



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)

2022 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 2022 (the "Reporting Period") has not been audited.

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

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

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

Company Information

Chinese Name of the Company	: 山東新華製藥股份有限公司
English Name of the Company	: SHANDONG XINHUA PHARMACEUTICAL COMPANY LIMITED
Legal Representative	: Mr. Zhang Daiming
Secretary to the Board	: Mr. Cao Changqiu
Telephone Number	: 86-533-2196024
Facsimile Number	: 86-533-2287508
E-mail Address of the Secretary to the Board	: cqcao@xhzy.com
Registered Address	: Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, the People's Republic of China (the "PRC")
Office Address	: No. 1 Lutai Ave., Hi-tech Industry Development Zone, Zibo City, Shandong Province, the PRC
Postal Code	: 255086
Website of the Company	: http://www.xhzy.com
E-mail Address of the Company	: xhzy@xhzy.com
PRC newspaper for information disclosure	: Securities Times
PRC Website for the publication of the interim report	: http://www.cninfo.com.cn

Listing Information:

H Shares	: The Stock Exchange of Hong Kong Limited (the "SEHK")
Stock Short Name	: Shandong Xinhua
Stock Code	: 00719
A Shares	: Shenzhen Stock Exchange
Stock Short Name	: Xinhua Pharm
Stock Code	: 000756

Key Financial Data and Financial Indicators prepared in accordance with CASBE

Unit: Renminbi Yuan (“RMB”)

Item	Six months ended	Six months ended	Change as compared to the same period last year
	30 June 2022 (unaudited)	30 June 2021 (unaudited)	
Operating income	3,664,294,993.33	3,551,043,752.95	3.19%
Total profits	235,316,728.47	260,359,756.30	(9.62%)
Income tax expense	36,812,855.18	51,043,087.07	(27.88%)
Net profits	198,503,873.29	209,316,669.23	(5.17%)
Minority interest income	4,114,317.17	9,234,315.68	(55.45%)
Net profits attributable to shareholders of listed company	194,389,556.12	200,082,353.55	(2.85%)
Net profits attributable to shareholders of listed company after deduction of non-recurring profit and loss	173,046,252.17	185,863,658.77	(6.90%)
Net cash flow from operating activities	194,801,492.76	165,101,447.08	17.99%
Basic earnings per share	0.30	0.32	(6.25%)
Diluted earnings per share	0.30	0.32	(6.25%)
Return on equity	5.23%	6.00%	Decreased by 0.77 percentage points

Item	As at	As at 31	Change as compared to the End of Last Year
	30 June 2022 (unaudited)	December 2021 (the “End of Last Year”) (audited)	
Total assets	7,946,216,424.52	7,332,033,657.98	8.38%
Total liabilities	3,874,926,203.14	3,680,888,823.85	5.27%
Minority shareholders' equity	194,904,887.13	183,203,266.68	6.39%
Total net assets attributable to the shareholders of listed company	3,876,385,334.25	3,467,941,567.45	11.78%

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	1,912,021.60	Profit or loss of disposal of fixed assets
Government grants recognised in current profit and loss (excluding those closely related to the Company's normal operation and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume) Profit or loss from change in fair value of held-for-trading financial	15,813,019.00	Government grants that are recorded into current profits and losses Investment income
Except for the normal operations associated with Company's effective hedging business, gain or loss held- for-trading financial assets, held-for-trading financial liabilities, as well as incomes gains from the disposal of held-for- trading financial assets and financial liabilities and financial assets available for sale	7,917,816.00	Investment bonus and revenue from other equity interests instruments
Other non-operating income and cost except the above items	(1,965,594.02)	
Less: Effect of income tax	2,311,577.15	
Impact on minority interest income	<u>22,381.48</u>	
Total	<u><u>21,343,303.95</u></u>	

Items measured at fair value

Items	Amount as at 1 January 2022	Profit or loss from change in fair value	Cumulative Change of fair value recorded in equity	Provision impairment	Amount as at 30 June 2022
Financial assets:					
1. Investment in other equity instruments	203,490,512.00	-	116,752,853.30	-	<u>188,581,616.00</u>
2. Accounts receivable financing	<u>170,428,238.83</u>	-	-	-	<u>155,632,869.37</u>
Subtotal of financial assets	<u><u>373,918,750.83</u></u>	<u><u>-</u></u>	<u><u>116,752,853.30</u></u>	<u><u>-</u></u>	<u><u>344,214,485.37</u></u>

Key Financial Data and Financial Indicators prepared in accordance with CASBE

Other comprehensive income items

Unit: RMB Yuan

Items	Six months ended 30 June 2022	Six months ended 30 June 2021
1. Change in fair value of investment in other equity instruments	(14,908,896.00)	(43,697,936.00)
Less: Income tax impact arising from investment in other equity instruments	(2,236,334.40)	(6,554,690.40)
Net profit or loss carried from amounts previously recognized in other comprehensive income	-	-
Subtotal	(12,672,561.60)	(37,143,245.60)
2. Conversion difference of financial statements in foreign currency	2,970,957.07	(485,553.67)
Less: net profit or loss carried from amounts incurred by disposal of foreign operation	-	-
Subtotal	2,970,957.07	(485,553.67)
Total	<u>(9,701,604.53)</u>	<u>(37,628,799.27)</u>

Changes In Share Capital Structure And Information On Shareholders

1. SHARE CAPITAL STRUCTURE

Class of shares	30 June 2022		1 January 2022	
	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	38,294,515	5.719	615,952	0.098
State-owned shares	–	–	–	–
Shares owned by domestic legal persons	37,091,988	5.539	–	–
Conditional tradable shares owned by senior management (A shares)	1,202,527	0.180	615,952	0.098
Others	–	–	–	–
2. Total number of unconditional tradable shares	631,332,720	94.281	626,751,495	99.902
Renminbi-denominated ordinary shares (A shares)	436,332,720	65.161	431,751,495	68.820
Overseas listed foreign shares (H shares)	195,000,000	29.121	195,000,000	31.082
3. Total number of shares	669,627,235	100.00	627,367,447	100.00

Note:

1. The second exercise period of the 2018 A-share stock option Incentive plan was completed on January 13, 2022, and the number of exercised shares was 5.1678 million.
2. On April 13, 2022, 37,091,988 non-public A-share shares of the Company were listed on the Shenzhen Stock Exchange.

Changes In Share Capital Structure And Information On Shareholders

2. SHAREHOLDERS INFORMATION

- (1) As at 30 June 2022, the Company had on record a total of 107,371 shareholders (the “Shareholders”), including 42 holders of H Shares and 107,329 holders of A Shares.
- (2) As at 30 June 2022, the ten largest Shareholders were as follows:

Unit: share

Name of Shareholders	Nature of Shareholders	% of the total share capital	Number of shares	
			held as at the end of the Reporting Period	Class of shares
華魯控股集團有限公司 (Hualu Holdings Group Co. Ltd.) (i) (“HHC”)	State-owned	30.59	204,864,092	RMB-denominated ordinary shares
香港中央結算(代理人)有限公司 HKSCC Nominees Limited	H Shares	28.86	193,248,627	Overseas listed foreign shares
華魯投資發展有限公司 Hualu Investment Development Co., Ltd (“Hualu Investment”)	State-owned	6.16	41,235,156	RMB-denominated ordinary shares
巨能資本管理有限公司－山東聚贏產業基金合夥企業(有限合夥) Ju Neng Capital Management Company Limited – Shandong JuYing Industrial Fund Partnership (Limited Partnership)	Fund	2.48	16,614,176	RMB-denominated ordinary shares
香港中央結算有限公司 HKSCC Limited	Overseas Legal Person	0.39	2,609,667	RMB-denominated ordinary shares
郭朝暉 Guo Zhaohui	Natural person in the territory	0.16	1,079,700	RMB-denominated ordinary shares
劉科全 Liu Kequan	Natural person in the territory	0.16	1,070,000	RMB-denominated ordinary shares
趙桂梅 Zhao Guimei	Natural person in the territory	0.14	953,104	RMB-denominated ordinary shares
鄭幸福 Zheng Xingfu	Natural person in the territory	0.12	775,240	RMB-denominated ordinary shares
周碧雲 Zhou Biyun	Natural person in the territory	0.11	731,330	RMB-denominated ordinary shares

Changes In Share Capital Structure And Information On Shareholders

- (3) As at 30 June 2022 the ten largest Shareholders of the unconditional tradable shares of the Company were as follows:

Unit: share

Name of Shareholders	Nature of Shareholders	% of the total share capital	Number of unconditional listed shares as at the end of the Reporting Period	Class of shares
華魯控股集團有限公司 HHC ⁽ⁱ⁾	State-owned	30.59	204,864,092	RMB-denominated ordinary shares
香港中央結算(代理人)有限公司 HKSCC Nominees Limited	H Shares	28.86	193,248,627	Overseas listed foreign shares
巨能資本管理有限公司－山東聚贏產業基金合夥企業(有限合夥) Ju Neng Capital Management Company Limited – Shandong JuYing Industrial Fund Partnership (Limited Partnership)	Fund	2.48	16,614,176	RMB-denominated ordinary shares
華魯投資發展有限公司 Hualu Investment	State-owned	0.62	4,143,168	RMB-denominated ordinary shares
香港中央結算有限公司 HKSCC Limited	Overseas Legal Person	0.39	2,609,667	RMB-denominated ordinary shares
郭朝暉 Guo Zhaohui	Natural person in the territory	0.16	1,079,700	RMB-denominated ordinary shares
劉科全 Liu Kequan	Natural person in the territory	0.16	1,070,000	RMB-denominated ordinary shares
趙桂梅 Zhao Guimei	Natural person in the territory	0.14	953,104	RMB-denominated ordinary shares
鄭幸福 Zheng Xingfu	Natural person in the territory	0.12	775,240	RMB-denominated ordinary shares
周碧雲 Zhou Biyun	Natural person in the territory	0.11	731,330	RMB-denominated ordinary shares

Notes:

- i. Such figure excludes the 41,235,156 A Shares held by Hualu Investment, a direct wholly owned subsidiary of HHC. As of 30 June 2022, each of Hualu Investment and Well Bring Limited (“Well Bring”) is a direct wholly owned subsidiary and an indirect wholly owned subsidiary of HHC, respectively. Well Bring owns 20,827,800 H Shares of the Company (being overseas listed foreign shares), representing approximately 3.11% of the issued share capital of the Company. Hualu Investment owns 41,235,156 A Shares of the Company, representing approximately 6.16% of the issued share capital of the Company.

Changes In Share Capital Structure And Information On Shareholders

- ii. The following is a description of any association relationship and party acting in concert in relation to the above Shareholders under applicable PRC laws and regulations: Except for Hualu Investment which is a subsidiary of HHC, to the best of their knowledge, the Directors are not aware as to whether there is any association relationship (as defined in the Rules Governing Listing of Stocks On Shenzhen Stock Exchange) amongst the remaining of the abovementioned Shareholders, nor if any of them is a person acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies (“Administration Measures for Takeover”) issued by the China Securities Regulatory Commission (the “CSRC”). In addition, the Directors are not aware of whether there is any association amongst the Shareholders of H Shares of the Company or if any of them is a person acting in concert as defined in the Administration Measures for Takeover. The Directors are not aware of whether there is any association amongst the other above-mentioned Shareholders of unconditional tradable shares of the Company, or any association between the other Shareholders of unconditional tradable shares and the other Shareholders, or if any of them is a person acting in concert as defined in the Administration Measures for Takeover.
- iii. Save as disclosed above, the only domestic Shareholders directly holding more than 5% of the total issued shares of the Company are HHC and Hualu Investment.
- iv. Save as disclosed above and so far as the Directors are aware, as at 30 June 2022, no other person (other than the Directors, supervisors of the Company (the “Supervisors”), chief executive (if applicable) or members of senior management of the Company (the “Senior Management”) had an interest or short position in the Company’s shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”) and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial Shareholder (as defined in the Listing Rules) of the Company.

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

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

4. NON-PUBLIC ISSUANCE OF A SHARES

References are made to the circular of the Company dated 31 May 2021 and the announcements and overseas regulatory announcements dated 14 April 2021, 27 April 2021, 30 June 2022, 19 July 2021, 2 August 2021, 13 August 2021, 16 August 2021, 26 January 2022, 22 February 2022, 7 March 2022, 23 March 2022, 1 April 2022 and 7 April 2022 respectively, among others, details of the non-public issuance of A Shares.

The non-public issuance of A Shares aimed to (i) enhance capital strength to ensure capital needs for the Company’s development and (ii) optimize the asset structure and improve the ability to resist risks. For details, please refer to 2021 Annual Report.

On 7 April 2022, the Company has completed the non-public issuance of A Shares (involving the issue and allotment to, and subscription by, Hualu Investment of 37,091,988 A Shares) following completion of relevant registration and depositary procedures with the China Securities Depository and Clearing Co., Ltd. Shenzhen branch.

Upon completion of the non-public issuance of A Shares Issue, the total number of issued and outstanding Shares of the Company increased from 632,535,247 Shares to 669,627,235 Shares, and the total number of A Shares of the Company increased from 437,535,247 A Shares to 474,627,235 A Shares.

As of the date of this report, a total amount of RMB 250 million in gross proceeds was raised and a total amount of RMB244 million in net proceeds raised from the non-public issuance of A Shares have been fully used, of which RMB114 million was used to repay interest-bearing liabilities and RMB130 million was used to supplement working capital. The net price raised per A Share was approximately RMB 6.59. The closing price of the A Shares on 14 April 2021, being the date on which the terms of the non-public issuance of A Shares were fixed, was RMB 8.67 per A Share. The closing price of the A Shares on 13 August 2021, being the date on which the issue price and number of Shares to be issued were adjusted under the non-public issuance of A Shares, was RMB 8.07 per A Share.

Directors, Supervisors, Senior Officers and Staff

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

Name	Position	Number of Shares as at 30 June 2022	Approximate percentage of shareholding in total issued A Shares as at 30 June 2022 (%)	Approximate percentage of shareholding in total issued Shares as at 30 June 2022 (%)	Number of Shares as at 1 January 2022
Directors:					
Mr. Zhang Daiming	Chairman	216,470 ^(note 2)	0.0456	0.0323	117,470 ^(note 2) 174,888 ^(note 3)
Mr. Du Deping	Executive Director, General Manager	180,900 ^(note 4)	0.0381	0.027	151,568 ^(note 3) 91,800 ^(note 4)
Mr. Xu Lie	Non-executive Director	147,400 ^(note 4)	0.0311	0.022	81,614 ^(note 3) 74,800 ^(note 4)
Mr. He Tongqing	Executive Director, Deputy General Manager	147,400 ^(note 4)	0.0311	0.022	116,592 ^(note 3) 74,800 ^(note 4)
Mr. Cong Kechun	Non-executive Director	Nil	–	–	Nil
Mr. Pan Guangcheng	Independent non-executive Director	Nil	–	–	Nil
Mr. Zhu Jianwei	Independent non-executive Director	Nil	–	–	Nil
Mr. Lo Wah Wai	Independent non-executive Director	Nil	–	–	Nil
Supervisors:					
Mr. Liu Chengtong	Chairman of Supervisory Committee	Nil	–	–	Nil
Mr. Tao Zhichao	Independent Supervisor	Nil	–	–	Nil
Ms. Hu Yanhua	Employee Supervisor	Nil	–	–	34,977 ^(note 3)
Mr. Wang Jianping	Employee Supervisor	Nil	–	–	Nil
Mr. Xiao Fangyu	Independent Supervisor	Nil	–	–	Nil
Other Senior Management:					
Mr. Wang Xiaolong	Deputy General Manager	147,400 ^(note 4)	0.0311	0.022	81,614 ^(note 3) 74,800 ^(note 4)
Mr. Du Deqing	Deputy General Manager	147,400 ^(note 4)	0.0311	0.022	81,614 ^(note 3) 74,800 ^(note 4)
Mr. Hou Ning	Financial Controller	147,400 ^(note 4)	0.0311	0.022	116,592 ^(note 3) 74,800 ^(note 4)
Mr. Zheng Zhonghui	Deputy General Manager	147,400 ^(note 4)	0.0311	0.022	23,318 ^(note 3) 74,800 ^(note 4)
Mr. Wei Changsheng	Deputy General Manager	107,200 ^(note 4)	0.0226	0.016	34,977 ^(note 3) 54,400 ^(note 4)
Mr. Xu Wenhui	Deputy General Manager	107,200 ^(note 4)	0.0226	0.016	46,636 ^(note 3) 54,400 ^(note 4)
Mr. Cao Changqiu	Secretary to the Board	107,200 ^(note 4)	0.0226	0.016	2,331 ^(note 3) 54,400 ^(note 4)
Total		<u>1,603,370</u>	<u>0.3381</u>	<u>0.2393</u>	<u>1,767,991</u>

Directors, Supervisors, Senior Officers and Staff

Notes:

- i. All interests in the securities of the Company owned by the Directors, Supervisors and Senior Management of the Company are long position in A Shares.
- ii. Mr. Zhang Daiming personally and initially holds 117,470 A Shares (among them 102,000 Shares were issued pursuant to first exercise of options under the 2018 A-share stock option incentive plan). During the Reporting Period, 99,000 additional shares were issued pursuant to second phase of the 2018 A-share stock option incentive Plan. By the end of the Reporting Period, he held A total of 216,470 A shares.
- iii. The relevant Shares are held under the Employee Share Ownership Scheme of the Company of which the relevant person is a participant. The total reduction of the shares is completed on May 12, 2022, as detailed in the overseas regulatory announcement dated May 12, 2022.
- iv. The relevant Shares were issued pursuant to the the 2018 A-share stock option incentive plan.
- v. So far as the Directors, the Senior Management and Supervisors are aware, save as disclosed above, as at 30 June 2022, no Director, Senior Management and Supervisor had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO (Chapter 571 of the Laws of Hong Kong)) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Management or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

CHANGE OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

There was no change of directors, supervisors and other senior management during the Reporting Period.

POSITION HELD IN THE HOLDING COMPANY

Name	Name of the Shareholding Company	Position	Beginning date	Termination date	Remuneration received from shareholder
Cong Kechun	HHC	Board Secretary	17 November 2010	–	Yes
Liu Chengtong	HHC	General manager of investment and development department, department head of legal affairs and general counsel	17 May 2019	–	Yes

Directors, Supervisors, Senior Officers and Staff

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making process for remuneration of Directors, Supervisors and Senior Management	The Directors' and the Supervisors' remuneration are subject to the approval in the general meetings of the Company, whereas the remuneration of the Senior Management is subject to the approval of the Board.
Basis for determining the remuneration of Directors, Supervisors and Senior Management	The remuneration of Directors, Supervisors and other Senior Management is determined with reference to state policies, the Company's financial standing, personal performance and the general remuneration standard of society.
Payment of remuneration to Directors, Supervisors and Senior Management	RMB2,346,651.00 was paid during this Reporting Period · the exercised share options amount to RMB3,754,080.00.

Staff and remuneration information (As of 30 June 2022)

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 2022, the number of staff employed by the Group was 6,540, and the total amount of their salaries and wages for the half year was RMB345,249,000.

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 not adopted any new share option scheme under the meanings of Chapter 17 of the Listing Rules.

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

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

The exercise price of the share options granted was determined to be RMB5.98 per A share. The date of grant was 28 December 2018. The share options shall have vesting period of 24 months, 36 months and 48 months from the date of grant respectively.

Directors, Supervisors, Senior Officers and Staff

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

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

As at 28 December 2021, the second vesting period for the Company to grant share options to the grantees expired, four of the grantees of the Company's Incentive Plan left due to personal reasons, two of the grantees of the Company's Incentive Plan retired as they reached retirement age. According to the provisions of the Incentive Plan, such person is no longer an eligible grantee, and the total of 356,400 share options granted but not yet exercised were canceled. Accordingly, in January 2022, the total number of grantees under the Incentive Plan has been adjusted from 184 to 178, the number of options granted has been adjusted from 10,692,000 to 103,356,000, and 356,400 share options have been cancelled.

The Company issued ordinary A shares in the Company to the eligible grantees in January 2022. During the second exercise period of share options, there were 178 eligible grantees in total and the number of exercised share options amounted to 5,167,800, with an adjusted exercise price of RMB5.61 per share option.

The details of the implementation and impact of the Company's 2021 A Share Option Incentive Plan are as follows:

On 31 December 2021, the 2021 A Share Option Incentive Plan was approved by the 2021 first extraordinary general meeting, the 2021 second class meeting of the shareholders of A shares and the 2021 second class meeting of the shareholders of H shares of the Company. On the same day, the tenth session of the Board and the 2021 seventh extraordinary meeting of the Company were also held to approve the initial granting of 23.15 million share options to 196 eligible grantees. 1.75 million share options shall be granted under the reserved grant.

The exercise price of the share options granted was determined to be RMB7.96 per A share. The date of grant was 31 December 2021. The share options shall have vesting period of 24 months, 36 months and 48 months from the date of grant respectively.

Directors, Supervisors, Senior Officers and Staff

A summary of the movements of share options of the Company during the six months ended 30 June 2022 is set out in the following table:

No.	Grantees	Position	Number of outstanding share options at the beginning of the Reporting Period	Number of share options granted during the Reporting Period	Number of share options exercisable during the Reporting Period	Number of share options exercised during the Reporting Period (Note 1)	Number of share options cancelled during the Reporting Period	Number of share options lapsed during the Reporting Period	Number of outstanding share options at the end of the Reporting Period
1	Zhang Daiming	Chairman	598,000	0	99,000	99,000	0	0	499,000
2	Du Deping	Executive Director & General Manager	538,200	0	89,100	89,100	0	0	449,100
3	Xu Lie	Non-executive Director	465,200	0	72,600	72,600	0	0	392,600
4	He Tongqing	Executive Director & Deputy General Manager	465,200	0	72,600	72,600	0	0	392,600
5	Wang Xiaolong	Deputy General Manager	465,200	0	72,600	72,600	0	0	392,600
6	Du Deqing	Deputy General Manager	465,200	0	72,600	72,600	0	0	392,600
7	Hou Ning	Financial Controller	465,200	0	72,600	72,600	0	0	392,600
8	Zheng Zhonghui	Deputy General Manager	465,200	0	72,600	72,600	0	0	392,600
9	Wei Changsheng	Deputy General Manager	425,600	0	52,800	52,800	0	0	372,800
10	Xu Wenhui	Deputy General Manager	425,600	0	52,800	52,800	0	0	372,800
11	Cao Changqiu	Secretary to the Board	305,600	0	52,800	52,800	0	0	252,800
	Subtotal		5,084,200	0	782,100	782,100	0	0	4,302,100
	Other staff members		28,757,800	0	4,385,700	4,385,700	356,400	0	24,015,700
	Total		33,842,000	0	5,167,800	5,167,800	356,400	0	28,317,800

Note 1: The weighted average closing price of A Share of the Company on the Shenzhen Stock Exchange on the trading day before the date of exercising was RMB10.80 per A share.

At the date of this report, the Company had 28,317,800 share options outstanding under the Incentive Plan, which represented approximately 4.23% of the Company's shares in issue as at the date of this report.

For further details of the Share Option Incentive Plan of the Company, please refer to the section headed "REPORT OF THE BOARD OF DIRECTORS – 3. Others – 2018 A Share Option Incentive Plan and 2021 A Share Option Incentive Plan" in the 2021 Annual Report of the Company.

Directors, Supervisors, Senior Officers and Staff

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

Area of Work	Number of Staff
Production	3,657
Engineering & Technical	551
Administration	308
Finance	86
Product R&D	437
Procurement	56
Sales	907
Quality inspection	538
Total	<u>6,540</u>

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

Education level by category	Number of Staff
Universities or above	1,493
Tertiary institutions other than universities	1,998
Intermediate institutions and technical schools	2,320
Senior high schools or below	729
Total	<u>6,540</u>

The Company formulated and implemented staff education and training plan in 2022. In the first half of 2022, 36 company-level training programs were carried out, with 1,271 employees attended the training, including special training for new employees, youth workers safety skills and knowledge improvement training, training of professional environmental protection knowledge, production equipment and special facilities training, technical quality management training, information security, trainer training and other aspects. The Company actively enriched the content of its training and innovated the forms of training to further enhance the results of training.

Chairman's Statement

To all Shareholders:

We hereby report to the Shareholders on the operation results of the Company for the first half of the period 2022.

In the first half of the period 2022, the operating income of the Group prepared under the CASBE was RMB3,664,295,000, representing an increase of 3.19% as compared with the same period last year. The Group recorded its net profits attributable to the Shareholders as RMB194,390,000, representing a decrease of 2.85% as compared with the same period last year.

The Board did not recommend the declaration of any interim dividends for the first half of the period 2022.

BUSINESS REVIEW

In the first half of the year, the Group overcame the impact of adverse factors, such as the pandemic, fluctuations in the international market, rising raw material prices and intensified market competition, and seize the opportunities of market exploration, organized production scientifically, increased R&D efforts, and actively promoted project construction. Therefore, the enterprise maintained a stable momentum of growth.

1. Protecting the market demand and playing a leading role in marketing

In response to the pandemic control requirements, practical measures were taken to increase the production of key best-selling products and new products in the first half of the year, which strongly guaranteed the market demand.

The leading APIs varieties maintained market stability, and the market share was further increased. The revenue from the Group's exports reached USD181 million, representing a year-on-year increase of 3.63%. Fish oil products achieved the transformation and upgrade from intermediate EPA70 to high purity EPA98.

Ten great strategic pharmaceutical preparations achieved sales growth of 14% year on year. International preparations processing and preparations export sales increased by 17.31% year on year. The construction of the second production line of the Madopar project was completed, and the annual production capacity reached 1 billion tablets. 12 preparations products were registered in 15 countries along the way of the "Belt and Road Initiative".

In the first half of the year, the sales of medical intermediate of Xinhua Pharmaceutical (Shouguang) Co., Ltd. ("Shouguang Company") increased by 31.3% year on year.

In the first half of the year, Shandong Xinhua Health Technology Co., Ltd. overcame the impact of the pandemic and other factors, and accelerated the business layout of the Internet health platform and cross-border e-commerce, achieving a year-on-year sales growth of 15.56%.

2. New achievements in science and technology innovation

In the first half of the year, we obtained 5 new product approvals, 2 consistency evaluation approvals, 2 APIs document and 3 authorized patents. The research and development of key innovative drugs, such as OAB-14, an innovative anti-AD drug, was carried out in an orderly manner. Xinhua Pharmaceutical (Gaomi) Co., Ltd. ("Xinhua Gaomi") obtained approval documents for 10 varieties (a total of 12 symbols). Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd. ("Pharmaceutical Chemical Industry Design Company") was approved as the first batch of the "small and medium technology-based enterprises" and provincial "specialized and new" SMEs in Shandong. Construction of Phase 1 of Gene and Cell Engineering Center has commenced. An academician Yang Baofeng was appointed as the chief scientist of the Company's major innovative drugs. We completed 15 technical and quality tackling projects and implemented 19 energy technology improvement projects.

3. Orderly advancement of key construction projects

The research and development platform for injection project and GMP renovation project have been completed and are in the process of applying for the GMP certificate; the main construction of the plant has been completed for Shandong Tongxin Pharmaceutical Co., Ltd. ("Tongxin Pharmaceutical")'s "chain strengthening" project; the civil construction and equipment bidding for Shouguang Company's featured APIs project has been completed; the main construction of the plant has been completed for Xinhua Gaomi's high-end pet feed project; The project approval procedures of Isobutyl benzene have been completed and is in the process of project design and site levelling.

4. Achieving stage results in capital operation and equity incentive

The non-public issuance of A shares in 2021 was successfully completed; the 2018 A-share stock option incentive plan in the second exercise period was completed; the initial grant of the Company's 2021 A-share stock option incentive plan was completed; the stock option incentive plan for technology-based enterprises of Pharmaceutical Chemical Industry Design Company was approved for implementation, and the mixed-ownership reform was successfully completed.

5. Continuous deepening and strengthening of basic management

Strict implementing pandemic prevention and control measures, the Company maintained zero infection. The "lifeline" engineering was under stable operation, with no average or above safety and environmental protection quality accidents occurring throughout the year. Sevelamer carbonate tablets passed US FDA remote BE review with zero defect, Modern Pharmaceutical International Cooperation Centre successfully passed EU audit and obtained EU GMP certificate. 2 products obtained EU CEP certificate and 9 products completed DMF registration. The Company was awarded A class enterprise of veterinary medicine in Shandong province. The Company was the first company in the national chemical pharmaceutical industry awarded the title of "Model Enterprises of Green Supply Chain Management", and was awarded the Two integration of outstanding enterprises of Shandong Province in 2021.

Chairman's Statement

PROSPECTS

Affected by the international situation and the pandemic, the raw material medicine products of the Group will encounter more fierce market competition in the second half of the year. However, the Group will also take practical and effective measures to make sure the export remains generally stable. With a more rapid development of the featured raw material medicine, the market share of the strategic preparations products continued to increase, the preparations collaboration projects were implemented, and commercialized production was rapidly promoted. The new growth point of the enterprise is being formed, unleashing continuous development potential.

To this end, the principal work of the Group in the second half of 2022 are as follows:

1. Strengthening production security, lowering the cost by all means and controlling the expenses

The Group will actively develop and implement the emergency plans, especially security, environmentally friendly and protection and control of the pandemic, take into full consideration of all kinds of constraining factors to secure the demand of the market, lower the purchasing and manufacturing costs by all means, seriously keep the budgets and eliminate the extra-budget expenses.

2. Accelerating the R&D of production and technological improvement

In the second half of the year, the Group will continue to accelerate the consistency evaluation and the R&D of new products; submit the application for the OAB-14 clinical experiment (phase I), and launch LXH-2201 clinical experiment (phase II); complete the construction of Center for Cell and Genetic Engineering; accelerate the promotion and application of automation, intelligent new products and new equipment, and complete the annual key projects of technological quality, energy saving and automation; accelerate the commercial production of the new products, and 7 new products, including irbesartan and irbesartan hydrochlorothiazide tablets, will be launched in the market in the second half of the year.

