer of goods to customers, is likely to be recovered.

On the contract start date, the company evaluates the contract, identifies each individual performance obligation included in the contract, and determines whether each individual performance obligation is fulfilled within a certain period or at a certain point in time. For obligations for performance at a certain point in time, the company confirms revenue when the customer obtains control on relevant goods. When determining whether a customer has acquired control on a product, the company considers the following signs:

- 1) The company has the current right to collect cash from the goods, that is, the customer has a current payment obligation for the goods.
- 2) The company has transferred the legal title of the item to the customer, ie the customer already owns the legal title of the item.
- 3) The company has transferred the goods to the customer in kind, that is, the customer has possessed the goods in kind.
- 4) The company has transferred the main risks and rewards of ownership of the goods to the customer, that is, the customer has obtained the main risks and rewards of ownership of the goods.
- 5) The customer has accepted the goods.
- 6) Other signs indicating that the customer has obtained control on the goods.

Notes to the Interim Financial Statements (Continued)

*(Unless otherwise indicated, all figures are stated in RMB)
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(2) Specific principles for revenue recognition

For domestic sales contracts for goods that transfer control on goods at a certain point in time, revenue is recognised when the Group has delivered the goods to customers and goods have been accepted by customers and the Group has obtained the current payment request which is likely to recover.

For overseas sales contracts for goods that transfer control on goods at a certain point in time, revenue is recognised when the Group issues the goods and the goods are shipped at the port and the Group has obtained the current payment request which is likely to recover.

23. Government grants

Government grants to the Company are divided into asset-related government grants and revenue-related government grants. The asset-related government grants refer to those obtained by the Company 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 Company shall determine based on the above principles. If it is difficult to distinguish, it is generally classified as revenue-related government grants.

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

If relevant assets are sold, transferred, discarded or damaged before the end of their useful lives, the unallocated related deferred incomes are transferred into the profits and 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 profit and loss during the period when it is recognized; those used to compensate for the incurred related costs or losses shall be included in profit and loss directly. Government grants related to daily activities are included in other income according to the substance of economic activities. Government grants not related to daily activities are included in non-operating income and expenditure:

When the Company obtains discounted interest on preferential loans, the financial appropriation of interest-subsidized funds to the loan bank and the financial allocation of discount funds directly to the Company shall be distinguished and treated according to the following accounting principles respectively:

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

If the government grants that the Company has confirmed need to be returned, accounting treatment should be carried out 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 the current profit and loss.
- 2) Otherwise, the government grants shall be directly included in the current profit and loss.

24. Deferred income tax assets and deferred income tax liabilities

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

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

25. Lease

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

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

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

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. Held for sale

The Group specifies the non-current asset or disposal group meeting the following conditions as held for sale: (1) For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for 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, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. At initial measurement or re-measurement of non-current assets or disposal group held for sale on balance sheet date, where its book value is higher than the net amount of its fair value less cost of sales, the book value 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 measurement, the comparison assumes that it is not classified as held for sale at the lower of its 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.

The Group that loses its control on a subsidiary due to disposal of investment in the subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when investment in the subsidiary to be disposed meets the classification condition of held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. In the parent company's separate financial statements, the investment in the subsidiary will be classified as held for sale, and all the assets and liabilities of the subsidiary are classified as held for sale in the consolidated financial statements.

If the net value of the non-current assets held for sale's fair value less the cost of sale 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 are not reversed.

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

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

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If the net value of the disposal group held for sale's fair value less the cost of sale 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.

The amount of which assets impairment losses recognized by the disposal group held for sale 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 deducted proportionately.

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

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 disposal group because they no longer meet the condition for held for sale, shall be measured at the lower of (1) the carrying amount before classification as held for sale adjusted based on the depreciation, amortization or impairment that should be recognized if it is not classified as held for sale; (2) the recoverable amount.

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

27. Discontinued operations

Discontinued operations refer to any component of the Group which meets one of the following conditions and 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 for disposing of an independent main business or a separate main operating area; (3) this component is a subsidiary acquired exclusively for resale.

28. Accounting of income tax

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

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

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(Unless otherwise indicated, all figures are stated in RMB)
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29. Other important accounting policy and accounting estimate

(1) Safety production costs

The Company, in accordance with the relevant rules from Management Approach of Enterprise Safety Production Cost Extraction and Use (CQ [2012] NO.16) issued by the Ministry of Finance of the People's Republic of China and State Administration of Work Safety at 14 February 2012, extracted and used, accounted safe production costs.

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

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

The Company shall collect the safety production cost according to the stipulated standards and the collected safety production cost shall be recognized in profit or loss for the current period, and recorded in special reserves accordingly, which is listed separately under the owner's equity. The actual use of the extraction of safe production costs, which belongs to expense, offsets special reserves directly. When the use of the extraction of safe production costs forms a fixed asset, expenses incurred should be summarized through the projects in progress and regarded as fixed asset when the safety projects have been completed and reach the expected condition for use. At the same time, the cost of the formation of fixed assets offsets the special reserves, the cumulative depreciation of the same amount is recognized and the fixed assets shall be depreciated no longer in the subsequent period. If the amount of the special reserve is insufficient to be offset, the actual amount shall be directly included in the current profit and loss 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:

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

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

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

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

30. Important accounting policy and accounting estimate change

(1) Changes in important accounting policies

Content of and reason for accounting policy change	Approval procedure	Remarks
<p>"CAS No.22 – Financial Instruments: Recognition and Measurement", "CAS No.23 – Transfer of Financial Assets" and "CAS No.24 – Hedging Accounting", as revised by the Ministry of Finance of PRC by CK[2017] No.7 and No.8 and No.9, and "CAS No. 37 – Financial Instruments: Presentation" as released by the Ministry of Finance of the PRC have been in force since 1 January 2018. In preparing the interim financial reporting of 2018, the Group has implemented the updated accounting standards and made the relevant treatments pursuant to the relevant transitional arrangements.</p>	<p>The relevant accounting policy changes were approved by the third meeting of the ninth session of Board of Directors of the Company on April 19, 2018.</p>	<p>Note 1</p>
<p>"CAS No.14 – Revenue" as revised by the Ministry of Finance of the PRC by CK [2017] No.22 has been in force since January 1, 2018. In preparing the interim financial reporting of 2018, the Group has implemented the updated accounting standards and made the relevant treatments pursuant to the relevant transitional arrangements.</p>	<p>The relevant accounting policy changes were approved by the third meeting of the ninth session of Board of Directors of the Company on April 19, 2018.</p>	<p>Note 2</p>
<p><i>Note 1:</i> The above-mentioned changes in accounting policies in respect of financial instruments had no material effect on the Company's retained earnings and other comprehensive income at the beginning of 2018 and retrospective application is not required.</p>		
<p><i>Note 2:</i> The above changes in accounting policies in respect of income did not cause material changes to the Company's revenue recognition method, and have no material impact on the Company's net profit, total assets and net assets during the current period and the preceding period, and are not required to be applied retrospectively.</p>		

(2) Changes in important accounting estimate

There were no changes in accounting estimates during January to June 2018.

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

V. TAXES

1. Main tax categories and rates

Tax category	Taxation basis	Tax rate
Value-added tax	Difference after output tax deducts from input tax of purchased goods	6%、10%、11%、16%、17%
Urban construction tax	Taxable amount of turnover tax	7%
Educational surcharges	Taxable amount of turnover tax	3%
Local educational surcharges	Taxable amount of turnover tax	2%
PRC enterprise income tax	Taxable income	15%, 25%
USA federal and state tax	Taxable income	Federal tax:15%–35% state tax:8.84%
Netherlands corporation income tax	Taxable income	36.50%–52%

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

Taxpaying subject	Income tax rate
The Company	15%
Shandong Zibo Xincat Pharmaceutical Company Limited	15%
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	36.50%–52%
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	Federal tax rate: 15%–35%; state tax rate: 8.84%
Other 9 subsidiaries	25%

2. Tax preference

(1) Income Tax

According to the approval of document LKZ [2018] No.37 from the Department of Science & Technology of Shandong Province, Shandong Province Finance Bureau, Shandong Provincial Office, SAT, and Shandong Local Taxation Bureau, the Company was identified as a High and New Technology Enterprise (HNTE), and it obtained the certificate of HNTEs No. GR201737001056 on December 28, 2017. The validity period is three years. Pursuant to the "Enterprise Income Tax Law of the People's Republic of China", the Company enjoys a preferential tax policy for enterprise income tax at a rate of 15%. The Company was still in its preferential tax during the Reporting Period, so the applicable income tax was 15%.

According to the approval of document LKZ [2018] No.37 from the Department of Science & Technology of Shandong Province, Shandong Province Finance Bureau, Shandong Provincial Office, SAT, and Shandong Local Taxation Bureau, Shandong Zibo Xincat Pharmaceutical Company Limited (hereinafter referred to as "Xincat Pharmaceutical") was identified as a High and New Technology Enterprise (HNTE), and it obtained the certificate of HNTEs No. GR201737000587 on December 28, 2017. Pursuant to the "Enterprise Income Tax Law of the People's Republic of China", Xincat Pharmaceutical enjoys a preferential tax policy for enterprise income tax at a rate of 15%. Xincat Pharmaceutical was still in its preferential tax during the Reporting Period, so the applicable income tax was 15%.

(2) Value-added tax

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

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(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 2018, 'end of the period' refers to 30 June 2018. 'Current period' refers to period from 1 January to 30 June 2018. 'Previous period' refers to period from 1 January 2017 to 30 June 2017, and all figures are stated in RMB.

1. Monetary funds

Item	Balance at the end of the period	Balance at the beginning of the year
Cash	146,422.95	125,118.96
Bank deposit	825,989,404.48	678,737,532.79
Other monetary funds	78,740,000.00	52,263,622.59
Total	904,875,827.43	731,126,274.34
Including: total amount deposited abroad	11,401,793.90	4,321,944.27

The Group's balance of other monetary funds at the end of the period includes a bank acceptance deposit of RMB78,740,000.00 (balance at the beginning of the year: RMB48,263,622.59)

Notes to the Interim Financial Statements (Continued)

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

2. Notes receivable and accounts receivable

2.1 Notes receivable

(1) Category of notes receivable

Category	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance bill	130,325,639.87	123,254,824.94
Total	130,325,639.87	123,254,824.94

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

As at 30 June 2018, the Group had no notes receivable which had been pledged.

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

Item	Derecognized amount at the end of the period	Not derecognized amount at the end of the period
Bank acceptance bill	698,792,942.67	–

(4) Notes receivable transferred to accounts receivable due to the drawer's failure to perform at the end of the period.

As of 30 June 2018, the Group had no notes receivable which had been transferred to the accounts receivable due to the default of the drawers.

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

Notes to the Interim Financial Statements (Continued)

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

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

2.2 Accounts receivable

(1) Classification of accounts receivable

Item	Book balance		Balance at the end of the period		Book value (%)
	Amount	Proportion	Provision for bad debt		
			Amount (%)	Proportion of provision	
Accounts receivable with significant individual amount and accrued bad debt provision on single item	-	-	-	-	-
Accounts receivable with provision for bad debts accrued on combination	-	-	-	-	-
Account age combination	526,408,093.10	96.42	59,265,132.03	11.26	467,142,961.07
Combination of relationship with transaction object	19,248,913.13	3.53	-	-	19,248,913.13
Combination of special account nature	-	-	-	-	-
Combination sub-total	545,657,006.23	99.95	59,265,132.03	10.86	486,391,874.20
Accounts receivable with insignificant individual amount but accrued bad debt provision on single item	302,523.29	0.05	302,523.29	100.00	-
Total	545,959,529.52	100.00	59,567,655.32	10.91	486,391,874.20

Item	Book balance		Balance at the beginning of the year		Book value (%)
	Amount	Proportion	Provision for bad debt		
			Amount (%)	Proportion of provision	
Accounts receivable with significant individual amount and accrued bad debt provision on single item	-	-	-	-	-
Accounts receivable with provision for bad debts accrued on combination	-	-	-	-	-
Account age combination	361,385,182.33	97.63	57,526,523.22	15.92	303,858,659.11
Combination of relationship with transaction object	8,758,326.16	2.37	-	-	8,758,326.16
Combination of special account nature	-	-	-	-	-
Combination sub-total	370,143,508.49	100.00	57,526,523.22	15.54	312,616,985.27
Accounts receivable with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	370,143,508.49	100.00	57,526,523.22	15.54	312,616,985.27

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

Account age	Balance at the end of the period		
	Account receivables	Provision for bad debt	Proportion of provision (%)
Within 1 year	484,467,198.78	2,626,107.10	0.54
1-2 years	5,631,635.55	1,127,127.11	20.01
2-3 years	115,685.17	69,411.09	60.00
3-4 years	290,765.92	290,765.92	100.00
4-5 years	213,973.38	213,973.38	100.00
Over 5 years	55,240,270.72	55,240,270.72	100.00
Total	545,959,529.52	59,567,655.32	-

Account age	Balance at the beginning of the year		
	Account receivables	Provision for bad debt	Proportion of provision (%)
Within 1 year	312,969,548.53	1,521,056.11	0.49
1-2 years	1,378,084.51	275,616.91	20.00
2-3 years	165,063.11	99,037.86	60.00
3-4 years	348,608.37	348,608.37	100.00
4-5 years	82,055.29	82,055.29	100.00
Over 5 years	55,200,148.68	55,200,148.68	100.00
Total	370,143,508.49	57,526,523.22	-

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

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) In combination, accounts receivable with provision for bad debt based on aging analysis:

Item	Balance at the end of the period			Balance at the beginning of the year		
	Account receivable	Provision for bad debt	Proportion of provision (%)	Account receivables	Provision for bad debt	Proportion of provision (%)
Within 1 year	464,916,762.36	2,324,583.81	0.50	304,211,222.37	1,521,056.11	0.50
1-2 years	5,630,635.55	1,126,127.11	20.00	1,378,084.51	275,616.91	20.00
2-3 years	115,685.17	69,411.09	60.00	165,063.11	99,037.86	60.00
3-4 years	290,765.92	290,765.92	100.00	348,608.37	348,608.37	100.00
4-5 years	213,973.38	213,973.38	100.00	82,055.29	82,055.29	100.00
Over 5 years	55,240,270.72	55,240,270.72	100.00	55,200,148.68	55,200,148.68	100.00
Total	<u>526,408,093.10</u>	<u>59,265,132.03</u>	<u>-</u>	<u>361,385,182.33</u>	<u>57,526,523.22</u>	<u>-</u>

- 3) In combination, accounts receivable with provision for bad debts accrued by other method:

Name of Combination	Ending balance	Amount of bad debts
Combination of relationship with transaction object	<u>19,248,913.13</u>	<u>-</u>
Total	<u>19,248,913.13</u>	<u>-</u>

- 4) Accounts receivable with insignificant individual amount but accrued bad debt provision on single item

Name of Combination	Ending balance	Amount of bad Debts
Accounts receivable with insignificant individual amount but accrued bad debt provision on single item	<u>302,523.29</u>	<u>302,523.29</u>
Total	<u>302,523.29</u>	<u>302,523.29</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) Aging analysis of accounts receivable overdue but without any provision for bad debts:

Account age	Balance at the end of the period	Balance at the beginning of the year
Within 1 year	16,106,930.94	5,986,979.12
1-2 years	19,321.40	79,372.38
2-3 years	23,563.73	66,028.25
Total	16,149,816.07	6,132,396.75

As at 30 June 2018, accounts receivable of RMB16,149,816.07 (amount as at the beginning of the year: RMB6,132,396.75) were past due. The Company has extended credit terms to specific customers and plans to enhance its efforts to collect accounts receivable from them in future. Based on these customers' financial position, the Group was of the view that the overdue amount is recoverable in part or in full, thus no provision for impairment is individually or fully provided.

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

Bad debt provision for the current period amounted to RMB2,041,132.10; there was no provision of bad debts reversed (or recovered) in the current year.

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

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

Notes to the Interim Financial Statements (Continued)

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

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

(4) Accounts receivable with top five ending balance collected as per the borrowers

Organization name	Balance at the end of the period	Account age	Proportion in total ending balance of account receivables (%)	Balance at the end of the period of bad debt provision
Shandong Xin Kang Qi Pharmaceutical Co., Ltd.	40,589,520.51	Over 5 years	7.43	40,589,520.51
Mitsubishi Corporation	23,013,857.79	Within 1 year	4.22	115,069.29
DASTECH INTERNATIONAL INC.	21,717,315.50	Within 1 year	3.98	108,586.58
Zibo Central Hospital	20,720,807.01	Within 1 year	3.80	103,604.04
Perrigo Company	19,112,947.91	Within 1 year	3.50	–
Total	125,154,448.72		22.93	40,916,780.42

3. Prepayments

(1) Account age of prepayment

Item	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	29,656,146.78	93.98	21,321,478.35	93.49
1–2 years	1,211,775.90	3.84	1,485,469.18	6.51
2–3 years	688,509.08	2.18	–	–
Total	31,556,431.76	100.00	22,806,947.53	100.00

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) Prepayments with top five ending balance collected as per the prepaid party

Organization name	Balance	Account age	Proportion (%)	Reasons for non-settlement
Shandong Hualu Hengsheng Chemical Limited Liability Company	4,089,963.17	Within 1 year	12.96	Goods not yet reached
Shandong Dong-E Guojiaotang E-Jiao Pharmaceutical Co., Ltd.	3,603,640.00	Within 1 year	11.42	Goods not yet reached
Shandong Jinling Chemical Co., Ltd.	2,490,134.31	Within 1 year	7.89	Goods not yet reached
Pingan International Financial Leasing Co., Ltd.	1,211,775.90	1-2 years	6.02	Prepaid finance lease fee
BASF Company Limited	688,509.08	2-3 years		
	1,857,295.66	Within 1 year	5.89	Goods not yet reached
Total	13,941,318.12		44.18	

4. Other receivables

(1) Classification of other receivables

Item	Balance at the end of the period				
	Book balance		Provision for bad debt		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables with significant individual amount and bad debt provision accrued on single item	-	-	-	-	-
Other receivables with bad debt provision accrued on combination	-	-	-	-	-
Account age combination	34,273,973.32	61.53	19,877,379.86	58.00	14,396,593.46
Combination of relationship with transaction object	-	-	-	-	-
Combination of special account nature	21,429,227.62	38.47	-	-	21,429,227.62
Combination sub-total	55,703,200.94	100.00	19,877,379.86	35.68	35,825,821.08
Other receivables with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	55,703,200.94	100.00	19,877,379.86	35.68	35,825,821.08

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	Balance at the beginning of the year				
	Book balance		Provision for bad debt		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables with significant individual amount and bad debt provision accrued on single item	-	-	-	-	-
Other receivables with bad debt provision accrued on combination	-	-	-	-	-
Account age combination	26,348,903.89	40.58	19,913,909.51	75.58	6,434,994.38
Combination of relationship with transaction object	-	-	-	-	-
Combination of special account nature	38,582,388.67	59.42	-	-	38,582,388.67
Combination sub-total	64,931,292.56	100.00	19,913,909.51	30.67	45,017,383.05
Other receivables with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	<u>64,931,292.56</u>	<u>100.00</u>	<u>19,913,909.51</u>	<u>30.67</u>	<u>45,017,383.05</u>

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

Account age	Balance at the end of the period		
	Account receivables	Provision for bad debt	Proportion of provision (%)
Within 1 year	17,502,061.61	70,364.17	0.40
1-2 years	8,354,519.10	70,903.82	0.85
2-3 years	10,276,270.91	165,762.55	1.61
3-4 years	59,027.69	59,027.69	100.00
4-5 years	6,827,000.00	6,827,000.00	100.00
Over 5 years	<u>12,684,321.63</u>	<u>12,684,321.63</u>	<u>100.00</u>
Total	<u>55,703,200.94</u>	<u>19,877,379.86</u>	<u>-</u>

Notes to the Interim Financial Statements (Continued)

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

Account age	Balance at the beginning of the year		
	Account receivables	Provision for bad debt	Proportion of provision (%)
Within 1 year	26,281,169.55	28,493.92	0.11
1-2 years	10,818,250.03	163,650.01	1.51
2-3 years	8,275,268.52	165,161.12	2.00
3-4 years	45,282.83	45,282.83	100.00
4-5 years	6,827,000.00	6,827,000.00	100.00
Over 5 years	12,684,321.63	12,684,321.63	100.00
Total	64,931,292.56	19,913,909.51	-

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

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

The Group has no other receivables with significant individual amount and provisions for bad debt accrued on single basis as at the end of the period.

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

Item	Balance at the end of the period			Balance at the beginning of the year		
	Amount	Provision for bad debt	Proportion of provision (%)	Amount	Provision for bad debt	Proportion of provision (%)
Within 1 year	14,072,833.99	70,364.17	0.50	5,698,780.88	28,493.92	0.50
1-2 years	354,519.10	70,903.82	20.00	818,250.03	163,650.01	20.00
2-3 years	276,270.91	165,762.55	60.00	275,268.52	165,161.12	60.00
3-4 years	59,027.69	59,027.69	100.00	45,282.83	45,282.83	100.00
4-5 years	6,827,000.00	6,827,000.00	100.00	6,827,000.00	6,827,000.00	100.00
Over 5 years	12,684,321.63	12,684,321.63	100.00	12,684,321.63	12,684,321.63	100.00
Total	34,273,973.32	19,877,379.86	-	26,348,903.89	19,913,909.51	-

Notes to the Interim Financial Statements (Continued)

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

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

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

Name of Combination	Balance at the end of the period	Amount of bad debts
Combination of special account nature	<u>21,429,227.62</u>	<u>—</u>
Total	<u><u>21,429,227.62</u></u>	<u><u>—</u></u>

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

In the current year, the provided bad debt provision was RMB -36,529.65 and there was no provision of bad debts reversed (or recovered) in the current year.

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

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

(4) *Classification of other receivables by nature*

Nature	Balance at the end of the period	Balance at the beginning of the year
Guarantee deposit and security deposit for bid	8,497,190.87	6,341,431.25
Petty cash	2,254,950.43	1,241,846.73
Tax receivable	9,581,737.84	7,479,424.10
Finance lease deposit	18,000,000.00	26,000,000.00
Claim	6,600,000.00	6,600,000.00
Land compensation receivable	—	10,915,900.00
Others	<u>10,769,321.80</u>	<u>6,352,690.48</u>
Total	<u><u>55,703,200.94</u></u>	<u><u>64,931,292.56</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))

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

Organization Name	Amount at the end of the period	Account age	Proportion (%)	Balance of bad debt provision at the end of the period	Nature or Contents
Pingan International Financial Leasing Co., Ltd.	8,000,000.00	1-2 years	32.31	-	Finance lease deposit
Nanjing Huadong Pharmaceutical Co., Ltd.	10,000,000.00	2-3 years	11.85	6,600,000.00	Claim
The Second People's Hospital of Lijin County	6,600,000.00	4-5 years	5.39	15,000.00	Deposit
Maternal and Child Health Hospital of gaoqing	3,000,000.00	Within 1 year	1.80	5,000.00	Deposit
The People's Hospital of Gaoqing County	1,000,000.00	Within 1 year	1.80	5,000.00	Deposit
Total	<u>29,600,000.00</u>		<u>53.15</u>	<u>6,625,000.00</u>	

(6) Receivable loans due from employees for current period

As at 30 June 2018, there were no receivable loans due from employees.

Notes to the Interim Financial Statements (Continued)

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

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

5. Inventory and provision for inventory falling price

(1) Classifications of inventories

Item	Balance at the end of the period			Balance at the beginning of the year		
	Provision for inventory			Provision for inventory		
	Book balance	Falling price	Book value	Book balance	Falling price	Book value
Raw materials	96,886,215.86	5,611,881.20	91,274,334.66	95,548,646.83	3,999,525.11	91,549,121.72
Products in process	113,639,949.89	7,390,217.29	106,249,732.60	122,011,331.80	5,632,417.91	116,378,913.89
Goods in stock	354,132,065.58	7,853,050.08	346,279,015.50	410,249,774.35	11,723,636.74	398,526,137.61
Development cost	110,397,210.53	-	110,397,210.53	91,816,382.90	-	91,816,382.90
Low-value consumables	14,597,688.46	-	14,597,688.46	13,100,439.91	-	13,100,439.91
Specially approved reserved supplies	1,839,696.49	-	1,839,696.49	1,839,696.49	-	1,839,696.49
Total	<u>691,492,826.81</u>	<u>20,855,148.57</u>	<u>670,637,678.24</u>	<u>734,566,272.28</u>	<u>21,355,579.76</u>	<u>713,210,692.52</u>

(2) Provision for inventory falling price

Classification of inventories	Balance at the beginning of the year	Withdrawal in the current period	Decrease in the current period		Balance at the end of the period
			Other transfer-out	Write-off	
Raw materials	3,999,525.11	1,612,356.09	-	-	5,611,881.20
Products in process	5,632,417.91	1,757,799.38	-	-	7,390,217.29
Goods in stock	11,723,636.74	(1,677,222.35)	-	2,193,364.31	7,853,050.08
Total	<u>21,355,579.76</u>	<u>1,692,933.12</u>	<u>-</u>	<u>2,193,364.31</u>	<u>20,855,148.57</u>

For method of provisions for inventories falling price, see the note "IV. Important Accounting Policy and Accounting Estimate 10. Inventory".

Notes to the Interim Financial Statements (Continued)

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

(3) Accrual of provisions for inventory falling price

Item	Recognition methods for net realizable value	Reasons for withdrawing or write-off in current period
Raw materials	Expected net realizable value is lower than the book cost	Produced and sold
Products in process	Expected net realizable value is lower than the book cost	Completed and sold
Goods in stock	Expected net realizable value is lower than the book cost	Sold

6. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the year	Nature
Enterprise income tax prepayment	21,926,993.09	16,596,565.83	Enterprise income tax prepayment
Input taxes of VAT to be deducted	20,057,183.28	42,959,755.35	Input taxes under deduction
Investment funds to be disposed	—	2,400,000.00	Investment funds in advance
Land appreciation tax prepayment	1,421,807.46	—	Land appreciation tax prepayment
Other	266,588.91	—	Urban construction tax prepayment, etc
Total	<u>43,672,572.74</u>	<u>61,956,321.18</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))

7. Other equity instrument investment

(1) Other equity instrument investment

Item	Amount at the end of the period			Amount at the beginning of the year		
	Book balance	Provision for impairment	Net book value	Book balance	Provision for impairment	Net book value
Other equity instruments	206,428,208.00	-	206,428,208.00	258,141,232.00	-	258,141,232.00
Total	<u>206,428,208.00</u>	<u>-</u>	<u>206,428,208.00</u>	<u>258,141,232.00</u>	<u>-</u>	<u>258,141,232.00</u>

(2) Analysis of other equity instrument investment is as follows:

Item	Amount at the end of the period	Amount at the beginning of the year
Listed		
China (excluding Hong Kong)	<u>206,428,208.00</u>	<u>258,141,232.00</u>
Total	<u>206,428,208.00</u>	<u>258,141,232.00</u>

(3) Other equity instrument investment measured at fair value at the end of the period

Item	Other equity instrument investment (Measured at Fair Value)
Cost of equity instrument	21,225,318.00
Fair value at the end of the period	206,428,208.00
Amount of changes in fair value accumulatively included in other comprehensive income	157,422,456.50
Amount of impairment provision accrued	<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))

8. Investment real estate

(1) Investment real estate measured at cost

Item	Premises and Buildings	Land Use Right	Total
I. Original book value			
1. Balance at the beginning of the year	109,567,420.92	14,121,724.63	123,689,145.55
2. Increased amount in the current period	841,115.58	–	841,115.58
(1) Purchase	–	–	–
(2) Conversion from fixed assets/ projects in progress	841,115.58	–	841,115.58
3. Decreased amount in the current period	–	–	–
4. Balance at the end of the period	110,408,536.50	14,121,724.63	124,530,261.13
II. Accumulated depreciation and accumulated amortization			
1. Balance at the beginning of the year	47,832,735.15	2,414,655.53	50,247,390.68
2. Increased amount in the current period	2,280,448.20	164,697.00	2,445,145.20
(1) Accrual or amortization	2,280,448.20	164,697.00	2,445,145.20
(2) Conversion from fixed assets	–	–	–
3. Decreased amount in the current period	–	–	–
4. Balance at the end of the period	50,113,183.35	2,579,352.53	52,692,535.88
III. Provision for impairment	–	–	–
IV. Book value			
1. Book value at the end of the period	60,295,353.15	11,542,372.10	71,837,725.25
2. Book value at the beginning of the year	61,734,685.77	11,707,069.10	73,441,754.87

The amount of depreciation and amortization for investment property recognized as profits or losses is RMB2,445,145.20 (amount of previous period: RMB2,359,561.86) in the current period.

Notes to the Interim Financial Statements (Continued)

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

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

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

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

At the end of the period, the investment real estates include the house property with the book value of RMB40,300,667.61 (amount at the beginning of the year: RMB45,047,952.00) and its certificate of title is under application. Since the above house properties are handled in accordance with relevant legal procedures, the board of directors of the Company can make sure that transfer of the property title will not have any substantial legal obstacles or affect normal use of such house buildings by the Group, and will not exert significant impact on normal operation of the Group and not be required to draw provisions for impairment of investment real estates, and will not incur significant additional costs.