3. Accelerating the construction of the key projects and realizing the sufficient production and efficiency

The Group will strive for "strengthening and replenishing the supply chain" project of Tongxin Pharmaceutical to fulfill the conditions for trial operation by the end of October.

Shouguang Company Pharmaceutical's featured raw material drug project completed purification construction and equipment installation. The DCB project commenced civil construction in July, and the BHB project commenced construction in August.

The high-end pet feed project of Xinhua Gaomi Pharmaceutical has fulfilled the conditions for industrialization.

The main body of the plant of the off-site isobutyl benzene project commenced construction.

Chairman's Statement

4. Reinforcing the basic management and keeping the bottom line of the prevention and control of the pandemic and the lifeline engineering

The Group will continue to promote the in-site management of 7S/CTPM and enhance the in-site management level.

The Group will make greater investment in security measures and environmental measures, implement the AR panoramic control at high point and production system management "one map" project in the production area, and further enhance the intelligence and informatization level of management.

The Group will strengthen the training and emergency drills to improve the safety awareness and emergency response capability of all staff, strictly keep the bottom line of the prevention and control of the pandemic and the lifeline engineering.

The Group will strengthen the credit management, especially the management risk prevention.

Save as disclosed above, there were no significant events or material changes affecting the Company and its subsidiaries during the Reporting Period.

Chairman

Zhang Daiming

30 August 2022

Management Discussion and Analysis

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

ANALYSIS OF FINANCIAL SITUATION AND OPERATING RESULT IN ACCORDANCE WITH CASBE

1. Analysis of Assets and Liabilities

Assets and Liabilities constituting changes

Unit: RMB Yuan

Item	As at 30 June 2022 (unaudited)		As at 31 December 2021 (the "End of Last Year") (audited)		Percentage increase or decrease	Description of changes
	Amounts	Proportion of total assets	Amounts	Proportion of total assets		
Monetary funds	1,110,709,989.56	13.98%	744,662,302.34	10.16%	3.82%	-
Accounts receivable	863,208,487.96	10.86%	658,568,486.25	8.98%	1.88%	-
Contract assets	753,265.38	0.01%	438,975.00	0.01%	0.00%	-
Inventories	1,035,132,189.71	13.03%	1,027,539,968.72	14.01%	(0.98%)	-
Investment real estate	43,640,031.53	0.55%	45,765,654.05	0.62%	(0.07%)	-
Long-term equity investment	59,316,725.91	0.75%	56,707,310.33	0.77%	(0.02%)	-
Fixed assets	3,402,810,310.20	42.82%	3,195,112,176.64	43.58%	(0.76%)	-
Projects under construction	446,676,123.84	5.62%	562,958,944.42	7.68%	(2.06%)	-
Right-of-use assets	6,979,439.09	0.09%	7,653,187.24	0.10%	(0.01%)	-
Short-term borrowing	369,070,137.26	4.64%	269,455,217.71	3.68%	0.96%	-
Contract liability	97,386,566.85	1.23%	100,398,224.66	1.37%	(0.14%)	-
Long-term borrowings	371,426,336.06	4.67%	346,196,870.64	4.72%	(0.05%)	-
Lease liabilities	4,245,651.49	0.05%	4,279,227.67	0.06%	(0.01%)	-

Management Discussion and Analysis

Analysis of major changes of items

Unit: RMB Yuan

Items	As at 30 June 2022 (unaudited)	As at 31 December 2021 (the "End of Last Year") (audited)	Change as compared to the End of Last Year	Description of changes
Monetary funds	1,110,709,989.56	744,662,302.34	49.16%	(1)
Notes receivable	27,911,442.92	41,020,264.41	(31.96%)	(2)
Accounts receivable	863,208,487.96	658,568,486.25	31.07%	(3)
Other receivable	27,084,050.57	17,415,074.81	55.52%	(4)
Other current assets	28,691,988.01	44,593,999.38	(35.66%)	(5)
Other non-current assets	3,935,683.33	14,226,403.74	(72.34%)	(6)
Short-term borrowing	369,070,137.26	269,455,217.71	36.97%	(7)
Notes payable	546,071,657.77	405,071,920.42	34.81%	(8)
Employee compensation payable	35,966,609.10	69,867,115.71	(48.52%)	(9)
Taxes and dues payable	40,528,356.22	28,245,018.24	43.49%	(10)
Non-current liabilities due within one year	937,612,319.70	423,824,473.80	121.23%	(11)
Other current liabilities	30,058,465.82	45,594,586.86	(34.07%)	(12)
Capital reserve	958,220,095.23	677,941,287.82	41.34%	(13)

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

- (1) The increase of monetary funds was mainly due to the net proceeds of RMB244 million raised by the non-public issuance of A-shares in this Reporting Period.
- (2) The decrease in notes receivable from the end of the prior year was mainly due to a decrease in bank acceptances that were not terminated for recognition at the end of the Reporting Period.
- (3) The increase of accounts receivable was mainly due to the expanded scale of sales and that payments for part of the sales business had not yet been due during the Reporting Period.
- (4) The increase in other receivable from the end of the previous year is mainly due to the increase in dividends receivable at the end of the report.
- (5) The decrease of other current assets was mainly due to reduction of the prepaid income tax and value-added tax allowance at the end of the Reporting Period.
- (6) The decrease in other non-current assets compared with the end of the previous year is mainly due to the marketing authorization granted for Irbesartan hydrochlorothiazide tablets during the current reporting period and the decrease in the prepayment for outsourced patented technologies.
- (7) The main reason for the rise in short-term borrowing was to reduce financing costs and optimize the debt structure during the Reporting Period.

Management Discussion and Analysis

- (8) The increase in notes payable was mainly due to an increase in bank acceptances payable during the Reporting Period.
- (9) The decrease in employee compensation payable from the end of the previous year is mainly due to a decrease in employee compensation outstanding at the end of the Reporting Period.
- (10) The increase in taxes and dues payable is mainly due to the increase in value-added tax at the end of the Reporting Period.
- (11) The increase of non-current liabilities due within one year compared with the end of the previous year is mainly due to the transfer of long-term payables to non-current liabilities due within one year during the Reporting Period.
- (12) The decrease in other current liabilities from the end of the prior year was primarily due to a decrease in bank acceptances that were not terminated for recognition at the end of the Reporting Period.
- (13) The increase in capital reserves compared with the end of the previous year is mainly due to the increase in the premium of non-public issuance A shares in the current Reporting Period.

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

Unit: RMB Yuan

Items	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)	Change as compared to the same period last year	Description of changes
Operating revenue	3,664,294,993.33	3,551,043,752.95	3.19%	
Operating costs	2,711,527,456.90	2,511,033,846.02	7.98%	
Selling expenses	294,558,596.18	358,406,776.11	(17.81%)	
Administration expenses	203,112,746.43	169,041,206.93	20.16%	
Financial expenses	14,502,630.16	26,568,776.18	(45.41%)	(1)
Other incomes	15,753,419.00	11,588,356.99	35.94%	(2)
Investment income	10,527,231.58	7,096,471.59	48.34%	(3)
Credit impairment loss (losses to be listed with brackets)	(2,032,673.39)	(4,756,660.63)	(57.27%)	(4)
Gains from asset disposal (losses to be listed with brackets)	2,454,007.49	67,760.57	3,521.59%	(5)
Income tax expenses	36,812,855.18	51,043,087.07	(27.88%)	
Research input	164,668,702.95	163,835,401.81	0.51%	

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

- (1) The year-over-year decrease in financial expenses was mainly due to the optimization of the Company's financing structure during the Reporting Period, lower interest expense and higher exchange gains.

Management Discussion and Analysis

- (2) The year-over-year increase in other incomes was mainly due to an increase in government grants received during the Reporting Period.
- (3) The year-over-year increase in investment income was mainly due to an increase in investment income to associates during the Reporting Period.
- (4) The year-over-year decrease in credit impairment loss was primarily due to a decrease in the receivable bad debt loss accrued during the Reporting Period.
- (5) The year-over-year increase in gains from asset disposal was mainly due to the increase in income from disposal of fixed assets during the Reporting Period.

3. Analysis of significant changes in cash flow statement items

Unit: RMB Yuan

Items	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)	Change as compared to the same period last year	Description of changes
Net cash flow generated from operating activities	194,801,492.76	165,101,447.08	17.99%	
Net cash flow generated from investing activities	(115,450,914.87)	(104,001,628.28)	11.01%	
Net cash flow generated from financing activities	271,566,681.96	38,850,695.37	599.00%	(1)
Net increase in cash and cash equivalents	<u>361,491,631.08</u>	<u>98,149,083.00</u>	<u>268.31%</u>	<u>(2)</u>

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

- (1) The year-over-year decrease in net cash inflow from financing activities was mainly due to the Company's net proceeds of RMB244 million raised from the non-public issuance of A Shares during the Reporting Period;
- (2) The year-over-year increase in net increase in cash and cash equivalents was mainly due to a year-over-year increase in net cash inflow from operating activities and financing activities during the Reporting Period.

Management Discussion and Analysis

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

Items	Operating income	Operating costs	Gross profit rate	Change in operating income as compared to the same period last year	Change in operating costs as compared to the same period last year	Change in gross profit rate as compared to the same period last year
By industry						
Chemical bulk drugs	1,497,165,394.76	1,036,436,906.25	30.77%	(2.33%)	(1.16%)	Decreased by 0.82 percentage points
Preparations	1,626,006,825.59	1,234,081,647.26	24.10%	9.28%	20.97%	Decreased by 7.34 percentage points
Medical intermediates and other products	541,122,772.98	441,008,903.39	18.50%	2.06%	(0.29%)	Increased by 1.92 percentage points
Total	3,664,294,993.33	2,711,527,456.90	26.00%	3.19%	7.98%	Decreased by 3.29 percentage points
By product						
Antipyretic and analgesic active pharmaceutical ingredients	1,497,165,394.76	1,036,436,906.25	30.77%	(2.33%)	(1.16%)	Decreased by 0.82 percentage points
Preparations such as tablets, injections, capsules etc.	1,626,006,825.59	1,234,081,647.26	24.10%	9.28%	20.97%	Decreased by 7.34 percentage points
Medical intermediates and others	541,122,772.98	441,008,903.39	18.50%	2.06%	(0.29%)	Increased by 1.92 percentage points
Total	3,664,294,993.33	2,711,527,456.90	26.00%	3.19%	7.98%	Decreased by 3.29 percentage points
By geographical location						
PRC(including Hong Kong)	2,440,184,029.96	1,680,727,995.60	31.12%	1.20%	6.36%	Decreased by 3.34 percentage points
Americas	422,674,624.81	360,294,127.42	14.76%	(0.31%)	8.00%	Decreased by 6.56 percentage points
Europe	536,017,786.79	442,611,233.76	17.43%	5.05%	6.26%	Decreased by 0.94 percentage points
Others	265,418,551.77	227,894,100.12	14.14%	29.16%	26.18%	Increased by 2.03 percentage points
Total	3,664,294,993.33	2,711,527,456.90	26.00%	3.19%	7.98%	Decreased by 3.29 percentage points
By sales model						
Direct selling	1,670,478,738.33	1,273,125,994.74	23.79%	1.50%	(2.18%)	Increased by 2.87 percentage points
Distribution selling	1,993,816,255.00	1,438,401,462.16	27.86%	4.65%	18.92%	Decreased by 8.65 percentage points
Total	3,664,294,993.33	2,711,527,456.90	26.00%	3.19%	7.98%	Decreased by 3.29 percentage points

Management Discussion and Analysis

Analysis of profit composition as compared to 2021 is as follows:

Items	Amount (RMB Yuan)		Percentage of the total profit (%)	
	Six months ended 30 June 2022	2021	Six months ended 30 June 2022	2021
Operating profits	237,764,708.38	425,590,536.88	101.04	101.03
Net non-operating income	(2,447,979.91)	(4,357,216.96)	(1.04)	(1.03)
Total profits	235,316,728.47	421,233,319.92	100.00	100.00

There was no significant change in the profit composition in the Reporting Period compared to the same period last year.

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

As at 30 June 2022, the Group's current ratio was 100.03%; the quick ratio was 68.54%; the turnover rate of accounts receivable (annualised operating revenue/average net accounts receivable × 100%) and the rate of inventory turnover (annualised operating costs/average net inventories × 100%) were 963.16% and 525.83% respectively.

The current ratio and the quick ratio decreased from the end of the previous year respectively, primarily because of the increase in current liabilities caused by the transfer of long-term payable to non-current liabilities due within one year during the Reporting Period. The Group's working capital need did not show significant seasonal fluctuation.

The Group's main sources of funds were loans and operating profits. As at 30 June 2022, the Group's total borrowing was RMB1,669,497,000. As at 30 June 2022, the Group's monetary funds amounted to RMB1,110,710,000. The Group is in good credit condition and has sufficient bank credit line available to meet the demand for working capital at any time. For details of the Group's loans and liabilities including maturity date, please refer to Note VI to the financial statements of this report. 21, 28, 30.

As at 30 June 2022, the Company's subsidiary Xinhua Pharmaceutical (Shou'guang) Co., Ltd., had a wage deposit of RMB586,000 for migrant workers. The Company and Shandong Zibo XinCat Pharmaceutical Co., Ltd., Shandong Xinhua Health Technology, the Company's subsidiary, pledged the monetary funds of RMB130,684,000 and RMB5,710,000, RMB380,000 respectively to the bank for arrangement of bank acceptance bills. The company's performance guarantee deposit is RMB15,467,000. Besides, the ownership of the Company's fixed assets of RMB62,086,000 and the right-of-use assets of RMB6,979,000 does not belong to the Group. Notes receivable of RMB23,788,000 by the Company and its subsidiaries have not been terminated for recognition. Save as disclosed, the Group did not have other assets mortgaged.

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

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

Management Discussion and Analysis

As at 30 June 2022, the number of the Group's employees was 6,540. The total employee salaries in the first half of 2022 amounted to RMB345,249,000.

As at 30 June 2022, the Group's asset-liability ratio was 48.76% (total liabilities/total assets × 100%).

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

As at 30 June 2022, the Group had a gross gearing ratio (ie, gross liabilities divided by adjusted capital) of 43.07%, and a net gearing ratio (ie, net liabilities divided by adjusted capital) of 14.42%. For this purpose, "gross liabilities" is defined as total borrowings and "net liabilities" is defined as total borrowings less cash and cash equivalents, and "adjusted capital" is defined as all components of equity attributable to Shareholders other than designated reserves.

The Group's assets and liabilities were recorded in Renminbi. In the first half of 2022, the Group's export revenue was USD180,851,000, which exposed the Group to the risks associated with exchange rate fluctuations. Therefore, the Group has taken the following major measures to lower the risks of exchange rate fluctuations: (1) the Group has increased export prices to reduce the risks of exchange rate fluctuations; (2) when entering into material export contracts, the Group has made arrangements in advance with parties that the risks associated with fluctuations in exchange rates shall be borne by both parties if the fluctuations exceed the range mutually agreed; and (3) the Group will pay close attention to changes in exchange rates, settle foreign exchange in a timely manner, and properly control the scale of foreign currency assets and liabilities.

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

Unit: RMB Thousand Yuan

Company Name	Company Type	Primary Service	Registered Capital	Total Assets	Net assets	Operating Incomes	Operating Profits	Net profits
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Subsidiary	Production and sales of chemical products	RMB230,000	879,764	573,714	586,474	36,569	30,371

- (1) The total registered capital of Xinhua Pharmaceutical (Shouguang) Company Limited is RMB230,000,000, and the Company holds 100% of its equity interest. This subsidiary is mainly engaged in producing and selling chemical products. As at 30 June 2022, the total assets of the subsidiary were RMB879,764,000, and net assets was RMB573,714,000. In the first half of 2022, the operating income was RMB586,474,000, representing an increase of 31.25% as compared with the same period last year. The net profits of the company was RMB30,371,000, this was a significant increase from RMB888,000 in the same period last year, mainly due to the increase in sales revenue due to the tight grasp of market opportunities.

Management Discussion and Analysis

DIVIDEND DISTRIBUTION DURING THE REPORTING PERIOD

The Board did not propose distribution of half-year dividend for the six months ended 30 June 2022(2021 interim dividend: Nil).

Principal Risks faced by the Company and response measures

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

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

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

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

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

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

Management Discussion and Analysis

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

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

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

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

SAVE AS DISCLOSED HEREIN:

1. The Company has generally complied with the relevant PRC regulatory documents in respect of corporate governance applicable to listed companies.
2. The Plan for Profit Distribution for Year 2021 has been approved at the Annual General Meeting for year 2021.
3. For this Reporting Period and the six months ended 30 June 2021, the Board has not recommended any interim dividend or interim conversion of any capital reserve into share capital.
4. The Group was not involved in any material litigation or arbitration, whether pending or threatened during the Reporting Period.
5. Save as disclosed under the section headed "Liquidity and analysis of financial resources and capital structure", the Group did not have any material acquisitions or disposals of assets or mergers during the Reporting Period.
6. Material related party transactions: Related Party transactions conducted during the Reporting Period are set out in Note XI Related Parties and Related Parties transactions to the Financial Statements of this Report compiled in accordance with CASBE.
7. In the Reporting Period, there was no trust or subcontracting of assets between the Company and other companies. During the Reporting period, the Company leased assets of RMB6,979,000 from other companies; and the other companies leased assets of RMB43,640,000 from the Company.
8. **The specific illustration and independent opinions of the independent non-executive Directors in respect of the use of funds by related parties and external guarantee provided are as follows:**

During the Reporting Period, there was no appropriation of the Company's funds onto uses other than its operation by the controlling shareholder and other related parties.

There were no guarantees provided in favour of any controlling Shareholders, non-legal entities or individuals which were prejudicial to the interests of the Company and its Shareholders, in particular the minority Shareholders of the Company. As of 30 June 2022, 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.

Important Matters

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

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
Undertaking made on initial public offering or refinancing	HHC	Other	<ol style="list-style-type: none"> 1. Within six months before the price determination date for the non-public issuance of A Shares of the Company (the announcement date of the resolution of the second extraordinary meeting of the 10th session of the Board of Directors of the Company in 2021), HHC and its concert parties do not reduce their shares in the Company; 2. There is no plan for reduction in shares of the Company within six months after the completion of the non-public issuance of A Shares from the price determination date for the non-public issuance of A Shares; 3. HHC undertakes to reduce its shares and perform the information disclosure obligations involved in the changes in rights and interests in strict accordance with the laws and regulations such as the Securities Law of the People's Republic of China, Management Measures on Takeover of Listed Companies, and the relevant regulations of the stock exchanges of the places where the shares of HHC are listed; 4. If HHC violates the above-mentioned commitment and reduced its shares, HHC undertakes that all the proceeds from the reduction shall be owned by the Company and HHC shall bear all legal liabilities and consequences arising therefrom. 	9 August 2021	Long-term	In progress
	HHC	Horizontal competition	<ol style="list-style-type: none"> 1. There is no horizontal competition between HHC and other enterprises controlled by HHC and the Company; 2. During the period of being the controlling shareholder of the Company, HHC shall take necessary and possible measures in accordance with the law to avoid business or activities that have horizontal competition and conflict of interest with the main business of the Company, and urge other enterprises controlled by HHC to avoid business or activities that have horizontal competition and conflict of interest with the main business of the Company; 3. When HHC and other enterprises controlled by HHC intend to carry out new business, investment and research that may compete horizontally with the main business of the Company, HHC shall promptly notify the Company, and the Company will have priority in development and priority to participate in the project. HHC will try its best to make the price of relevant transactions on the basis of fair and reasonable and normal commercial transactions with independent third parties. HHC has the ability to fulfill the above commitments. This letter of commitment shall take effect immediately after being signed by HHC and shall remain valid during the period when HHC has control over the Company. 	9 August 2021	Long-term	In progress

Important Matters

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
	HHC	Other	<ol style="list-style-type: none"> HHC undertakes not to act beyond its powers to interfere with the Company's operating and management activities or misappropriate the Company's interests; From the date of issuance of this undertaking to the completion of the Company's non-public issuance of A Shares, if the state and securities regulatory authorities make other new regulatory requirements on measures for listed companies to compensate the diluted current returns, and this undertaking cannot meet the requirements of the state and securities regulations, it promises to issue an undertaking in accordance with the latest regulations of the state and securities regulatory authorities; HHC undertakes to take the relevant measures to compensate for the diluted current returns formulated by the Company and fulfill this undertaking. If any loss is caused to the Company or investors due to the breach of this undertaking or the refusal to fulfill this undertaking, HHC is willing to assume the corresponding liability and compensate the losses in accordance with the law. 	14 April 2021	Long-term	In progress
	HHC	Commitment on industry competition, related transactions and capital occupation	<ol style="list-style-type: none"> HHC will not use the voting rights of its shares in the Company to manipulate the general meeting of shareholders of the Company, or instruct the Company or its directors, supervisors or senior management personnel to cause the Company to provide or accept funds, commodities, services or other assets on unfair terms. Or engage in any conduct prejudicial to the interests of the Company and shareholders holding less than 5% of the Company's shares. HHC and other companies, enterprises and entities controlled by HHC shall follow the principles of equality, voluntality, equivalence and compensation when conducting transactions with the Company and its controlled subsidiaries, ensure the fairness and fairness of transactions, and safeguard the legitimate rights and interests of the Company. In accordance with laws, administrative regulations, relevant provisions of China Securities Regulatory Commission and domestic stock exchanges, and the Company's articles of association in effect at that time, the Company shall perform corresponding deliberation procedures and make timely disclosure. 	25 June 2021	Long-term	In progress

Important Matters

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
	The Company	Other	<ol style="list-style-type: none"> From 1 January 2018 to the date of issuance of this undertaking: except for the "Jinding Huajun" items developed by Xinhua (Zibo) Real Estate Co., Ltd. (hereinafter referred to as "Xinhua Real Estate"), the Company and its subsidiaries within the scope of the consolidated statements do not have any other entities engaged in real estate development and operation. Subject to the government's land supply and other issues, in 2019, the Party Committee of the Company resolved to reserve no more than 80 houses of the "Jinding Huajun" items developed by Xinhua Real Estate as the Company's expert apartments and talent apartments. Xinhua Real Estate canceled its qualification certificate for real estate development enterprise on 29 June 2021, and its business scope changed on 5 July 2021 which no longer included real estate development and operation business. On 1 August 2021, the executive directors of Xinhua Real Estate resolved to approve the remaining units of the completed properties to be used as the Company's expert apartments and talent apartments in accordance with the preliminary planning, and no longer be sold to external parties. On 16 December 2021, the general manager office of the Company resolved to approve the specific use plan. The Company and its subsidiaries will not use the commodity housing pre-sale permit to engage in the pre-sale and sale of properties and other related businesses. Upon completion of the above clearance work, the Company and the enterprises controlled by the Company will no longer apply for the relevant business qualifications for real estate development and operation, and will no longer engage in real estate development and operation business in the future. Upon implementation of subsequent procedural matters, Xinhua Real Estate will focus on the management of self-owned real estate properties, or initiate liquidation and cancellation procedures to ensure that it will no longer engage in real estate development and operation business. The Company will use the proceeds from the issuance in strict compliance with laws and regulations and the requirements of regulatory authorities, and will not use the proceeds from the issuance for real estate development and operation. If relevant laws and regulations or regulatory authorities have other requirements for the Company to clean up the real estate development and operation business, the Company will strictly comply with relevant regulations and requirements. The Company will strictly comply with the above undertakings and agree to bear the legal responsibility for breach of the undertakings. 	20 December 2021	Long-term	In progress

Important Matters

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
	The Company	Other	<ol style="list-style-type: none"> The Company will urge Xinhua Real Estate to proceed with the building ownership registration of the "Jinding Huajun" items to ensure that Xinhua Real Estate will assist and cooperate with the purchaser to complete the building ownership registration in strict accordance with the provisions of the commodity housing sale and purchase contract. In the event that the sold-out houses of the "Jinding Huajun" items are returned, Xinhua Real Estate will change such houses into self-owning in accordance with the preliminary planning and internal resolution, which will be included in the Company's expert and talent apartment plan and will not be sold to external parties. The Company will make supplemental arrangement for the properties in accordance with the specific implementation plan of the talent apartment plan. In the event of future controversies or disputes in relation to the "Jinding Huajun" items, the Company will urge Xinhua Real Estate to properly handle the disputes in accordance with the provisions of relevant laws and regulations and the agreement of the commodity housing sale and purchase contract, and assist Xinhua Real Estate in implementing the relevant risk response mechanism. 	24 December 2021	Long-term	In progress
	Xinhua Real Estate	Other	<ol style="list-style-type: none"> Xinhua Real Estate is actively promoting the building ownership registration of the "Jinding Huajun" items, without illegal impediment to obtain the building ownership certificate. Xinhua Real Estate will strictly comply with the provisions of the commodity housing sale and purchase contract, assist and cooperate with the purchaser in the registration of the transfer of building ownership. In the event that the sold-out houses of the "Jinding Huajun" items are returned, Xinhua Real Estate will transfer such houses to self-owning according to the preliminary planning and internal resolution, which will be included in the Xinhua Real Estate's expert and talent apartment plan and will not be sold to external parties. In the event of future disputes or disputes in relation to the "Jinding Huajun" items, Xinhua Real Estate will properly handle the disputes in accordance with the provisions of relevant laws and regulations and the agreement of the commodity housing sale and purchase contract. Xinhua Real Estate has formulated relevant risk response mechanism, including but not limited to setting up internal risk control specialists, and promptly reporting controversies or disputes to take specific countermeasures when they occur or may occur, and if necessary, Xinhua Real Estate will engage professional external agencies to assist in the handling. 	24 December 2021	Long-term	In progress

Important Matters

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
	Zhang Daiming; Du Deping; Xu Lie; He Tongqing; Cong Kechun; Pan Guangcheng; Zhu Jianwei; Lo Wah Wai; Wang Xiaolong; Du Deqing; Hou Ning; Zheng Zhouhui; Wei Changsheng; Xu Wenhui; Cao Changqiu	Other	<ol style="list-style-type: none"> 1. I undertake not to transfer benefits to other entities or individuals at nil consideration or on unfair terms, nor otherwise damage the interests of the Company; 2. I undertake to restrain my duty consumption; 3. I undertake not to use the assets of the Company for investment and consumption activities unrelated to the performance of my duties; 4. I undertake that the remuneration system formulated by the Board or the Remuneration Committee will be linked to the implementation of the Company's remedial measures for diluted current returns; 5. If the Company implements equity incentives in the future, I undertake that the exercise conditions of the equity incentives will be linked to the implementation of the Company's remedial measures for returns; 6. From the date of this undertaking to the completion of the non-public issuance of A Shares of the Company, if the State and securities regulatory authorities impose other new regulatory requirements on the remedial measures for the dilution of immediate returns by listed companies, and this undertaking fails to meet such requirements of the State and securities regulatory authorities, I undertake to make specific commitments in accordance with the latest requirements of the State and securities regulatory authorities at that time; and 7. As one of the responsible parties for the remedial measures, if I violate or refuse to perform the undertakings, I agree that the State or securities regulatory authorities shall impose relevant penalties or take relevant regulatory measures on me in accordance with the relevant regulations and rules formulated or issued by them. 	14 July 2021	Long-term	In progress

10. Purchase, Sales and Redemption of shares: During the Reporting Period, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

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

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

Stock Code	Stock short name	Initial investment amount	Proportion of equity interest in investee	Book value at the end of the Reporting Period	Profit/loss over the Reporting Period	Change in shareholder's equity over the Reporting Period
601601	China Pacific Insurance	7,000,000.00	0.05%	117,650,000.00	5,000,000.00	(15,257,500.00)
601328	BANKCOMM	14,225,318.00	0.01%	40,931,616.00	2,917,816.00	2,584,938.40
Total		<u>21,225,318.00</u>	<u></u>	<u>158,581,616.00</u>	<u>7,917,816.00</u>	<u>(12,672,561.60)</u>

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

14. Performance of other social responsibilities

The Company, Zibo Xinhua-Perrigo Pharmaceutical Co.,Ltd. ("Xinhua Perrigo"), a holding subsidiary, and Souguang Company, Shandong Xinhua Wanbo Chemical Industry Co., Ltd. ("Wanbo Chemical") and are on the List of Key Pollutant-discharging Units announced by the Ministry of Environmental Protection.