Item	Book Value	Reasons for Unsettlement of the Certificate of Title
13–22/F, Xinhua Mansion in the Headquarters	32,729,903.76	Under application
No. 1 Scientific Research Centre in the Headquarters	<u>7,570,763.85</u>	Under application
Total	<u><u>40,300,667.61</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))

9. Fixed assets

(1) Detail list of fixed assets

Item	Premises and Buildings	Machinery Equipment	Transportation Equipment	Electronic Equipment and Others	Total
I. Original book value					
1. Balance at the beginning of the year	1,421,045,643.14	2,390,971,561.24	27,784,623.61	74,192,021.14	3,913,993,849.13
2. Increased amount in the current period	67,910,182.63	160,402,970.01	793,594.86	3,489,507.52	232,596,255.02
(1) Purchase	3,810,540.58	53,717,442.54	793,594.86	2,679,045.79	61,000,623.77
(2) Conversion from projects in progress	64,099,642.05	106,685,527.47	-	810,461.73	171,595,631.35
3. Decreased amount in the current period	3,028,628.51	25,544,472.28	688,886.85	1,407,712.07	30,669,699.71
(1) Disposal or scrapping	3,028,628.51	25,544,472.28	688,886.85	1,407,712.07	30,669,699.71
(2) Conversion into investment real estate	-	-	-	-	-
4. Balance at the end of the period	1,485,927,197.26	2,525,830,058.97	27,889,331.62	76,273,816.59	4,115,920,404.44
II. Accumulated depreciation					
1. Balance at the beginning of the year	477,611,441.18	1,205,233,173.61	20,875,514.45	54,717,414.35	1,758,437,543.59
2. Increased amount in the current period	36,370,340.18	98,487,771.42	995,285.34	2,609,765.34	138,463,162.28
(1) Accrual	36,370,340.18	98,487,771.42	995,285.34	2,609,765.34	138,463,162.28
(2) Other increase	-	-	-	-	-
3. Decreased amount in the current period	1,271,045.65	25,309,097.67	651,205.38	1,328,555.23	28,434,683.87
(1) Disposal or scrapping	1,271,045.65	25,309,097.67	651,205.38	1,328,555.23	28,434,683.87
(2) Conversion into investment real estate	-	-	-	-	-
4. Balance at the end of the period	512,835,955.77	1,278,411,847.36	21,219,594.41	55,998,624.46	1,868,466,022.00
III. Provision for impairment					
1. Balance at the beginning of the year	2,608,693.82	39,767.49	-	2,276.65	2,650,737.96
2. Increased amount in the current period	-	-	-	-	-
(1) Accrual	-	-	-	-	-
3. Decreased amount in the current period	2,608,693.82	-	-	-	2,608,693.82
(1) Disposal or scrapping	2,608,693.82	-	-	-	2,608,693.82
4. Balance at the end of the period	-	39,767.49	-	2,276.65	42,044.14
IV. Book value					
1. Book value at the end of the period	973,091,241.49	1,247,378,444.12	6,669,737.21	20,272,915.48	2,247,412,338.30
2. Book value at the beginning of the year	940,825,508.14	1,185,698,620.14	6,909,109.16	19,472,330.14	2,152,905,567.58

The amount of depreciation and amortization for fixed assets recognized as profits and losses is RMB138,463,162.28 (amount of pervious period: RMB133,647,396.12) in current period.

Notes to the Interim Financial Statements (Continued)

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

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

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

(3) **Fixed assets acquired by finance lease**

At the end of the period, the fixed asset with a book value of RMB101,505,556.17 (original book value: RMB194,712,348.77) is rented by financial lease. The specific analysis is as follows:

Item	Original Book Value	Accumulated Depreciation	Provision for Impairment	Book Value
Machinery equipment	194,712,348.77	93,206,792.60	–	101,505,556.17
Total	194,712,348.77	93,206,792.60	–	101,505,556.17

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

At the end of the period, the fixed assets include the house property with the original book value of RMB524,382,064.99 (amount at the beginning of the year: RMB498,606,667.81) and its certificate of title is under application. Since the above house properties are handled in accordance with relevant legal procedures, the directors of the Company can make sure that transfer of the property title will not have any substantial legal obstacles or affect normal use of such house buildings by the Group, and will not exert significant impact on normal operation of the Group and not be required to draw provisions for impairment of fixed assets.

Item	Book Value	Reasons for Unsettlement of the Certificate of Title
House property of No. 1 factory	51,760,302.06	Under application
House property of No. 2 factory	255,672,513.21	Under application
House property in the headquarter park	120,891,237.41	Under application
House property in Gaomi park	28,292,605.74	Under application
House property in Shouguang park	67,765,406.57	Under application
Total	524,382,064.99	

Notes to the Interim Financial Statements (Continued)

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

10. Projects in progress

(1) Detail list of projects in progress

Item	Amount at the end of the period			Amount at the beginning of the year		
	Book balance	Provision for impairment	Net book value	Book balance	Provision for impairment	Net book value
Modern medicine international cooperation center	277,607,248.90	-	277,607,248.90	213,057,403.70	-	213,057,403.70
Modern medicine international cooperation center pharmaceutical preparations workshop (II)	16,557,712.33	-	16,557,712.33	-	-	-
Utilities project in Hutian Industrial Park	13,554,106.97	-	13,554,106.97	10,456,819.11	-	10,456,819.11
Hormone series products project in Hutian Industrial Park	-	-	-	97,743,552.14	-	97,743,552.14
Veterinary drug API technical transformation project	11,675,971.87	-	11,675,971.87	11,201,604.97	-	11,201,604.97
Medicinal fish oil industrialization project	19,000,638.51	-	19,000,638.51	6,453,538.72	-	6,453,538.72
Caffeine sewage treatment project	7,350,000.00	-	7,350,000.00	-	-	-
MVR product of ammonium sulfate processing project	4,362,206.40	-	4,362,206.40	1,509,494.06	-	1,509,494.06
Salicylic acid Automation transformation project	2,478,049.72	-	2,478,049.72	-	-	-
Injection line automation project	2,049,300.00	-	2,049,300.00	-	-	-
Multifunctional Building for QC of Xincat Pharmaceutical	3,654,587.13	-	3,654,587.13	17,805,135.28	-	17,805,135.28
Others	139,276,579.82	-	139,276,579.82	76,318,329.54	-	76,318,329.54
Total	497,566,401.65	-	497,566,401.65	434,545,877.52	-	434,545,877.52

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 in progress

Name of Project	Amount at the beginning of the year	Increase in current period	Decrease in the period		Amount at the end of the period
			Transferred to fixed assets/ investment real estate	Other decreases	
Modern medicine international cooperation center	213,057,403.70	64,549,845.20	-	-	277,607,248.90
Modern medicine international cooperation center pharmaceutical preparations workshop (II)	-	16,557,712.33	-	-	16,557,712.33
Utilities project in Hutian Industrial Park	10,456,819.11	3,097,287.86	-	-	13,554,106.97
Hormone series products project in Hutian Industrial Park	97,743,552.14	33,251,130.02	130,994,682.16	-	0.00
Veterinary drug API technical transformation project	11,201,604.97	474,366.90	-	-	11,675,971.87
Medicinal fish oil industrialization project	6,453,538.72	12,547,099.79	-	-	19,000,638.51
Caffeine sewage treatment project	-	7,350,000.00	-	-	7,350,000.00
MVR product of ammonium sulfate processing project	1,509,494.06	2,852,712.34	-	-	4,362,206.40
Salicylic acid Automation transformation project	-	2,478,049.72	-	-	2,478,049.72
Injection line automation project	-	2,049,300.00	-	-	2,049,300.00
Multifunctional Building for QC of Xincat Pharmaceutical	17,805,135.28	13,910,058.34	27,205,905.63	854,700.86	3,654,587.13
Others	76,318,329.54	77,373,084.81	14,236,159.04	178,675.49	139,276,579.82
Total	434,545,877.52	236,490,647.31	172,436,746.83	1,033,376.35	497,566,401.65

Notes to the Interim Financial Statements (Continued)

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

Name of Project	Budget	Proportion of	Engineering schedule	Accumulated Amount of Capitalization of Interest	Including:		Sources of funds
		Investment in Budget (%)			Amount of Capitalized Interest in Current Period	Capitalization Rate of Interest in Current Period (%)	
Modern medicine international cooperation center	400,000,000.00	69.40	98.00	-	-	-	Self-provided
Modern medicine international cooperation center pharmaceutical preparations workshop (II)	320,000,000.00	5.17	20.00	-	-	-	Self-provided
Utilities project in Hutian Industrial Park	57,000,000.00	113.48	99.00	-	-	-	Self-provided
Hormone series products project in Hutian Industrial Park	140,050,000.00	93.53	100.00	-	-	-	Self-provided
Veterinary drug API technical transformation project	14,700,000.00	79.43	90.00	-	-	-	Self-provided
Medicinal fish oil industrialization project	40,000,000.00	47.50	90.00	-	-	-	Self-provided
Caffeine sewage treatment project	31,784,200.00	23.12	10.00	-	-	-	Self-provided
MVR product of ammonium sulfate processing project	21,373,000.00	20.41	50.00	-	-	-	Self-provided
Salicylic acid Automation transformation project	4,000,000.00	61.95	85.00	-	-	-	Self-provided
Injection line automation project	6,800,000.00	30.14	70.00	-	-	-	Self-provided
Multifunctional Building for QC of Xincat Pharmaceutical	35,000,000.00	50.87	60.00	-	-	-	Self-provided
Total	1,070,707,200.00	-	-	-	-	-	

- (3) No impairment was incurred on the projects in progress of the Group at the end of the period. No provision for impairment of projects in progress was accrued.

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. Detail list of intangible assets

(1) intangible assets

Item	Land use right	Software license	Non- patented technology	Others	Total
I. Original book value					
1. Balance at the beginning of the year	390,874,466.89	9,566,960.47	23,496,005.93	2,613,680.00	426,551,113.29
2. Increased amount in the current period	-	816,621.73	-	-	816,621.73
(1) Purchase	-	816,621.73	-	-	816,621.73
3. Decreased amount in the current period	-	-	-	-	-
(1) Disposal	-	-	-	-	-
(2) Others	-	-	-	-	-
4. Balance at the end of the period	390,874,466.89	10,383,582.20	23,496,005.93	2,613,680.00	427,367,735.02
II. Accumulated amortization					
1. Balance at the beginning of the year	69,530,793.51	7,347,155.07	23,496,005.93	2,613,680.00	102,987,634.51
2. Increased amount in the current period	4,173,636.04	285,596.39	-	-	4,459,232.43
(1) Provision	4,173,636.04	285,596.39	-	-	4,459,232.43
(2) Other increase	-	-	-	-	-
3. Decreased amount in the current period	-	-	-	-	-
(1) Disposal	-	-	-	-	-
(2) Others	-	-	-	-	-
4. Balance at the end of the period	73,704,429.55	7,632,751.46	23,496,005.93	2,613,680.00	107,446,866.94
III. Provision for impairment					
IV. Book value					
1. Book value at the end of the period	317,170,037.34	2,750,830.74	-	-	319,920,868.08
2. Book value at the beginning of the year	321,343,673.38	2,219,805.40	-	-	323,563,478.78

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

The amount of depreciation and amortization for intangible assets recognized as profits or losses is RMB4,459,232.43 (amount of previous period: RMB5,666,552.18) in the current period.

Notes to the Interim Financial Statements (Continued)

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

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

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

At the end of the period, the book value of the land use rights without land use right certificates in the intangible assets of the Group is RMB3,858,594.44 (amount at the beginning of the year: RMB3,932,561.11) and relevant land use right certificates are under application. As the above purchased assets are handled in accordance with relevant legal agreements, the directors of the Company think that transfer of the property title will not have any substantial legal obstacles and thus will not exert significant impact on normal operation of the Group and not be required to accrue provisions for impairment of intangible assets.

Item	Book value	Reasons for unsettlement of the certificate of title
Eastern chemical industrial area of high-tech industrial development zone in Zibo High-tech Zone	3,858,594.44	Under application

12. Goodwill

(1) **Original value of goodwill**

Invested entity	Balance at the beginning of the year	Increase in the current period	Decrease in the current period	Balance at the end of the period
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	2,715,585.22	–	–	2,715,585.22

(2) **Provision for impairment of goodwill**

Invested entity	Balance at the beginning of the year	Increase in the current period	Decrease in the current period	Balance at the end of the period
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	2,715,585.22	–	–	2,715,585.22

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

Notes to the Interim Financial Statements (Continued)

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

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

13. Deferred income tax assets and liabilities

(1) Deferred income tax assets without offset

Item	Balance at the end of the period		Balance at the beginning of the year	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Provision for bad debt	77,456,168.25	18,216,125.85	76,559,132.09	18,035,269.72
Provisions for inventory falling price	19,704,171.82	3,274,160.92	20,884,854.97	3,569,331.72
Salaries unpaid	2,577,352.07	386,602.81	64,962,444.08	10,200,166.61
Estimated liabilities and others	31,941,199.67	5,246,979.96	12,716,899.63	1,907,534.95
Deferred incomes	19,525,083.33	2,928,762.50	22,563,583.32	3,384,537.50
Unrealized internal profits from purchase and sales with subsidiaries	37,190,839.90	6,739,800.16	8,777,161.26	1,743,893.12
Provision for impairment of goodwill	2,715,585.22	678,896.31	2,715,585.22	678,896.31
Total	<u>191,110,400.26</u>	<u>37,471,328.51</u>	<u>209,179,660.57</u>	<u>39,519,629.93</u>

(2) Deferred income tax liabilities without offset

Item	Balance at the end of the period		Balance at the beginning of the year	
	Taxable temporary difference	Deferred income tax liability	Taxable temporary difference	Deferred income tax liability
Assets evaluation increment from business merger not under common control	23,405.48	5,851.37	46,811.04	11,702.76
Gains and losses from changes in fair value of other equity instruments investment	185,202,890.00	27,780,433.50	236,915,914.00	35,537,387.10
Depreciation of fixed assets	50,252,721.82	8,543,430.70	—	—
Total	<u>235,479,017.30</u>	<u>36,329,715.57</u>	<u>236,962,725.04</u>	<u>35,549,089.86</u>

Notes to the Interim Financial Statements (Continued)

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

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

Item	Offset amount of deferred income tax assets and liabilities at the end of the period	Balance at the end of the period of deferred income tax assets or liabilities after offset	Offset amount of deferred income tax assets and liabilities at the beginning of the period	Balance at the beginning of the year of deferred income tax assets or liabilities after offset
Deferred income tax assets	12,280,713.82	25,190,614.69	18,459,844.88	21,059,785.05
Deferred income tax liability	12,280,713.82	24,049,001.75	18,459,844.88	17,089,244.98

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

(4) Details of the unrecognized deferred income tax assets

Item	Balance at the end of the period	Balance at the beginning of the year
Deductible temporary difference	3,181,887.82	4,002,763.39
Deductible loss	15,941,141.56	16,149,220.94
Total	19,123,029.38	20,151,984.33

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

Year	Balance at the end of the period	Balance at the beginning of the year	Remarks
2018	4,209,020.56	4,417,099.94	-
2019	6,165,091.12	6,165,091.12	-
2020	-	-	-
2021	5,264,786.36	5,264,786.36	-
2022	302,243.52	302,243.52	-
Total	15,941,141.56	16,149,220.94	

Notes to the Interim Financial Statements (Continued)

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

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

14. Short-term loans

Category	Balance at the end of the period	Balance at the beginning of the period
Credit loans	235,000,000.00	150,000,000.00
Pledge loans	835,230.51	1,837,507.11
Total	235,835,230.51	151,837,507.11

Note: On 30 June 2018, the interest rate range of short-term loans is 4.35%.