Name of Company or Subsidiary	Names of Key Pollutants and Special Types of Pollutants		Number of Discharge Outlets	Distribution of Discharge Outlets	Discharge Concentration	Implemented Standards for Discharge of Pollutants	Total Amount of Discharge	Approved Total Amount of Discharge	Excessive Discharge
	Discharge Mode	Discharge							
Shandong Xinhua Pharmaceutical Company Limited	Wastewater: chemical oxygen demand, ammonia nitrogen.	Continuous wastewater discharge	2	Main wastewater outlet of No. 1 factory; wastewater outlet of No. 2.	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 94.93 tons/year; total amount of ammonia nitrogen 5.392 tons/year; No.2 factory: total amount of COD 86.17 tons/year; total amount of ammonia Nitrogen 1.82 tons/year.	No. 1 factory: 835 tons/ year of COD; 75.15 tons/ year of ammonia nitrogen. No.2 factory: 994.5 tons/ year of COD; 89.51 tons/ year of ammonia nitrogen.	None

Important Matters

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
	Discharge	Discharge					Discharge of Pollutants		Total Amount of Discharge	
Shandong Xinhua Pharmaceutical Company Limited	Exhaust gas: volatile organic compound, sulfur dioxide, nitrogen oxide, particulate matter.	Exhaust gas emission at interval		There are more Exhaust outlets. Please refer to appendix of the emission permit.	No. 1 factory, No. 2 factory; Headquarters;The old factory	VOC concentration less than 40 mg/m ³ ;sulfur dioxide concentration less than 40 mg/m ³ ;nitrogen oxide concentration less than 80 mg/m ³ ;particulate matter concentration less than 8 mg/m ³ .	Exhaust gas: VOC concentration less than 60 mg/m ³ ; sulfur dioxide concentration less than 50 mg/m ³ ; nitrogen oxide concentration less than 100 mg/m ³ ; particulate matter concentration less than 10 mg/m ³ .	No. 1 factory: total amount Of VOC 3.843 tons/year; total amount of sulfur dioxide 0.037 tons/year; total amount of nitrogen oxide 0.04 tons/year; total amount of particulate matter 0.096 tons/year. No.2 factory: total amount of VOC 4.439 tons/year; total amount of sulfur dioxide 0.063 tons/year; total amount of nitrogen oxide 0.057 tons/year; total amount of particulate matter 0.15tons/year. Headquarters: total amount of VOC 0.003 tons/year; total amount of particulate matter 0.006 tons/year. The old Factory;total amount of particulate matter 0.029 tons/year.	No. 1 factory: total amount of VOC 60.89 tons/year; total amount of sulfur dioxide 4.73 tons/year; total amount of nitrogen oxide 7.1 tons/year; total amount of particulate matter 1.35 tons/year. No.2 factory: total amount of VOC 61.81 tons/year; total amount of sulfur dioxide 6.44 tons/year; total amount of nitrogen oxide 13.76 tons/year; total amount of particulate matter 2.54 tons/year.	None
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Wastewater: chemical oxygen Demand, ammonia Nitrogen etc.	Continuous wastewater discharge	1		After treatment by sewage station, 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 300 mg/L, ammonia nitrogen less than 3.0 mg/L;total phosphate less than 1.0 mg/L;total nitrogen less than 30mg/L.	Wastewater: COD concentration less than or equal to 500 mg/L, ammonia nitrogen less than 45 mg/L;total phosphate less than 8 mg/L;total nitrogen less than 70 mg/L.	Total amount of COD less than 35 tons/half a year.; total phosphate less than 0.15 tons/half a year;total nitrogen less than 4 tons/half a year;ammonia nitrogen less than 0.4 tons/half a year.	90 tons/year of COD;1.44 tons/year of total phosphate; 12.6 tons/year of total nitrogen;8.1 tons/year of ammonia nitrogen.	None

Important Matters

Name of Company or Subsidiary	Names of Key Pollutants and Special Types of Pollutants	Discharge Mode	Number of Discharge Outlets	Distribution of Discharge Outlets	Discharge Concentration	Implemented	Total Amount of Discharge	Approved	Excessive Discharge
						Standards for Discharge of Pollutants		Total Amount of Discharge	
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Exhaust gas: volatile organic compound (VOC)	Exhaust gas emission at interval	3	Raw material medicine synthesis factory, hazardous waste temporary repository; preparation production baset	VOC concentration less than 60 mg/L.	Exhaust gas: VOC concentration less than 60 mg/m ³ .	Total amount of VOC less than 1 tons/year.	3.8 tons/year of VOC.	None
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Wastewater: chemical oxygen demand, ammonia Nitrogen	Continuous discharge	1	Main wastewater outlet	COD less than 400 mg/L; ammonia nitrogen less than 25 mg/L; total phosphate less than 8mg/L; total nitrogen less than 70mg/L.	COD 400 mg/L; ammonia nitrogen 25 mg/L; total phosphate 8mg/L; total nitrogen 70mg/L.	Total amount of COD less than 33.1 ton/ half a year, ammonia nitrogen less than 0.9 ton/half a year.	COD concentration 110.81 tons/ year, ammonia nitrogen 9.975 tons/year.	None
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Exhaust outlets :sulfur dioxide, nitrogen oxide, NMHC, etc..	Discharge at Interval	17	Pyrazolone: 3; Ziurea: 2; DK workshop: 6; chloropropionyl chloride: 1; sulfuric acid: 1; Neopentyl glycol 1, sewage treatment 3	Sulfur dioxide less than 50 mg/m ³ ; nitrogen oxide less than 100 mg/m ³ ; particulate matter less than 10 mg/m ³ ; NMHC less than 60 mg/m ³ .	Sulfur dioxide less than 50 mg/m ³ ; nitrogen oxide less than 100 mg/m ³ ; particulate matter less than 10 mg/m ³ ; NMHC less than 60 mg/m ³ .	Total amount of sulfur dioxide less than 1 tons/half a year; nitrogen oxide less than 1 tons/half a year; particulate matter less than 0.5 tons/half a year; NMHC less than 12 tons/half a year.	Total amount of sulfur dioxide 6.52 tons/half a year; nitrogen oxide 16.145 tons/half a year; particulate matter 1.935 tons/half a year; NMHC 34.645 tons/half a year.	None
Shandong Xinhua Wanbo Chemical Industry Co., Ltd	Exhaust gas: sulfur dioxide, volatile organic compound (VOC), particulate matter , nitrogen oxide.	Discharge at Interval	3	South RTO 1, 8-diazabicyclo (5,4,0) undec-7-ene 1;RTO 1. sulfur dioxide less than 12 mg/m ³ , volatile organic compound (VOC) less than 7.8 mg/m ³ , particulate matter less than 4.7 mg/m ³ , nitrogen oxide less than 9 mg/m ³ .	sulfur dioxide less than 50 mg/m ³ , volatile organic compound (VOC) less than 12 mg/m ³ , particulate matter less than 4.7 mg/m ³ , nitrogen oxide less than 9 mg/m ³ .	less than 60 mg/m ³ , particulate matter less than 10 mg/m ³ nitrogen oxide less than 100 mg/m ³ .	sulfur dioxide 0.152 tons/half a year, volatile organic compound (VOC) 0.0864 tons/half a year, particulate matter 0.061894 tons/half a year , nitrogen oxide 0.02689 tons/half a year.	sulfur dioxide 3.252 tons/year, volatile organic compound (VOC) 7.6908tons/year, particulate matter 0.65 tons/year , nitrogen oxide 6.504 tons/year.	None

Important Matters

Construction and operation of pollution prevention & treatment facilities

(1) Waste water treatment

The Company has in place three sewage treatment facilities with treatment capacity of 12,000 tons/day. Xinhua-Perrigo has in place one sewage treatment facility with treatment capacity of 400 tons/day. Shouguang has in place six sewage treatment facilities with treatment capacities of 3,000 tons/day. Such sewage treatment facilities can all fully meet the requirement of consistently reaching the wastewater discharge standards.

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

The two 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.

The production wastewater generated by Xinhua Perrigo is firstly pretreated in production processes: wastewater with high content of organics realizes a separation between organics and aqueous phase through condensation, distillation and other methods to recycle the organics. Highsalt Wastewater with high content of salt recovers inorganic salts through MVR method. After flowing into the Xinhua Perrigo's high-concentration wastewater pool and balance tank, high-concentration wastewater from each production process then enters water-collecting well though special conveying pipelines. After mixing with area drainage and sanitary sewage, it then enters the Xinhua Perrigo's sewage treatment system for biochemical treatment. The general outlet of the Company is equipped with standardised online monitoring facilities, which are operated and maintained by authorized qualified three party. Online monitoring data of wastewater discharge will be uploaded real-time to the Environmental Automatic Monitoring and Control System of Zibo City and Pollution Source Monitoring Information Sharing System of Shandong Province.

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 byproducts of desalination and ammonia-nitrogen reduction through the 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 by 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 basis. Weifang Environmental Protection Bureau is in charge of the implementation of online real-time management.

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

(2) *Waste gas control and treatment*

We mainly apply source point control:

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

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

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

Fourth, we have applied such technologies as carbon fiber adsorption 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.

Important Matters

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 warning monitor for factory boundary, to monitor on real-time basis the chemical odor and the results of waste gas treatment.

Ninth, we use RT, sewage treatment pOlant waste gas and part of the workshop organic waste gas to conduct RTO incineration treatment.

(3) *Hazardous Wastes Treatment*

The Company has set up standardized hazardous waste temporary storage warehouses in the No. 1 factory and No. 2 factory. 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》), the company strictly implements transfer processing system and transfer plan approval system and entrust qualified units for legal and compliance disposal. The Company actively cancels out the reduction of hazardous waste, and complete the biodegradation treatment of waste colloid in Workshop 205, waste activated carbon in Workshop 205 and waste adsorbent in Workshop 105, etc.

Xinhua Perrigo has set up standardized hazardous waste temporary storage warehouses, strictly implemented relevant laws and regulations on hazardous waste, strengthened standardized management of hazardous waste and prepared an annual hazardous waste management plan. As required by the "Transfer Manifest Management Procedures of Hazardous Waste in Zibo City (Shandong Province)", Xinhua Perrigo strictly implements transfer processing system and transfer plan approval system and transport hazardous waste to qualified units for entrusted compliance disposal.

The hazardous waste treatment of Shouguang company: The first method is building its own incineration facility to dispose of 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 transports some of its hazardous waste to qualified units for entrusted disposal.

Wanbo Chemical identified hazardous waste according to the requirements and specifications, compiled annual hazardous waste management plan, and built a hazardous waste warehouse according to the standards as required to strengthen the standardized management of hazardous waste. As required by the standardized management of hazardous waste, Wanbo Chemical strictly implements the transfer processing system and transfer plan approval system and transports hazardous waste to qualified units for entrusted disposal.

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

The Company and its subsidiaries have formulated the “Emergency Response Plan for Environmental Emergencies”, which includes six parts: comprehensive emergency plan for 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”, the “Self-monitoring Plan of No. 2 Factory” and the “Soil and groundwater self-monitoring programme”. Xinhua Perrigo, Shouguang and Wanbo Chemical 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, 2015 and 2017 respectively. In 2019, 2020 and 2021, its environment management system passed the certification of two new-version systems of environment and quality.

The Company entrusted Shandong Jiayu Testing Technology Co., Ltd., Shandong Neolithic Testing Co., Ltd. and Shandong Huicheng Environmental Protection Technology Co., Ltd., these texts independent third party, to conduct exhaust emission test on its No. 1 factory, No. 2 factory, the old factory, and headquarters, and they were up to standard. Xinhua Perrigo entrusted Shandong Jiayu Testing Technology Co., Ltd. and Shandong Xinhang Engineering Project Consulting Co. Ltd, two independent third parties, to conduct exhaust emission, waste water, soil and groundwater discharge test of the Company, and all discharge values are up to standard. Shouguang entrusted Shandong Weike Testing Co., Ltd. and Shandong Jiayu Testing Technology Co., Ltd., two independent third parties, to test the exhaust outlets of workshops on a regular basis, and they were up to standard. Wanbo Chemical has entrusted Zibo Yuantong Environmental Testing Co., Ltd. to regularly conduct organized and unorganized exhaust gas testing, and they were up to standard.

15. Please refer to the Company's announcements dated 21 January 2022 and 26 April 2022 on <http://www.cninfo.com.cn> for the details of research, communication and interview activities during the Reporting Period.
16. The Group had no material contingent liabilities as at 30 June 2022.
17. On 13 January 2022, 5.1678 million stock options that can be exercised during the second exercise period of the Company's A share stock option incentive plan in 2018 have been registered and listed for circulation. For details, please refer to the overseas regulatory announcement of the Company dated 10 January 2022 and announcement on the website (www.cninfo.com.cn) on and before 11 January 2022.

Important Matters

18. Changes in Accounting Policies

Contents and reasons of accounting policy changes	Approval processes	Notes
<p>The Ministry of Finance issued the interpretation of accounting standards for Business Enterprises No. 15 (Finance and Accounting [2021] No. 35) (hereinafter referred to as "Interpretation No. 15") in December 2021.</p> <p>Interpretation No. 15 clarifies the accounting treatment for the external sales of the products or by-products produced by the enterprise before the fixed assets reach the intended usable state or during the research and development process (hereinafter referred to as "trial operation sales"). In case of trial operation sales, the enterprise shall, in accordance with the provisions of accounting standards for Business Enterprises No. 14 – revenue and accounting standards for Business Enterprises No. 1 – inventory, separately account for the revenue and costs related to trial operation sales and record them into the current profit and loss. The net amount of the revenue related to trial operation sales after offsetting the relevant costs shall not be used to offset the cost of fixed assets or R & D expenditure. The relevant products or by-products produced by the trial run shall be recognized as inventories if they meet the requirements of accounting standards for Business Enterprises No. 1 – inventories before being sold to the outside, and shall be recognized as relevant assets if they meet the relevant asset recognition conditions in other relevant accounting standards for business enterprises. The relevant accounting treatment provisions for trial operation sales shall be implemented from January 1, 2022, and the financial statements shall be retroactively adjusted and compared.</p> <p>Interpretation No. 15 clarifies the judgment on onerous contract (hereinafter referred to as "onerous contract"). When judging a onerous contract, the cost of performing the contract includes the incremental cost of performing the contract and the allocation amount of other costs directly related to performing the contract. The relevant accounting treatment provisions for onerous contracts will come into effect on January 1, 2022. The cumulative impact adjustment is implemented for the first time in the year beginning retained earnings and other relevant financial statement items in the Interpretation No. 15. The comparative financial statement data in the previous period will not be adjusted.</p>	<p>Relevant accounting policy changes were approved at the 8th meeting of the 10th Board of the Company on August 30, 2022</p>	<p>Changes in relevant accounting policies have no significant impact on the Group's financial statements.</p>

19. Loan arrangements granted to entities

During the Reporting Period, the Group did not grant any loan to any entity which is subject to disclosure requirements under Rule 13.13 of the Listing Rules.

20. Pledging of shares by the controlling shareholder

The controlling shareholder of the Company did not pledge any of its shares in the Company to secure its debts or did not provide any pledge over the Company's debt or other support during the Reporting Period.

21. Loan agreements or financial assistance

The Company has not provided any financial assistance or guarantee to its affiliated companies during the Reporting Period, which gives rise to a disclosure under Rule 13.16 of the Listing Rules. The Company did not enter into any loan agreement with covenants relating to specific responsibility of its controlling shareholder nor breach the terms of any loan agreements during the Reporting Period.

22. During the Reporting Period, there was no forfeited contribution under the defined contribution retirement benefit plans of the Group which may be used by the Group to reduce the contribution payable in the future years.

23. Events after the Reporting Period: On 1 July 2022, Mr. Du Deping, the director and general manager of the Company, resigned from all his positions in the Company due to work arrangements, as detailed in the announcement dated 1 July 2022.

24. Save as disclosed in this report, there were no other significant events or material changes affecting the Company and its subsidiaries after the Reporting Period up to the date of this report.

25. Except on disclosed herein, as of the date of this report, the Company did not have any future plans for material investments or capital assets, material acquisition and disposal of subsidiary, associates or joint ventures in the coming year.

Corporate Governance

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board confirmed that the Company was in compliance with the Corporate Governance Code (the “Code”) and has not deviated from the Code during the Reporting Period. The Code includes the provisions contained in Part 2 of Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

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

The audit committee along with the management of the Company has reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting including the unaudited interim accounts for the six months ended 30 June 2022.

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 2022 and that sufficient disclosures have been made.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of a sufficient number of independent non-executive Directors and at least one independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive Directors including one with financial management expertise, of whom the biographical details were set out in the 2021 Annual Report of the Company.

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

During the Reporting Period, the Company has adopted a code of conduct regarding transactions by Directors on terms no less exacting than the required standards set out in the Model Code. After having made specific enquiries to the Directors and the Supervisors, the Company confirms that during the Reporting Period, all Directors and Supervisors have complied with the required standard set out in the Model Code in relation to securities transactions and they did not have any non-compliance with the Model Code.

Consolidated Balance Sheet

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Balance at the end of the period	Balance at the beginning of the period
Current assets:			
Monetary funds	VI.1	1,110,709,989.56	744,662,302.34
Notes receivable	VI.2	27,911,442.92	41,020,264.41
Accounts receivable	VI.3	863,208,487.96	658,568,486.25
Accounts receivable financing	VI.4	155,632,869.37	170,428,238.83
Prepayments	VI.5	38,801,728.48	49,290,996.14
Other receivables	VI.6	27,084,050.57	17,415,074.81
Including: Dividends receivable	VI.6.2	7,917,816.00	–
Inventories	VI.7	1,035,132,189.71	1,027,539,968.72
Contract assets	VI.8	753,265.38	438,975.00
Other current assets	VI.9	28,691,988.01	44,593,999.38
Total current assets		<u>3,287,926,011.96</u>	<u>2,753,958,305.88</u>
Non-current assets:			
Long-term equity investments	VI.10	59,316,725.91	56,707,310.33
Other equity instrument investments	VI.11	188,581,616.00	203,490,512.00
Investment properties	VI.12	43,640,031.53	45,765,654.05
Fixed assets	VI.13	3,402,810,310.20	3,195,112,176.64
Construction in progress	VI.14	446,676,123.84	562,958,944.42
Right-of-use asset	VI.15	6,979,439.09	7,653,187.24
Intangible assets	VI.16	480,910,593.41	466,451,490.95
Goodwill	VI.17	–	–
Long-term deferred expenses	VI.18	9,199,490.11	10,540,928.51
Deferred income tax assets	VI.19	16,240,399.14	15,168,744.22
Other non-current assets	VI.20	3,935,683.33	14,226,403.74
Total non-current assets		<u>4,658,290,412.56</u>	<u>4,578,075,352.10</u>
Total assets		<u>7,946,216,424.52</u>	<u>7,332,033,657.98</u>

Consolidated Balance Sheet (Continued)

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Balance at the end of the period	Balance at the beginning of the period
Current liabilities:			
Short-term borrowings	VI.21	369,070,137.26	269,455,217.71
Notes payable	VI.22	546,071,657.77	405,071,920.42
Accounts payable	VI.23	653,711,782.53	661,319,556.79
Contract liabilities	VI.24	97,386,566.85	100,398,224.66
Payroll payable	VI.25	35,966,609.10	69,867,115.71
Taxes payable	VI.26	40,528,356.22	28,245,018.24
Other payables	VI.27	576,441,895.17	498,104,257.01
Including:Dividends payable	VI.27.1	130,704,684.78	20,280,599.53
Non-current liabilities due within one year	VI.28	937,612,319.70	423,824,473.80
Other current liabilities	VI.29	30,058,465.82	45,594,586.86
Total current liabilities		<u>3,286,847,790.42</u>	<u>2,501,880,371.20</u>
Non-current liabilities:			
Long-term loans	VI.30	371,426,336.06	346,196,870.64
Lease liabilities	VI.31	4,245,651.49	4,279,227.67
Long-term payables	VI.38	–	627,201,117.02
Deferred incomes	VI.33	123,969,954.12	132,164,134.63
Deferred income tax liabilities	VI.19	84,874,971.05	65,605,602.69
Other non-current liabilities	VI.34	3,561,500.00	3,561,500.00
Total non-current liabilities		<u>588,078,412.72</u>	<u>1,179,008,452.65</u>
Total liabilities		<u>3,874,926,203.14</u>	<u>3,680,888,823.85</u>
Shareholders' equity:			
Capital stock	VI.35	669,627,235.00	627,367,447.00
Capital reserve	VI.36	958,220,095.23	677,941,287.82
Other comprehensive income	VI.37	115,892,534.30	126,254,375.09
Special reserve	VI.38	4,439,671.64	2,118,130.33
Surplus reserve	VI.39	325,192,624.19	325,192,624.19
Undistributed profits	VI.40	1,803,013,173.89	1,709,067,703.02
Total equity attributable to the shareholders of parent company		<u>3,876,385,334.25</u>	<u>3,467,941,567.45</u>
Minority shareholders' interests		<u>194,904,887.13</u>	<u>183,203,266.68</u>
Total shareholders' equity		<u>4,071,290,221.38</u>	<u>3,651,144,834.13</u>
Total liabilities and shareholder's equity		<u>7,946,216,424.52</u>	<u>7,332,033,657.98</u>

Parent Company's Balance Sheet

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current assets:			
Monetary funds		821,367,007.49	377,751,492.74
Notes receivable	XVI.1	2,426,923.50	2,507,414.98
Accounts receivable	XVI.2	689,428,446.12	530,628,189.69
Accounts receivable financing	XVI.3	83,879,021.60	90,667,479.18
Prepayments		11,555,497.82	12,802,696.57
Other receivables	XVI.4	334,621,075.71	480,504,554.58
Including:Dividends receivable	XVI.4.2	7,917,816.00	-
Inventories		676,863,719.44	659,948,267.84
Other current assets		11,420,985.86	19,680,968.89
Total current assets		<u>2,631,562,677.54</u>	<u>2,174,491,064.47</u>
Non-current assets:			
Long-term equity investments	XVI.5	773,643,329.06	749,433,913.48
Other equity instrument investments		188,581,616.00	203,490,512.00
Investment properties		77,742,082.43	80,904,610.43
Fixed assets		2,669,632,731.21	2,440,946,098.10
Construction in progress		238,054,919.16	440,363,943.67
Right-of-use asset		3,447,899.97	879,359.18
Intangible assets		307,031,541.37	290,103,258.70
Long-term deferred expenses		8,218,186.82	9,450,914.84
Other non-current assets		1,862,818.86	13,113,375.51
Total non-current assets		<u>4,268,215,124.88</u>	<u>4,228,685,985.91</u>
Total assets		<u>6,899,777,802.42</u>	<u>6,403,177,050.38</u>

Parent Company's Balance Sheet (Continued)

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Balance at the end of the period	Balance at the beginning of the year
Current liabilities:			
Short-term borrowings		361,058,915.03	269,455,217.71
Notes payable		573,484,402.03	397,421,940.23
Accounts payable		518,600,634.39	674,204,706.17
Contract liabilities		43,765,681.71	40,660,840.95
Payroll payable		15,024,569.20	50,855,811.08
Taxes payable		6,547,281.13	6,389,626.34
Other payables		503,321,655.93	353,688,588.68
Including:Dividends payable		105,754,684.78	5,310,599.53
Non-current liabilities due within one year		935,912,468.51	421,852,827.32
Other current liabilities		1,904,764.61	4,343,213.22
		2,959,620,372.54	2,218,872,771.70
Total current liabilities			
Non-current liabilities:			
Long-term loans		371,426,336.06	346,196,870.64
Lease liabilities		2,562,211.08	59,340.16
Long-term payables		-	627,201,117.02
Deferred incomes		121,566,785.38	129,597,979.55
Deferred income tax liabilities		70,896,628.09	53,085,817.57
Other non-current liabilities		3,561,500.00	3,561,500.00
		570,013,460.61	1,159,702,624.94
Total non-current liabilities			
		3,529,633,833.15	3,378,575,396.64
Total liabilities			
Shareholders' equity:			
Capital stock		669,627,235.00	627,367,447.00
Capital reserve		1,015,522,647.85	736,516,769.64
Other comprehensive income		116,752,853.30	129,425,414.90
Special reserve		2,087,204.65	-
Surplus reserve		318,938,637.12	318,938,637.12
Undistributed profits		1,247,215,391.35	1,212,353,385.08
		3,370,143,969.27	3,024,601,653.74
Total shareholders' equity			
		6,899,777,802.42	6,403,177,050.38
Total liabilities and shareholder's equity			

Consolidated Income Statement

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
I. Gross revenue		3,664,294,993.33	3,551,043,752.95
Including: Operating revenue	VI.41	3,664,294,993.33	3,551,043,752.95
II. Total operating cost		3,423,882,303.99	3,266,899,130.92
Including: Operating cost	VI.41	2,711,527,456.90	2,511,033,846.02
Taxes and surcharges	VI.42	31,613,472.22	31,591,207.92
Selling expenses	VI.43	294,558,596.18	358,406,776.11
Administration expenses	VI.44	203,112,746.43	169,041,206.93
Research and development expense	VI.45	168,567,402.10	170,257,317.76
Financial expenses	VI.46	14,502,630.16	26,568,776.18
Including: Interest expenses		24,376,640.19	27,119,915.02
Interest income		3,646,699.81	4,147,801.53
Add: Other income	VI.47	15,753,419.00	11,588,356.99
Investment incomes (losses to be listed with "-")	VI.48	10,527,231.58	7,096,471.59
Including: Incomes from investment into affiliates and joint ventures		2,609,415.58	596,471.59
Credit impairment loss(losses to be listed with "-")	VI.49	-2,032,673.39	-4,756,660.63
Asset impairment loss (losses to be listed with "-")	VI.50	-29,349,965.64	-34,950,730.05
Gains from asset disposals (losses to be listed with "-")	VI.51	2,454,007.49	67,760.57
III. Operating profit (losses to be listed with "-")		237,764,708.38	263,189,820.50
Add: Non-operating income	VI.52	687,434.68	763,855.47
Less: Non-operating expenditure	VI.53	3,135,414.59	3,593,919.67
IV. Total profits (total loss to be listed with "-")		235,316,728.47	260,359,756.30
Less: Income tax expense	VI.54	36,812,855.18	51,043,087.07
V. Net profit (net loss to be listed with "-")		198,503,873.29	209,316,669.23
(I) By operation continuity			
(1) Net profit from continued operations(listed with "-" for net loss)		198,503,873.29	209,316,669.23
(2) Net profit from discontinued operations(listed with "-" for net loss)			
(II) By ownership			
(1) Net profit attributable to shareholders of parent company(listed with "-" for net loss)		194,389,556.12	200,082,353.55
(2) Minority interest(listed with "-" for net loss)		4,114,317.17	9,234,315.68

Consolidated Income Statement (Continued)

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
VI Net after-tax other comprehensive income	VI.55	-9,701,604.53	-37,628,799.27
Net after-tax other comprehensive income attributable to the owners of the parent company		-10,361,840.79	-37,520,446.65
(I) Other comprehensive income not subject to reclassification to profit or loss	VI.55	-12,672,561.60	-37,143,245.60
1. change in fair value of other equity instrument investments	VI.55	-12,672,561.60	-37,143,245.60
(II) Other comprehensive income to be reclassified to profit or loss in future	VI.55	2,310,720.81	-377,201.05
1. Conversion difference of foreign currency statement	VI.55	2,310,720.81	-377,201.05
Net after-tax other comprehensive income attributable to minority shareholders		660,236.26	-108,352.62
VII. Total comprehensive income		188,802,268.76	171,687,869.96
Total comprehensive income attributable to the shareholders of parent company		184,027,715.33	162,561,906.90
Total comprehensive income attributable to the minority shareholders		4,774,553.43	9,125,963.06
VIII. Earnings per share:			
(I) Basic earnings per share	VI.56	0.30	0.32
(II) Diluted earnings per share	VI.56	0.30	0.32

Parent Company's Income Statement

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
I. Gross revenue	XVI.6	1,877,383,535.54	1,802,777,753.83
Less: Operating cost	XVI.6	1,408,766,107.27	1,345,149,151.86
Taxes and surcharges		18,652,909.91	15,142,722.41
Selling expenses		12,076,099.89	11,264,614.16
Administration expenses		142,982,057.05	126,084,771.46
Research and development expense		125,880,884.19	125,453,384.79
Financial expenses		16,651,235.73	28,073,995.33
Including: Interest expenses		24,017,859.97	27,037,161.27
Interest income		2,162,064.60	2,189,940.59
Add: Other income		15,323,110.21	9,965,213.82
Investment incomes (losses to be listed with "-")	XVI.7	20,547,231.58	22,996,471.59
Including: Incomes from investment into affiliates and joint ventures		2,609,415.58	596,471.59
Credit impairment loss(losses to be listed with "-")		-846,045.63	-1,223,658.26
Asset impairment loss (losses to be listed with "-")		-33,205,597.82	-29,634,614.31
Gains from asset disposals (losses to be listed with "-")		2,394,741.43	15,388.14
II. Operating profit (losses to be listed with "-")		156,587,681.27	153,727,914.80
Add: Non-operating income		492,712.34	601,733.48
Less: Non-operating expenditure		1,727,157.17	2,053,786.66
III. Total profits (total loss to be listed with "-")		155,353,236.44	152,275,861.62
Less: Income tax expense		20,047,144.92	152,275,861.62
IV. Net profit (net loss to be listed with "-")		135,306,091.52	134,032,067.12
(I) Net profit from continued operations(listed with "-" for net loss)		135,306,091.52	134,032,067.12
(II) Net profit from discontinued operations(listed with "-" for net loss)			
V. Net after-tax other comprehensive income		-12,672,561.60	-37,143,245.60
(I) Other comprehensive income not subject to reclassification to profit or loss		-12,672,561.60	-37,143,245.60
1. change in fair value of other equity instrument investments		-12,672,561.60	-37,143,245.60
(II) Other comprehensive income to be reclassified to profit or loss in future			
1. Conversion difference of foreign currency statement			
VI. Total comprehensive income		122,633,529.92	96,888,821.52
VII. Earnings per share:			
(I) Basic earnings per share			
(II) Diluted earnings per share			

Consolidated Cash Flow Statement

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
I. Cash flow from operating activities:			
Cash received from sale of goods or rendering services		2,958,172,591.98	2,671,558,029.02
Refunds of taxes and levies		81,835,033.58	74,392,509.97
Other cash received from operating-related activities	VI \ 57	36,492,908.25	83,649,510.23
Subtotal of cash inflows from operating activities		3,076,500,533.81	2,829,600,049.22
Cash paid for goods purchased and labor services received		1,883,693,406.56	1,694,459,324.11
Cash paid to and for employees		473,443,065.22	429,029,123.31
Cash paid for taxes and surcharges		114,805,322.11	126,066,748.85
Other cash paid related to operating activities	VI \ 57	409,757,247.16	414,943,405.87
Subtotal of cash outflows from operating activities		2,881,699,041.05	2,664,498,602.14
Net cash flow from investing activities		194,801,492.76	165,101,447.08
II. Cash flow generated from investing activities:			
Cash received from redemption of investments			6,500,000.00
Cash received from returns on investments			6,500,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,524,196.00	140,509.99
Net cash received from disposal of subsidiaries and other business entities			
Other cash received related to investing activities			
Subtotal of cash inflows from investing activities		2,524,196.00	6,640,509.99
Cash paid for acquisitions of fixed assets, intangible assets and long-term assets		117,975,110.87	110,642,138.27
Cash paid for acquisitions of 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		117,975,110.87	110,642,138.27
Net cash flow from investing activities		-115,450,914.87	-104,001,628.28

Consolidated Cash Flow Statement (Continued)

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
III. Cash flows from financing activities:			
Cash received from capital contributions		274,278,131.34	30,121,280.00
Including: cash received from subsidiaries' receipt of investment from minority shareholders		18,179,996.22	17,400,000.00
Cash received from loans		595,388,000.00	472,983,520.00
Other cash received relating to financing activities		_____	_____
Subtotal of cash inflows from financing activities		869,666,131.34	503,104,800.00
Cash paid for repayment of debts		558,030,534.58	402,770,534.58
Cash paid for distributing dividends and profits or paying interest		32,802,695.65	35,751,423.32
Including: dividends and profits paid to minority shareholders by subsidiaries		_____	_____
Other cash paid related to financing activities	VI · 57	7,266,219.15	25,732,146.73
Subtotal of cash outflows from financing activities		598,099,449.38	464,254,104.63
Net cash flows from financing activities		271,566,681.96	38,850,695.37
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		10,574,371.23	-1,801,431.17
V. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the beginning of the period		596,391,588.69	722,563,226.56
VI. Cash and cash equivalents at the end of the period			
		957,883,219.77	820,712,309.56

Parent Company Cash Flow Statement

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
I. Cash flow from operating activities:			
Cash received from sale of goods or rendering services		1,425,329,520.67	1,204,380,468.09
Refunds of taxes and levies		55,107,055.91	47,533,309.06
Other cash received from operating-related activities		171,676,895.71	52,594,049.58
Subtotal of cash inflows from operating activities		1,652,113,472.29	1,304,507,826.73
Cash paid for goods purchased and labor services received		929,504,320.46	812,362,513.60
Cash paid to and for employees		298,999,289.01	278,475,488.56
Cash paid for taxes and surcharges		30,340,019.98	24,595,092.08
Other cash paid related to operating activities		153,989,743.07	101,550,240.35
Subtotal of cash outflows from operating activities		1,412,833,372.52	1,216,983,334.59
Net cash flow from investing activities		239,280,099.77	87,524,492.14
II. Cash flow generated from investing activities:			
Cash received from redemption of investments			
Cash received from returns on investments		10,020,000.00	22,400,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,478,036.00	60,000.00
Net cash received from disposal of subsidiaries and other business entities			
Other cash received related to investing activities			20,000,000.00
Subtotal of cash inflows from investing activities		12,498,036.00	42,460,000.00
Cash paid for acquisitions of fixed assets, intangible assets and long-term assets		65,620,545.14	76,943,004.90
Cash paid for acquisitions of investments		21,600,000.00	21,600,000.00
Net cash paid for acquisitions of subsidiaries and other business entities			
Other cash paid related to investing activities		15,200,000.00	34,000,000.00
Subtotal of cash outflow from investing activities		102,420,545.14	132,543,004.90
Net cash flow from investing activities		-89,922,509.14	-90,083,004.90

Parent Company Cash Flow Statement (Continued)

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Notes	Amount of current period	Amount of previous period
III. Cash flows from financing activities:			
Cash received from capital contributions		256,098,135.12	12,721,280.00
Cash received from loans		587,388,000.00	472,983,520.00
Other cash received relating to financing activities			
Subtotal of cash inflows from financing activities		843,486,135.12	485,704,800.00
Cash paid for repayment of debts		558,030,534.58	382,770,534.58
Cash paid for distributing dividends and profits or paying interest		32,602,106.01	35,663,951.10
Other cash paid related to financing activities		6,720,000.00	25,732,146.73
Subtotal of cash outflows from financing activities		597,352,640.59	444,166,632.41
Net cash flows from financing activities		246,133,494.53	41,538,167.59
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		10,153,817.11	-1,876,734.99
V. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the beginning of the period		284,036,466.95	267,152,583.20
VI. Cash and cash equivalents at the end of the period		689,681,369.22	304,255,503.04

Consolidated Statement of Changes in Shareholder's Equity

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Equity assigned to the shareholders of parent company										Total shareholder's equity					
	Capital stock	Preferred stock	Perpetual bond	Others	Capital surplus	Treasury stock	Less: comprehensive income	Other income	Special reserve	Surplus reserve		General risk reserve	Undistributed profits	Others	Subtotal	Minority shareholders' equity
I. Balance at the end of previous year	627,367,447.00				677,941,287.82		126,254,375.09	2,118,130.33	325,192,624.19	2,118,130.33	325,192,624.19	1,709,067,703.02		3,467,941,567.45	183,203,266.68	3,651,144,834.13
II. Balance at the beginning of current year	627,367,447.00				677,941,287.82		126,254,375.09	2,118,130.33	325,192,624.19	2,118,130.33	325,192,624.19	1,709,067,703.02		3,467,941,567.45	183,203,266.68	3,651,144,834.13
III. Current year increase/decrease (decrease to be listed with "-")																
(I) Total comprehensive income																
(II) Invested and decreased capital of shareholders																
1. Shareholder's contribution of capital	42,259,788.00				280,278,807.41		-10,361,640.79	2,321,541.31				93,946,470.87		408,443,766.80	11,701,620.45	420,145,387.25
2. Amount of share-based payment recognized as share holder's interest	42,259,788.00				280,278,807.41		-10,361,640.79					93,946,470.87		408,443,766.80	11,701,620.45	420,145,387.25
3. Other																
(III) Profit distribution																
1. Distribution to shareholders																
(IV) Special reserve																
1. Appropriation in current period																
2. Amount used in current period																
IV. Balance at end of current period	669,627,235.00				958,220,095.23		115,892,534.30	4,439,671.64	325,192,624.19	4,439,671.64	325,192,624.19	1,803,073,173.89		3,878,385,334.25	194,904,887.13	4,073,290,221.38

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

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Equity assigned to the shareholders of parent company												
	Other equity instrument			Other				General		Undistributed profits	Others	Subtotal	Minority shareholders' equity
Capital stock	Preferred stock	Perpetual bond	Less: Treasury stock	comprehensive income	Special reserve	Surplus reserve	risk reserve	reserv	reserv				
I. Balance at the end of previous year	627,867,447.00				174,171,424.84	3,039,375.29	302,535,302.27	1,477,281,646.00	3,223,783,819.25	167,495,922.67	3,391,280,741.92		3,391,280,741.92
II. Balance at the beginning of current year	627,867,447.00				174,171,424.84	3,039,375.29	302,535,302.27	1,477,281,646.00	3,223,783,819.25	167,495,922.67	3,391,280,741.92		3,391,280,741.92
III. Current year increase/decrease (decrease to be listed with "+")													
(I) Total comprehensive income					-37,520,446.65	1,925,054.68		105,977,236.50	106,399,074.53	26,525,963.06	132,925,037.59		132,925,037.59
(II) Invested and decreased capital of shareholders					-37,520,446.65			200,092,333.55	162,561,906.90	9,125,963.06	171,687,869.96		171,687,869.96
1. Shareholder's contribution of capital									33,940,230.00	17,400,000.00	51,340,230.00		51,340,230.00
2. Amount of share-based payment recognized as share holder's interest									39,571,580.00	17,400,000.00	56,971,580.00		56,971,580.00
(III) Profit distribution									-5,631,350.00		-5,631,350.00		-5,631,350.00
1. Distribution to shareholders									-94,105,117.05		-94,105,117.05		-94,105,117.05
(IV) Special reserve									1,925,054.68		1,925,054.68		1,925,054.68
1. Appropriation in current period									9,454,757.32		9,454,757.32		9,454,757.32
2. Amount used in current period									7,529,702.64		7,529,702.64		7,529,702.64
(V) Other								2,077,000.00	2,077,000.00		2,077,000.00		2,077,000.00
IV. Balance at end of current period	627,367,447.00				136,650,978.19	4,964,429.97	302,535,302.27	1,583,258,882.50	3,330,182,833.78	194,021,885.73	3,524,274,779.51		3,524,274,779.51

Parent Company Statement of Changes in Shareholder's Equity

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Other equity instrument				Six months ended 30 June 2022				Total of shareholder's equity				
	Capital stock	Preferred stock	Perpetual bond	Others	Capital surplus	Treasury stock	Less: comprehensive income	Other income		Special reserve	Surplus reserve	Undistributed profits	Others
I. Balance at the end of previous year	627,367,447.00				736,516,769.64		129,425,414.90	129,425,414.90	318,938,637.12	318,938,637.12	1,212,353,385.08		3,024,601,653.74
II. Balance at the beginning of current year	627,367,447.00				736,516,769.64		129,425,414.90	129,425,414.90	318,938,637.12	318,938,637.12	1,212,353,385.08		3,024,601,653.74
III. Current year increase/decrease (decrease to be listed with "+")													
(I) Total comprehensive income	42,259,788.00				279,005,878.21		-12,672,561.60	-12,672,561.60	2,087,204.65		34,862,006.27		345,542,315.53
(II) Invested and decreased capital of shareholders	42,259,788.00				279,005,878.21		-12,672,561.60	-12,672,561.60			185,306,091.52		321,265,666.21
1. Shareholder's contribution of capital	42,259,788.00				231,097,980.21								273,357,768.21
2. Amount of share-based payment recognized as share holder's interest					23,197,698.00								23,197,698.00
3. Other					24,710,200.00								24,710,200.00
(III) Profit distribution													
1. Distribution to shareholders											-100,444,085.25		-100,444,085.25
(IV) Special reserve													
1. Appropriation in current period										2,087,204.65			2,087,204.65
2. Amount used in current period										5,710,310.04			5,710,310.04
IV. Balance at end of current period	689,627,235.00				1,015,522,647.85		116,752,653.30	116,752,653.30	2,087,204.65	318,938,637.12	1,247,215,391.35		3,370,143,969.27

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

June 30, 2022

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

Item	Other equity/instrument					Six months ended 30 June 2021					Total of shareholder's equity		
	Capital stock	Preferred stock	Perpetual bond	Others	Capital surplus	Treasury stock	Less: comprehensive income	Other income	Special reserve	Surplus reserve		Undistributed profits	Others
I. Balance at the end of previous year	621,859,447.00				703,482,105.67		176,457,193.30		296,281,315.20	1,102,542,604.87			2,900,622,666.04
II. Balance at the beginning of current year	621,859,447.00				703,482,105.67		176,457,193.30		296,281,315.20	1,102,542,604.87			2,900,622,666.04
III. Current year increase/decrease (decrease to be listed with "-")													
(I) Total comprehensive income	5,508,000.00				30,509,230.00		-37,143,245.60		1,968,729.86	39,926,950.07			40,769,664.33
(II) Invested and decreased capital of shareholders	5,508,000.00				28,432,230.00		-37,143,245.60			134,032,067.12			96,888,821.52
1. Shareholder's contribution of capital	5,508,000.00				34,063,580.00								39,571,580.00
2. Amount of share-based payment recognized as shareholder's interest					-5,631,350.00								-5,631,350.00
(III) Profit distribution										-94,105,117.05			-94,105,117.05
1. Distribution to shareholders										-94,105,117.05			-94,105,117.05
(IV) Special reserve									1,968,729.86				1,968,729.86
1. Appropriation in current period									5,339,728.62				5,339,728.62
2. Amount used in current period									3,370,998.76				3,370,998.76
(V) Other					2,077,000.00								2,077,000.00
IV. Balance at end of current period	627,367,447.00				733,991,335.67		139,313,947.70		296,281,315.20	1,142,469,554.94			2,941,392,330.37

Notes to the Interim Financial Statements

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

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

I. COMPANY PROFILE

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

The Company was approved to issue 21,040,591 RMB-shares to 2 specific investors in September 2017, with an issue price of RMB11.15 and an additional registered capital of RMB21,040,591.00.

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

On December 28, 2020, according to the provisions of the 2018 A-share stock option incentive plan (Draft), the first vesting period for granting stock options to participants expired. The company issued A-share common shares to the participants . In the first exercise period of stock options, 184 participants actually exercised, and the number of stock options exercised was 5.508 million. After the exercise, the total share capital of the Company increased from 621,859,447 shares to 627,367,447 shares.

On December 28, 2021, according to the provisions of the 2018 A-share stock option incentive plan (Draft), the second vesting period for granting stock options to participants expired. The Company issued A-share common shares to the participants. In the second exercise period of stock options, 178 participants actually exercised, and the number of stock options exercised was 5.1678 million. The listing and circulation date of the exercised shares: January 13, 2022. After the exercise, the total share capital of the Company increased from 627,367,447 shares to 632,535,247 shares.

The Company was approved to issue 37,091,988 A shares in non-public issuance of A shares to a specific investor in March 2022 at an issue price of RMB6.74, with an additional registered capital of RMB37,091,988.00. The actual controller of the company will not change, and the equity distribution of the Company still meets the listing conditions.

Notes to the Interim Financial Statements (Continued)

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

As of 30 June, 2022, the registered capital of the Company is RMB669,627,235.00, and the capital structure is as follows:

Class of Shares	Quantity of Shares	Proportion of Total Share Capital (%)
I. Subtotal of tradable shares with restricted sale conditions		
Shareholding by domestic legal person	38,294,515	5.72
A share with restricted sale conditions	37,091,988	5.54
	1,202,527	0.18
II. Subtotal of tradable shares without restricted sale conditions		
RMB common stocks (A share)	631,332,720	94.28
Overseas listed foreign shares (H share)	436,332,720	65.16
	195,000,000	29.12
III. Total number of shares	<u>669,627,235</u>	<u>100.00</u>

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

The controlling shareholder of the Company is Hualu Holdings Co., Ltd. (hereinafter referred to as “Hualu Holdings”). The general meeting of shareholders is the Company’s authority, which is entitled to implement the Company’s business policy, financing, investment, profit distribution and other resolution rights of significant events according to the law. The Board is responsible for the general meeting of shareholders, and shall exercise the business decision-making right of the Company in accordance with law; the managers are responsible for organizing the implementation of resolution matters of the general meeting of shareholders and the Board and managing the production and operation of the Company.

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

Notes to the Interim Financial Statements (Continued)

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

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

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements include 14 second-tier subsidiaries including Shandong Xinhua Pharmaceutical Trading Co., Ltd., Xinhua Pharmaceutical (Shouguang) Co., Ltd., and Shandong Zibo Xincat Pharmaceutical Co., Ltd.

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

III. PREPARATION BASIS OF FINANCIAL STATEMENTS

1. Preparation basis

On a going-concern basis, the financial statements of the Company have been prepared based on transactions and matters that have actually occurred, and in accordance with Accounting Standards for Business Enterprises (ASBE) issued by the Ministry of Finance of the PRC, and other relevant regulations, and China Securities Regulatory Commission's "Rules for Compiling Information Disclosure of Public Securities Companies No. 15 – General Provisions on Financial Reporting" (Amendment in 2014) and related provisions, then relevant disclosures required by the Hong Kong Companies Ordinance and the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited, and accounting policies and accounting estimates which are described in notes "IV. important accounting policies and accounting estimates".

2. Going concern

The Group assessed the ability of going concern for the 12 months since the end of the Reporting Period, and did not find any significant matters and circumstances which caused a significant doubt on the ability of going concern. Accordingly, the financial statements are prepared on a going concern basis.

Notes to the Interim Financial Statements (Continued)

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

IV. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Declaration on compliance with ASBE

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

2. Accounting period

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

3. Period of operating cycle

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

4. Recording currency

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

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

5. Accounting methods for business combinations under common control and business combinations not under common control

The assets and liabilities acquired by the Group, as the merging party, in the business merger under the control of the same entity are calculated based on the book value in the ultimate controlling party's consolidated statements of the merged party on the merging date. Capital reserve is adjusted for the difference between the book value of the acquired net assets and the book value of the merger consideration paid. In case where the capital reserve is not sufficient for off-setting, retained earnings are adjusted.

Notes to the Interim Financial Statements (Continued)

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

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

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

6. Compilation method of consolidated financial statements

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

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

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

For the subsidiary acquired in the business merger under common control, its business performance and cash flow are included in the consolidated financial statements from the beginning of the current period of the merger. During the preparation and comparison of consolidated financial statements, related items in the financial statements of the previous year are adjusted, and it is deemed that the financial report entity formed after the merger has existed since the beginning of control by the ultimate controlling party.

Notes to the Interim Financial Statements (Continued)

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

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

For the subsidiary acquired in the business merger not under the control of the same entity, its business performance and cash flow are included in the consolidated financial statements from the date when the Group acquires the control. During the preparation of consolidated financial statements, financial statements of the subsidiary are adjusted based on the fair value of identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

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

Notes to the Interim Financial Statements (Continued)

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

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

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

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

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

7. Cash and cash equivalents

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

Notes to the Interim Financial Statements (Continued)

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

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

(1) Foreign currency transactions

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

(2) Conversion of financial statements in foreign currency

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

Notes to the Interim Financial Statements (Continued)

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

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

9. Financial assets and financial liabilities

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

(1) **Financial assets**

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

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

The contractual terms of financial assets stipulate that the cash flow generated on a specific date is only the payment of principal and interest based on the amount of outstanding principal, and the business model of the group in managing the financial assets is to receive the contractual cash flow, the Group classifies the financial assets as financial assets measured at amortized cost. Such financial assets mainly include monetary funds, notes receivable, accounts receivable and other receivables.

The contractual terms of financial assets stipulate that the cash flow generated on a specific date is only the payment of principal and interest based on the outstanding principal amount, and the business model of the group in managing the financial assets aims at both receiving the contractual cash flow and selling the financial assets, then the financial assets are classified as financial assets measured at fair value and whose changes are included in other comprehensive income. The notes receivable classified as measured at fair value and whose changes are included in other comprehensive income at the time of acquisition by the group are listed in receivables financing.

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

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*(Unless otherwise indicated, all figures are stated in RMB)
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The Group classifies the financial assets that simultaneously meet the following conditions as the financial assets measured at fair value and whose changes recorded in other comprehensive income: ①The business model of managing the financial assets aims at both receiving contractual cash flows and selling the financial assets. ②The contract clauses of the financial assets stipulates that the cash flows generated on a specific date are only used to pay for the principal amount and interests which are based on the amount of unpaid principals. Such financial assets are initially measured at fair value. The relevant transaction costs are recorded in the initial recognition amount. Except those designated as hedged items, as to such type of financial assets, except for credit impairment losses or gains, exchange gains or losses, and interest on the financial asset calculated according to effective interest rate method, all other gains or losses generated shall be recorded in other comprehensive income. When the recognition of the financial assets is terminated, the accumulated gains or losses previously recorded in other comprehensive income shall be transferred out from other comprehensive income and recorded in the current profits or losses.

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

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

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

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

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

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

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

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

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*(Unless otherwise indicated, all figures are stated in RMB)
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(2) Financial liabilities

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

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

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

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

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

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2) *De-recognition conditions of financial liabilities*

When the current obligations of the financial liabilities are entirely or partially released, the released portion of such financial liabilities or obligations shall be derecognized. When the Group signs an agreement with the creditors to replace the current financial liabilities by assuming new financial liabilities, and the new financial liabilities are substantially different in the contractual terms with the current financial liabilities, the Group derecognizes the current financial liabilities, and recognizes the new financial liabilities at the same time. When the Group makes substantial change to the entire or partial contractual terms of the current financial liabilities, the Group derecognizes the current financial liabilities or a part of the current financial liabilities, and recognizes the financial liabilities of which the terms are modified as new financial liabilities at the same time. The difference between the book value of the portion terminated in recognition and the consideration paid is recognized in current profit or loss.

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

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

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

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(4) Offset of financial assets and financial liabilities

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

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

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

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In the classification of the financial instruments (or its components) in the consolidated statement, the group considers all the terms and conditions between group members and the holders of the financial instruments. If the group, as a whole, is responsible for the settlement of cash, other financial assets, or other financial liabilities which resulted from the instrument, the instrument should be classified as a financial liability.

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

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

10. Notes receivable

For the notes receivable formed by the company's daily business activities such as selling goods and providing labor services, regardless of whether there is a significant financing component in the notes receivable, the company will measure the loss reserve according to the expected credit loss throughout the duration.

For the notes receivable with objective evidence indicating impairment and other notes applicable to single evaluation, the impairment test shall be conducted separately, the expected credit loss shall be recognized, and the single impairment provision shall be withdrawn. For the notes receivable without objective evidence of impairment or when the information of expected credit loss cannot be evaluated at a reasonable cost for a single financial asset, the company divides the notes receivable into several combinations according to the characteristics of credit risk, and calculates the expected credit loss on the basis of the combination. The basis for determining the combination is as follows:

Notes receivable portfolio 1: bank acceptance bills bank acceptance bills with high credit risk

Notes receivable portfolio 2: Commercial acceptance bill Commercial acceptance bill

For bills receivable divided into portfolios, the company refers to the historical credit loss experience, combined with the current situation and the prediction of future economic conditions, and calculates the expected credit loss through default risk exposure, aging and expected credit loss rate for the whole duration.

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Comparative table between bill receivable portfolio and expected credit loss rate in the whole duration

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

11. Accounts receivable

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

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

The judgment of whether credit risk has significantly increased since the initial recognition is as follows. By comparing the following two probabilities, i.e. the default probability of financial instruments in the expected life period determined at the time of initial recognition, and the default probability of the instrument during the expected lifetime determined on the balance sheet date, the Group determines whether the credit risk of the financial instruments has increased significantly. However, if the Group determines that the financial instruments only have a low credit risk on the balance sheet date, it can be assumed that the credit risk of the financial instruments has not significantly increased since the initial recognition. Usually, if the receivables are overdue for more than 30 days, such circumstance indicates that the credit risk of financial instruments has increased significantly. Unless the Group is able to obtain reasonable information with a supporting basis under the condition of not paying unnecessary extra costs or efforts to prove that even if the receivables are more than 30 days overdue, the credit risk has not significantly increased since the initial recognition. When determining whether credit risk has significantly increased since the initial recognition, the Group considers the reasonable information with a supporting basis under the condition of not paying unnecessary extra costs or efforts, including prospective information.

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

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

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

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

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Comparison Table of Aging of Accounts Receivable-Aging Combination and Expected Credit Loss Rate for whole duration:

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

12. Accounts receivable financing

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

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

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

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

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

13. Other receivables

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

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

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

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

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

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

14. Inventories

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

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

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

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

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15. Contract assets

(1) **Recognition methods and criteria of contract assets**

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

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

The determination method and accounting treatment of expected credit loss of contract assets refers to the determination method and accounting treatment of notes receivable and accounts receivable contents stated in the aforementioned Note 11.

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

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

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16. Contract costs

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

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

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

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

(2) Amortization of assets related to contract costs

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

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(3) Impairment of assets related to contract costs

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

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

17. Long-term equity investments

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

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

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

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

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

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

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

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

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

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

Various transactions of the Group from step-by-step equity disposal to loss of controlling power are not treated as a package, 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 interest is lost.

18. Investment properties

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

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

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

Category	Depreciation period (year)	Expected residual rate (%)	Annual depreciation rate (%)
Land use right	40–50	0	2.00–2.50
Premises and buildings	20	5	4.75

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

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

19. Fixed assets

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

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

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

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

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

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Treatment for subsequent expenditure of fixed assets: if the subsequent expenditure is 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 expenditure which does not conform to the recognition conditions of fixed assets shall be included in current profits and losses when occurred.

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

The depreciation policies of fixed assets acquired by financial lease shall be consistent with those of self-owned fixed assets. For fixed assets, if it can be reasonably confirmed that the ownership can be granted when the lease term expires, the depreciation shall be accrued within the service life of the acquired leasing assets; otherwise, the depreciation shall be accrued within the lease term or the service life of leasing assets, whichever is shorter.

If a fixed asset is disposed of or if no economic benefit will be obtained from the use or disposal, the recognition of such fixed asset is terminated. The disposal income from selling, transferring, discarding or damaging of fixed assets shall deduct the book value thereof and relevant taxes and then included in current profits and losses.

20. Projects under construction

Starting from the date when the projects under construction reach the expected conditions for use, the projects shall be carried forward to fixed assets based on the estimated value and according to project budget, construction cost or actual cost, and depreciation shall be accrued from the next month. The original value difference of fixed assets shall be adjusted after the completion settlement formalities have been handled.

21. Borrowing costs

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

The amount of interest of special loans actually incurred in current period deducts the interest income from unused loan capital which is deposited in banks, or deducts investment income from temporary investment shall be capitalized. The capitalized amount of a general loan 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.

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

If assets satisfying capitalization conditions are suspended in construction or production for more than 3 months continuously, the capitalization of the suspended borrowing costs shall last until the restart of purchase, construction or production of the assets.

22. Right-of-use asset

(1) Initial recognition

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

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

(2) Subsequent measurement

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

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

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

The Group has depreciated the right-of-use assets since the leasing commencement date. Usually the property is depreciated at the month when the lease term started. The charged depreciation amount is included in the cost of the relevant asset or current period's profits and losses, according to the purpose of the property.

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

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

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

23. Intangible assets

- (1) Valuation methods of intangible assets: intangible assets of the Group mainly include land use right, software license and non-patented technology. Intangible assets through purchase shall be calculated as actual cost as per the amount actually paid and other relevant expenditures. Intangible assets invested by investors shall be confirmed as actual cost as per value as defined in the investment contract or agreement; however, if the value as defined in the investment contract or agreement is not fair, its actual cost shall be confirmed as per fair value.
- (2) Amortization methods and period of intangible assets: land use 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 (3-5 years). The amortized amounts shall be included in the current profits and losses or relevant asset costs according to beneficiaries.
- (3) The anticipated service life and the amortization method of intangible assets with a limited life shall be reviewed by the Group at the end of each year. Any change shall be treated as changes in accounting estimates. The Company shall review the expected service life of intangible assets with uncertain service life in each accounting period. If any evidences indicate that the service life of intangible assets is limited, the service life shall be estimated and amortized within the expected service life.

24. Research and development

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

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

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

25. Impairment of long-term assets

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

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

26. Long-term deferred expenses

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

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

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27. Goodwill

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

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

28. Contract liability

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

29. Employee compensation

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

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

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

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

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30. Lease liability

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

(1) Initial recognition

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

1) Lease payment

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

2) Discount rate

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

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(2) **Subsequent measurement**

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

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

(3) **Re-measuring**

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

31. **Estimated liabilities**

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

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

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32. Share-based payments

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

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

On each balance sheet date and the settlement date prior to the settlement of the relevant liabilities, the re-measurement of the fair value of the liabilities shall be carried out, with the change of the fair value recognized in current profits or losses.

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

33. Recognition principles and measurement method of income

(1) Income recognition principle

The Group's business income mainly includes income from sales of goods and income from rendering of services.

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

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

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

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

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

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

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

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

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

(2) Specific principles of income recognition

For the contracts of goods sales within China transferring the control right of the goods at a certain time point, the income shall be recognized when the Group has delivered the goods to customers or carriers and the Group has obtained the right to claim for a payment at present, and when the consideration is likely to be received, that is to say, to recognize when the customer acquires the control over the relevant goods.

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

34. Government grants

Government grants to the Group are divided into asset-related government grant and revenue-related government grants. The asset-related government grants refer to those obtained by the Group and used for the acquisition or construction of long-term assets or acquisition of such assets by other forms. The revenue-related government grants refer to those other than the asset-related government grants. If no assistance object is specified in the government documents, the Group shall determine based on the above principles. If it is difficult to distinguish, it is integrally classified as revenue-related government grants.

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For the monetary assets, the government grants shall be measured based on the amounts actually received; for the subsidies paid according to fixed quota standards, or when concrete evidence shows that relevant conditions specified in fiscal support policies can be met and the fiscal support funds can be received based on estimates at the end of period, the government grants shall be measured based on the receivable amounts; as for the non-monetary assets, the government grants shall be measured based on the fair value; if the fair value cannot be estimated reliably, it shall be measured based on nominal amount (RMB1).

Asset-related government grants shall be recognized as deferred revenues, asset-related government grants recognized as deferred revenues shall be distributed equally within the service life of related assets and included in current profits or losses.

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

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

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

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

If the government grants that the Company has confirmed needs to be returned, it should be taken with accounting treatment in accordance with the following provisions in the current period:

- 1) If there is relevant deferred income, the book value of the related deferred income shall be offset, and the excess shall be included in current profits or losses.
- 2) In other circumstances, it is directly included in current profits or losses.

Notes to the Interim Financial Statements (Continued)

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

35. 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 the applicable tax rate during the anticipated period for withdrawing such assets or during the period for paying off such liabilities on the balance sheet date.

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

36. Lease

(1) The recognition of lease

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

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

Notes to the Interim Financial Statements (Continued)

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

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

(2) *The Group as lessee*

At the beginning of the lease period, the Group, as the lessee, recognizes the right-of-use assets and lease liabilities for the lease. For the recognition and measurement of the right-of-use assets and lease liabilities, see “21. Right-of-use assets” and “29. Lease liability”.

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

1) *The change of lease*

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

If the lease changes while satisfying the following criteria, the Group shall treat the change of lease as a separate lease and account them separately: ①The change has extended the lease scope or extends the lease period by increasing the use right of one or more leased assets; ②The incremental consideration is equivalent to the single price of the extended portion or the extended period of the lease adjusted by the contract conditions.