15. Notes payable and Accounts payable

15.1 Notes payable

Category	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bill	344,013,074.26	208,227,829.37
Total	344,013,074.26	208,227,829.37

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

Notes to the Interim Financial Statements (Continued)

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

15.2 Accounts payable

(1) Classification of accounts payable by nature:

Item	Balance at the end of the period	Balance at the beginning of the year
Goods payment	545,655,368.90	530,065,197.24
Total	<u>545,655,368.90</u>	<u>530,065,197.24</u>

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

Item	Balance at the end of the period	Balance at the beginning of the year
Within 1 year	532,146,751.09	507,439,905.53
1-2 years	6,950,202.56	15,463,021.70
2-3 years	3,187,469.32	2,206,933.89
Over 3 years	<u>3,370,945.93</u>	<u>4,955,336.12</u>
Total	<u>545,655,368.90</u>	<u>530,065,197.24</u>

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

Organization Name	Balance at the end of the period	Reasons for not repaying or carrying forward
Zibo Hengan Pharmaceutical Co., Ltd.	3,140,123.54	Outstanding goods payment
Jiangsu Saideli Pharmaceutical Machinery Manufacturing Co., Ltd.	1,802,608.64	Outstanding goods payment
Shandong Hongchen Pharmaceutical Co., Ltd.	<u>1,117,104.75</u>	Outstanding goods payment
Total	<u>6,059,836.93</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))

16. Contract liabilities

(1) Classification of contract liabilities by nature

Item	Amount at the end of the period	Amount at the beginning of the year
Goods sales contract	50,973,597.84	86,279,879.79
Sales of commercial building contract	84,295,040.70	37,015,335.20
Total	135,268,638.54	123,295,214.99

Note: The amount of income recognized in the current period which is included in the book value at the beginning of the contract liability period is RMB74,697,548.73.

(2) The amount of contract transaction for which performance obligations have not been fulfilled since June 30, 2018.

Item	Time	Amount
Goods sales contract	It is expected that revenue will be recognized within 1 year	45,051,023.60
	It is expected that revenue will be recognized after 1 year	
	Total	45,051,023.60
Sales of commercial building contract	It is expected that revenue will be recognized within 1 year	
	It is expected that revenue will be recognized after 1 year	75,941,478.11
	Total	75,941,478.11

Notes to the Interim Financial Statements (Continued)

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

17. Payroll payable

(1) Classification of payroll payable

Item	Balance at the beginning of the year	Increase in the current period	Decrease in the current period	Balance at the end of the period
Short-term remuneration	68,460,743.73	288,732,227.92	320,740,555.67	36,452,415.98
Post-employment welfare – defined contribution plan	–	28,923,768.89	28,923,768.89	–
Dismissal welfare	–	190,878.00	190,878.00	–
Total	68,460,743.73	317,846,874.81	349,855,202.56	36,452,415.98

(2) Short-term remuneration

Item	Balance at the beginning of the year	Increase in the current period	Decrease in the current period	Balance at the end of the period
Salary, bonus, allowance and subsidy	63,856,096.87	231,215,576.88	263,403,709.80	31,667,963.95
Employee welfare expenses	–	11,950,503.88	11,950,503.88	–
Social insurance premiums	–	13,340,989.10	13,340,989.10	–
Including: Medical insurance premiums	–	10,522,634.18	10,522,634.18	–
Work-related injury insurance premiums	–	1,325,653.34	1,325,653.34	–
Maternity insurance premium	–	1,492,701.58	1,492,701.58	–
Housing funds	–	8,201,961.14	8,204,791.94	(2,830.80)
Labor union expenditure & personnel education funds	4,604,646.86	4,378,609.56	4,195,973.59	4,787,282.83
Labor expenses	–	19,644,587.36	19,644,587.36	–
Total	68,460,743.73	288,732,227.92	320,740,555.67	36,452,415.98

(3) Defined contribution plan

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

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 should pay for the endowment insurance and unemployment insurance plans as follows:

Item	Balance at the beginning of the year	Increase in the current period	Decrease in the current period	Balance at the end of the period
Basic endowment insurance	-	27,878,818.03	27,878,818.03	-
Unemployment insurance premium	-	1,044,950.86	1,044,950.86	-
Total	-	28,923,768.89	28,923,768.89	-

The endowment insurance, annuity and unemployment insurance premium that the Group planned to pay on 30 June 2018 had been fully paid.

18. Tax payable

Tax Category	Balance at the end of the period	Balance at the beginning of the year
VAT	11,731,202.93	426,050.02
Income tax payable	3,873,135.01	1,791,273.07
City maintenance and construction tax	1,421,934.69	670,320.65
Personal income tax	675,824.91	905,514.64
House property tax	3,339,647.95	3,431,971.81
Land use tax	3,902,861.41	3,906,361.43
Stamp duty	163,892.25	320,886.50
Educational surcharges	1,015,763.25	478,896.07
Local Water Conservancy Fund	115,781.51	66,287.42
Environmental protection tax	25,243.07	-
Total	26,265,286.98	11,997,561.61

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. Other payables

(1) Classification of other payables by nature

Item	Balance at the end of the period	Balance at the beginning of the year
Classifications of engineering equipment amount payable	250,469,327.33	222,731,780.56
Classifications of guarantee deposit and security deposit	33,597,971.83	40,319,761.78
Classifications of power expense, transport costs and consulting fees	15,788,433.21	11,009,498.61
Interest of bank loans	3,765,440.85	1,493,174.71
Interest of finance lease	745,523.41	745,523.41
Ordinary stock dividend	41,801,725.54	19,661,202.16
Others	9,081,108.61	6,053,691.00
Total	355,249,530.78	302,014,632.23
Including: more than 1 year	44,403,422.76	46,588,352.65

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

Organization name	Balance at the end of the period	Reasons for not repaying or carrying forward
Gaiyu (Beijing) Pharmaceutical Technology Co., Ltd.	2,821,680.11	Deposit
Shandong Qitai industry Group Co., Ltd.	1,761,549.95	Engineering quality guarantee deposit
Zibo Xinhai Machinery Manufacturing Co., Ltd.	1,087,204.00	Equipment amount payable
Zibo Branch of Hangzhou New Epoch Fire Technology Co., Ltd.	1,059,738.30	Equipment amount payable
SDU-ZB Biomedical R&D Institute	1,000,000.00	To pay R&D funding
Total	7,730,172.36	

Notes to the Interim Financial Statements (Continued)

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

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

20. Non-current liabilities due within one year

Item	Balance at the end of the period	Balance at the beginning of the year
Long-term loans due within one year	376,000,000.00	6,000,000.00
Finance lease payments due within one year	57,870,832.30	83,621,673.88
Total	<u>433,870,832.30</u>	<u>89,621,673.88</u>

21. Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the year
Deferred income carried forward within one year	5,827,410.00	5,319,000.00
Total	<u>5,827,410.00</u>	<u>5,319,000.00</u>

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

22. Long-term loans

(1) Classifications of long-term loans

Category	Balance at the end of the period	Balance at the beginning of the year
Credit loans	618,500,000.00	931,500,000.00
Total	<u>618,500,000.00</u>	<u>931,500,000.00</u>

Note: As at 30 June 2018, the interest rate range of long-term loans is 2.90%–4.80%.

Notes to the Interim Financial Statements (Continued)

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

(2) Analysis of long-term loan maturity date

Item	Balance at the end of the period	Balance at the beginning of the year
1-2 years	336,000,000.00	500,000,000.00
2-5 years	282,500,000.00	431,500,000.00
Total	618,500,000.00	931,500,000.00

23. Long-term payables

(1) Classifications of long-term payables by nature

Nature	Balance at the end of the period	Balance at the beginning of the year
Financial leasing	22,958,449.99	47,541,721.66
Special payable	71,960,000.00	71,960,000.00
Total	94,918,449.99	119,501,721.66

(2) Analysis of finance lease payments maturity date

Item	Balance at the end of the period	Balance at the beginning of the year
1-2 years	22,958,449.99	39,677,609.62
2-5 years	—	7,864,112.04
Total	22,958,449.99	47,541,721.66

Notes to the Interim Financial Statements (Continued)

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

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

(3) Detail list of special payables

Item	Balance at the beginning of the year	Increase in the current period	Decrease in the current period	Balance at the end of the period	Reason
Organic gas recovery and comprehensive air pollution prevention and control project	2,420,000.00	-	-	2,420,000.00	Note 1
Modern medicine center for international cooperation project	62,270,000.00	-	-	62,270,000.00	Note 2
Control of volatile organic compounds project	7,270,000.00	-	-	7,270,000.00	
Total	71,960,000.00	-	-	71,960,000.00	

Note 1: According to the Notice on the Allocation of State Subsidies for Central Infrastructure Investment in the 2016 Industrial Transformation and Upgrading Project (LCQZ [2016] No. 98) from Zibo Municipal Bureau of Finance, the Company has received RMB62.27 million and recognized to the subject of special accounts payable.

Note 2: According to the Notice on the Issuance of the Central Infrastructure Investment Budget for the Beijing-Tianjin-Hebei and Key Areas of Pollution Control Projects (LCQZ [2016] No. 148) from Zibo Municipal Bureau of Finance's, and the Notice on the Allocation of State Subsidies for the Central Fund Investment Budget Indicators of the Advancement of PPP in 2016 and etc. (LCJZ [2016] No. 93) from Shandong Province Finance Bureau, the Company has received RMB7.27 million and recognized to the subject of special accounts payable.

24. Deferred incomes

(1) Classification of deferred income

Item	Balance at the beginning of the year	Increase in the current year	Decrease in the current year	Balance at the end of the period
Government grants	131,701,917.02	6,576,600.00	3,225,610.00	135,052,907.02
Total	131,701,917.02	6,576,600.00	3,225,610.00	135,052,907.02

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

Project	Balance at the beginning of the year	Newly increased amount of subsidy of the current period	Amount of non-business income of the current period	Other changes	Other decreases	Balance at the end of the period	Related to assets/ related to income
Air pollution comprehensive prevention and control project of recycling organic gas*1	-	200,000.00	-	-	-	200,000.00	Related to assets
3,000t Ibuprofen Project	442,500.00	-	-	295,000.00	-	147,500.00	Related to assets
Innovation ability construction project of Technology Center	1,833,333.32	-	-	250,000.00	-	1,583,333.32	Related to assets
Aspirin Series Product GMP Transformation Project	4,766,583.33	-	-	608,500.00	-	4,158,083.33	Related to assets
Related to asset Special funds for MVR energy-saving technical transformation	200,000.00	-	-	20,000.00	-	180,000.00	Related to assets
Related to asset Cultivation of aspirin famous and excellent medicines	7,062,500.00	-	-	787,500.00	-	6,275,000.00	Related to assets
Aspirin series product technical transformation project	466,666.67	-	-	50,000.00	-	416,666.67	Related to assets
Special funds for MVR energy-saving transformation	2,640,000.00	-	-	240,000.00	-	2,400,000.00	Related to assets
Incinerator and heat recovery project of East Park Area	550,000.00	-	-	50,000.00	-	500,000.00	Related to assets
Organic gas (dichloromethane) recovery prevention and control project	35,610,000.00	-	-	-	-	35,610,000.00	Related to assets
Modern Medicine International Cooperation Center Project *2	66,300,000.00	2,992,500.00	-	-	-	69,292,500.00	Related to assets
Analgin series production process automation transformation project	531,250.00	-	-	37,500.00	-	493,750.00	Related to assets
Production equipment system energy saving transformation project	389,583.70	-	-	27,500.00	-	362,083.70	Related to assets
New 2,000T/d sewage treatment system project of East Park Area	3,969,500.00	-	-	233,500.00	-	3,736,000.00	Related to assets
Modern Medicine International Cooperation Center (II) project *3	1,020,000.00	1,154,000.00	57,700.00	175,400.00	-	1,940,900.00	Related to assets
Xinhua pharmaceuticals E-Commerce Health Innovation Industrial Park Project	920,000.00	-	-	-	-	920,000.00	Related to assets
Hormone series technological transformation project *4	2,000,000.00	1,930,100.00	-	393,010.00	-	3,537,090.00	Related to assets
Research and industrialization project of calcium polycarbophil and tablet	3,000,000.00	-	-	-	-	3,000,000.00	Related to assets
Sludge drying project of sewage treatment plant *5	-	300,000.00	-	-	-	300,000.00	Related to assets
Total	131,701,917.02	6,576,600.00	57,700.00	3,167,910.00	-	135,052,907.02	

Notes to the Interim Financial Statements (Continued)

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

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

Other changes are government grants expected to be carried forward in 2018, which are carried forward and listed in "other current liabilities".

*1. According to the Circular of Issuing the Budget Index for Policy Financial Support Funds of "30 Articles of Industrial Strong Cities" in 2017 (CZQZ [2017] No. 189), the Company received RMB200,000.00 for organic gas recovery and comprehensive air pollution prevention and control project in 2018.

*2. According to the Circular of Issuing the Budget Index for Policy Financial Support Funds of "30 Articles of Industrial Strong Cities" in 2017 (CZQZ [2017] No. 189), the Company received government grants RMB2,992,500.00 for Modern Medicine International Cooperation Center in 2018.

*3. According to the Circular of Issuing the Budget Index for Policy Financial Support Funds of "30 Articles of Industrial Strong Cities" in 2017 (CZQZ [2017] No. 189), the Company received government grants RMB1,154,000.00 for modern chemical and pharmaceutical industrialization center(II) project in 2018.

*4. According to the Circular of Issuing the Budget Index for Policy Financial Support Funds of "30 Articles of Industrial Strong Cities" in 2017 (CZQZ [2017] No. 189), the Company received government grants RMB1,930,100.00 for hormone series product technical transformation project in 2018.

*5. According to the Circular of Issuing the Budget Index for Policy Financial Support Funds of "30 Articles of Industrial Strong Cities" in 2017 (CZQZ [2017] No. 189), the Company received RMB300,000.00 for sewage sludge drying and resource construction in 2018.

25. Other non-current liabilities

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

26. Capital stock

Item	Balance at the beginning of the year	New shares offered	Increase/decrease during the year capital reserve				Subtotal	Balance at the end of the period
			Share allotment	Converted into capital stock	Others			
Total shares	478,353,421.00	-	-	-	-	-	-	478,353,421.00

Notes to the Interim Financial Statements (Continued)

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

27. Capital reserves

Item	Balance at the beginning of the year	Increase in the current period	Decrease in the current period	Balance at the end of the period
Capital stock premium	626,442,192.76	–	–	626,442,192.76
Other capital reserves	102,008,132.18	–	–	102,008,132.18
Total	728,450,324.94	–	–	728,450,324.94

28. Other comprehensive incomes

Item	Amount in the current period						
	Balance at the beginning of the year	Incurred pre-tax amount	Less: Amount included into other comprehensive incomes in previous period and carried over into profits and loss in current period	Less: income tax expense	After-tax amount attributable to the parent company	After-tax amount attributable to minority shareholders	Balance at the end of the period
(1) Other comprehensive incomes that cannot be reclassified to profit and loss	201,378,526.90	(51,713,024.00)	–	(7,756,953.60)	(43,956,070.40)	–	157,422,456.50
Changes in the fair value of other equity instruments investment	201,378,526.90	(51,713,024.00)	–	(7,756,953.60)	(43,956,070.40)	–	157,422,456.50
(2) Other comprehensive income to be reclassified to profit or loss	(1,993,120.83)	385,959.73	–	–	311,743.40	74,216.33	(1,681,377.43)
Exchange difference of foreign currency financial statement	(1,993,120.83)	385,959.73	–	–	311,743.40	74,216.33	(1,681,377.43)
Total other comprehensive incomes	199,385,406.07	(51,327,064.27)	–	(7,756,953.60)	(43,644,327.00)	74,216.33	155,741,079.07

Notes to the Interim Financial Statements (Continued)

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

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

29. Special reserves

Item	Balance at the beginning of the year	Increase in the current period	Decrease in the current period	Balance at the end of the period
Safety in production fee	—	7,414,945.29	7,414,945.29	—
Total	—	7,414,945.29	7,414,945.29	—

30. Surplus reserves

Item	Balance at the beginning of the year	Increase in the current period	Decrease in the current period	Balance at the end of the period
Statutory surplus reserves	170,713,355.33	—	187,652.06	170,525,703.27
Discretionary surplus reserves	64,795,873.74	—	—	64,795,873.74
Total	235,509,229.07	—	187,652.06	235,321,577.01

Note: The decrease in statutory surplus reserves during this period was due to the liquidation and distribution of Zibo Xinhua-Eastwest Pharmaceutical Co., Ltd., a subsidiary of the Group, during the 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))

31. Undistributed profits

Item	Amount in the current period	Amount in the previous period	Appropriation or distribution proportion (%)
Ending balance of previous year	838,325,395.51	657,375,780.62	
Add: Beginning adjustment for undistributed profit	—	—	
Among: change of consolidation scope under common control	—	—	
Beginning balance of current year	838,325,395.51	657,375,780.62	
Add: net profits attributable to the parent company's shareholders in the current year	123,363,815.34	106,774,952.86	
Less: appropriation of statutory surplus reserves	—	—	10
Appropriation of discretionary surplus reserve	—	—	
Appropriation of provision for general risk	—	—	
Ordinary shares dividends payable	23,917,671.05	—	
Others	(187,652.06)	—	
Ending balance of current period	937,959,191.86	764,150,733.48	

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

(a) The year ended 31 December 2017

Pursuant to the resolution of the provisional shareholders' meeting on December 22, 2017, the Company declared its special dividend for 2017 to its shareholders on the basis of RMB0.03 (including tax) per share, and the total amount is RMB14,350,602.63.

(b) Six months ended 30 June 2018

- (1) Pursuant to the resolutions of the board meeting held on 23 March 2018 and the resolutions of the general meeting for the year ended 31 December 2017 convened on 29 June 2018, the Company declared its final dividend for 2017 to its shareholders on the basis of RMB0.50 (including tax), and the total amount is RMB23,917,671.05. It also declared 0 bonus shares (including tax), for every 10 shares. The Company transferred to all shareholders 3 shares per 10 shares in the capital reserve fund.
- (2) Pursuant to the resolutions of the board meeting held on 16 August 2018, the board of the Company proposed not to distribute the semi-annual dividend for the six months ended 30 June 2018 (2017 semi-annual dividend: zero).

Notes to the Interim Financial Statements (Continued)

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

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

32. Operating income and costs

(1) Operating income and costs classified by product/service

Item	Amount in the current period		Amount in the previous period	
	Income	Cost	Income	Cost
Chemical bulk drugs	1,173,577,615.67	852,207,304.84	1,049,851,436.87	724,063,162.72
Preparations	1,182,629,382.39	782,936,942.63	1,067,395,251.96	784,023,429.33
Medical intermediates and other products	331,473,142.17	303,812,028.96	286,027,472.43	235,136,776.00
Total	2,687,680,140.23	1,938,956,276.43	2,403,274,161.26	1,743,223,368.05

(2) Operating income and operating cost classified by region

Item	Amount in the current period		Amount in the previous period	
	Operating income	Operating cost	Operating income	Operating cost
PRC (including Hong Kong)	1,877,197,587.18	1,306,421,716.16	1,663,245,696.61	1,161,591,486.82
America	404,603,284.92	322,686,697.07	333,989,164.92	295,014,108.19
Europe	150,797,141.32	110,233,275.00	173,615,603.92	155,170,741.34
Other	255,082,126.81	199,614,588.20	232,423,695.81	131,447,031.70
Total	2,687,680,140.23	1,938,956,276.43	2,403,274,161.26	1,743,223,368.05

Notes to the Interim Financial Statements (Continued)

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

(3) Operating incomes of the top five customers

Total operating income from the top 5 customers of the Group is RMB349,456,683.93 in the current period (previous period: RMB322,264,458.50), which represents 13.01% of the total operating income in current period (previous year:13.33%), as listed below:

Name of customer	Amount in the current period	Proportion to the total operating income (%)
Perrigo Company	101,223,895.51	3.77
Bayer Healthcare Co.,Ltd.	80,936,502.18	3.01
Mitsubishi Corporation	62,791,608.87	2.34
DASTECH INTERNATIONAL INC.	55,343,615.31	2.06
Zibo Zhongsheng Pharmaceutical Co.,Ltd.	49,161,062.06	1.83
Total	349,456,683.93	13.01

33. Taxes and surcharges

Item	Amount in the current period	Amount in the previous period
City maintenance and construction tax	8,586,436.71	9,262,407.48
Educational surcharges	6,133,169.07	6,616,005.30
Local water conservancy fund	609,177.18	1,230,754.03
House property tax	6,000,312.87	5,589,639.32
Land use tax	7,813,116.52	8,387,170.07
Vehicle usage tax	37,683.36	38,004.39
Stamp duty	1,209,530.55	1,084,223.80
Environmental protection tax	60,554.74	—
Total	30,449,981.00	32,208,204.39

Notes to the Interim Financial Statements (Continued)

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

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

34. Selling expenses

Item	Amount in the current period	Amount in the previous period
Payroll of employees	63,780,714.81	54,234,507.82
Terminal sales expenses	88,320,634.56	78,279,759.22
Consultation expenses	58,680,523.40	45,954,076.55
Transport charges	23,634,255.80	27,190,347.55
Advertising expenses	18,944,146.64	11,175,751.45
Travel expense	8,558,657.79	8,388,465.31
Market development expense and promotion expense	63,723,072.48	30,673,825.21
Office expenses	875,206.29	892,859.32
Conference expenses	1,280,162.83	511,969.60
Others	8,347,562.75	6,903,360.57
Total	336,144,937.35	264,204,922.60

35. Management expenses

Item	Amount in the current period	Amount in the previous period
Payroll of employees	45,285,143.34	43,951,347.60
Depreciation charges	11,537,236.67	12,387,159.83
Amortization of intangible assets	4,397,182.27	5,648,396.27
Warehouse expenses	4,712,542.79	4,895,720.00
Business entertainment expenses	2,375,649.16	2,782,121.09
Office expenses	1,654,334.28	1,906,192.94
Travel expense	1,530,956.41	1,596,907.88
Water, electricity and gas charges	1,430,010.98	2,425,868.06
Royalty fee of trademark	4,734,800.93	4,725,471.57
Annual fee of listing, audit fee, expenses of board of directors	2,326,277.26	897,365.60
Repairing expenses	1,862,665.25	1,991,626.79
Others	30,853,680.45	25,727,367.50
Total	112,700,479.79	108,935,545.13

Note: Pursuant to the "Notice on Amending and Issuing the 2018 Annual Financial Statement Form of General Enterprises" (Cai Kuai [2018] No. 15) published by the Ministry of Finance, R&D expenses was no longer listed in administration expenses during this period, and the adjustment was made on the correlating data for the previous period data at the same time.

Notes to the Interim Financial Statements (Continued)

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

36. R&D cost

Item	Amount in the current period	Amount in the previous period
R&D cost	<u>86,133,750.67</u>	<u>96,515,407.67</u>
Total	<u><u>86,133,750.67</u></u>	<u><u>96,515,407.67</u></u>

Note: According to Notice of the Ministry of Finance on "Amending and Formatting the General Enterprise Financial Statements", which was released by the Ministry of Finance of PRC in 2018, the current R&D cost separately presents, and adjusts the previous period comparison data.

37. Financial expenses

Item	Amount of current period	Amount of previous period
Interest expense	26,822,807.00	29,301,634.58
Less: interest income	1,550,160.56	1,535,252.61
Add: exchange loss	(7,143,932.13)	6,734,347.00
Add: commission charges	<u>1,909,993.21</u>	<u>1,623,400.70</u>
Total	<u><u>20,038,707.52</u></u>	<u><u>36,124,129.67</u></u>

38. Assets impairment loss

Item	Amount in the current period	Amount in the previous period
Bad debt losses	2,004,602.45	(7,210,294.35)
Inventory valuation loss	<u>1,692,933.12</u>	<u>(584,407.96)</u>
Total	<u><u>3,697,535.57</u></u>	<u><u>(7,794,702.31)</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))

39. Other income

Item	Amount of current period	Amount of previous period	Amount recognized in non-recurring profit and loss of current period (%)
Government grants	5,212,300.00	6,055,999.98	5,212,300.00
Including: Deferred income in the year of use/amortization	2,717,200.00	2,440,999.98	2,717,200.00
Total	5,212,300.00	6,055,999.98	5,212,300.00

Details of government grants

Category of grants	Amount of current year	Amount of previous year	Source and basis	Related to assets/ related to income
Government grants received				
Key technical transformation project subsidies, etc.	690,100.00		Zi Gao Xin Wei Fa (2018) No.1	Related to income
High-skilled personnel subsidy	505,000.00	-	Zi Gao Xin Fa (2015) No. 8	Related to income
Introducing foreign brain subsidies	500,000.00			Related to income
Talent support funds	-	1,350,000.00	LGZBZ (2016) No. 44	Related to income
Taishan industry "leading talent" funding	-	1,000,000.00	LZBZ (2016) No. 5	Related to income
Other	800,000.00	1,265,000.00		Related to income
Subtotal	2,495,100.00	3,615,000.00		
Amortization of deferred revenue	2,717,200.00	2,440,999.98		Related to assets
Subtotal	2,717,200.00	2,440,999.98		
Total	5,212,300.00	6,055,999.98		

40. Investment income

Resources	Amount in the current period	Amount in the previous period
Others	807,270.99	50,054.83
Total	807,270.99	50,054.83

Notes to the Interim Financial Statements (Continued)

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

41. Gains from asset disposal(losses to be listed in brackets)

Item	Amount in the current period	Amount in the previous period	Amount recognized in current non-recurring gains and losses
Gains from disposal of non-current assets	555,591.93	13,534,933.26	555,591.93
Gains from the disposal of non-current assets not classified as held-for-sale			
Including: Gains from disposal of fixed assets	555,591.93	13,534,933.26	555,591.93
Total	555,591.93	13,534,933.26	555,591.93

42. Non-operating income

(1) Details of non-operating income

Item	Amount in the current period	Amount in the previous period	Amount recognized in non-recurring profit and loss of current period
Government grants	—	1,345,375.82	—
Others	1,232,885.38	828,318.95	1,232,885.38
Total	1,232,885.38	2,173,694.77	1,232,885.38

In current period, the non-recurring profit and loss was RMB1,232,885.38 (previous period: RMB2,173,694.77).

(2) Details of government grants

Category of grants	Amount in the current period	Amount in the previous period	Source and basis	Related to assets/related to income
Amortization of deferred revenue amortization	—	1,345,375.82		Related to assets
Total	—	1,345,375.82		

Notes to the Interim Financial Statements (Continued)

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

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

43. Non-operating expenditure

Item	Amount in the current period	Amount in the previous period	Amount recognized in non-recurring profit and loss of current period
Losses from disposal of non-current assets	1,378,996.26	485,558.54	1,378,996.26
Relocation losses	1,577,997.31	1,345,375.82	1,577,997.31
Others	1,068,924.63	2,278,632.34	1,068,924.63
Total	4,025,918.20	4,109,566.70	4,025,918.20

In current period, the amount credited into non-recurring profit and loss was RMB4,025,918.20 (previous period: RMB4,109,566.70).

Notes to the Interim Financial Statements (Continued)

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

44. Income tax expenses

(1) Income tax expenses

Item	Amount in the current period	Amount in the previous period
The current income tax calculated in accordance with the tax law and related regulations	24,252,917.55	29,310,628.71
Including: PRC enterprise income tax	24,252,917.55	28,802,264.57
– Hong Kong profits tax	–	–
– USA income tax (federal and state tax)	–	508,364.14
Deferred income tax expense	3,840,081.50	(412,443.17)
Overstatements (understatements) from previous years	1,402,995.70	4,624,341.31
Total	29,495,994.75	33,522,526.85

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

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

Item	Amount in the current period
Total profits from amalgamation in the period	163,340,602.00
Income tax expense calculated in accordance with legal/applicable tax rate	24,501,090.30
Effect of different tax rate applicable to subsidiaries	4,423,676.00
Overstatements (understatements) from previous years	1,402,995.70
Effect of non-assessable income	(37,606.10)
Effect of non-deductible cost, expense and loss	–
Effect of using deductible loss of the unrecognized deferred income tax assets from previous period	–
Effect of deductible temporary difference or deductible loss of the unrecognized deferred income tax assets in the current period	(794,161.15)
Additional deductions	–
Income tax expenses	29,495,994.75

Notes to the Interim Financial Statements (Continued)

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

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

45. Other comprehensive incomes

Please refer to related details in the Note "VI. 28. Other Comprehensive Incomes".