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

Notes to the Interim Financial Statements (Continued)

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

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

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

(3) *The Group as lessor*

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

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

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

Notes to the Interim Financial Statements (Continued)

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

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

1) Accounting treatment of financial lease

Initial recognition

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

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

Subsequent measurement

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

Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)
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Accounting treatment for lease change

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

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

2) *Accounting treatment of operating lease*

Treatment of rent

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

Incentives

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

Initial direct cost

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

Depreciation

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

Notes to the Interim Financial Statements (Continued)

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

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

Variable lease payments

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

Change of operating lease

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

37. Held for sale

The Group shall classify a non-current asset or a disposal group as held for sale, if it satisfies the following conditions simultaneously. (1) For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups). (2) For the sale to be highly probable, an active programme to locate a buyer and complete the plan must have been initiated, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. If the relevant provisions require the approval of the relevant authority or regulatory department before the sale, the relevant approval shall be obtained. Before the Group classifies the non-current assets or disposal group into the held for sale category for the first time, the book value of various assets and liabilities in the non-current assets or disposal group shall be measured in accordance with the relevant accounting standards. Initial measurement or remeasurement of non-current assets held for sale or disposal group on the balance sheet date, the carrying amount more than fair value less costs to sell, the carrying amount is written down to the net value of the fair value minus costs to sell, and the amount written down is recognized as the asset impairment loss, which is recorded in profit or loss for the current period, and the provision for impairment of assets held for sale is made.

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

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

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*(Unless otherwise indicated, all figures are stated in RMB)
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If the net value of the non-current assets held for sale is fair value less the cost to sell on the subsequent balance sheet date increases, the amount previously written-down should be recovered and reversed with 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. Asset impairment losses recognized before classification as held for sale shall not be reversed.

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

If the net value of the disposal group held for sale is fair value less the cost to sell on the subsequent balance sheet date increases, the amount previously written-down should be recovered and reversed with 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 asset impairment losses recognized by the disposal group which is held for sale and are subsequently reversed, according to the disposal group except goodwill and the proportion of the carrying amount of each non-current asset, the carrying amount will be increased proportionately.

The non-current assets classified as held for sale, or included within a disposal group, are not depreciated or amortized. Interest and other expenses of the liabilities within the disposal group that is classified as held for sale, shall be recognized continuously.

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

When derecognizing the held for sale of non-current assets or disposal groups, the unrecognized gains or losses shall be included in the current profits or losses.

38. Discontinued operations

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

Notes to the Interim Financial Statements (Continued)

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

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

39. Accounting of income tax

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

Current income tax refers to the amount that is determined by calculation for transactions and events occurring in that phase and shall be paid by enterprises to the tax authority according to 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 period and the original amount that has been recognized.

40. Other important accounting policy and accounting estimates

(1) Safety production costs

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

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

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

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

(2) Segment information

The Group determines the operating segments on the basis of internal organization structure, management requirements and internal reporting system. The operating segment refers to the constituent part within the Group, which simultaneously satisfies the following conditions:

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

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

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

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41. Changes of important accounting policies and accounting estimates

(1) Changes in important accounting policies

<u>Contents and reasons of accounting policy changes</u>	<u>Approval processes</u>	<u>Notes</u>
<p>The Ministry of Finance issued the interpretation of accounting standards for Business Enterprises No. 15 (Finance and Accounting [2021] No. 35) (hereinafter referred to as "Interpretation No. 15") in December 2021. Interpretation No. 15 clarifies the accounting treatment for the external sales of the products or by-products produced by the enterprise before the fixed assets reach the intended usable state or during the research and development process (hereinafter referred to as "trial operation sales"). In case of trial operation sales, the enterprise shall, in accordance with the provisions of accounting standards for Business Enterprises No. 14 – revenue and accounting standards for Business Enterprises No. 1 – inventory, separately account for the revenue and costs related to trial operation sales and record them into the current profit and loss. The net amount of the revenue related to trial operation sales after offsetting the relevant costs shall not be used to offset the cost of fixed assets or R & D expenditure. The relevant products or by-products produced by the trial run shall be recognized as inventories if they meet the requirements of accounting standards for Business Enterprises No. 1 – inventories before being sold to the outside, and shall be recognized as relevant assets if they meet the relevant asset recognition conditions in other relevant accounting standards for business enterprises. The relevant accounting treatment provisions for trial operation sales shall be implemented from January 1, 2022, and the financial statements shall be retroactively adjusted and compared. Interpretation No. 15 clarifies the judgment on onerous contract (hereinafter referred to as "onerous contract"). When judging a onerous contract, the cost of performing the contract includes the incremental cost of performing the contract and the allocation amount of other costs directly related to performing the contract. The relevant accounting treatment provisions for onerous contracts will come into effect on January 1, 2022. The cumulative impact adjustment is implemented for the first time in the year beginning retained earnings and other relevant financial statement items in the Interpretation No. 15. The comparative financial statement data in the previous period will not be adjusted.</p>	<p>Relevant accounting policy changes were approved at the 8th meeting of the 10th board of directors of the company on August 30, 2022</p>	<p>Changes in relevant accounting policies have no significant impact on the group's financial statements.</p>

(2) Changes in important accounting estimates

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

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

1. Main taxes and rates

Tax Category	Taxation Basis	Tax Rate
Value-added tax(VAT,Note)	The difference after the input tax of the goods purchased is deducted from the output tax	13%、9%、6%
Urban construction tax	Turnover tax payable	7%
Educational surcharges	Turnover tax payable	3%
Local educational surcharges	Turnover tax payable	2%
PRC enterprise income tax	Taxable income	25%、15%
USA federal and state corporate income tax	Taxable income	Federal tax:21%、 State tax: 8.84%
Dutch corporate income tax	Taxable income	25%/20%

Explanation of tax payers with different corporate income tax rates:

Taxpaying Bodies	Income Tax Rate
The Company	15%
Shandong Zibo Xincat Pharmaceutical Co., Ltd	15%
Xinhua Pharmaceutical (Shouguang) Co., Ltd	15%
Shandong Xinhua Pharmaceutical (Europe) B.V.	25%/19%
	Federal tax rate: 21%;
Shandong Xinhua Pharmaceutical(USA)Inc.	State tax rate: 8.84%
Shandong Xinhua Mechanical and Electrical Engineering Co.,Ltd	2.50%
Other 9 subsidiaries	25%

Notes to the Interim Financial Statements (Continued)

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

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

2. Tax preference

(1) **Income Tax**

According to the approval of the document Lu Ke Zi [2021] No.10 by Department of Science and Technology of Shandong province, Shandong Province Finance Department, Shandong State Tax Bureau, the Company was identified as a high and new technology enterprise. The certificate of high and new technology enterprises No. GR202037002800, of which the validity period is 3 years. According to the Enterprise Income Tax Law of the People's Republic of China, the Company enjoys the preferential tax policy of corporate income tax levied at the rate of 15%. The Company is still in the period of preferential tax for the first half of 2022, during which the applicable income tax rate is 15%.

According to the approval of the document Lu Ke Zi [2021] No.10 by Department of Science and Technology of Shandong province, Shandong Province Finance Department, Shandong State Tax Bureau, the subsidiary of the Company, Shandong Zibo Xincat Pharmaceutical Co., Ltd (hereinafter referred to as Xincat Pharmaceutical) was identified as a high and new technology enterprise. The certificate of high and new technology enterprises No.GR202037003952, of which the validity period is 3 years. According to the Enterprise Income Tax Law of the People's Republic of China, Xincat Pharmaceutical enjoys the preferential tax policy of corporate income tax levied at the rate of 15%. Xincat Pharmaceutical is still in the period of preferential tax for the first half of 2022, during which the applicable income tax rate is 15%.

According to the reply of the Department of Science and Technology of Shandong province, Shandong Province Finance Department, Shandong State Tax Bureau on the notice on publishing the list of high-tech enterprises in Shandong Province in 2021, the subsidiary of the Company, Xinhua Pharmaceutical (Shouguang) Co., Ltd (hereinafter referred to as Xinhua Shouguang) was identified as a high and new technology enterprise. The certificate of high and new technology enterprises GR202137005637, of which the validity period is 3 years. According to the Enterprise Income Tax Law of the People's Republic of China, Xinhua Shouguang enjoys the preferential tax policy of corporate income tax levied at the rate of 15%. Xinhua Shouguang is still in the period of preferential tax for the first half of 2022, during which the applicable income tax rate is 15%.

According to Article 1 of the announcement of the Ministry of Finance and the State Administration of Taxation on the implementation of preferential income tax policies for small and micro enterprises and individual industrial and commercial households (Announcement No. 12 of the Ministry of Finance and the State Administration of Taxation, 2021): for the part where the annual taxable income of small and low profit enterprises does not exceed RMB1 million, on the basis of the preferential policies stipulated in Article 2 of the notice of the Ministry of Finance and the State Administration of Taxation on implementing the preferential tax reduction and exemption policy for small and micro enterprises (CS [2019] No. 13), the enterprise income tax shall be reduced by half.

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) Value-added tax(VAT)

The Group's export products enjoy preferential policies for VAT exemption, credit and refund.

Announcement No. 14 of the Ministry of Finance and the State Administration of Taxation of the people's Republic of China in 2022 on Further Strengthening the implementation of the policy of value-added tax at the end of the period, increasing the strength of the policy of value-added tax at the end of the period for small and medium-sized enterprises, and expanding the scope of the policy of monthly full refund of value-added tax at the end of the period for advanced manufacturing industries to eligible small and medium-sized enterprises (including individual industrial and commercial households, the same below), And a one-time refund of the amount of tax retained by small and micro enterprises. The scope of the policy of monthly full refund of value-added tax increment credit for advanced manufacturing industries will be extended to eligible manufacturing and other industrial enterprises (including individual industrial and commercial households, the same below), and the stock credit of manufacturing and other industrial enterprises will be refunded at one time.

According to the announcement of the Ministry of Finance and the State Administration of Taxation No. 21 in 2022 on expanding the industry scope of the policy of full refund of value-added tax and the announcement of the State Administration of Taxation No. 11 in 2022 on expanding the industry scope of the policy of full refund of value-added tax and the related collection and management matters of the State Administration of Taxation The industry scope of the policy of one-time refund of the stock retention tax (newly added wholesale and retail industry, agriculture, forestry, animal husbandry and fishery, accommodation and catering industry, resident service industry, education, health and social work, culture, sports and entertainment industry).

Notes to the Interim Financial Statements (Continued)

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

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

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENT

In the following notes to the financial statements, unless otherwise indicated, the term of 'beginning of the period' refers to 1 January 2022, 'end of the period' refers to 30 June 2022. "End of the previous year" refers to 31 December 2021; 'Current period' refers to period from 1 January to 30 June 2022. 'Previous period' refers to period from 1 January 2021 to 30 June 2021, and all figures are stated in RMB.

1. Currency funds

Item	Ending Balance	Beginning Balance
Cash in hand	84,630.59	52,775.13
Bank deposit	957,798,589.18	596,335,828.33
Other monetary funds	152,826,769.79	148,273,698.88
Total	1,110,709,989.56	744,662,302.34
Including: total amount deposited abroad	33,001,217.76	5,693,077.14

At the end of the period, the limited amount of monetary funds of the Group was RMB152,826,769.79. Including deposits of bank acceptance bills of other monetary funds amount was RMB136,774,070.95 (the opening balance: RMB104,015,025.79). Performance Bond Deposit RMB15,466,532.32 (the opening balance: RMB43,668,983.82). Migrant workers' deposit RMB586,166.52 (the opening balance: RMB586,704.04).

1. Notes receivable

(1) Classified presentation of notes receivable

Item	Ending Balance	Beginning Balance
Bank acceptance bills	27,911,442.92	41,020,264.41
Total	27,911,442.92	41,020,264.41

(2) Notes receivable used for pledge at the end of the period

The group has no notes receivable used for pledge 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))

- (3) Notes receivable that have been endorsed or discounted and not yet due at the period end

Item	Amount derecognized at the period end	Un-derecognized amount at the end of the period
Bank acceptance bills		23,515,260.04
Total		23,515,260.04

- (4) Notes transferred to accounts receivable at the period end due to the non performance of the drawer

The group has no bills transferred to accounts receivable due to the drawer's non performance at the end of the period.

- (5) Classified by the method of recognizing provision for bad debt

Item	Book Balance		Ending Balance Provision For Bad Debt		Book Value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
To recognize the bad debt provision based on single item					
To recognize the bad debt provision based on combination	28,072,304.44	100.00	160,861.52	0.57	27,911,442.92
Total	28,072,304.44	100.00	160,861.52		27,911,442.92

Notes to the Interim Financial Statements (Continued)

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

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

(Continued)

Item	Book Balance		Beginning Balance		Book Value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
To recognize the bad debt provision based on single item					
To recognize the bad debt provision based on combination	41,246,078.84	100.00	225,814.43	0.55	41,020,264.41
Total	41,246,078.84	100.00	225,814.43		41,020,264.41

- 1) To recognize the bad-debt provision for notes receivable based on combination

Item	Ending Balance			Beginning Balance		
	Book Balance	Provision for Bad Debt	Proportion of Provision (%)	Book Balance	Provision for Bad Debt	Proportion of Provision (%)
Within 1 year	28,072,304.44	160,861.52	0.57	41,246,078.84	225,814.43	0.55
Total	28,072,304.44	160,861.52		41,246,078.84	225,814.43	

Note: The group confirms that the account age of the combination is within 1 year according to the maturity date of the bank acceptance bill, and withdraws the bad debt provision of notes receivable according to the general model of expected credit loss. The bad-debt provision recognized, recovered and reversed 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))

(6) The bad-debt provision recognized, recovered and reversed in current period

Item	Beginning Balance	Changes of amount in current period			Ending balance
		Accrual	Reversed or recovered	Transferred or written off	
Bank acceptance bills	225,814.43	-64,952.91			160,861.52
Total	225,814.43	-64,952.91			160,861.52

(7) Age of notes receivable at the period end

The age of the group's notes receivable at the period end is within 1 year.

(8) Notes receivable actually written off this period

The group has no written off notes receivable this period.

3. Accounts receivable

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

Item	Book Balance		Ending Balance Provision For Bad Debt		Book Value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
To recognize the bad debt provision based on single item	1,152,406.66	0.13	1,152,406.66	100.00	
To recognize the bad debt provision based on combination	889,537,925.60	99.87	26,329,437.64	2.96	863,208,487.96
Total	890,690,332.26	100.00	27,481,844.30		863,208,487.96

Notes to the Interim Financial Statements (Continued)

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

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

Item	Book Balance		Beginning Balance		Book Value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
To recognize the bad debt provision based on single item	1,152,406.66	0.17	1,152,406.66	100.00	
To recognize the bad debt provision based on combination	682,797,446.77	99.83	24,228,960.52	3.55	658,568,486.25
Total	683,949,853.43	100.00	25,381,367.18		658,568,486.25

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

Up to June 30, 2022, it is expected that the amount of RMB1,152,406.66 in accounts receivable which with an aging of more than 2 years is unlikely to be recoverable, the Group recognized the bad-debt provision of the single item at the full amount of RMB1,152,406.66.

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

Item	Ending Balance			Beginning Balance		
	Account Receivables	Provision for Bad Debt	Accrual Proportion (%)	Account Receivables	Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	864,896,491.83	6,093,737.80	0.70	661,024,126.81	4,647,304.23	0.70
1-2 years	5,677,901.63	1,272,167.70	22.41	2,739,866.54	548,202.87	20.01
2-3years				53,120.00	53,120.00	100.00
3-4years	68,120.00	68,120.00	100.00	89,616.15	89,616.15	100.00
4-5years	74,616.15	74,616.15	100.00	59,539.82	59,539.82	100.00
Over 5years	18,820,795.99	18,820,795.99	100.00	18,831,177.45	18,831,177.45	100.00
Total	889,537,925.60	26,329,437.64		682,797,446.77	24,228,960.52	

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) Aging schedule of accounts receivable

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

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

Account Age	Ending Balance			Beginning Balance		
	Account Receivables	Provision for Bad Debt	Accrual Proportion (%)	Account Receivables	Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	864,896,491.83	6,093,737.80	0.70	661,024,126.81	4,647,304.23	0.70
1-2 years	5,677,901.63	1,272,167.70	22.41	2,739,866.54	548,202.87	20.01
2-3years	919,016.86	919,016.86	100.00	972,136.86	972,136.86	100.00
3-4years	293,384.80	293,384.80	100.00	314,880.95	314,880.95	100.00
4-5years	82,741.15	82,741.15	100.00	67,664.82	67,664.82	100.00
Over 5years	18,820,795.99	18,820,795.99	100.00	18,831,177.45	18,831,177.45	100.00
Total	<u>890,690,332.26</u>	<u>27,481,844.30</u>		<u>683,949,853.43</u>	<u>25,381,367.18</u>	

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

Item	Beginning Balance	Amount Incurred in Current period			Ending Balance
		Recognized	Recovered or reversed	Transferred or written-off	
To recognize the bad debt provision based on single item	1,152,406.66				1,152,406.66
To recognize the bad debt provision based on combination	24,228,960.52	2,100,477.12			26,329,437.64
Total	<u>25,381,367.18</u>	<u>2,100,477.12</u>			<u>27,481,844.30</u>

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

There were no accounts receivable 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))

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

Debtors	Ending balance	Account age	Proportion in total ending balance of account receivables (%)	Ending balance of bad-debt provision
US Perrigo International Company	57,345,908.79	Within 1 year	6.44	286,729.55
Zibo Central Hospital	54,134,208.77	Within 1 year	6.08	482,015.03
Beijing Jingdong Hongjian Health Co., Ltd	46,953,376.36	Within 1 year	5.27	234,766.88
Huantai Peoples Hospital	28,475,074.97	Within 1 year	3.20	284,750.75
F.Hoffmann-La Roche AG	20,970,675.34	Within 1 year	2.35	104,853.38
Total	<u>207,879,244.23</u>		<u>23.34</u>	<u>1,393,115.59</u>

4. Accounts receivable financing

(1) Details of accounts receivable financing

Item	Initial cost	Ending Balance		Provision for impairment
		Fair value changes	Book value	
Notes receivable measured at FV with changes included in OCI	<u>155,632,869.37</u>		<u>155,632,869.37</u>	
Total	<u>155,632,869.37</u>		<u>155,632,869.37</u>	

(Continued)

Item	Initial cost	Beginning Balance		Provision for impairment
		Fair value changes	Book value	
Notes receivable measured at FV with changes included in OCI	170,428,238.83		170,428,238.83	
Total	<u>170,428,238.83</u>		<u>170,428,238.83</u>	

Notes to the Interim Financial Statements (Continued)

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

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

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

Item	Derecognized amount at the end of the current period	Not derecognized amount at end of the current period
Bank acceptance bills	<u>571,065,319.92</u>	_____
Total	<u><u>571,065,319.92</u></u>	<u><u>_____</u></u>

5. Prepayments

(1) Age of prepayments

Account Age	Ending Balance		Beginning Balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	38,782,304.81	99.95	46,359,307.80	94.05
1-2 years			2,931,688.34	5.95
2-3 years	19,423.67	0.05		
Total	<u><u>38,801,728.48</u></u>	<u><u>100.00</u></u>	<u><u>49,290,996.14</u></u>	<u><u>100.00</u></u>

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

At the period end, the aggregate amount of the top five prepayments was RMB10,223,105.04, accounting for 26.35% of the ending balance of prepayments.

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. Other receivables

Item	Ending Balance	Beginning Balance
Interest receivable		
Dividends receivable	7,917,816.00	
Other receivables	19,166,234.57	17,415,074.81
Total	27,084,050.57	17,415,074.81

6.1 Interest receivable : None

6.2 Dividends receivable :

Item	Ending Balance	Beginning Balance
Bank of Communications Co. Ltd.	2,917,816.00	
China Pacific Insurance (Group) Co. Ltd.	5,000,000.00	
Total	7,917,816.00	

6.3 Other receivables

(1) Other receivables classified by nature

Nature	Ending Balance	Beginning Balance
Bid security, deposit	6,697,330.46	6,516,047.57
Petty cash	198,930.03	170,000.00
Tax receivable	2,050,596.31	2,312,968.44
Sales and leaseback deposit	8,000,000.00	8,000,000.00
Others	12,176,105.65	10,375,637.49
Total	29,122,962.45	27,374,653.50

Notes to the Interim Financial Statements (Continued)

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

(2) Bad-debt provision of other receivables

Bad debt provision	Stage 1	Stage 2	Stage 3	Total
	The expected credit losses in the next 12 months	The expected credit losses of the entire duration (without any credit impairment occurred)	The expected credit losses of the entire duration (with credit impairment already occurred)	
Balance as of January 1, 2022	2,607,086.52	7,352,492.17	9,959,578.69	
Balance of other receivable as of January 1, 2022 in the current period				
– Transferred to stage 2				
– Transferred to stage 3				
– Reversed to stage 2				
– Reversed to stage 1				
Accrued in current period	184,641.30	-187,492.11	-2,850.81	
Reversed in current period				
Transferred out in current period				
Written-off in current period				
Other changes				
Balance as of June 30, 2022	<u>2,791,727.82</u>	<u></u>	<u>7,165,000.06</u>	<u>9,956,727.88</u>

(3) Aging analysis of other accounts receivable

Account Age	Ending Balance			Beginning Balance		
	Other receivables	Provision for Bad Debt	Proportion (%)	Other receivables	Provision for Bad Debt	Accrual Proportion (%)
Within 1 year	12,240,971.10	1,665,921.45	13.61	9,994,602.36	1,305,967.37	13.07
1–2 years	1,272,243.29	767,808.37	60.35	4,756,310.97	1,054,831.15	22.18
2–3years	8,444,748.00	357,998.00	4.24	5,271,248.00	246,288.00	4.67
3–4years	181,519.38	181,519.38	100.00	448,511.49	448,511.49	100.00
4–5years	394,189.59	394,189.59	100.00	314,189.59	314,189.59	100.00
Over 5years	6,589,291.09	6,589,291.09	100.00	6,589,791.09	6,589,791.09	100.00
Total	<u>29,122,962.45</u>	<u>9,956,727.88</u>		<u>27,374,653.50</u>	<u>9,959,578.69</u>	

Notes to the Interim Financial Statements (Continued)

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

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

(4) Provisions for bad debt of other receivables

Item	Beginning Balance	Changes in Current period		Ending Balance
		Provision	Recovered or reversed	
Bad-debt provision	9,959,578.69	-2,850.81		9,956,727.88
Total	9,959,578.69	-2,850.81		9,956,727.88

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

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

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

Name	Nature of other receivables	Ending Balance	Account Age	Proportion to the Total Ending Balance of Other Receivables (%)	Ending Balance of Bad-debt Provision
Ping An Dian Chuang International Financial Leasing Co., Ltd	Guarantee deposit	5,000,000.00	2-3 years	17.17	
Far Eastern Leasing Co.,Ltd	Guarantee deposit	3,000,000.00	2-3 years	10.30	
Chen Weisen	Current account	1,900,409.00	Over 5 years	6.53	1,900,409.00
Gaoqing People's Hospital	Guarantee deposit	1,000,000.00	Within 1 year	3.43	60,000.00
Shandong Jin Ri Toutiao Network Technology Co., Ltd	Guarantee deposit	1,000,000.00	Within 1 year	3.43	280,000.00
Total		11,900,409.00		40.86	2,240,409.00

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

As at June 30, 2022, there were no employees' borrowings in other receivables.

Notes to the Interim Financial Statements (Continued)

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

7. Inventories

(1) Classifications of inventories

Item	Ending Balance			Beginning Balance		
	Book Balance	Provision for Inventories	Book Value	Book Balance	Provision for Inventories	Book Value
Raw materials	152,737,369.63	3,035,023.72	149,702,345.91	173,369,887.59	6,479,670.69	166,890,216.90
Products in process	212,025,370.69	15,980,821.68	196,044,549.01	182,480,077.65	12,711,532.96	169,768,544.69
Goods in stock	568,842,204.86	17,840,814.24	551,001,390.62	627,924,954.43	17,809,033.77	610,115,920.66
Low-value consumables	24,268,691.30	457,571.58	23,811,119.72	19,450,517.35	457,571.58	18,992,945.77
Materials reserved with special approval	1,839,696.49		1,839,696.49	1,839,696.49		1,839,696.49
Goods in transit	113,213,058.39	479,970.43	112,733,087.96	60,278,885.03	346,240.82	59,932,644.21
Total	<u>1,072,926,391.36</u>	<u>37,794,201.65</u>	<u>1,035,132,189.71</u>	<u>1,065,344,018.54</u>	<u>37,804,049.82</u>	<u>1,027,539,968.72</u>

(2) Provision for impairment of inventories

Classification of inventories	Beginning Balance	Amount	Decrease in Current Period		Ending Balance
		Accrued In Current Period	Other Transfer-out	Write-off	
Raw materials	6,479,670.69	1,628,627.08		5,073,274.05	3,035,023.72
Products in process	12,711,532.96	8,868,563.96		5,599,275.24	15,980,821.68
Goods in stock	17,809,033.77	17,800,681.10		17,768,900.63	17,840,814.24
Low-value consumables	457,571.58				457,571.58
Goods in transit	346,240.82	479,970.43		346,240.82	479,970.43
Total	<u>37,804,049.82</u>	<u>28,777,842.57</u>		<u>28,787,690.74</u>	<u>37,794,201.65</u>

(3) Method of recognizing the provision for impairment of inventories

Item	Specific Basis For Determining Net Realizable Value	Reasons for Reversal or Write-off In Current Period
Raw materials	See descriptions in note "IV. Important Accounting Policy and Accounting Estimate 14. Inventory"	Produced and sold
Products in process		Completed and sold
Goods in stock		Sold
Goods in transit		Sold
Low-value consumables		Produced and sold

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. Contract assets

(1) Contract assets

Item	Ending Balance			Beginning Balance		
	Book Balance	Provision for impairment	Book Value	Book Balance	Provision for impairment	Book Value
Contract assets	1,336,413.45	583,148.07	753,265.38	450,000.00	11,025.00	438,975.00

(2) Amount and reasons for significant changes in the book value of contract assets in the current period

Item	Amount of change	Reason for change
Annual output of 2000 tons of Timicol star phosphate 9 varieties project	450,000.00	A new project this period
New FC project	125,000.00	A new project this period
Total	575,000.00	

(3) Bad-debt provision for contract assets in the current period

Item	Beginning Balance	Accrued	Reversal of current year	Write off of current year	Ending Balance
Contract assets	11,025.00	572,123.07			583,148.07

Notes to the Interim Financial Statements (Continued)

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

9. Other current assets

Item	Ending Balance	Beginning Balance	Nature
VAT input tax to be deducted	27,415,938.22	31,676,856.76	Deductible VAT input tax
Prepayment of corporate income tax	1,276,049.79	10,174,161.48	Prepayment of corporate income tax
Prepayment of other taxes		9,168.18	Prepayment of other taxes
Non public offering expenses		2,733,812.96	Non public offering expenses
Total	28,691,988.01	44,593,999.38	

10. Long-term equity investment

Invested company	Beginning balance	Added investment	Increase or decrease in current period						Ending balance	Ending balance of impairment provision
			Reduced investment	Investment gains and losses recognized under equity method	Adjustment of other comprehensive income	Other changes in equity	Declared cash dividends or profit	Accrued impairment others		
I. Joint ventures										
Centrient Pharmaceutical (Zibo) Co., Ltd.	56,707,310.33			2,609,415.58						59,316,725.91
Total	56,707,310.33			2,609,415.58						59,316,725.91

11. Investments of other equity instruments

(1) Investments of other equity instruments

Item	Ending balance	Beginning balance
Bank of Communications Co., Ltd.	40,931,616.00	37,890,512.00
China Pacific Insurance (Group) Co., Ltd	117,650,000.00	135,600,000.00
North Health Medical Big Data Technology Co., Ltd	30,000,000.00	30,000,000.00
Total	188,581,616.00	203,490,512.00

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) Non-transactional equity instrument investments of current period

Item	Dividend income recognized in current period	Cumulative gains	Cumulative losses	Amounts transferred to retained earnings from other comprehensive incomes	Reasons of being designated as equity instruments measured at	Reasons of transferring other comprehensive into retained earnings
					fair value and changes are recognized through other comprehensive incomes	
Bank of Communications Co., Ltd.	2,917,816.00	52,727,099.28			The Group invests for equity purposes	
China Pacific Insurance (Group) Co., Ltd	5,000,000.00	145,547,396.00			The Group invests for equity purposes	
North Health Medical Big Data Technology Co., Ltd					The group is for strategic investment purposes	
Total	<u>7,917,816.00</u>	<u>198,274,495.28</u>				

Notes to the Interim Financial Statements (Continued)

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

12. Investment properties

(1) Investment properties measured by costs

Item	Premises and Buildings	Land Use Right	Total
I. Original book value			
1. Beginning balance	92,977,425.83	11,574,770.18	104,552,196.01
2. Increased amount in current period			
(1) Purchase			
(2) Transferred from fixed assets or intangible assets			
3. Decreased amount in current period			
(1) Disposal or scrap			
(2) Transferred to fixed assets or intangible assets			
4. Ending Balance	92,977,425.83	11,574,770.18	104,552,196.01
II. Accumulated depreciation and accumulated amortization			
1. Beginning Balance	54,899,598.23	3,886,943.73	58,786,541.96
2. Increased amount in current period			
(1) Accrual or amortization	1,893,056.64	232,565.88	2,125,622.52
(2) Transferred from fixed assets or intangible assets	1,893,056.64	232,565.88	2,125,622.52
3. Decreased amount in current period			
(1) Disposal or scrap			
(2) Transferred to fixed assets or intangible assets			
4. Ending Balance	56,792,654.87	4,119,509.61	60,912,164.48
III. Provision for impairment			
IV. Book value			
1. Ending book value	36,184,770.96	7,455,260.57	43,640,031.53
2. Beginning book value	38,077,827.60	7,687,826.45	45,765,654.05

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

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

Notes to the Interim Financial Statements (Continued)

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

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

(3) Investment properties with incompleting certificate of title

At the end of the current period, an amount of RMB30,087,859.46 (beginning balance: RMB31,476,756.38) of house properties in investment properties were in the process of obtaining the title certificate. In view of the fact that the aforesaid properties are carried out in accordance with the relevant legal procedures, the board of directors confirms that the transfer of the property rights will not be prevented by any material legal obstacles or have negative effects on the normal use of the properties, which does not constitute a material impact on the Group's operation, therefore, no provision for the impairment of investment properties is required.