46. Cash Flow Statement

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

1) List of other cash received related to operating activities

Item	Amount in the current period	Amount in the previous period
Interest revenue	1,550,160.56	1,535,252.61
Subsidy income	2,495,100.00	19,765,000.00
Deposit for bank acceptance bill	—	34,622,928.62
Sales deposit	8,843,778.82	7,853,539.07
Others	4,301,875.04	10,631,337.13
Total	17,190,914.42	74,408,057.43

2) List of other cash paid related to operating activities

Item	Amount in the current period	Amount in the previous period
Office expenses	4,256,290.78	4,979,528.59
Travel expense	10,435,760.34	10,419,668.85
Annual fee of listing, audit fee, expenses of board of directors	1,665,354.95	1,738,939.34
Advertising and market development fees	211,436,670.98	163,255,121.54
Transportation expense	8,083,586.80	8,210,879.34
Business entertainment expenses	2,339,315.37	2,776,073.33
Technology development expenses	10,758,266.77	11,443,808.81
Bank acceptance bill deposit	30,546,377.41	—
Trademark license fee	5,000,000.00	500,000.00
Sales deposit	12,024,194.40	—
Others	20,314,748.26	28,148,816.23
Total	316,860,566.06	235,972,836.03

Notes to the Interim Financial Statements (Continued)

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

3) Other cash received related to investing activities

Item	Amount in the current period	Amount in the previous period
Purchasing financial products "Rijiyuelei" from Bank of China	—	30,000,000.00
Total	—	30,000,000.00

4) Other cash received related to financing activities

Item	Amount in the current period	Amount in the previous period
Financial lease payment received	—	72,000,000.00
Government grants related to assets	16,986,600.00	—
Total	16,986,600.00	72,000,000.00

5) Other cash paid related to financing activities

Item	Amount in the current period	Amount in the previous period
Payment of financial leasing deposit	43,312,698.74	34,496,481.06
Principal and interest of financial lease payable	—	8,000,000.00
Payment of subsidiary clearing allocation	3,057,193.10	—
Non-public offering expenses	—	166,747.17
Total	46,369,891.84	42,663,228.23

Notes to the Interim Financial Statements (Continued)

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

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

(2) Supplementary information of consolidated cash flow statement

Item	Amount in the current period	Amount in the previous period
1. Reconciliation of net profit to cash flows from operation activities:		
Net Profit	133,844,607.25	114,039,862.26
Add: provision for impairment of assets	3,697,535.57	(7,794,702.31)
Depreciation of fixed assets	139,522,264.07	135,842,260.98
Amortization of intangible assets	5,845,275.84	5,831,249.18
Loss from disposal of fixed assets, intangible assets and other long-term assets (gains to be listed in brackets)	(555,591.93)	(13,048,772.22)
Losses on retirement of fixed assets (gains to be listed in brackets)	1,378,996.26	—
Profit or loss from changes in fair value (gains are indicated in brackets)	—	—
Financial expenses (gains to be listed in brackets)	20,849,995.01	36,035,981.58
Investment loss (gain to be listed in brackets)	(807,270.99)	(50,054.83)
Decrease of deferred income tax assets (increases to be listed in brackets)	(4,130,829.64)	(655,193.12)
Increases of deferred income tax liabilities (decreases to be listed in brackets)	9,982,770.37	4,117,209.59
Decrease of inventory (increases to be listed in brackets)	43,073,445.47	59,671,338.84
Decreases of operating receivables (increases to be listed in brackets)	(362,407,944.95)	(246,337,913.31)
Increases of operating payables (decreases to be listed in brackets)	146,037,988.55	(78,093,683.22)
Net cash flows from operating activities	<u>136,331,240.88</u>	<u>9,557,583.42</u>
2. Significant investing and financing activities not related to cash receipt and payment:		
Conversion of debt into capital	—	—
Convertible company bonds due within one year	—	—
Fixed assets acquired under finance leases	80,829,282.29	180,296,138.10
3. Net change in cash and cash equivalents:		
Balance of cash at the end of the period	826,135,827.43	541,596,117.79
Less: balance of cash at the beginning of the period	682,862,651.75	493,092,656.71
Add: balance of cash equivalents at the end of the period	—	—
Less: balance of cash equivalents at the beginning of the period	—	—
Net increase in cash and cash equivalents	<u>143,273,175.68</u>	<u>48,503,461.08</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) Major operating activities not related to cash receipt and payment

Item	Amount in the Current Period	Amount in the Previous Period
Payments endorsed by notes receivable*	642,698,343.16	707,801,530.11

* The Company paid for materials, etc. with some of the bank acceptance bills, which were received from sales of products.

(4) Major investing and financing activities not related to cash receipt and payment

Item	Amount in the Current Period	Amount in the Previous Period
Long-term assets obtained with endorsement of notes receivable*	160,213,489.72	108,108,443.82

* The Company purchased long-term assets with the endorsement of some of the bank acceptance bills, which were received from sales of products.

(5) Cash and cash equivalents

Item	Balance at the end of the period	Balance at the beginning of the year
Cash	826,135,827.43	682,862,651.75
Including: Cash on hand	146,422.95	125,118.96
Bank deposit available for payments at any time	825,989,404.48	678,737,532.79
Other monetary capital available for payments at any time	—	4,000,000.00
Cash equivalents		
Balance of cash and cash equivalents at the end of the period	826,135,827.43	682,862,651.75
Including: Restricted cash and cash equivalents used by 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))

47. Assets with limited ownership or use right

Item	Book value at the end of the period	Reason for restriction
Monetary funds	78,740,000.00	Deposit of bank acceptance bill
Fixed assets	80,829,282.29	Financial leasing mortgage loan
Accounts receivable	835,230.51	Accounts receivable factoring

48. Monetary items for foreign currency

(1) Monetary items for foreign currency

Item	Foreign currency balance	Translation exchange rate	Equivalent balance in RMB
Monetary funds			
Including: USD	18,999,808.37	6.6166	125,714,132.06
EUR	70,570.78	7.6515	539,972.32
HKD	14,488.41	0.8431	12,215.18
GBP	883,720.14	8.6551	7,648,686.18
JPY	6,217.00	0.059914	372.49
Notes receivable and accounts receivable			
Including: USD	34,855,232.42	6.6166	230,623,130.83
GBP	883,327.68	8.6551	7,645,289.40
Prepayments			
Including: USD	51,389.09	6.6166	340,021.05
Other receivables			
Including: USD	33,983.19	6.6166	224,853.17
Notes payable and accounts payable			
Including: USD	125,402.50	6.6166	829,738.18
Contract liability			
Including: USD	1,524,398.87	6.6166	10,086,337.56
Other payables			
Including: USD	23,443.50	6.6166	155,116.26

(2) Oversea business entities

Subsidiaries	Main premise	Bookkeeping base currency	Basis for currency choice
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	Rotterdam, Holland	USD	Statutory currency of the business place
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	Los Angeles, USA	USD	Statutory currency of the business place

Notes to the Interim Financial Statements (Continued)

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

VII. CHANGES IN CONSOLIDATION SCOPE

1. Disposal of subsidiaries

Subsidiaries Name	Equity disposal price	Equity disposal ratio(%)	Equity disposal method	Time of loss of control	Basis for determining the point of loss of control	The difference between the disposal price and the disposal of the investment related to the consolidated financial statements	Proportion of equity on the date of loss of control	Book value of the remaining equity on the date of loss of control	Fair value of the remaining equity on the date of loss of control	Re-measure the gain or loss arising from the remaining equity at fair value	Method and main assumptions for determining the fair value of the remaining equity on the date of loss of control	Amount of other comprehensive income related to the equity investment of the original subsidiary transferred to the investment gains and losses
Zibo Xinhua-Eastwest Pharmaceutical Co., Ltd.	-	100	liquidation	21 May 2018	Board Resolution							

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of the Group

Name of subsidiary	Main premise	Registration place	Nature of business	Registered capita RMB'00,000	Proportion of shareholding (%)		Acquisition method
					Direct	Indirect	
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry marketing	4,849.89	100.00		Establishment
Shandong Xinhua Pharmaceutical Import and Export Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry marketing	500.00	100.00		Establishment
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry design	600.00	100.00		Establishment
Zibo Xinhua Drug Store Chain Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry marketing	200.00	100.00		Establishment

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	Main premise	Registration place	Nature of business	Registered capita RMB'00,000	Proportion of shareholding (%)		Acquisition method
					Direct	Indirect	
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	Rotterdam, Holland	Rotterdam, Holland	Medicine chemistry marketing	EUR769,000.00	65.00		Establishment
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical chemistry manufacturing	USD209,490.00	50.10		Establishment
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Shouguang City, Shandong Province	Shouguang City, Shandong Province	Pharmaceutical chemistry manufacturing	23,000.00	100.00		Establishment
Xinhua (Zibo) Real Estate Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Real Estate Development	2,000.00	100.00		Establishment
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	Gaomi City, Shandong Province	Gaomi City, Shandong Province	Pharmaceutical chemistry manufacturing	1,900.00	100.00		Acquisition
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	Los Angeles, USA	Los Angeles, USA	Medicine chemistry marketing	USD1,500,000.00	100.00		Establishment
Shandong Xinhua Mechanical & Electrical Engineering Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Electric installation	800.00	100.00		Establishment
Shandong Zibo Xincat Pharmaceutical	Zibo City, Shandong	Zibo City, Shandong	Pharmaceutical chemistry manufacturing	8,493.00	60.00		M&A

(2) Important non-wholly-owned subsidiaries

Name of subsidiary	Shareholding proportion of minority shareholders	Profits and losses attributable to minority shareholders in current period	Net other comprehensive incomes after tax attributable to minority shareholders in current period	Total other comprehensive incomes attributable to minority shareholders in current period	Dividends to be assigned to minority shareholders in current period	Capital invested by minority shareholders during the current period	Balance of minority equities at the end of the period
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	35%	488,532.32	74,216.33	562,748.65			6,003,802.22
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	49.90%	6,751,604.03		6,751,604.03	—	46,942,796.00	89,892,268.99
Shandong Zibo Xincat Pharmaceutical Company Limited	40%	3,240,655.56		3,240,655.56	12,573,454.96	—	45,450,153.36
Total		<u>10,480,791.91</u>	<u>74,216.33</u>	<u>10,555,008.24</u>	<u>12,573,454.96</u>	<u>46,942,796.00</u>	<u>141,346,224.57</u>

Notes to the Interim Financial Statements (Continued)

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

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

Unit: RMB'00,000

Name of subsidiary	Balance at the end of the period						Balance at the beginning of the year					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	7,531.87	0.57	7,532.44	5,783.33	-	5,783.33	3,037.37	0.73	3,038.10	1,449.77	-	1,449.77
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	9,565.26	10,550.42	20,115.68	1,896.30	176.30	2,072.60	2,359.46	6,161.91	8,521.37	1,265.68	-	1,265.68
Shandong Zibo Xincat Pharmaceutical Company Limited	13,786.69	8,977.60	22,764.29	11,657.26	-	11,657.26	16,418.82	7,554.75	23,973.57	10,533.34	-	10,533.34

Name of subsidiary	Amount in the current period				Amount in the previous period			
	Operating income	Net profits	Total comprehensive income	Cash flows from operation activities	Operating income	Net profits	Total comprehensive income	Cash flows from operation activities
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	6,558.37	139.58	160.79	1,437.52	6,073.39	325.82	402.91	(614.39)
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	9,426.41	1,353.03	1,353.03	1,451.05	7,230.33	376.93	376.93	482.87
Shandong Zibo Xincat Pharmaceutical Company Limited	17,864.70	810.17	810.17	(1,068.36)	14,811.12	1,056.85	1,056.85	1,080.89

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

Major financial instruments of the Group include loan, notes receivable and accounts receivable, accounts payable, other equity instruments investment, tradable financial liabilities, etc. See Note VI for more details about each financial instrument. The risks concerning these financial instruments, as well as the risk management measures applied to mitigate these risks are 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 operating performance of the Group and to maximize interest of shareholders and other equity investors. Based on this objective of risk management, the basic strategy of risk management of the Group is to identify and analyze the risks of all kinds the Group faces, so as to set a proper bottom line of risk tolerance for risk management, and to supervise the risks of all kinds in a timely and reliable way, so as to control the risks to the limited range.

Notes to the Interim Financial Statements (Continued)

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

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

(1) Market risk

1) Exchange rate risk

The Group's foreign exchange risk is mainly related to USD, GBP and Euro. Except for the subsidiaries of the Group which use USD for purchasing and sales transactions, other main business operations are settled in RMB. As of 30 June 2018, except for assets and liabilities with balances in USD, EUR and GBP described as below, all other assets and liabilities of the Group are reported in RMB. The risk associated with the assets and liabilities of such balances in USD may have influence on the Group's business performance.

Item	30 June 2018	31 December 2017
Monetary funds – USD	125,714,132.06	31,456,232.20
Monetary funds – EUR	539,972.32	5,714.64
Monetary funds – HKD	12,215.18	14,718.61
Monetary funds – GBP	7,648,686.18	2,124,096.54
Monetary funds – JPY	372.49	359.86
Notes receivable and accounts receivable – USD	230,623,130.83	134,351,577.00
Notes receivable and accounts receivable – GBP	7,645,289.40	2,574,803.55
Prepayments – USD	340,021.05	6,416,805.65
Other receivables – USD	224,853.17	201,038.25
Notes payable and accounts payable – USD	829,738.18	2,798,347.34
Contract liability – USD	10,086,337.56	10,154,889.35
Other accounts payable – USD	155,116.26	230,968.29

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

2) Interest rate risk

The Group's interest rate risk arises from bank loans and liabilities with interest of shareholders' loans. Due to financial liabilities with floating interest rate, the Group faces cash flow interest rate risk; due to financial liabilities with fixed interest rate, the Group faces fair value interest rate risk. As of 30 June 2018, the debts bearing interest of the Group mainly came from the RMB denominated floating interest rate loan contract with the total amount of RMB711,164,500 and RMB denominated fixed rate contract with the amount of RMB600,000,000.

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

Notes to the Interim Financial Statements (Continued)

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

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

3) *Price risk*

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

(2) Credit risk

As at 30 June 2018, maximum credit risk exposure which may cause financial loss to the Group is mainly because the counterparties fail to perform their obligations so as to lead to losses of financial assets to the Group, including:

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

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

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

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

Total amount of the top five entities with largest amount in "accounts receivable" is RMB125,154,448.72.

Notes to the Interim Financial Statements (Continued)

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

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

(3) Liquidity risk

Liquidity risk is a risk that the Group cannot perform its financial obligations till the due date. For management of the Group's liquidity risk, enough financial liquidity shall be guaranteed to perform the matured debts and thus to avoid unacceptable losses or damages to the Group's credit.

The Group analyzed the debts structure and duration regularly so as to make sure sufficient capital. The management of the Group monitors the utilization condition of bank loans, and ensures adherence to loan agreements. Meanwhile, financing consultation will be performed with the financial authorities to keep a certain credit line and reduce the liquidity risk. As of 30 June 2018, analysis of financial assets (the book balance, undeducted impairment and bad debts) and financial liabilities held by the Group based on the expiration date of undiscounted residual contract obligations is as follows:

Item	Within 1 year	1 to 5 years	More than 5 years	Total
Financial assets				
Monetary funds	904,875,827.43	–	–	904,875,827.43
Notes receivable and accounts receivable	676,285,169.39	–	–	676,285,169.39
Prepayments	31,556,431.76	–	–	31,556,431.76
Other accounts receivable	55,703,200.94	–	–	55,703,200.94
Financial liabilities				
Short-term loans	235,835,230.51	–	–	235,835,230.51
Notes payable and accounts payable	889,668,443.16	–	–	889,668,443.16
Contract liability	135,268,638.54	–	–	135,268,638.54
Other accounts payable	355,249,530.78	–	–	355,249,530.78
Payroll payable	36,452,415.98	–	–	36,452,415.98
Non-current liabilities due within one year	433,870,832.30	–	–	433,870,832.30
Long-term loans	–	618,500,000.00	–	618,500,000.00
Long-term payables	–	94,918,449.99	–	94,918,449.99

2. Fair value

(1) Financial instruments not measured at fair value

The financial assets and liabilities not measured at fair value include accounts receivable, short-term loans, accounts payable and long-term loans.