Item	Book Value	Reasons for the Certificate of Title Not Properly Handled
13-22/F, Xinhua Mansion in the Headquarters	24,093,174.13	In progress
No. 1 Scientific Research Center in the Headquarters	5,569,689.93	In progress
The house along Xinhua Street	424,995.40	In progress
合計	<u>30,087,859.46</u>	

13. Fixed assets

Item	Ending Book Value	Beginning Book Value
Fixed assets	3,402,810,310.20	3,195,112,176.64
Disposal of fixed assets	—	—
Total	<u>3,402,810,310.20</u>	<u>3,195,112,176.64</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))

13.1 Fixed assets

(1) Details of fixed assets

Item	Premises and Buildings	Machinery and Equipment	Transportation Equipment	Electronic Equipment and Others	Total
I. Original book value					
1. Beginning balance	2,079,266,903.64	3,820,259,493.62	33,223,494.92	171,723,242.81	6,104,473,134.99
2. Increased amount in the period	139,295,770.65	252,072,645.19	2,084,176.85	40,434,050.63	433,886,643.32
(1) Purchase		30,047,762.45	2,084,176.85	7,246,546.55	39,378,485.85
(2) Transferred from construction in progress	139,295,770.65	222,024,882.74		33,187,504.08	394,508,157.47
3. Decreased amount in the period		10,722,457.19	1,108,817.00	609,380.00	12,440,654.19
(1) Disposal or scrapping		10,722,457.19	1,108,817.00	609,380.00	12,440,654.19
4. Ending balance	2,218,562,674.29	4,061,609,681.62	34,198,854.77	211,547,913.44	6,525,919,124.12
II. Accumulated depreciation					
1. Beginning balance	837,328,570.00	1,945,280,792.33	24,968,403.92	86,556,541.26	2,894,134,307.51
2. Increased amount in the period	53,925,898.66	157,289,169.03	1,345,122.74	13,009,780.50	225,569,970.93
(1) Purchase	53,925,898.66	157,289,169.03	1,345,122.74	13,009,780.50	225,569,970.93
3. Decreased amount in the period		9,882,057.66	1,078,376.15	580,161.42	11,540,595.23
(1) Disposal or scrapping		9,882,057.66	1,078,376.15	580,161.42	11,540,595.23
4. Ending balance	891,254,468.66	2,092,687,903.70	25,235,150.51	98,986,160.34	3,108,163,683.21
III. Provision for impairment					
1. Beginning balance	1,409,671.38	13,812,153.17		4,826.29	15,226,650.84
2. Increased amount in the period					
(1) Accrual					
3. Decreased amount in the period		281,520.13			281,520.13
(1) Disposal or scrap		281,520.13			281,520.13
4. Ending balance	1,409,671.38	13,530,633.04		4,826.29	14,945,130.71
IV. Book value					
1. Ending book value	1,325,898,534.25	1,955,391,144.88	8,963,704.26	112,556,926.81	3,402,810,310.20
2. Beginning book value	1,240,528,662.26	1,861,166,548.12	8,255,091.00	85,161,875.26	3,195,112,176.64

The amount of fixed assets' depreciation recognized as profits or losses was RMB225,569,970.93 (last term's amount: RMB204,723,031.15) in current period.

Notes to the Interim Financial Statements (Continued)

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

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

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

At the end of the period, the fixed assets with a book value of RMB62,085,545.40 (original value of RMB94,339,066.04) are acquired by sale and leaseback. The specific analysis is as follows:

Ending balance	Original Book Value	Accumulated Depreciation	Provision for Impairment	Book Value
Machinery and equipment	94,339,066.04	32,253,520.64		62,085,545.40
Total	94,339,066.04	32,253,520.64		62,085,545.40

- (4) Fixed assets with incompleting certificate of title

At the end of the current period, an amount of RMB450,292,221.01 (beginning balance: RMB492,166,832.10) of house properties in fixed assets were in the process of obtaining the title certificate. In view of the fact that the aforesaid transfer of the properties are carried out in accordance with the relevant legal procedures, the board of directors confirms that the transfer of the property rights will not be prevented by any material legal obstacles or have negative effects on the normal use of the properties, which does not constitute a material impact on the Group's operation, therefore, no provision for the impairment of the fixed assets is required.

Item	Book Value	Reason for incompleting certificate of title
House property of No. 1 factory	86,459,373.40	In progress
House property of No. 2 factory	188,769,796.38	In progress
House property of the headquarter park	120,299,486.72	In progress
House property of Shouguang park	22,133,628.42	In progress
Gaomi Park real estate	32,629,936.09	In progress
Total	450,292,221.01	

13.2 Disposal of fixed assets : None

Notes to the Interim Financial Statements (Continued)

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

14. Construction in progress

Item	Ending Balance	Beginning Balance
Construction in progress	446,676,123.84	562,958,944.42
Total	446,676,123.84	562,958,944.42

14.1 Construction in progress

(1) Details of construction in progress

Item	Ending Balance			Beginning Balance		
	Book Balance	Impairment Provision	Book Value	Book Balance	Impairment Provision	Book Value
High-end new pharmaceutical preparation industrialization project – Injection workshop			164,921,509.33			164,921,509.33
Expansion of Ibuprofen capacity and synthesis process improvement project			92,500,134.56			92,500,134.56
International processing technology renovation of solid preparation project	23,802,138.57		23,802,138.57	23,297,315.73		23,297,315.73
EPA 70 production expansion and reconstruction project of workshop 204	30,905,696.47		30,905,696.47	23,946,111.65		23,946,111.65
Power and storage supporting projects of No. 1 branch	14,457,272.79		14,457,272.79	13,918,344.57		13,918,344.57
High end steroid series Pharmaceutical Ingredient technology construction project	59,158,110.80		59,158,110.80	10,587,849.99		10,587,849.99
Purple urea acid product series reconstruction and expansion project	49,131,315.75		49,131,315.75	43,863,924.40		43,863,924.40
International cooperation project for solid preparations – Merck preparations	38,629,513.40		38,629,513.40	28,170,095.38		28,170,095.38
Roche medoba production expansion and technical transformation project	11,737,757.72		11,737,757.72	9,030,571.10		9,030,571.10
Acetylacetone project	8,885,361.39		8,885,361.39	5,572,823.90		5,572,823.90
High-end new pharmaceutical preparation industrialization project -public works	14,144,666.36		14,144,666.36	12,685,068.69		12,685,068.69
Methyl dopa and series of products production projects	13,598,870.78		13,598,870.78			
Others	182,225,419.81		182,225,419.81	134,465,195.12		134,465,195.12
Total	446,676,123.84		446,676,123.84	562,958,944.42		562,958,944.42

Notes to the Interim Financial Statements (Continued)

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

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

At the end of the period, the balance of construction in progress decreased due to the the transfer of capital from the high-end new pharmaceutical preparation industrialization project – injection Workshop and Expansion of Ibuprofen capacity and synthesis process improvement project, etc.

(2) Changes in major projects under construction

Name of Project	Beginning Balance	Increase Amount of Current Period	Decrease Amount of Current Period		Ending Balance
			Transferred to Fixed Assets/ Investment Properties	Other Decreases	
High-end new pharmaceutical preparation industrialization project – Injection workshop	164,921,509.33	28,485,397.03	193,406,906.36		
Expansion of Ibuprofen capacity and synthesis process improvement project	92,500,134.56	38,476,795.14	130,976,929.70		
International processing technology renovation of solid preparation project	23,297,315.73	1,291,541.82	786,718.98		23,802,138.57
EPA 70 production expansion and reconstruction project of workshop 204	23,946,111.65	6,959,584.82			30,905,696.47
Power and storage supporting projects of No. 1 branch	13,918,344.57	538,928.22			14,457,272.79
High end steroid series Pharmaceutical Ingredient technology construction project	10,587,849.99	48,570,260.81			59,158,110.80

Notes to the Interim Financial Statements (Continued)

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

Name of Project	Beginning Balance	Increase Amount of Current Period	Decrease Amount of Current Period Transferred to		Ending Balance
			Fixed Assets/ Investment Properties	Other Decreases	
Purple urea acid product series reconstruction and expansion project	43,863,924.40	5,267,391.35			49,131,315.75
International cooperation project for solid preparations – Merck preparations	28,170,095.38	10,459,418.02			38,629,513.40
Roche medoba production expansion and technical transformation project	9,030,571.10	2,707,186.62			11,737,757.72
Acetylacetone project	5,572,823.90	3,312,537.49			8,885,361.39
High-end new pharmaceutical preparation industrialization project -public works	12,685,068.69	1,459,597.67			14,144,666.36
Methyldopa and series of products production projects		13,598,870.78			13,598,870.78
Others	134,465,195.12	117,097,827.12	69,337,602.43		182,225,419.81
Total	562,958,944.42	278,225,336.89	394,508,157.47		446,676,123.84

Notes to the Interim Financial Statements (Continued)

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

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

Name of Project	Estimated Budget	Estimated Productivity	Construction Cycle	Proportion of Project Investment in Budget (%)	Engineering Schedule (%)	Accumulated Amount of Interest Capitalization (%)	Including:	Capitalization Rate of Interest in Current Period (%)	Capital Source
							Amount of Capitalized Interest in Current Period		
High-end new pharmaceutical preparation industrialization project – Injection workshop	212,340,000.00	224 million/year	24	91.08	100	2,016,392.26	108,833.58	2.82	Self-provided/Specifically borrowed funds/General borrowed funds
Expansion of Ibuprofen capacity and synthesis process improvement project	119,510,000.00	10,000 tonnes/year	18	109.59	100				Self-provided
International processing technology renovation of solid preparation project	174,290,000.00	5 billion tablets/year	60	70.00	72				Self-provided
EPA 70 production expansion and reconstruction project of workshop 204	42,000,000.00	700 tonnes/year	24	73.58	78				Self-provided
Power and storage supporting projects of No. 1 branch	16,860,000.00		24	85.75	90				Self-provided
High end steroid series Pharmaceutical Ingredient technology construction project	120,860,000.00	500 tonnes/year	20	50.00	58				Self-provided
Purple urea acid product series reconstruction and expansion project	48,000,000.00	15,000 tonnes/year	18	102.00	100				Self-provided
International cooperation project for solid preparations – Merck preparations	150,000,000.00	8 billion tablets/year	24	25.75	32				Self-provided
Roche medoba production expansion and technical transformation project	19,860,000.00	0.4 billion tablets/year	12	59.10	62				Self-provided
Acetylacetone project	40,000,000.00	10,000 tonnes/year	18	122.00	100				
High-end new pharmaceutical preparation industrialization project -public works	27,000,000.00		24	52.39	55				
Methyl dopa and series of products production projects	73,850,000.00	200 tonnes/year	18	18.41	25				
Others									
Total	1,044,570,000.00					2,016,392.26	108,833.58		

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

14.2 Project materials: None

Notes to the Interim Financial Statements (Continued)

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

15. Right-of-use asset

(1) Details of right-of-use assets

Item	Premises and Buildings	Total
I. Original book value		
1. Beginning balance	10,822,443.69	10,822,443.69
2. Increased amount in current period	1,132,109.59	1,132,109.59
3. Decreased amount in current period		
4. Ending balance	11,954,553.28	11,954,553.28
II. Accumulated depreciation		
1. Beginning balance	3,169,256.45	3,169,256.45
2. Increased amount in current period	1,805,857.74	1,805,857.74
(1) Accrual	1,805,857.74	1,805,857.74
3. Decreased amount in current period		
4. Ending balance	4,975,114.19	4,975,114.19
III. Impairment Provision		
IV. Book value		
1. Ending book value	6,979,439.09	6,979,439.09
2. Beginning book value	7,653,187.24	7,653,187.24

The amount of depreciation and amortization for right-of-use asset recognized as profits or losses was RMB1,805,857.74 (last term's amount: RMB784,213.34) in current period.

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

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

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

16. Intangible assets

(1) Intangible assets

Item	Land Use Right	Software License	Non-patented Technology	Others*	Total
I.Original book value					
1.Beginning balance	548,956,438.67	20,058,777.62	53,288,458.79	2,614,923.24	624,918,598.32
2.Increased amount in the current period		528,680.94	25,120,754.76		25,649,435.70
(1)Purchase		528,680.94	25,120,754.76		25,649,435.70
3.Decreased amount in the current period					
(1)Disposal					
4.Ending balance	548,956,438.67	20,587,458.56	78,409,213.55	2,614,923.24	650,568,034.02
II.Accumulated amortization					
1.Beginning balance	117,365,605.18	12,425,164.22	26,061,414.73	2,614,923.24	158,467,107.37
2.Increased amount in the current period	5,866,773.62	972,501.22	4,351,058.40		11,190,333.24
(1)Accrual	5,866,773.62	972,501.22	4,351,058.40		11,190,333.24
3.Decreased amount in the current period					
(1)Disposal					
4.Ending balance	123,232,378.80	13,397,665.44	30,412,473.13	2,614,923.24	169,657,440.61
III.Provision for impairment					
IV.Book value					
1.Ending book value	425,724,059.87	7,189,793.12	47,996,740.42		480,910,593.41
2.Beginning book value	431,590,833.49	7,633,613.40	27,227,044.06		466,451,490.95

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

The amortization amount of intangible assets recognized as profit and loss this period is RMB11,190,333.24, and the amortization amount of capitalized intangible assets is RMB55,706.40 (the amount recognized as profit and loss last period: RMB7,504,551.20).

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

Notes to the Interim Financial Statements (Continued)

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

(3) Intangible assets with incompletd certificate of title:

At the end of the period, an amount of RMB6,865,767.09 (beginning balance: RMB6,977,236.89) of land use right in fixed assets were in the process of obtaining the title certificate. In view of the fact that the transfer of aforesaid right were carried out in accordance with the relevant legal procedures, the board of directors confirms that the transfer of the property rights will not be prevented by any material legal obstacles or have negative effects on the normal use of the land use right, which does not constitute a material impact on the Group's operation, therefore, no provision for the impairment of the fixed assets is required.

Item	Book Value	Reason for incompletd certificate of title
Land use right of the headquarter park	6,865,767.09	In progress
Total	<u>6,865,767.09</u>	

17. Goodwill

(1) Original value of goodwill

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

(2) Provision for impairment of goodwill

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

For the method of testing and recognizing the provision for impairment of goodwill, see the note "IV. Important Accounting Policies and Accounting Estimate, 25. Impairment of Long-term Assets". The Group fully recognized the impairment provision for goodwill in 2014.

Notes to the Interim Financial Statements (Continued)

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

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

18. Long-term deferred expenses

Item	Opening balance	Increase in Current Period	Amortization amount this Period	Other Decrease in Current Period	Ending Balance
Decoration of the Pharmaceutical Innovation Park	9,450,914.84		1,232,728.02		8,218,186.82
Decoration of health technology new function complex building	624,403.67		62,440.38		561,963.29
Office space decoration of Xinhua Chemical Design Qingdao Branch	465,610.00		46,270.00		419,340.00
Total	<u>10,540,928.51</u>		<u>1,341,438.40</u>		<u>9,199,490.11</u>

19. Deferred income tax assets and liabilities

(1) Deferred income tax assets without being offset

Item	Ending Balance		Beginning Balance	
	Deductible Temporary Difference	Deferred Income Tax Assets	Deductible Temporary Difference	Deferred Income Tax Assets
Provision for impairment of fixed assets	15,193,494.52	2,390,257.48	15,193,494.52	2,390,257.48
Provision for bad debt	35,233,412.65	8,323,679.52	35,325,647.99	8,413,453.33
Provision for inventory falling price	40,781,305.49	6,520,507.16	37,490,696.60	6,043,546.55
Salaries and wages unpaid	7,362,721.08	1,104,408.16	7,362,721.08	1,104,408.16
Deferred incomes	5,427,083.34	814,062.50	7,433,083.82	1,114,962.50
Unrealized internal profits arising from transactions with subsidiaries	25,153,489.05	3,427,794.30	32,089,879.46	4,826,754.75
Deductible loss	198,218,128.36	30,497,404.13	202,251,658.84	31,025,742.04
Share-based payment	43,215,727.50	6,482,359.13	43,215,727.50	6,482,359.13
Others	23,845,234.76	3,785,192.65	23,853,269.21	3,787,201.23
Total	<u>394,430,596.75</u>	<u>63,345,665.03</u>	<u>404,216,179.02</u>	<u>65,188,685.17</u>

Notes to the Interim Financial Statements (Continued)

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

(2) Deferred income tax liabilities without being offset

Item	Ending Balance		Beginning Balance	
	Temporary Difference	Deferred Income Tax Liability	Temporary Difference	Deferred Income Tax Liability
Changes in fair value of other equity instruments investments	137,356,298.00	20,603,444.70	152,265,194.00	22,839,779.10
Depreciation of fixed assets	723,598,372.07	111,376,792.24	553,034,105.30	92,785,764.54
Total	<u>860,954,670.07</u>	<u>131,980,236.94</u>	<u>705,299,299.30</u>	<u>115,625,543.64</u>

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

Item	Amount By Which the Deferred Income Tax Assets are Offset With Liabilities At Period End	Ending Balance of Deferred Income Tax Assets or Liabilities After Offset	Amount By Which the Deferred Income Tax Assets are Offset With Liabilities at Beginning Of Year	Beginning Balance of Deferred Income Tax Assets or Liabilities after Offset
	Deferred Income Tax Assets	47,105,265.89	16,240,399.14	50,019,940.95
Deferred Income Tax Liabilities	47,105,265.89	84,874,971.05	50,019,940.95	65,605,602.69

Note: The net amounts of deferred income tax assets and liabilities after offset of the Company and some subsidiaries were listed under the item of deferred income tax liabilities.

(4) Details of the unrecognized deferred income tax assets

Item	Ending Balance	Beginning Balance
Deductible temporary difference	4,445,421.16	598,646.85
Deductible loss	12,480,242.05	16,769,557.58
Total	<u>16,925,663.21</u>	<u>17,368,204.43</u>

Notes to the Interim Financial Statements (Continued)

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

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

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

Year	Ending Balance	Beginning Balance	Note
2022			
2023			
2024			
2025	745,652.80	745,652.80	
2026	2,492,961.01	3,299,607.41	
2027	5,534,853.99		
2028			
2029			
2030		3,100,117.49	
2031	3,706,774.25	9,624,179.88	
Total	12,480,242.05	16,769,557.58	

20. Other non-current assets

Item	Ending Balance		Beginning Balance			
	Book Balance	Impairment Provision	Book Value	Book Balance	Impairment Provision	Book Value
Outsourcing patent payments in advance	1,862,818.86		1,862,818.86	13,113,375.51		13,113,375.51
Software Development Fund	2,072,864.47		2,072,864.47	1,113,028.23		1,113,028.23
Total	3,935,683.33		3,935,683.33	14,226,403.74		14,226,403.74

Notes to the Interim Financial Statements (Continued)

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

21. Short-term borrowing

(1) Classification of short-term borrowing

Category	Ending Balance	Beginning Balance
Credit loans*	<u>369,070,137.26</u>	<u>269,455,217.71</u>
Total	<u>369,070,137.26</u>	<u>269,455,217.71</u>

* At the end of the period, the credit loan included a principal of RMB368,872,160.00 and an unexpired interest payable of RMB197,977.26.

(2) Overdue short-term borrowing not yet repaid

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

(3) Short-term borrowing's interest rate range was 1.1938%-5.05% as at June 30, 2022.

22. Notes payable

Category	Ending Balance	Beginning Balance
Bank acceptance bill	541,071,657.77	405,071,920.42
Commercial Acceptance Bill	<u>5,000,000.00</u>	
Total	<u>546,071,657.77</u>	<u>405,071,920.42</u>

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

Notes to the Interim Financial Statements (Continued)

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

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

23. Accounts payable

(1) Presentation of accounts payable

Item	Ending Balance	Beginning Balance
Payment for goods	<u>653,711,782.53</u>	<u>661,319,556.79</u>
Total	<u>653,711,782.53</u>	<u>661,319,556.79</u>

(2) Significant accounts payable aged over 1 year

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

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

Item	Ending Balance	Beginning Balance
Within 1 year	640,114,455.59	640,981,010.15
1–2 years	7,074,683.39	10,779,933.67
2–3 years	1,666,789.39	2,905,775.64
Over 3 years	<u>4,855,854.16</u>	<u>6,652,837.33</u>
Total	<u>653,711,782.53</u>	<u>661,319,556.79</u>

24. Contract liabilities

(1) Presentation of contract liabilities

Item	Ending Balance	Beginning Balance
Payments of goods sales received in advance	<u>97,386,566.85</u>	<u>100,398,224.66</u>
Total	<u>97,386,566.85</u>	<u>100,398,224.66</u>

Note: The revenue recognized in the current period includes RMB84.7436 million of payments for goods sales received in advance at the beginning of the period.

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

There were no significant changes in the book value of the contract liabilities 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))

25. Employee compensation payable

(1) Classification of employee compensation payable

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Short-term remuneration	69,867,115.71	395,054,499.12	428,955,005.73	35,966,609.10
Post-employment benefits-Defined contribution plans		44,488,059.49	44,488,059.49	
Dismissal benefits				
Total	<u>69,867,115.71</u>	<u>439,542,558.61</u>	<u>473,443,065.22</u>	<u>35,966,609.10</u>

(2) Short-term remuneration

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Salary, bonus, allowance and subsidy	65,905,710.16	310,294,649.54	345,248,825.85	30,951,533.85
Employee welfare expenses	16,174,893.65	16,174,893.65		
Social insurance premiums	23,723,762.27	23,723,762.27		
Including: Medical insurance premiums	21,442,954.84	21,442,954.84		
Work-related injury insurance premiums	2,280,807.43	2,280,807.43		
Housing fund	24,272,921.20	24,272,921.20		
Labor union expenditure and employee education fund	3,961,405.55	6,260,281.96	5,241,612.26	4,980,075.25
Labor costs	14,011,641.10	13,976,641.10	35,000.00	
Other short-term compensation	316,349.40	316,349.40		
Total	<u>69,867,115.71</u>	<u>395,054,499.12</u>	<u>428,955,005.73</u>	<u>35,966,609.10</u>

(3) Defined contribution plan

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

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 make the payments to the plans of endowment insurance and unemployment insurance as follows:

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Basic endowment insurance		42,625,343.78	42,625,343.78	
Unemployment insurance premium		1,862,715.71	1,862,715.71	
Total		<u>44,488,059.49</u>	<u>44,488,059.49</u>	

The endowment insurance, and unemployment insurance premium that the Group planned to pay on June 30, 2022 had been fully paid.

In each of the two financial years ended 31 December 2021 and June 30, 2022, the confiscated contributions under the group's unbounded Contribution Scheme (represented by the employer on behalf of the employees who left the scheme before fully attributable to the contribution) can be made available to the group to reduce the existing contribution level.

26. Taxes payable

Item	Ending Balance	Beginning Balance
VAT	17,562,674.08	6,406,596.89
Income tax payable	11,422,341.58	12,201,713.38
Urban maintenance and construction tax	2,134,418.07	1,154,778.49
Individual income tax	411,143.93	798,750.63
Property tax	5,229,103.57	4,909,742.71
Land use tax	2,050,398.11	1,541,016.37
Stamp duty	442,618.41	301,392.60
Educational surcharges	763,310.31	494,904.74
Local Educational surcharges	508,039.07	329,197.97
Environmental protection tax	4,309.09	4,309.09
Land Appreciation Tax		102,615.37
Total	<u>40,528,356.22</u>	<u>28,245,018.24</u>

As at June 30, 2022, the tax payable of the Group included Hong Kong income tax payable of RMB0.00, Netherlands income tax payable of RMB0.00, and U.S. income tax payable of RMB605,688.95.

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. Other payables

Item	Ending Balance	Beginning Balance
Interest payable		
Dividends payable	130,704,684.78	20,280,599.53
Other payables	445,737,210.39	477,823,657.48
Total	576,441,895.17	498,104,257.01

27.1 Dividends payable

Item	Ending Balance	Beginning Balance
Common stock dividend*	130,704,684.78	20,280,599.53
Total	130,704,684.78	20,280,599.53

* RMB5,310,599.53 in the balance of dividends payable at the end of the period is the common stock dividend that has not been paid for more than one year.

27.2 Other payables

(1) Classification of other payables by nature

Nature of Payments	Ending Balance	Beginning Balance
Payments payable for engineering and equipment	317,833,451.12	340,178,822.22
Cash deposit and guarantee deposit	49,074,455.38	43,961,692.20
Power expense and consulting fees	53,361,364.02	37,234,839.75
Stock options incentive		20,253,222.00
Others	25,467,939.87	36,195,081.31
Total	445,737,210.39	477,823,657.48
Including: payments above 1 year	85,999,674.06	103,664,457.97

Notes to the Interim Financial Statements (Continued)

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

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

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

Organization Name	Ending Balance	Reasons for not repaying or carrying forward
Shandong Xincheng Construction Engineering Co., Ltd	6,079,109.61	Unliquidated
Shanghai Baochixin Medical Technology Co., Ltd	1,990,000.00	Unliquidated
Jiangsu Ruiting Environmental Engineering Co. Ltd	1,985,600.00	Unliquidated
Hubei Kailers Tongda Technology Co., Ltd	1,755,833.02	Unliquidated
Shandong Jinhua Electric Power Equipment Co. Ltd	1,318,224.13	Unliquidated
Total	13,128,766.76	

28. Non-current liabilities due within one year

Item	Ending Balance	Beginning Balance
Long-term loans due within one year*	314,174,071.04	387,380,980.77
Long-term payables due within one year**	620,804,657.59	33,647,797.90
Lease liabilities due within one year	2,633,591.07	2,795,695.13
Total	937,612,319.70	423,824,473.80

* The long-term loans due within one year included the principal of the long-term loans due within one year of RMB313,541,069.16, and the unexpired interest payable of RMB633,001.88.

** The long-term payables due within one year included the long-term payable principals due within one year of RMB615,960,000.00, unrecognized financing expenses due within one year of RMB302,331.70, and unexpired interest payables of RMB5,146,989.29.

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

Notes to the Interim Financial Statements (Continued)

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

29. Other current liabilities

Item	Ending Balance	Beginning Balance
Amount of prepaid output tax	6,543,205.78	9,737,705.03
Un-derecognized notes receivable	23,515,260.04	35,856,881.83
Total	30,058,465.82	45,594,586.86

30. Long-term loans

(1) Classifications of long-term loans

Category	Ending Balance	Beginning Balance
Guaranteed loans	230,000,000.00	270,000,000.00
Credit loans	141,426,336.06	76,196,870.64
Total	371,426,336.06	346,196,870.64

Note: As at December 30, 2022, the range of long-term loan interest rate was 2.70%–4.70%.

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

Item	Ending Balance	Beginning Balance
1–2 years	273,541,069.16	313,541,069.16
2–5 years	97,885,266.90	32,655,801.48
Total	371,426,336.06	346,196,870.64

31. Lease liabilities

(1) Detail of lease liabilities

Item	Ending Balance	Beginning Balance
Lease liabilities	4,245,651.49	4,279,227.67
Total	4,245,651.49	4,279,227.67

Notes to the Interim Financial Statements (Continued)

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

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

(2) Analysis of the maturity date of lease liabilities

Item	Ending Balance	Beginning Balance
1-2 years	2,806,196.65	2,643,573.67
2-5 years	1,613,750.71	2,214,148.85
Total	<u>4,419,947.36</u>	<u>4,857,722.52</u>

32. Long-term payables

Item	Ending Balance	Beginning Balance
Long-term payables		602,490,917.02
Special payables		24,710,200.00
Total		<u>627,201,117.02</u>

32.1 Long-term payables

(1) Classifications of long-term payables by nature

Nature	Ending Balance	Beginning Balance
Sale and leaseback		2,490,917.02
Loans from the controlling Shareholder*		600,000,000.00
Total		<u>602,490,917.02</u>

* The Company and its controlling shareholder HHC signed the "Capital Use Agreement" on March 30, 2020. HHC provided RMB600,000,000.00, which was raised from its publicly issued corporate bonds (for QFII) (Phase I) (epidemic prevention and control bonds), to the Company for a period of three years, with a maturity date of March 27, 2023, and a fixed interest rate of 2.97%. At the end of this period, this loan is adjusted to "non-current liabilities due within one year" because it matures within one year.

Notes to the Interim Financial Statements (Continued)

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

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

Item	Ending Balance	Beginning Balance
1-2 years	_____	602,520,000.00
Total	_____	602,520,000.00

32.2 Special payables

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance	Reason
Technical transformation projects for continuous synthesis of ibuprofen	15,000,000.00		15,000,000.00		
Injection, solid preparation project	1,810,000.00		1,810,000.00		
Project for improving the supply guarantee capacity of small varieties of drugs prone to shortage	7,900,200.00		7,900,200.00		
Total	24,710,200.00		24,710,200.00		

33. Deferred income

(1) Classification of deferred income

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Government grants	132,164,134.63	2,000,000.00	10,194,180.51	123,969,954.12
Total	132,164,134.63	2,000,000.00	10,194,180.51	123,969,954.12

Notes to the Interim Financial Statements (Continued)

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

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

(2) Government grants

Project	Beginning Balance	Increased Amount of Grants in Current Period	Amounts Included in Other Income in Current Period	Other Changes	Other Decreases	Ending Balance	Related to assets/Related to Income
Aspirin series product GMP renovation project	1,115,583.33		608,500.02			507,083.31	Related to assets
Cultivation for famous and excellent varieties of aspirin	2,337,500.00		787,500.00			1,550,000.00	Related to assets
Organic gas (dichloromethane) recovery and comprehensive air pollution prevention and control project	24,630,250.00		1,780,500.00			22,849,750.00	Related to assets
Modern medicine International Cooperation Center project	52,858,770.85		3,181,016.85			49,677,754.00	Related to assets
East garden new 2,000T/d sewage treatment system project	2,568,500.00		467,000.02			2,101,499.98	Related to assets
Modern Pharmaceuticals Industrialization Center (II) project	1,485,407.50		258,495.36			1,226,912.14	Related to assets
Technological transformation of hormones projects	3,903,245.83		409,157.10			3,494,088.73	
Polycarbophil calcium and troche research and industrialization projects	2,327,000.00		172,084.03			2,154,915.97	Related to assets
Technical reform of aspirin Project (Matching funds for major national science and technology projects)	2,600,000.00		66,666.65			2,533,333.35	Related to assets
Caffeine green key technology and continuous system construction project	1,600,000.00		319,999.92			1,280,000.08	Related to assets

Notes to the Interim Financial Statements (Continued)

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

Project	Beginning Balance	Increased Amounts		Other Changes	Other Decreases	Ending Balance	Related to assets/Related to Income
		Grants in Current Period	Other Income in Current Period				
The project of upgrading equipment and technology of active drug production	2,325,168.34		123,679.15			2,201,489.19	Related to assets
Intelligent improvement project of API in the first branch factory	2,150,798.34		114,404.15			2,036,394.19	Related to assets
Intelligent Improvement and Transformation Project of API in the First Branch Factory (2020)	4,875,000.00		250,000.02			4,624,999.98	Related to assets
Injection GMP modification project (high-end new pharmaceutical preparation industrialization project)	19,419,000.00		323,650.00			19,095,350.00	Related to assets
International Cooperation Project on Solid Preparations*		2,000,000.00				2,000,000.00	Related to assets
Other Government grants	7,967,910.44		1,331,527.24			6,636,383.20	Related to assets
合計	132,164,134.63	2,000,000.00	10,194,180.51			123,969,954.12	

* According to the Notice on Issuing the Budget Index of Municipal Supporting Award Funds for the "Wild Geese Array" Cluster of the provincial "Top Ten" Industries in 2021(Zi Cai Jian Zhi [2021] No. 89) issued by Zibo Municipal Bureau of finance, the company received a subsidy of RMB2,000,000.00 for the International Cooperation Project on Solid Preparations in 2022. The Company shall carry forward gains and losses in a period of 10 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))

34. Other non-current liabilities

Item	Ending Balance	Beginning Balance
Specially reserve fund	<u>3,561,500.00</u>	<u>3,561,500.00</u>
Total	<u><u>3,561,500.00</u></u>	<u><u>3,561,500.00</u></u>

35. Capital stock

Item	Beginning Balance	New Shares Issued	Increase (+)/decrease (-) during the period				Subtotal	Ending Balance
			Stock		Capital Reserve			
			Dividend Offered	Converted into Capital Stock	Others			
Total shares	627,367,447.00	42,259,788.00				42,259,788.00	<u><u>669,627,235.00</u></u>	

Note: According to the provisions of 2018 A-share stock option incentive plan (Draft), the second waiting period for granting stock options to incentive objects has expired. The company issued A-share common shares to the incentive objects. In the second exercise period of stock options, 178 incentive objects actually exercised, and the number of stock options exercised was 5.1678 million, accounting for 0.82% of the current total share capital of the company. The listing and circulation date of the exercise shares: January 13, 2022. After the exercise, the total share capital of the company increased from 627,367,447 shares to 632,535,247 shares.

According to the second temporary meeting of the tenth board of directors in 2021 held on April 14, 2021, the annual general meeting of shareholders in 2020, the first A-share shareholders' meeting in 2021 and the first H-share shareholders' meeting in 2021 held on June 30, 2021, The third temporary meeting of the 10th board of directors in 2021 held on August 13, 2021 reviewed the proposals related to this issue, and the approval of the reply on Approving the non-public issuance of shares of Shandong Xinhua Pharmaceutical Co., Ltd. issued by China Securities Regulatory Commission (Securities regulatory permission [2022] No. 564) and the articles of Association. According to the provisions of the company's articles of association, the non-public issuance of the company shall not exceed 37,091,988 shares. The company issued 37,091,988 non-public A-share ordinary shares (par value of each share is RMB1), increased the registered capital by RMB37,091,988, and the registered capital after change is RMB669,627,235.00.

Notes to the Interim Financial Statements (Continued)

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

36. Capital reserves

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Capital stock premium*	484,393,159.23	232,370,909.41		716,764,068.64
Other capital reserves**	193,548,128.59	47,907,898.00		241,456,026.59
Total	<u>677,941,287.82</u>	<u>280,278,807.41</u>		<u>958,220,095.23</u>

* The capital stock premium increased by RMB232,370,909.41 in this period, of which RMB23,823,558.00 was caused by the exercise of stock options of the company, RMB207,274,422.21 was caused by the non-public offering of shares of the company, and RMB1,272,929.20 was caused by the absorption of minority shareholders by the subsidiary Shandong Xinhua Pharmaceutical Design Institute Co., LTD.

** The increase of other capital reserves in the current period is RMB23,197,698.00 for the equity instrument of the waiting period and RMB24,710,200.00 for the fund conversion of ibuprofen continuous synthesis technology renovation projects according to the company's equity incentive plan.

Notes to the Interim Financial Statements (Continued)

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

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

37. Other comprehensive income

Item	Beginning Balance	Amount Incurred in Current Period					Ending Balance
		Pre-tax Amount Incurred In Current period	Less: Amount Recognized in Other Comprehensive Income in Previous Period and Carried over into Profits Or Losses in Current Period	Less: Income Tax Expense	After-tax Amount Attributable to the Parent Company	After-tax Amount Attributable to Minority Shareholders	
I. Other comprehensive income that cannot be reclassified into profits or losses in future	129,425,414.90	-14,908,896.00		-2,236,334.40	-12,672,561.60		116,752,853.30
Including: Changes in fair value of other equity instrument investments	129,425,414.90	-14,908,896.00		-2,236,334.40	-12,672,561.60		116,752,853.30
II. Other comprehensive income to be reclassified into profit or loss in future	-3,171,039.81	2,310,720.81			2,310,720.81	660,236.26	-860,319.00
Including: Translation difference of foreign currency financial statement	-3,171,039.81	2,310,720.81			2,310,720.81	660,236.26	-860,319.00
Total other comprehensive incomes	126,254,375.09	-12,598,175.19		-2,236,334.40	-10,361,840.79	660,236.26	115,892,534.30

38. Special reserve

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Safe production expenses	2,118,130.33	10,087,967.34	7,766,426.03	4,439,671.64
Total	2,118,130.33	10,087,967.34	7,766,426.03	4,439,671.64

Note: For more details, see IV.40 Other important accounting policies and accounting estimates.

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(Unless otherwise indicated, all figures are stated in RMB)
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39. Surplus reserves

Item	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Statutory surplus reserves	260,396,750.45			260,396,750.45
Discretionary surplus reserves	64,795,873.74			64,795,873.74
Total	<u>325,192,624.19</u>	<u></u>	<u></u>	<u>325,192,624.19</u>

40. Undistributed profits

Item	Current period	Previous year
Ending balance of previous year	1,709,067,703.02	1,477,281,646.00
Beginning balance of current period	1,709,067,703.02	1,477,281,646.00
Add: Net profits attributable to the parent company's shareholders in the current period	194,389,556.12	200,082,353.55
Less: Common stock dividends payable	100,444,085.25	94,105,117.05
Ending balance of current period	<u>1,803,013,173.89</u>	<u>1,583,258,882.50</u>

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

(1) For the six months ended on June 30, 2022

According to the 2021 annual general meeting of shareholders held on June 30, 2022, the Company paid a cash dividends of RMB1.50 (tax included) for every 10 shares of all shareholders, totally paid RMB100,444,085.25, and there were no bonus shares given and no increase of capital stock by converting the provident fund.

Pursuant to the resolution of the Company's Board on August 30, 2022, the Company proposed not to distribute the semi-annual dividend, with 0 bonus share delivered. No capital reserve will be converted to increase the share capital.

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

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

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

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

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41. Operating revenues and operating costs

(1) Details of operating revenues and operating costs

Item	Amount Incurred in Current Period		Amount Incurred in Previous Period	
	Revenue	Cost	Revenue	Cost
Main business	3,541,962,738.63	2,607,853,424.40	3,498,614,624.23	2,443,852,643.07
Other business	122,332,254.70	103,674,032.50	52,429,128.72	67,181,202.95
Total	<u>3,664,294,993.33</u>	<u>2,711,527,456.90</u>	<u>3,551,043,752.95</u>	<u>2,511,033,846.02</u>

(2) Revenues generated from contracts

Classification of contract	Chemical bulk		Pharmaceutical	Total
	drugs	Preparations	intermediates and other products	
Commodity type				
Including : Chemical bulk drugs	1,497,165,394.76			1,497,165,394.76
Preparations		1,626,006,825.59		1,626,006,825.59
Pharmaceutical intermediates and other products			541,122,772.98	541,122,772.98
Total	<u>1,497,165,394.76</u>	<u>1,626,006,825.59</u>	<u>541,122,772.98</u>	<u>3,664,294,993.33</u>
Classification by operating regions				
Including : China (including Hong Kong)	583,767,015.64	1,490,928,097.82	365,488,916.50	2,440,184,029.96
Americas	368,452,167.20	12,279,181.54	41,943,276.07	422,674,624.81
Europe	312,018,046.47	121,229,309.64	102,770,430.68	536,017,786.79
Others	232,928,165.45	1,570,236.59	30,920,149.73	265,418,551.77
Total	<u>1,497,165,394.76</u>	<u>1,626,006,825.59</u>	<u>541,122,772.98</u>	<u>3,664,294,993.33</u>
Classification by contractual performance obligation				
Among: Revenue recognized at a certain point of time	1,497,165,394.76	1,626,006,825.59	508,604,042.28	3,631,776,262.63
Revenue recognized within a certain period			26,875,104.95	26,875,104.95
Rental income			5,643,625.75	5,643,625.75
Total	<u>1,497,165,394.76</u>	<u>1,626,006,825.59</u>	<u>541,122,772.98</u>	<u>3,664,294,993.33</u>

Note: The company's sales model can be divided into direct selling model and distribution model, in which the operating income of direct selling model is RMB1,670,478,738.33 and that of distribution model is RMB1,993,816,255.00.

Notes to the Interim Financial Statements (Continued)

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

(3) Information related to the performance obligations

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

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

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

At the end of the Reporting Period, the amount of revenue which corresponds to the unfulfilled or incomplete performance obligations is RMB97,386,566.85, and of this amount RMB80,991,688.87 is expected to be recognized within one year.

(5) The income amount including the book value of the contract liabilities recognized at the beginning of the period is RMB84,743,624.93.

42. Taxes and surcharges

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Urban maintenance and construction tax	9,170,861.92	8,500,464.15
Land use tax	4,125,083.54	4,986,410.90
Property tax	9,310,858.21	8,377,157.51
Educational surcharges	6,543,300.69	6,071,202.51
Stamp duty	2,412,647.01	635,527.89
Vehicle and vessel use tax	32,676.86	38,380.44
Land Appreciation Tax		2,970,025.85
Other Tax	18,043.99	12,038.67
Total	31,613,472.22	31,591,207.92

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

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43. Selling expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Employee compensation	54,643,611.38	48,597,526.97
Market development and terminal sales fees	218,882,251.60	288,628,807.06
Advertising expenses	4,966,411.75	5,203,914.40
Travel expense	6,563,622.03	6,931,532.86
Office expenses	171,041.73	487,328.10
Conference expenses	491,281.51	794,436.67
Others	8,840,376.18	7,763,230.05
Total	294,558,596.18	358,406,776.11

44. Administrative expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Payroll	84,864,992.02	83,465,056.33
Depreciation cost	33,073,389.77	27,423,078.55
Amortization of intangible assets	10,860,257.56	7,392,607.14
Warehouse expenses	11,281,933.48	10,948,771.16
Business entertainment expenses	2,455,754.39	2,464,006.47
Office expenses	1,172,743.76	1,275,680.05
Travel expense	1,015,201.73	1,484,125.79
Water, electricity and gas charges	2,899,321.65	2,082,790.35
Royalty fee of trademark	4,758,516.00	4,726,143.00
Annual fee of listing, audit fee and expenses of Board	1,784,008.92	1,198,528.68
Repair costs	3,037,938.30	1,965,707.92
Share-based payment	23,197,698.00	2,214,150.00
Others	22,710,990.85	22,400,561.49
Total	203,112,746.43	169,041,206.93

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. Research and development costs

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
New products	66,758,605.35	73,313,286.50
New technology and new process	101,808,796.75	96,944,031.26
Total	<u>168,567,402.10</u>	<u>170,257,317.76</u>

46. Financial expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Interest expenditure	24,376,640.19	27,119,915.02
Less: Interest income	3,646,699.81	4,147,801.53
Add: Exchange gains or losses	-7,934,889.01	797,288.58
Add: Commission charges and other expenditures	1,707,578.79	2,799,374.11
Total	<u>14,502,630.16</u>	<u>26,568,776.18</u>

Details of interest expenditure are listed as follows :

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Interest expenditure of bank loans	24,089,932.79	26,614,700.60
Interest expenditure of sale and leaseback	137,609.09	413,500.88
Interest expenditure of lease liabilities	149,098.31	91,713.54
Total	<u>24,376,640.19</u>	<u>27,119,915.02</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))

47. Other incomes

Sources of other incomes	Amount Incurred In Current Period	Amount Incurred In Last Period
Government grants	15,753,419.00	11,588,356.99
Including: Use/amortization of deferred income in Current Period	10,194,180.51	9,183,470.49
Total	15,753,419.00	11,588,356.99

Details of government grants

Category of grants	Amount Incurred In Current Period	Amount Incurred In Last Period	Source and Basis	Related to Assets/ Related to Income
Government grants received in this period				
Generic drug consistency evaluation subsidy of provincial Market Regulatory Bureau		1,000,000.00	WCGZ(2020)NO.16	Related to income
Supporting funds for key national talents	4,000,000.00		Notice on Distributing Supporting Funds for Talent Work (Zibo Municipal Party Committee Leading Group Office for Talent Work)	Related to income
Others	1,559,238.49	1,404,886.50		Related to income
Subtotal	5,559,238.49	2,404,886.50		
Amortization of deferred income	10,194,180.51	9,183,470.49		Related to assets
Total	15,753,419.00	11,588,356.99		

Notes to the Interim Financial Statements (Continued)

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

48. Investment income

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Investment income of long-term equity accounted by equity method	2,609,415.58	596,471.59
Dividends income of other equity instruments investment during holding period	7,917,816.00	6,500,000.00
Total	10,527,231.58	7,096,471.59

49. Credit impairment loss

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Bad debt loss of notes receivable	64,952.91	
Bad debt loss of accounts receivable	-2,100,477.11	-3,181,404.92
Bad debt loss of other receivables	2,850.81	-1,575,255.71
Total	-2,032,673.39	-4,756,660.63

50. Assets impairment loss

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Impairment loss of contract assets	-572,123.07	
Inventory falling price provision	-28,777,842.57	-34,950,730.05
Total	-29,349,965.64	-34,950,730.05

51. Gains from asset disposal

Item	Amount Incurred In Current Period	Amount Incurred In Last Period	Amount Recognized in Non-recurring Profits or Losses of Current Period
Gains from disposal of non-current assets	2,454,007.49	67,760.57	2,454,007.49
Including: Gains from disposal of fixed assets	2,454,007.49	67,760.57	2,454,007.49
Total	2,454,007.49	67,760.57	2,454,007.49

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

52. Non-operating income

(1) Details of non-operating income

Item	Amount Incurred In Current Period	Amount Incurred In Last Period	Amount Recognized in Non-recurring Profits or Losses of Current Period
Government grants	59,600.00	421,000.00	59,600.00
Others	627,834.68	342,855.47	627,834.68
Total	687,434.68	763,855.47	687,434.68

Note: In current period, the amount recognized into non-recurring profit or loss was RMB687,434.68 (last term's amount: RMB763,855.47).

(2) Government grants charged to profits or losses in current period

Project granted	Issuing party	Issuing reason	Nature of grants	Effect on current period's profit and loss	Identified as Special subsidy	Amount Incurred In Current Period	Amount Incurred In Last Period	Related to Assets/ Related to Income
National tuition assistance	Education Bureau, Finance Bureau of Zibo	Assistantship	Assistantship	No	No	59,600.00	421,000.00	Related to income
Total						59,600.00	421,000.00	

(3) Details of government grants

Project granted	Amount Incurred In Current Period	Amount Incurred In Last Period	Source and basis	Related to Assets/ Related to Income
National tuition assistance	59,600.00	421,000.00	ZCKJZ(2021)NO.151	Related to income
Total	59,600.00	421,000.00		

Notes to Main Items in Consolidated Financial Statement (Continued)

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

53. Non-operating expenditure

Item	Amount Incurred In Current Period	Amount Incurred In Last Period	Amount Recognized in Non-recurring Profits or Losses of Current Period
Losses from disposal of scrapped non-current assets	541,985.89	177,705.59	541,985.89
Others	2,593,428.70	3,416,214.08	2,593,428.70
Total	3,135,414.59	3,593,919.67	3,135,414.59

Note: In current period, the amount recognized into non-recurring profits or losses was RMB3,135,414.59 (last term's amount: RMB3,593,919.67).

54. Income tax expenses

(1) Income tax expenses

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
The current income tax calculated in accordance with the tax law and related regulations	13,643,007.10	23,797,149.64
– PRC enterprise income tax	13,489,549.93	23,797,149.64
– Hong Kong profits tax		
– USA federal and state tax		
– Dutch corporation tax	153,457.17	
Deferred income tax expense	20,434,047.84	24,028,110.99
Under (or over) recognized amount in previous years	2,735,800.24	3,217,826.44
Total	36,812,855.18	51,043,087.07

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

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

Item	Amount Incurred In Current Period
Total consolidated profit for the current period	235,316,728.47
Income tax expense calculated in accordance with statutory/applicable tax rate	33,764,929.67
Effect of different tax rate applicable to subsidiaries	681,252.32
Effect of turning over income tax to previous years	2,735,800.24
Effect of non-taxable income	-1,579,084.74
Effect of using the deductible loss of the unrecognized deferred income assets in prior period	-173,755.81
Effect of deductible temporary difference or deductible loss of the unrecognized deferred income tax assets in the current year	1,383,713.50
Income tax expenses	36,812,855.18

55. Other comprehensive income

See the related contents for details in Note “VI.37. Other comprehensive income”.

56. Earnings per share

(1) calculation process of numerator and denominator of basic earnings per share

The basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the parent company, RMB194,389,556.12 (2021: RMB200,082,353.55), by the weighted average of outstanding ordinary shares issued by the Company, 650,219,941.00 shares (2021: 626,819,690.09 shares).

Calculation process of basic earnings per share are as follows:

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Net profits attributable to shareholders of the parent company	194,389,556.12	200,082,353.55
Weighted average of outstanding ordinary shares issued by the Company	650,219,941.00	626,819,690.09
Basic earnings per share	0.30	0.32

Notes to Main Items in Consolidated Financial Statement (Continued)

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

(2) *calculation process of numerator and denominator of diluted earnings per share*

Diluted earnings per share is defined as net profit attributable to the shareholders of the parent company of RMB194,389,556.12(2021: RMB200,082,353.55), divided by the adjusted weighted average of the outstanding common shares of the Company of 658,552,036.00(2021 : 629,699,946.13 shares).

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

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Net profit attributable to shareholders of the parent Company	194,389,556.12	200,082,353.55
Weighted average number of outstanding ordinary shares of the company	650,219,941.00	626,819,690.09
Diluted potential common stock	8,332,095.00	2,880,256.04
Weighted average number of ordinary shares issued by the company after adjustment	658,552,036.00	629,699,946.13
Diluted earnings per share(RMB/share)	0.30	0.32

57. Cash Flow Statement

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

1) *Other cash received in relation to operating activities*

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Interest income	3,646,699.81	4,147,801.53
Government grants income	7,563,612.48	19,181,411.67
Security deposit of bank acceptance bills acceptance bills	5,590,000.00	15,310,219.63
Funds due to/from other parties/Others	19,692,595.96	45,010,077.40
Total	36,492,908.25	83,649,510.23

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

2) Other cash paid in relation to other operating activities

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Office expenses	1,383,802.26	1,938,274.02
Travel expense	7,904,565.82	8,740,468.89
Annual fee of listing, audit fee, expenses of Board	2,312,785.11	2,120,862.70
Advertising and market development fees	226,562,735.75	280,868,279.82
Business entertainment expenses	2,458,753.79	1,814,925.14
Technology development expenses expenses	75,284,151.27	57,223,659.81
Security deposit of bank acceptance bills	38,350,612.48	10,290,747.69
Royalty fee of trademark	5,000,000.00	5,000,000.00
Others	50,499,840.68	46,946,187.80
Total	<u>409,757,247.16</u>	<u>414,943,405.87</u>

3) Other cash payment in relation to financing activities

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Payments of the principal and interest of sale and leaseback	6,720,000.00	25,732,146.73
Pay the rental fee and other	546,219.15	—
Total	<u>7,266,219.15</u>	<u>25,732,146.73</u>

Notes to Main Items in Consolidated Financial Statement (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 Incurred In Current Period	Amount Incurred In Last Period
1. Reconciliation of net profit to cash		
flows from operation activities:		
Net Profit	198,503,873.29	209,316,669.23
Add: Impairment loss of credit	2,032,673.39	4,756,660.63
Provision for impairment of assets	280,754.77	-7,981,449.33
Depreciation of fixed assets	227,463,027.57	206,616,087.79
Depreciation of right-of-use assets	1,805,857.74	784,213.34
Amortization of intangible assets	11,422,899.12	7,737,117.08
Amortization of long-term deferred expenses	1,341,438.40	1,232,728.02
Loss from disposal of fixed assets, intangible assets and other long- term assets (gains listed with "-")	-2,454,007.49	-67,760.57
Losses from scrapping of fixed assets (gains listed with "-")	541,985.89	177,705.59
Gains or losses from changes in fair value (gains listed with "-")		
Financial expenses (gains listed with "-")	28,880,682.34	30,592,265.74
Investment loss (gain listed with "-")	-10,527,231.58	-7,096,471.59
Decrease of deferred income tax assets (increases listed with "-")	-1,170,784.94	1,927,708.39
Increase of deferred income tax liabilities (decreases listed with "-")	21,604,832.78	22,100,402.60
Decrease of inventory (increases listed with "-")	-7,582,372.82	287,878,613.48
Decrease of operational receivables (increases listed with "-") *	-426,741,768.00	-589,579,168.61
Increase of operating payables (decreases listed with "-") *	126,201,934.30	-5,508,024.71
Others (share-based payment)	23,197,698.00	2,214,150.00
	194,801,492.76	165,101,447.08
Net cash flows from operating activities	194,801,492.76	165,101,447.08

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
2. Significant investing and financing		
activities not related to cash		
receipts and payments:		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Fixed assets acquired under finance leases		
3. Net change in cash and cash		
equivalents:		
Ending balance of cash	957,883,219.77	820,712,309.56
Less: Beginning Balance of cash	596,391,588.69	722,563,226.56
Add: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase in cash and cash equivalents	<u>361,491,631.08</u>	<u>98,149,083.00</u>

* "Decrease of operating receivables" and "increase of operating payables" are filled in accordance with the analysis of accounts receivable, accounts payable and other related items in the consolidated financial statements. In the preparation process, it is necessary to deduct "increase and decrease of deposits not used as cash and cash equivalents" (see note VI, 1. Monetary funds for details), "dividend receivable in other receivables" (see note VI, 6. Other receivable for details), "Adjustment item of long-term asset purchase payment for notes receivable not used as cash and cash equivalents" (see note VI, item (4) of 57. Cash flow statement for details), "engineering equipment payment and dividend payable in other payables" (see note VI, 27. Other payables for details), etc.

(3) Significant operating activities not related to cash receipts and payments

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Payments by endorsement of notes receivable *	<u>554,723,335.52</u>	<u>448,222,661.04</u>

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

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Long-term assets purchased by endorsement of notes receivable*	264,884,628.54	236,415,558.23

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

(5) Cash and cash equivalents

Item	Amount Incurred In Current Period	Amount Incurred In Last Period
Cash	957,883,219.77	596,391,588.69
Including: Cash on hand	84,630.59	52,775.13
Bank deposit available for payments at any time	957,798,589.18	596,335,828.33
Other monetary funds available for payments at any time		2,985.23
Cash equivalents		
Ending balance of cash and cash equivalents	957,883,219.77	596,391,588.69
Including: Restricted cash and cash equivalents owned by the parent company and subsidiaries of the Company		

58. Assets with limited ownership or use right

Item	Ending Book Value	Reason
Monetary funds	152,826,769.79	Deposits of bank acceptance bills, etc.
Notes receivable	23,787,640.04	Confirmation not terminated
Fixed assets	62,085,545.40	Mortgage loans of sale and leaseback
Right-of-use asset	6,979,439.09	Ownership does not belongs to the Group

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

59.Monetary items for foreign currency

(1) Foreign currency monetary items

Item	Ending Balance Of Foreign Currency	Translating Exchange Rate	Amount Translated into RMB A t Period End
Monetary funds			
Including: USD	21,285,291.13	6.7114	142,854,102.92
GBP	270,677.95	7.0084	1,897,019.34
HKD	12,261.74	0.85519	10,486.12
EUR	30,458.75	8.1365	247,827.62
JPY	1,217.00	0.049136	59.80
Accounts receivable			
Including: USD	39,993,114.10	6.7114	268,409,785.97
GBP	2,862,343.01	8.1365	23,289,453.90
Other receivables			
Including: USD	65,000.00	6.7114	436,241.00
Short-term borrowings			
Including: USD	34,400,000.00	6.7114	230,872,160.00
Accounts payable			
Including: USD	209,172.17	6.7114	1,403,838.10
Other payable			
Including: USD	131,790.94	6.7114	884,501.71

(2) Oversea operating entities

Subsidiaries	Principal place of Operation	Bookkeeping Base Currency	Basis for Currency Selection
Shandong Xinhua Pharmaceutical (Europe) B.V.	Reiswick, Netherlands	USD	Statutory currency of the business place
Shandong Xinhua Pharmaceutical (USA) Inc.	South elmont, USA	USD	Statutory currency of the business place

Notes to Main Items in Consolidated Financial Statement (Continued)

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

60. Government grants

Category	Increase in Current Period	Presentation Item	Amount included into Current Profit and Loss
Please see the Note VI. 33 for the details	2,000,000.00	Deferred income	
Please see the Note VI. 47 for the details	5,559,238.49	Other income	5,559,238.49
Please see the Note VI. 52 for the details	59,600.00	Non-operating income	59,600.00
Total	7,618,838.49		5,618,838.49

61. Lease

Category	Amount
Interest expenses of lease liabilities	149,098.31
Short-term lease expenses charged to current profits and losses	
Lease expenses of low-value assets	
Variable lease payments not included in lease liabilities	
Incomes from the transfer of right-of-use assets	
Total cash outflows related to lease	546,219.15
Related profits and losses of sale and leaseback	795,942.47

VII. CHANGES IN CONSOLIDATION SCOPE

In the current period, there was no changes in consolidation scope of the Company.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

VIII. INTERESTS IN SUBSIDIARIES

1. Interests in subsidiaries

(1) Composition of the Group

Name of Subsidiary	Enterprise Nature	Business Premise	Registration Place	Nature of Business	Registered Capital * (monetary unit: 10,000RMB)	Proportion of Shareholding(%)		Acquisition Method
						Direct	Indirect	
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical sales	4,849.89	100.00		Establishment
Shandong Xinhua Pharmaceutical Import and Export Co., Ltd.	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical sales	500.00	100.00		Establishment
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd.*	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical design	666.66	90.00		Establishment
Shandong Xinhua Pharmaceutical (Europe) B.V.	Limited liability company(Sino-foreign joint venture)	Hague, Holland	Hague, Holland	Pharmaceutical and chemical sales	EUR0.769 million	65.00		Establishment
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	Limited liability company(Sino-foreign joint venture)	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical manufacturing	USD20.949 million	50.10		Establishment
Xinhua Pharmaceutical (Shouguang) Co., Ltd	Limited liability company	Shouguang City, Shandong Province	Shouguang City, Shandong Province	Pharmaceutical and chemical manufacturing	23,000.00	100.00		Establishment
Xinhua (Zibo) Real Estate Co., Ltd.*	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Real estate development	2,000.00	100.00		Establishment
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	Limited liability company	Gaomi City, Shandong Province	Gaomi City, Shandong Province	Pharmaceutical and chemical manufacturing	1,900.00	100.00		Purchase
Shandong Xinhua Pharmaceutical (USA) Inc.	Limited liability company	Los Angeles, USA	Los Angeles, USA	Pharmaceutical and chemical sales	USD1.5 million	100.00		Establishment
Shandong Xinhua Mechanical and Electrical Engineering Co., Ltd.	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Electric installation	800.00	100.00		Establishment

Notes to Main Items in Consolidated Financial Statement (Continued)

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

Name of Subsidiary	Enterprise Nature	Business Premise	Registration Place	Nature of Business	Registered Capital * (monetary unit: 10,000RMB)	Proportion of Shareholding(%)		Acquisition Method
						Direct	Indirect	
Shandong Zibo Xincat Pharmaceutical Company Limited	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical manufacturing	8,493.00	100.00		Merger
Shandong Xinhua Wanbo Chemical Industry Co., Ltd.	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical and chemical manufacturing	4,662.45	100.00		Merger
Shandong Tongxin Pharmaceutical Co., Ltd	Limited liability company	Weifang City, Shandong Province	Weifang City, Shandong Province	Pharmaceutical and chemical manufacturing	12,000.00	60.00		Establishment
Shandong Xinhua Health Technology Co.,Ltd**	Limited liability company	Zibo City, Shandong Province	Zibo City, Shandong Province	Science and technology promotion and application services	10,000.00	49.00		Establishment

* Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd. added a shareholder, Zibo Lianrui Investment Co., Ltd. The new shareholder subscribed to the registered capital of RMB666,666.00, and paid RMB666,666.00, holding 10%.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

(2) Important subsidiaries which are not wholly-owned

Name of Subsidiary	Shareholding Proportion of Minority Shareholders (%)	Profits and Losses Attributable to Minority Shareholders in the Current Period	Net Other		Dividends to be Declared and Distributed to Minority Shareholders in the Current Period	Ending Balance of Minority Equities
			Comprehensive Income after Tax Attributable to Minority Shareholders in the Current Period	Total Other Comprehensive Income Attributable to Minority Shareholders in the Current Period		
Shandong Xinhua Pharmaceutical (Europe) B.V.	35.00	1,651,709.68	660,236.26	2,311,945.94		13,864,757.94
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	49.90	2,276,933.83		2,276,933.83	9,980,000.00	115,498,413.06
Shandong Xinhua Health Technology Co.,Ltd	42.35	119,534.77		119,534.77		34,096,998.03
Shandong Tongxin Pharmaceutical Co., Ltd.	40.00	46,437.82		46,437.82		28,917,950.01
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd.	10.00	19,701.07		19,701.07		2,526,768.09
Total		4,114,317.17	660,236.26	4,774,553.43	9,980,000.00	194,904,887.13

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

Name of Subsidiary	Ending Balance						Beginning Balance					
	Current Assets	Non-current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Total Liabilities	Current Assets	Non-current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Total Liabilities
Shandong Xinhua Pharmaceutical (Europe) B.V.	8,752.90	2.96	8,755.86	4,761.47		4,761.47	5,879.80	2.18	5,881.98	2,548.15		2,548.15
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	14,754.14	17,218.70	31,972.84	6,214.48	2,584.12	8,798.60	13,700.93	17,723.74	31,424.67	4,180.52	2,526.20	6,706.72
Shandong Xinhua Health Technology Co.,Ltd	22,943.70	1,352.29	24,295.99	16,899.13	290.60	17,189.73	21,562.68	1,341.36	22,904.04	15,559.08	266.92	15,826.00
Shandong Tongxin Pharmaceutical Co., Ltd.	1,602.69	6,784.34	8,387.03	391.16	766.38	1,157.54	2,516.82	1,948.69	4,465.51	34.04	813.59	847.63
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd.	4,246.65	602.32	4,848.97	1,741.27	187.05	1,928.32	3,524.93	620.17	4,145.10	1,691.78	212.91	1,904.69

Notes to Main Items in Consolidated Financial Statement (Continued)

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

Name of Subsidiary	Amount Incurred in Current Period				Amount Incurred in Previous Period			
	Operating Revenue	Net Profit	Total Comprehensive Income	Cash Flow Of Operating Activities	Operating Revenue	Net Profit	Total Comprehensive Income	Cash Flow Of Operating Activities
Shandong Xinhua Pharmaceutical (Europe) B.V.	12,298.53	471.92	660.56	2,610.41	11,423.21	627.77	596.81	799.09
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	13,152.05	456.30	456.30	3,381.52	11,825.04	1,436.35	1,436.35	3,633.44
Shandong Xinhua Health Technology Co.,Ltd	21,557.67	28.23	28.23	-515.27	18,654.59	-25.52	-25.52	-3,472.25
Shandong Tongxin Pharmaceutical Co., Ltd.	11.61	11.61	8.94	-0.03	-0.03	-0.03		
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd.	2,891.59	302.24	302.24	392.80	2,493.52	320.07	320.07	511.57

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

None.