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

Notes to the Interim Financial Statements (Continued)

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

(2) Financial instruments measured at fair value

The financial assets measured at the fair value are equity instruments investment.

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

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

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

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

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

3. Sensitivity analysis

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

Notes to the Interim Financial Statements (Continued)

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

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

(1) Sensitivity analysis of foreign exchange risk

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

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

Item	Change in exchange rate	Amount in the current period		Amount in the previous period	
		Impact on net profits	Impact on the owner's equity	Impact on net profits	Impact on the owner's equity
All foreign currencies	5% appreciated against RMB	16,530,180.16	16,530,180.16	17,410,495.24	17,410,495.24
All foreign currencies	5% depreciated against RMB	(16,530,180.16)	(16,530,180.16)	(17,410,495.24)	(17,410,495.24)

(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 income or expense of variable-rate financial instrument;

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

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

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

Item	Change in interest rate	Amount in the current period		Amount in the previous period	
		Impact on net profits	Impact on the owner's equity	Impact on net profits	Impact on the owner's equity
Floating interest rate loan	Added by 1%	(13,736,342.89)	(13,736,342.89)	(3,732,214.17)	(3,732,214.17)
Floating interest rate loan	Decrease by 1%	13,736,342.89	13,736,342.89	3,732,214.17	3,732,214.17

Notes to the Interim Financial Statements (Continued)

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

X. DISCLOSURE OF FAIR VALUE

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

Item	Fair value at the end of the period			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
Continuously measured at fair value				
Other equity instruments investment	206,428,208.00	—	—	206,428,208.00
Total assets continuously measured at fair value	206,428,208.00	—	—	206,428,208.00

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

The items measured at the fair value of Group are the stocks of the Bank of Communications and CPIC, and the fair value at the end of the period is determined based on the closing price on the last trading day of June 2018.

Notes to the Interim Financial Statements (Continued)

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

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

XI. RELATIONSHIP WITH RELATED PARTIES AND TRANSACTIONS

(I) Relationships of Related Parties

1. Controlling shareholder and final controlling party

(1) Controlling shareholder and final controlling party (monetary unit: RMB'00,000)

Name of controlling shareholder and final controlling party	Registration place	Nature of business	Registered capital	Proportion of shareholding (%)	Proportion of voting right (%)
Shandong Xinhua Pharmaceutical Group Co., Ltd.	No. 14, Dongyi Road, Zhangdian District, Zibo, City Shandong Province	Investment in the design of building engineering, property development and catering	29,850.00	32.94	32.94
Hualu Holdings Co., Ltd.	22/F, Tower A Quanli Center No. 219 Shun Hai Road Lixia District, Jinan City, Shandong Province	Investment in petrochemical, pharmaceutical, environmental protection industry; management and operation and consultation	300,000.00	-	-

(2) Registered capital of the controlling shareholder and changes

Name of Controlling shareholder	Balance at the beginning of the year	Increase in current period	Decrease in current period	Balance at the end of the period
Shandong Xinhua Pharmaceutical Group Co., Ltd.	298,504,683.00	-	-	298,504,683.00

(3) Shares of controlling shareholders and changes

Name of controlling shareholder	Amount of shareholding		Proportions of shares	
	Amount in the current period	Amount in the previous period	Proportion of current period	Proportion of previous period
Shandong Xinhua Pharmaceutical Group Co., Ltd.	157,587,763.00	157,587,763.00	32.94	34.46

Notes to the Interim Financial Statements (Continued)

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

2. *Subsidiaries*

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

3. *Other related party*

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

(II) Related Party Transactions

1. *Pricing policy*

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

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. Purchase of materials

Related party	Content of related party transaction	Amount in the current period	Amount in the previous period
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Chemical raw material	35,808,070.07	29,015,446.82
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	Raw materials of preparations	6,187,529.48	3,351,923.09
Shandong Hualu Hengsheng Chemical Limited Liability Company	Chemical raw material	102,169,739.86	46,043,071.03
Total		144,165,339.41	78,410,440.94

3. Sales of goods and rendering of service

Related party	Content of related party transaction	Amount in the current period	Amount in the previous period
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Sales of engines	966,555.64	1,211,698.72
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Sales of by-products	–	3,865.79
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	Sales of engines	4,098,132.21	4,177,543.36
Perrigo Company	Sales of APIs	93,148,230.47	72,116,032.87
Perrigo Company	Sales of APIs	8,075,665.04	6,355,927.88
Total		106,288,583.36	83,920,196.83

4. Payment of interest on loans

Name of related party	Content of related party transaction	Amount in the current period	Amount in the previous period
Hualu Holdings Co., Ltd.	Interests on loans	2,190,000.00	10,770,168.68

Notes to the Interim Financial Statements (Continued)

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

5. Call loan of related parties

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

6. Lease of assets

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

7. Other transactions

(1) Royalty fee of trademark

Name of related party	Content of related party transaction	Amount in the current period	Amount in the previous period
Shandong Xinhua Pharmaceutical Group Company Limited	Royalty fee of trademark	<u>4,716,981.00</u>	<u>4,716,981.00</u>

The Company has concluded a supplementary agreement ("Supplementary Agreement") on the trademark license agreement with the parent company, Shandong Xinhua Group on 30 October 2017. The Agreement has a valid period from 1 January 2018 to 31 December 2020. According to the Supplementary Agreement, the Company's royalty fee of the trademark "Xinhua" is changed to RMB10 million (include: tax) and other provisions of the trademark license agreement remain unchanged.

(2) Rendering of labor service

Name of related party	Content of related party transaction	Amount in the current period	Amount in the previous period
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	Service labor	85,084.20	55,128.21
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Service labor	<u>72,632.96</u>	<u>-</u>
Total		<u>157,717.16</u>	<u>55,128.21</u>

Notes to the Interim Financial Statements (Continued)

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

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

(III) Balance of transactions with related parties

1. Balance of transactions with related parties of assets

Related party (Item)	Amount at the end of the period		Amount at the beginning of the year	
	Book balance	Provision for bad debt	Book balance	Provision for bad debt
Notes payable and accounts payable				
Shandong Xinhua Industry&Trade Co., Ltd.	1,110,088.04	1,110,088.04	1,110,088.04	1,110,088.04
Perrigo Company	19,112,947.91	—	8,541,088.05	—
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	111,681.57	—	217,238.11	—
Shandong Xinhua Wanbo Chemical&Industrial Co., Ltd.	24,283.65	—	—	—
Total	<u>20,359,001.17</u>	<u>1,110,088.04</u>	<u>9,868,414.20</u>	<u>1,110,088.04</u>
Prepayments				
Shandong Hualu Hengsheng Chemical Limited Liability Company	4,089,963.17	—	745,670.06	—
Total	<u>4,089,963.17</u>	<u>—</u>	<u>745,670.06</u>	<u>—</u>

2. Balance of transactions with related parties of liabilities

Name of Related Party	Amount at the end of the period	Amount at the beginning of the year
Notes payable and account payable		
Shandong Xinhua Wanbo Chemical&Industrial Co., Ltd.	12,109,747.91	6,900,173.42
DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd.	2,498,651.11	157,248.54
Total	<u>14,608,399.02</u>	<u>7,057,421.96</u>
Contract liability		
Perrigo Company	—	837,313.62
Long-term loans		
Hualu Holdings Co., Ltd.	<u>100,000,000.00</u>	<u>100,000,000.00</u>

Notes to the Interim Financial Statements (Continued)

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

(IV) The remunerations for key management

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

Item	Amount in the current period	Amount in the previous period
remunerations of key management	<u>1,583,452.20</u>	<u>1,552,862.20</u>

Such item includes fee, social security and housing funds, the breakdown of which is listed below:

Item	Fees	Social security	Housing funds	Total
remunerations of key management	<u>1,140,474.00</u>	<u>397,518.00</u>	<u>45,460.20</u>	<u>1,583,452.20</u>

Change to the directors during the current period: On 29 June 2018, Mr. Chan Chung Kik, Lewis resigned from independent non-executive director and Mr. Lo Wah Wai was elected as an independent non-executive director.

Changes to the supervisors of current period: Nil.

Changes to the senior management of current period: Nil.

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

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

XII. SHARE PAYMENT

There was no share payment in the current year.

XIII. CONTINGENCIES

As at 30 June 2018, the Group has no material contingencies required to be disclosed.

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

Large denominated contracts concluded or ready for performance

Item	Contract Amount	Unpaid Amount
International Cooperation Center Project	311,632,099.11	84,012,251.69
Evaluation about consistency of generic drug	46,721,591.95	3,305,840.96
Hormone series products project in Hutian Industrial Park	99,462,450.00	50,949,190.00
Modern chemical medicine industrialization center in Hutian Industrial Park (II)	124,385,308.73	41,797,358.62
Total	582,201,449.79	180,064,641.27

There is no other significant commitment to be disclosed for the Group as of 30 June 2018, except for the commitments above.

XV. EVENTS AFTER BALANCE SHEET DATE

1. Significant non-adjustment events

Item	Contents	Impact on financial position and business results	Reasons for failure of estimation
Notice about signing a technology development (commission) contract with Shenyang Pharmaceutical University	The ninth session of Board of Directors' first provisional board meeting of 2018 which was held on January 10, 2018 examined and adopted "Proposal on Developing Innovative Drugs with Shenyang Pharmaceutical University". The Company and Shenyang Pharmaceutical University signed a "technology development (commission) contract" for Anti-Alzheimer's disease (AD) drug OAB-14 and formulation development. The Company paid RMB100 million for R&D funding and remuneration to Shenyang Pharmaceutical University by installments according to the contract. Within 24 months of the official start of the project, the APIs synthesis process data, the verification and the test data of the structure of APIs, the preliminary main pharmacodynamic test data, the single-dose toxicity test data, etc. are to be completed. The pre-clinical application of APIs and preparations for the project should be completed in 3 and a half years to 4 years.	Expected expenditure on technology development is about RMB95 million within the next 4 years.	

Notes to the Interim Financial Statements (Continued)

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

2. Profit distribution

(a) As of the year ended 31 December 2017

Pursuant to the resolution of the provisional shareholders' meeting on 22 December 2017, the Company declared its special dividend for 2017 to its shareholders on the basis of RMB0.03 (including tax) per share, and the total amount is RMB14,350,602.63.

(b) As of the year ended 30 June 2018

- (1) Pursuant to the resolutions of the board meeting held on 23 March 2018 and the resolutions of the general meeting for the year ended 31 December 2017 convened on 29 June 2018, the Company declared its final dividend for 2017 to its shareholders on the basis of RMB0.50 (including tax), and the total amount is RMB23,917,671.05. It also declared 0 bonus shares (including tax). The Company transferred to all shareholders 3 shares per 10 shares in the capital reserve fund.
- (2) Pursuant to the resolutions of the board meeting held on 16 August 2018, the board of the Company proposed not to distribute the semi-annual dividend for the six months ended 30 June 2018 (2017 semi-annual dividend: zero).

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

XVI. OTHER MAJOR MATTERS

1. Lease

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

At the end of current period, the Group's financial leasing of fixed assets of the Group is detailed in the Note VI. 9.

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

Remaining lease term	Balance at the end of the period	Balance at the beginning of the year
Within 1 year	57,870,832.30	83,621,673.88
1-2 years	22,958,449.99	39,677,609.62
2-3 years	—	7,864,112.04
Total	80,829,282.29	131,163,395.54

As of 30 June 2018, the amount of the financing expenses not recognized by the Group is RMB3,198,717.71 (Amount at the beginning of the year: RMB5,976,859.16).

Notes to the Interim Financial Statements (Continued)

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

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

2. Segment information

(1) Determination basis and accounting policy of reportable segments

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

(2) Financial information of reportable segments in current period

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

Reportable segments from January to June 2018

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

Notes to the Interim Financial Statements (Continued)

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

Reportable segments from January to June 2017

Item	Chemical	Preparations	Chemicals and other products	Unallocated Item	Offset Amount	Total
Operating income	1,053,841,607.84	1,268,280,394.26	581,417,464.67		(500,265,305.51)	2,403,274,161.26
Including: foreign transaction income	1,049,851,436.87	1,067,395,251.96	286,027,472.43			2,403,274,161.26
inter-segment transaction income	3,990,170.97	200,885,142.30	295,389,992.24		(500,265,305.51)	-
Operating costs	765,415,272.42	951,030,108.19	499,836,776.78		(473,058,789.34)	1,743,223,368.05
Cost offsetting amount	41,352,109.70	167,006,678.86	264,700,000.78		(473,058,789.34)	-
Expenses for the period	179,982,034.54	293,404,110.66	32,393,859.87			505,780,005.07
Operating profits				180,306,145.70	(30,807,871.57)	149,498,274.13
Total assets	2,616,440,054.82	1,458,152,818.13	1,063,400,196.07	1,335,578,854.38	(1,199,924,798.77)	5,273,647,124.63
Total liabilities	922,370,357.92	716,136,253.74	514,040,053.38	1,265,087,374.98	(723,440,296.20)	2,694,193,743.82

b. Non-current assets according to asset location

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

Total non-current assets	Balance at the end of the period	Balance at the beginning of the year
China (including Hong Kong)	3,176,731,676.09	3,263,650,379.98
Americas	-	-
Europe	5,657.19	7,315.82
Total	3,176,737,333.28	3,263,657,695.80

3. There are no other material matters for the Group to disclose as of 30 June 2018, except for the matters above.

Notes to the Interim Financial Statements (Continued)

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

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

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

1. Notes receivable and accounts receivable

1.1 Notes receivable

(1) Class of notes receivable

Class of notes	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance bills	35,016,052.75	20,309,602.63
Total	35,016,052.75	20,309,602.63

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

As at 30 June 2018, the Group had no notes receivable which had been pledged.

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

Item	Derecognized amount at the end of the period	Not derecognized amount at the end of the period
Bank acceptance bills	273,002,315.40	-

(4) Due to the drawer did not perform and transferred the notes receivables to the accounts receivable at the end of the period

As of 30 June 2018, the Group had no notes receivable which had been transferred to the accounts receivable due to the default of the drawers.

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

Notes to the Interim Financial Statements (Continued)

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

1.2 Accounts receivable

(1) Classification of accounts receivables

Item	Balance at the end of the period				Book value
	Book balance		Provision for bad debt		
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Accounts receivable with significant individual amount and accrued bad debt provision on single item	-	-	-	-	-
Accounts receivable with provision for bad debts accrued on combination	-	-	-	-	-
Account age combination	199,312,602.69	38.34	2,435,904.38	1.22	196,876,698.31
Combination of relationship with transaction object	320,186,213.36	61.60	-	-	320,186,213.36
Combination of special account nature	-	-	-	-	-
Combination sub-total	519,498,816.05	99.94	2,435,904.38	0.47	517,062,911.67
Accounts receivable with insignificant individual amount but accrued bad debt provision on single item	302,523.29	0.06	302,523.29	100	-
Total	519,801,339.34	100.00	2,738,427.67	0.53	517,062,911.67

Item	Amount at the beginning of the year				Book value
	Book balance		Provision for bad debt		
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Accounts receivable with significant individual amount and accrued bad debt provision on single item	-	-	-	-	-
Accounts receivable with provision for bad debts accrued on combination	-	-	-	-	-
Account age combination	103,377,844.90	29.96	1,911,437.95	1.85	101,466,406.95
Combination of relationship with transaction object	241,723,985.62	70.04	-	-	241,723,985.62
Combination of special account nature	-	-	-	-	-
Combination sub-total	345,101,830.52	100.00	1,911,437.95	0.55	343,190,392.57
Accounts receivable with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	345,101,830.52	100.00	1,911,437.95	0.55	343,190,392.57

Notes to the Interim Financial Statements (Continued)

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

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

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

Item	Balance at the end of the period			Balance at the beginning of the year		
	Amount	Provision for bad debt	Proportion of provision (%)	Amount	Provision for bad debt	Proportion of provision (%)
Within 1 year	197,866,028.45	989,330.14	0.50	101,931,270.66	509,656.35	0.50
1-2 years	-	-	-	-	-	20.00
2-3 years	-	-	-	111,981.60	67,188.96	60.00
3-4 years	111,981.60	111,981.60	100.00	-	-	-
4-5 years	-	-	-	-	-	-
Over 5 years	1,334,592.64	1,334,592.64	100.00	1,334,592.64	1,334,592.64	100.00
Total	199,312,602.69	2,435,904.38	-	103,377,844.90	1,911,437.95	-

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

Organization name	Book balance	Amount of bad debts
Combination of relationship with transaction object	320,186,213.36	-

- 3) Accounts receivable with insignificant individual amounts but accrued bad debt provision on single item

Organization name	Book balance	Amount of bad debts
Accounts receivable with insignificant individual amount but accrued bad debt provision on single item	302,523.29	302,523.29
Total	302,523.29	302,523.29

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

In current period, the provision for bad debt accrued amounted to RMB826,989.72; there were no bad debt provision to be recovered or reversed.

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 with top five ending balance collected as per the borrowers

Organization name	Amount	Account age	Proportion (%)	Balance at the end of the period of bad debt provision
Shandong Xinhua Medical Trade Co., Ltd.	230,598,914.56	Within 1 year	44.36	–
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	68,000,626.04	Within 1 year	13.08	–
Mitsubishi Corporation	23,013,857.79	Within 1 year	4.43	115,069.29
DASTECH INTERNATIONAL INC.	21,717,315.50	Within 1 year	4.18	108,586.58
Bayer Healthcare CO., Ltd.	13,434,537.28	Within 1 year	2.58	67,172.69
Total	356,765,251.17		68.63	290,828.55

2. Other receivables

(1) Classification of other receivables

Item	Book balance		Balance at the end of the period		Book value
	Amount	Proportion (%)	Provision for bad debt Amount	Proportion of provision (%)	
Other receivables with significant individual amount and bad debt provision accrued on single item	–	–	–	–	–
Other receivables with bad debt provision accrued on combination	–	–	–	–	–
Account age combination	9,357,412.88	2.11	9,006,875.14	96.25	350,537.74
Combination of relationship with transaction object	416,043,108.30	93.83	–	–	416,043,108.30
Combination of special account nature	36,860,182.44	4.06	–	–	36,860,182.44
Combination sub-total	462,260,703.62	100.00	9,006,875.14	2.03	453,253,828.48
Other receivables with insignificant individual amount but accrued bad debt provision on single item	–	–	–	–	–
Total	462,260,703.62	100.00	9,006,875.14	2.03	453,253,828.48

Notes to the Interim Financial Statements (Continued)

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

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

Item	Book balance		Balance at the beginning of the year		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables with significant individual amount and bad debt provision accrued on single item	-	-	-	-	-
Other receivables with bad debt provision accrued on combination	-	-	-	-	-
Account age combination	9,251,814.58	2.30	8,950,447.15	96.74	301,367.43
Combination of relationship with transaction object	366,576,391.94	91.23	-	-	366,576,391.94
Combination of special account nature	26,000,000.00	6.47	-	-	26,000,000.00
Combination sub-total	401,828,206.52	100.00	8,950,447.15	2.23	392,877,759.37
Other receivables with insignificant individual amount but accrued bad debt provision on single item	-	-	-	-	-
Total	<u>401,828,206.52</u>	<u>100.00</u>	<u>8,950,447.15</u>	<u>2.23</u>	<u>392,877,759.37</u>

1) In combination, other receivables of provisions for bad debt accrued by aging analysis

Item	Balance at the end of the period			Balance at the beginning of the period		
	Amount	Provision for bad debt	Proportion of provision (%)	Amount	Provision for bad debt	Proportion of provision (%)
Within 1 year	199,389.99	996.95	0.50	113,791.69	568.96	0.50
1-2 years	71,265.07	14,253.01	20.00	161,265.07	32,253.01	20.00
2-3 years	237,831.61	142,698.97	60.00	147,831.61	88,698.97	60.00
3-4 years	20,000.00	20,000.00	100.00	-	-	100.00
4-5 years	97,000.00	97,000.00	100.00	97,000.00	97,000.00	100.00
Over 5 years	<u>8,731,926.21</u>	<u>8,731,926.21</u>	<u>100.00</u>	<u>8,731,926.21</u>	<u>8,731,926.21</u>	<u>100.00</u>
Total	<u>9,357,412.88</u>	<u>9,006,875.14</u>	<u>-</u>	<u>9,251,814.58</u>	<u>8,950,447.15</u>	<u>-</u>

Notes to the Interim Financial Statements (Continued)

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

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

Name of combination	Book balance	Amount of bad debts
Combination of relationship with transaction object	416,043,108.30	–
Combination of special account nature	36,860,182.44	–
Total	452,903,290.74	–

- (2) *Provision for bad debts accrued and reversed (or recovered) in the current year*

In current period, the provision for bad debt was RMB56,427.99; there was no bad debt provision to be recovered or reversed.

- (3) *Conditions of other receivables classified by the nature*

Nature	Balance at the end of the period	Balance at the beginning of the year
Reserve	368,653.22	348,619.06
Tax receivable and to be deducted	6,195,910.06	6,195,910.06
Finance lease deposit	18,000,000.00	26,000,000.00
Inter office accounts	416,043,108.30	366,576,391.94
Dividends receivable	18,860,182.44	–
Others	2,792,849.60	2,707,285.46
Total	462,260,703.62	401,828,206.52

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) Other receivables with the top five balances as at the end of Reporting Period grouped by debtor

Organization name	Amount	Account Age	Proportion of the Total Amount (%)	Balance at the end of the period of Bad Debt Provision	Nature or Contents
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	230,000,000.00	Over 3 years	49.76	-	Inter office accounts
Xinhua (Zibo) Real Estate Co., Ltd.	956,285.73	Winthin 1 year	15.24	-	Inter office accounts
	10,941,520.03	1-2 years			
	602,972.25	2-3 years			
	57,929,546.58	Over 3 years			
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	11,495,025.45	Winthin 1 year	13.18	-	Inter office accounts
	10,916,054.88	1-2 years			Inter office accounts
	32,789,021.86	2-3 years			
	5,745,296.82	Over 3 years			
Zibo Xinhua Drug Store Chain Co., Ltd.	40,303,121.75	Winthin 1 year	11.67	-	Inter office accounts
	5,001,483.61	1-2 years			
	2,115.43	2-3 years			
	8,640,722.87	Over 3 years			
Shandong Zibo Xincat Pharmaceutical Company Limited	18,860,182.44	Winthin 1 year	4.11	-	Dividends receivable
	123,999.82				Inter office accounts
Total	434,307,349.52		93.96	-	

3. Long-term equity investments

(1) Classifications of long-term equity investment

Item	Balance at the end of the period			Balance at the beginning of the year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	506,637,432.56	-	506,637,432.56	468,244,841.06	-	468,244,841.06
Total	506,637,432.56	-	506,637,432.56	468,244,841.06	-	468,244,841.06

Notes to the Interim Financial Statements (Continued)

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

(2) Investment in subsidiaries

Invested Entity	Balance at the beginning of the year	Increase in current period	Decrease in current period	Balance at the end of the period	Impairment Provision in current period	Balance of Provision for Impairment at the end of period
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	48,582,509.23	-	-	48,582,509.23	-	-
Zibo Xinhua Drug Store Chain Co., Ltd.	2,158,900.00	-	-	2,158,900.00	-	-
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	230,712,368.00	-	-	230,712,368.00	-	-
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	35,000,000.00	-	-	35,000,000.00	-	-
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd.	3,037,700.00	-	-	3,037,700.00	-	-
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	24,877,370.60	47,400,804.00	-	72,278,174.60	-	-
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	4,596,798.56	-	-	4,596,798.56	-	-
Xinhua (Zibo) Real Estate Co., Ltd.	20,000,000.00	-	-	20,000,000.00	-	-
Zibo Xinhua-Eastwest Pharmaceutical Co., Ltd.	9,008,212.50	-	9,008,212.50	-	-	-
Shandong Xinhua Pharmaceutical Import and Export Co., Ltd.	5,500,677.49	-	-	5,500,677.49	-	-
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	9,370,650.00	-	-	9,370,650.00	-	-
Shandong Xinhua Mechanical & Electrical Engineering Co., Ltd.	8,000,000.00	-	-	8,000,000.00	-	-
Shandong Zibo Xincat Pharmaceutical Company Limited	67,399,654.68	-	-	67,399,654.68	-	-
Total	468,244,841.06	47,400,804.00	9,008,212.50	506,637,432.56	-	-

4. Operating income and costs

Item	Amount in the current period		Amount in the previous period	
	Revenue	Cost	Revenue	Cost
Main operation	1,422,585,408.60	1,045,321,452.53	1,243,179,788.17	910,044,315.96
Other operation	35,052,958.37	35,455,443.63	25,789,328.62	26,492,039.13
Total	1,457,638,366.97	1,080,776,896.16	1,268,969,116.79	936,536,355.09

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. Investment income

(1) Sources of investment income

Sources	Amount in the current period	Amount in the previous period
Investment income generated by disposal of long-term equity investment	163,366.81	
Dividend of subsidiaries	18,860,182.44	2,691,554.92
Other	807,270.99	–
Total	19,830,820.24	2,691,554.92

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

Item	Amount in the current period	Amount in the previous period	Reasons for changes of amount in the current period compared to the previous period
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	18,860,182.44	–	Increase in dividends in the current period
Shandong Zibo Xincat Pharmaceutical Company Limited	–	2,691,554.92	Outstanding dividends in the current period
Total	18,860,182.44	2,691,554.92	

Notes to the Interim Financial Statements (Continued)

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

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

Item	Amount in the current period	Amount in the previous period
1. Reconciliation of net profit to cash flows from operation activities:		
Net Profit	136,978,788.12	89,491,636.55
Add: Provision for impairment of assets	1,625,078.50	(1,068,037.72)
Depreciation of fixed assets	99,277,628.71	97,634,660.98
Amortization of intangible assets	2,826,540.80	3,043,726.00
Loss from disposal of fixed assets, intangible assets and other long-term assets (gains to be listed with brackets)	(1,221,827.51)	(7,588,015.52)
Losses on retirement of fixed assets (gains to be listed with brackets)	1,378,060.23	—
Profit or loss from changes in fair value (gains to be listed with brackets)	—	—
Financial expenses (gains to be listed with brackets)	23,915,040.49	35,310,879.12
Investment loss (gain to be listed with brackets)	(19,830,820.24)	(2,691,554.92)
Decrease of deferred income tax assets (increases to be listed with brackets)	—	—
Increases of deferred income tax liabilities (decreases to be listed with brackets)	5,202,564.85	4,365,507.96
Decrease of inventory (increases to be listed with brackets)	36,937,620.27	47,865,221.13
Decreases of operating receivables (increases to be listed with brackets)	(241,731,556.69)	(189,703,706.31)
Increases of operating payables (decreases to be listed with brackets)	63,344,244.44	(57,984,696.30)
Net cash flows from operating activities	108,701,361.97	18,675,620.97
2. Significant investing and financing activities not related to cash receipt and payment:		
Conversion of debt into capital	—	—
Convertible corporate bonds due within one year	—	—
Fixed assets acquired under finance leases	80,829,282.29	180,296,138.10
3. Net change in cash and cash equivalents:		
Balance of cash at the end of the period	500,446,637.58	420,221,427.86
Less: Balance of cash at the beginning of the period	457,664,695.99	358,666,787.39
Add: Balance of cash equivalents at the end of the period	—	—
Less: Balance of cash equivalents at the beginning of the period	—	—
Net increase in cash and cash equivalents	42,781,941.59	61,554,640.47

Notes to the Interim Financial Statements (Continued)

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

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

XVII. APPROVAL OF FINANCIAL REPORTS

The financial report is released after being approved by Board of Directors of the Company on 16 August 2018.

XVIII. SUPPLEMENTARY INFORMATION

1. Non-recurring profit and loss statement

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

Item	Amount in the current period	Notes
Profits and losses from disposal of non-current assets	(823,404.33)	Profits and losses from disposal of fixed assets
Government grants of tax return, reduction and exemption included in current profit and loss with approval beyond the authority, without official document or under occasional condition		
Government subsidy included in current profits and losses	5,212,300.00	Received and amortized government grants recognized in the current profit and loss
Capital occupation fee charged from non-financial enterprises and included in current profits and losses		
Profit or loss from change in fair value of held-for-trading financial assets and held-for-trading financial liabilities, and investment gain from disposal of held-for-trading financial assets, held-for-trading financial liabilities and other equity instruments investment, other than effective hedging business relating to the normal operations of the Company	807,370.99	Investment income
Reversal for impairment provision of accounts receivable subject to separate impairment test	–	
Other non-operating incomes and expenditures except the above items	(1,414,036.56)	
Subtotal	3,782,230.10	
Effect of income tax	579,999.08	
Impact on minority interest income (after-tax)	38,946.21	
Total	3,163,284.81	

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 assets and earnings per share

Based on provisions in Explanatory Announcement No. 9 on Information Disclosure for Companies Offering Their Securities to the Public – Calculation and Disclosure of Rate of Return on Equity (ROE) and Earnings per Share (EPS) (Revised in 2010) issued by the China Securities Regulatory Commission, the weighted average ROE, basic EPS and diluted EPS for the Group in the Report Period are listed below:

Profit for the reporting period	Weighted average ROE (%)	Earnings per share (EPS)	
		Basic EPS	Diluted EPS
Net profit attributable to shareholders of the parent company	4.90	0.26	0.26
Net profit attributable to shareholders of the parent company after deducting non-recurring profit and loss	4.77	0.25	0.25

Documents Available for Inspection and Place for Inspection

I. DOCUMENTS AVAILABLE FOR INSPECTION

1. The Company's 2018 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.

II. PLACE FOR INSPECTION

Office of the secretary to the Board of the Company

Shandong Xinhua Pharmaceutical Co., Ltd.
16 August 2018