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

None.

(6) Others:

As of June 30, 2022 none of the Company's subsidiaries issued share capital or debt securities.

2. The share of owner's equity in the subsidiary has changed and remains in control of the subsidiary

The Company's subsidiary Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd. added a shareholder, Zibo Lianrui Investment Co., Ltd. The new shareholder subscribed to the registered capital of RMB666,666.00, and paid RMB666,666.00, holding 10%. The Company's shareholding ratio changed from 100.00% to 90.00%.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

3. Equity in cooperative enterprise or joint venture

(1) Summarized financial information of unimportant joint venture

Item	Ending Balance/ Amount Incurred In Current Period
Joint Venture:	
Total of investment book value	59,316,725.91
Total amount of following items calculated by shareholding ratio	
– Net profit	2,609,415.58
– Other comprehensive income	
– Total amount of comprehensive income	2,609,415.58

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

(3) There was no excess loss occurred in the joint venture.

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

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

1. Objectives and policies of risk management

The objective of the risk management activities of the Group is to achieve a proper balance between risk and benefit, so as to minimize the negative effect of risks on the operational performance of the Group and to maximize interest of shareholders and other equity investors. Based on this objective of risk management, the basic strategy of risk management of the Group is to identify and analyze all kinds of risks that 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 within the limited range.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

(1) Market risk

1) Exchange rate risk

The Group's foreign exchange risk is mainly related to USD, GBP and Euro. Except for the subsidiaries of the Group which uses USD for purchasing and sales transactions, other main business operations are settled in RMB. As of June 30, 2022, except for assets and liabilities in balance of USD and small amounts of EUR、GBP、HKD and JPY 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 foreign currency balance may have influence on the Group's business performance.

As at June 30, 2022, and December 31, 2021 the Group's foreign currency financial assets and foreign currency financial liabilities are which are converted into RMB as follows:

Item	June 30, 2022	December 31, 2021
Monetary funds – USD	142,854,102.92	74,789,172.60
Monetary funds – EUR	1,897,019.34	404,365.87
Monetary funds – HKD	10,486.12	10,269.92
Monetary funds – GBP	247,827.62	262,126.93
Monetary funds – JPY	59.80	67.44
Accounts receivable – USD	268,409,785.97	205,255,262.67
Accounts receivable – GBP	23,289,453.90	13,611,872.34
Accounts receivable- EUR		2,816,445.62
Other receivables – USD	436,241.00	414,420.50
Short-term borrowing– EUR	230,872,160.00	219,324,080.00
Accounts payable – USD	1,403,838.10	5,555,261.98
Other payables – USD	884,501.71	33,779.48

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

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

2) Interest rate risk

The Group's interest rate risk arises from bank loans and liabilities with interest of shareholders' loans. Due to financial liabilities with a floating interest rate, the Group faces cash flow interest rate risk; due to financial liabilities with fixed interest rate, the Group faces fair value interest rate risk. As of June 30, 2022, the Group's interest bearing debts mainly come from the RMB denominated floating interest rate loan contracts with the total amount of RMB949.1954 million and RMB denominated fixed rate contracts with the amount of RMB704.6442 million.

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

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

3) Price risk

The selling prices of the Group are based on the market prices of chemical raw medicine, preparations and chemical product. Therefore, the Group is influenced by price fluctuation.

(2) Credit risk

As of June 30, 2022, maximum credit risk exposure which may cause financial loss to the Group is mainly due to the failure of the counter parties to perform their obligations which leads to losses of financial assets to the Group, specifically including:

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

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

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

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

The total amount of the top five entities with the largest amount in “account receivables” is RMB207,879,244.23.

(3) Liquidity risk

Liquidity risk is the risk that the Group will not be able to fulfil its financial obligations on the due date. For management of the Group’s liquidity risk, the Group shall ensure enough financial liquidity to fulfill its obligation to repay debts due and thus to avoid unacceptable losses or damages to the Group’s credit. The Group analyzes the debts’ structure and duration regularly so as to make sure there will be sufficient capital. The management of the Group monitors the utilization condition of bank loans, and ensures adherence to loan agreements. Meanwhile, financing consultation will be performed with the financial institutions to keep a certain credit line and reduce the liquidity risk. As of June 30, 2022, the maturity analysis based on the undiscounted residual contract obligations of financial assets (the book balance, undeducted impairment and bad debts provision) and financial liabilities held by the Group is as following:

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Monetary funds	1,110,709,989.56			1,110,709,989.56	
Notes receivable	28,072,304.44			28,072,304.44	
Accounts receivable	890,690,332.26			890,690,332.26	
Receivables financing	155,632,869.37			155,632,869.37	
Other receivables	37,040,778.45			37,040,778.45	
Financial liabilities					
Short-term borrowings	369,070,137.26			369,070,137.26	
Notes payable	546,071,657.77			546,071,657.77	
Accounts payable	653,711,782.53			653,711,782.53	
Other payables	576,441,895.17			576,441,895.17	
Including: Interest payable					
Dividends payable	130,704,684.78			130,704,684.78	
Non-current liabilities due within one year	938,294,449.21			938,294,449.21	
Long-term borrowings		273,541,069.16	97,885,266.90		371,426,336.06
lease liabilities		2,806,196.65	1,613,750.71		4,419,947.36

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

2. Sensitivity analysis

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

(1) Sensitivity analysis of foreign exchange risk

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

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

Item	Change in Exchange Rate	Amount Incurred In Current Period		Amount Incurred In Last Period	
		Impact on Net Profits	Impact on the Owner's Equity	Impact on Net Profits	Impact on the Owner's Equity
All foreign currencies	5% appreciated against RMB	9,229,555.86	14,908,213.30	49,744.76	3,877,986.92
All foreign currencies	5% depreciated against RMB	-9,229,555.86	-14,908,213.30	-49,744.76	-3,877,986.92

(2) Sensitivity analysis of interest rate risk

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

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

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

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

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

Item	Change in Exchange Rate	Amount Incurred In Current Period		Amount Incurred In Last Period	
		Impact on Net Profits	Impact on the Owner's Equity	Impact on Net Profits	Impact on the Owner's Equity
Floating interest rate loans	Increase by 1%	-8,068,160.94	-8,068,160.94	-8,494,147.53	-8,494,147.53
Floating interest rate loans	Decrease by 1%	8,068,160.94	8,068,160.94	8,494,147.53	8,494,147.53

X. DISCLOSURE OF FAIR VALUE

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

Item	Ending Fair Value			Total
	Level 1 Fair value Measurement	Level 2 Fair value Measurement	Level 3 Fair value Measurement	
Continuous fair value measurement				
Accounts receivable financing		155,632,869.37		155,632,869.37
Investment in other equity instruments	158,581,616.00		30,000,000.00	188,581,616.00
Total assets continuously measured at fair value	<u>158,581,616.00</u>	<u>155,632,869.37</u>	<u>30,000,000.00</u>	<u>344,214,485.37</u>

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

The Group's financial instrument of level 1 fair value measurement are the shares of the Bank of Communications and China Pacific Insurance Company (CPIC). The fair value at the end of the year is determined based on the closing price on the last trading day of June, 2022.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

3. For continuous and non-continuous level 2 fair value measurement items, the use of valuation techniques and important parameters of qualitative and quantitative information

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

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

The Group's financial instrument of level 3 fair value measurement are mainly unlisted equity investments held by the company.

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

(I) Relationships with Related Parties

1. Controlling shareholder and ultimate controlling party

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

Name of Controlling Shareholder	Registration Place	Nature of Business	Registered Capital	Proportion of Shareholding in the Company (%)	Proportion of Voting Right in the Company (%)
Hualu Holdings Co., Ltd.	22/F, Block A, Huachuang Guanli Center, No. 219 Shunhai Road, Lixia District, Jinan, Shandong Province, China	Investment in chemical, medical, and environmental protection (industries); asset management and operations, consulting	310,300.00	30.59	30.59

(2) Registered capital of the controlling shareholder and changes

Name of Controlling Shareholder	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance
Hualu Holdings Co., Ltd.	3,103,000,000.00			3,103,000,000.00

Notes to Main Items in Consolidated Financial Statement (Continued)

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

(3) Shares or equity of controlling shareholders and changes

Name of Controlling Shareholder	Amount of Shareholding		Proportions of shares	
	Balance In This Period	Balance In Last Period	Proportion of Current Period (%)	Proportion of Last Period (%)
Hualu Holdings Co., Ltd.	<u>204,864,092.00</u>	<u>204,864,092.00</u>	<u>30.59</u>	<u>32.65</u>

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

2. Subsidiaries

The details of the subsidiaries were described in the Note "VIII. Interests in other entities".

3. Joint ventures and associate enterprises

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

Name of joint ventures or associate enterprises	Relationship with the Company
Centrient Pharmaceutical (Zibo) co., Ltd.	An associate of the company

4. Other related parties

Name of Related Party	Relationship with the Company
Shandong Xinghua Pharmaceutical Branch of Hualu Holding Co., Ltd	Branch of the controlling shareholder
Shandong Hualu Hengsheng Chemical Co., Ltd.	Controlled by the same controlling shareholder
Shandong Lukang Pharmaceutical Co., Ltd.	Controlled by the same controlling shareholder
Qinghai Lukang Dadi Pharmaceutical Co., Ltd.	Controlled by the same controlling shareholder
Shandong Lukang Pharmaceutical Group Saite Co., Ltd.	Controlled by the same controlling shareholder
Shandong Lukang Shellile Pharmaceutical Co., Ltd.	Controlled by the same controlling shareholder
Hualu Group Co. Ltd.	Controlled by the same controlling shareholder
Perrigo Company	Subsidiary's participating shareholder
Hubei Common Pharmaceutical Co., LTD	Subsidiary's participating shareholder

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

(II) Related-party Transactions

1. Pricing policy

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

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

(1) Purchase goods or receive services

Name of related parties	Content of Related-party Transaction	Amount Incurred in Current Period	Approved Transaction Amount	Whether exceed the Approved Amount	Amount Incurred In Last Period
Centriant Pharmaceutical (Zibo) co., Ltd.*	Purchase of raw materials of preparations	4,037,278.77	17,000,000.00	No	8,970,464.60
Shandong Hualu Hengsheng Chemical Co., Ltd.*	Purchase of chemical raw material	104,217,501.38	257,000,000.00	No	96,402,452.83
Shandong Lukang Pharmaceutical Co., Ltd.*	Purchase of chemical raw material	2,090,749.40	12,500,000.00	No	
Shandong Lukang Pharmaceutical Co., Ltd.*	Purchase of preparation product	4,029,429.13		No	2,331,282.34
Shandong Lukang Pharmaceutical Group Saite Co., Ltd.*	Purchase of preparation product	12,389.38		No	20,044.25
Total		<u>114,387,348.06</u>			<u>107,724,244.02</u>

Notes to Main Items in Consolidated Financial Statement (Continued)

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

(II) Sale of goods/provision of services

Name of related parties	Content of Related-party Transaction	Amount Incurred in Current Period	Amount Incurred in Previous Period
Centrient Pharmaceutical (Zibo) co., Ltd.*	Sales of Power	4,326,920.22	4,076,661.14
Centrient Pharmaceutical (Zibo) co., Ltd.*	Provide labor service	94,784.78	113,013.30
Shandong Xinghua Pharmaceutical Branch of Hualu Holding Co., Ltd*	Sales of Power	3,547.31	3,760.62
Shandong Lukang Shelile Pharmaceutical Co., Ltd.*	Provide labor service		55,660.37
Shandong Lukang Pharmaceutical Co., Ltd.*	Sales of chemical raw materials and bulk drugs	2,275,486.73	733,738.95
Shandong Lukang Pharmaceutical Co., Ltd.*	Provide labor service		153,773.58
Qinghai Lukang Dadi Pharmaceutical Co., Ltd.*	Sales of bulk drugs		114,159.29
Shandong Lukang Pharmaceutical Group Saite Co., Ltd.*	Sales of bulk drugs	126,106.19	612,389.40
Shandong Lukang Shelile Pharmaceutical Co., Ltd Hi-tech zone branch*	Sales of Preparation product		752,035.38
Perrigo Company*	Sales of bulk drugs	112,984,836.68	113,075,269.85
Perrigo Company*	Sales of Preparation products	77,728,199.80	11,850,179.86
Hualu Group Co. Ltd.*	Sales of bulk drugs	12,511,059.88	12,589,032.85
Total		210,050,941.59	144,129,674.59

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

3. Borrowing and lending funds between related parties

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

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

4. Payment of interest on loans

Name of related parties	Content of Related-party Transaction	Amount Incurred in Current Period	Amount Incurred in Previous Period
Hualu Holdings Co., Ltd.	Interest on loans	<u>8,959,500.00</u>	<u>8,712,000.00</u>

5. Accept the guarantee

The company signed a loan agreement with Shandong Branch of the Export Import Bank of China with a loan principal of RMB80 million. The loan period is from May 31, 2022 to May 30, 2024, which is guaranteed by Hualu holdings, the controlling shareholder of the company.

The company signed a loan agreement with Shandong Branch of the Export Import Bank of China with a loan principal of RMB150 million. The loan period is from June 15, 2022 to May 30, 2024, which is guaranteed by Hualu holdings, the controlling shareholder of the company.

The company signed a loan agreement with Shandong Branch of the Export Import Bank of China with a loan principal of RMB270 million. The loan period is from March 23, 2021 to March 22, 2023, which is guaranteed by Hualu holdings, the controlling shareholder of the company.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

6. Related party leasing

(1) Rental situation

The Group as the lessor: None

(2) Lease situation

Name of lessee	Types of leased assets	Leases recognized this year	Lease fee recognized last year
Hualu Holding Group Co., Ltd. Shandong Xinhua Pharmaceutical Branch*	House building	31,658.40	

7. Other transactions

(1) Royalty fee of using trademark

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

The Company has renewed a supplementary agreement (“Supplementary Agreement”) on the trademark license agreement with Shandong Xinhua Pharmaceutical Group Co., Ltd on October 22, 2020. The validity period of the supplementary agreement is from January 1, 2021 to December 31, 2023. According to the supplementary agreement, the Company’s annual royalty fee for using the trademark “Xinhua” is still RMB10 million and other provisions of the trademark license agreement remain unchanged.

*Note: A related party transaction of this nature constitutes a connected transaction and the continuing connected transaction as defined in Chapter [14A] of the Listing Rules of the Hong Kong Stock Exchange.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

(III) Balance of transactions with related parties

1. Items receivable

Item	Related parties	Ending Balance		Beginning Balance	
		Book balance	Provision for bad debt	Book balance	Provision for bad debt
Accounts receivable	Shandong Lukang Pharmaceutical Co., Ltd.	298,234.99	1,491.17	206,303.20	1,031.52
Receivables financing	Shandong Lukang Pharmaceutical Co., Ltd.	590,048.00			
Accounts receivable	Centrient Pharmaceutical (Zibo) co., Ltd.	37,180.00	185.90	976,546.42	4,882.73
Accounts receivable	Perrigo Company	57,345,908.79	286,729.55	42,568,886.13	212,844.43
Accounts receivable	Hubei Goto Biopharm Co.,Ltd.			3,722,400.00	18,612.00
Prepayments	Shandong Hualu Hengsheng Chemical Co., Ltd	1,923,797.98		4,836,247.32	

2. Items payable

Item	Related parties	Ending Balance	Beginning Balance
Accounts payable	Centrient Pharmaceutical (Zibo) co., Ltd.	1,653,625.00	
Accounts payable	Shandong Lukang Pharmaceutical Co., Ltd.	2,567,350.48	2,812,081.48
Accounts payable	Shandong Lukang Pharmaceutical Group Saite Co., Ltd.	2,192.59	2,192.59
Contract liabilities	Shandong Lukang Pharmaceutical Co., Ltd.	76,415.09	62,264.15
Non current liabilities due within one year	Hualu Holdings Co., Ltd.	4,999,500.00	13,860,000.00

Notes to Main Items in Consolidated Financial Statement (Continued)

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

(IV) Commitments of related parties

On April 14, 2021, Hualu holdings promised: (1) not to interfere with the operation and management activities of Xinhua Pharmaceutical beyond its authority and not to encroach on the interests of Xinhua Pharmaceutical; (2) From the date of issuance of this commitment to the completion of this non-public offering of shares by Xinhua Pharmaceutical, if the state and securities regulatory authorities make other new regulatory provisions on the measures for listed companies to fill in the diluted immediate return, and this commitment cannot meet these provisions of the state and securities regulatory authorities, Hualu holdings promises to issue a commitment in accordance with the latest provisions of the state and securities regulatory authorities; (3) We promise to earnestly fulfill the measures for filling the diluted immediate return formulated by Xinhua Pharmaceutical and this commitment. If we violate this commitment or refuse to fulfill this commitment and cause losses to Xinhua Pharmaceutical or investors, Hualu holding is willing to bear the corresponding compensation liability according to law.

On August 9, 2021, when the company implemented the plan of non-public offering of a shares in 2021, the controlling shareholder Hualu holding issued the letter of commitment on avoiding horizontal competition for this non-public offering: (1) there was no horizontal competition between Hualu holding and its affiliated enterprises and Xinhua Pharmaceutical; (2) During the period when Hualu holding is the controlling shareholder of Xinhua Pharmaceutical, it shall take necessary and possible measures according to law to avoid business or activities with horizontal competition and conflict of interest with the main business of Xinhua Pharmaceutical, and urge other enterprises controlled by Hualu holding to avoid business or activities with horizontal competition and conflict of interest with the main business of Xinhua Pharmaceutical; (3) When Hualu holdings and other enterprises under its control plan to conduct new business, investment and research that may produce horizontal competition with the main business of Xinhua Pharmaceutical, Hualu holdings shall ensure timely notification to Xinhua Pharmaceutical that Xinhua Pharmaceutical will have the priority of development and project participation, Hualu holdings will try its best to price the relevant transactions on the basis of a fair, reasonable and normal commercial transaction with independent third parties. Hualu holding has the ability to fulfill the above commitments. This letter of commitment will take effect immediately after it is signed by Hualu holding and will continue to be effective during the period when Hualu holding has control over Xinhua Pharmaceutical.

On August 9, 2021, Hualu holdings promised that: (1) within six months before the benchmark date for the pricing of the non-public offering of shares of Xinhua Pharmaceutical (the announcement date of the resolution of the second interim meeting of the 10th board of directors of Xinhua Pharmaceutical in 2021), Hualu holdings and the persons acting in concert of Hualu holdings will not reduce their shares of Xinhua Pharmaceutical; (2) Hualu Holdings has no plan to reduce its shares in Xinhua Pharmaceutical within six months from the pricing benchmark date of this non-public offering to the completion of this non-public offering; (3) Hualu holdings promises to reduce its holdings in strict accordance with the securities law of the people's Republic of China, the measures for the administration of the acquisition of listed companies and other laws and regulations, and the relevant provisions of the stock exchange where the company's shares are listed, and fulfill the obligation of information disclosure related to equity changes; (4) In the circumstance where Hualu holdings reduces its holding, any violation of the above commitments occurs, Hualu holdings promises that all the proceeds from the reduction will belong to Xinhua Pharmaceutical, and will bear all legal liabilities and consequences arising therefrom.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

(V) Remunerations for directors, supervisors and employees

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

Item	Amount Incurred in Current Period	Amount Incurred in Previous Period
Salary and subsidies	1,822,347.00	2,075,823.00
Social insurance premium, housing fund and retirement pension	524,304.00	496,566.00
Bonus		
Share-based payment*	3,754,080.00	2,506,038.00
Total	6,100,731.00	5,078,427.00

* The compensation of the main management includes the exercised share option amount of RMB3,754,080.00, but excludes the granted but unexercised share option amount of RMB3,526,600.51.

Changes of senior executives in this year: there is no change in the position of senior executives in this period.

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

There was no borrowings receivable from directors and the companies related with directors in the current period.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

XII. SHARE-BASED PAYMENT

1. General information on share-base payment.

Item	Situation
Total amount of equity instruments granted by the Company in last year	
Total amount of equity instruments exercised by the Company in current period	5,167,800.00
Total amount of equity instruments of the Company lapsed in current period	
The scope of exercise price of the share options issued by the Company at the end of the period and the residual contractual period	(1)At the end of the period, as for the share option Xinhua JLC1 issued by the Company, of which the code is 037071 and the exercise price is RMB5.61per share, the remaining period of the contract is 0.5 years. (2) At the end of the year, as for the share option Xinhua JLC2 issued by the Company, of which the code is 037203 and the exercise price is RMB7.96 per share, the remaining period of the contract is 2.5 years.
The scope of exercise price of the other equity instruments issued by the Company at the end of the period and the remaining period of contracts	None

Note of share-based payment :

(1) JLC1 share options

According to the Company's "A share stock option incentive plan of 2018(draft)",the stock option granted to the incentive object is exercised in three phases after 24 months from the grant date (that is, December 28,2018). The proportion of each exercise period is 34%,33% and 33% respectively. Among them, the first exercise period is from the first trading day 36 months after the grant date to the last trading day within 48 months from the grant date, and the proportion of exercise that can be applied for is 33% of the total amount of stock options obtained. As of December 28, 2021, the second waiting period for the company to grant stock options to incentive objects has expired.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

According to the sixth extraordinary meeting of the 10th board of directors held on December 28, 2021, the proposal on adjusting the exercise price, the list of incentive objects and the number of options granted in the 2018 A-share stock option incentive plan and canceling some options, and the proposal on the achievement of the exercise conditions in the second exercise period of the company's 2018 A-share stock option incentive plan, was adopted at the sixth extraordinary meeting of the 10th board of supervisors in 2021. The exercise price of the company's stock option incentive plan was adjusted from RMB5.76/share to RMB5.61/share. Among the incentive objects granted by the company's stock option incentive plan, 4 resigned for personal reasons, and 2 retired having reached retirement age and no longer qualified as incentive objects. The number of incentive objects of the company's stock option was adjusted from 184 to 178, the total number of options granted was adjusted from 10.692 million to 10.3356 million, and 356,400 stock options were cancelled. According to the relevant provisions of the 2018 A-share stock option incentive plan (Draft), the exercise conditions of stock options in the second exercise period have been met, and the number of stock options exercisable by 178 incentive objects in the first exercise period is 5.1678 million.

(2) JLC2 share options

According to the provisions of the company's 2021 A-share stock option incentive plan (Draft), the stock options granted to the incentive objects will be exercised in three periods after 24 months from the grant date (i.e. December 31, 2021), and the proportion of each exercise period is 34%, 33% and 33% respectively. Among them, the first exercise period is from the first trading day after 24 months from the grant date to the last trading day within 36 months from the grant date, and the proportion of exercise that can be applied for is 34% of the total amount of stock options obtained.

2. The situation of share-based payment settled with equity

Item	Situation
Method of determining the fair value of equity instruments at granting date	Black-Scholes option pricing model
Basis for determining the quantity of excisable equity instruments	At each balance sheet date during the waiting period, making the best estimate based on the performance evaluation at company-level and the performance appraisal at individual level combined with the latest number of employees who have acquired excisable rights, and modifying the estimated number of excisable equity instruments.
Reasons for the significant difference of estimate between this period and the previous period	Not applicable
Cumulative amount of equity settled share-based payment recognized into capital reserves	33,362,394.41
Total recognized fees of share-based payment settled in equity in the current period	23,197,698.00

Notes to Main Items in Consolidated Financial Statement (Continued)

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

XIII. CONTINGENCIES

As of June 30, 2022, the Group has no significant contingencies to disclosure.

XIV. COMMITMENTS

1. Large denominated signed contracts being performed or ready for performance

Item	Contract Amount	Unpaid Amount
High-end new pharmaceutical preparation industrialization project– Injection workshop	179,432,654.44	41,198,654.57
Preparation workshop II of Modern Medicine Center for international cooperation	152,712,440.91	18,755,689.98
Technical transformation projects for continuous synthesis of ibuprofen	106,177,808.13	25,849,986.51
Development of innovative medicine OAB-14 and preparations	100,000,000.00	95,000,000.00
Raw materials and preparation projects of innovative medicine LXH-2201	100,000,000.00	99,000,000.00
Total	<u>638,322,903.48</u>	<u>279,804,331.06</u>

2. There was no other significant commitment to be disclosed by the Group as of June 30, 2022, except for the aforementioned commitments.

XV. EVENTS AFTER BALANCE SHEET DATE

The Group does not have any major events after the balance sheet date which need to be disclosed as of June 30, 2022.

XVI. OTHER MAJOR MATTERS

1. Segment information

(1) **Determination basis and accounting policies of reportable segments**

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

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

(2) Financial information of reportable segments in current period

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

Reporting segments of six months ended June 30,2022 and as at 30 June 2022

Item	Chemical bulk drugs	Preparations	Chemical intermediates and other products	Unallocated item	Offset amount	Total
Operating revenue	1,504,758,646.97	1,944,479,034.50	1,043,063,473.99		-828,006,162.13	3,664,294,993.33
Including: Revenues						
from external transactions	1,497,165,394.76	1,626,006,825.59	541,122,772.98			3,664,294,993.33
Revenues from transactions within segments	7,593,252.21	318,472,208.91	501,940,701.01		-828,006,162.13	
Operating costs	1,077,592,473.71	1,575,819,471.02	882,682,756.90		-824,567,244.73	2,711,527,456.90
Including: External transaction cost	1,036,436,906.25	1,234,081,647.26	441,008,903.39			2,711,527,456.90
Inter segment transaction cost	41,155,567.46	341,737,823.76	441,673,853.51		-824,567,244.73	
Period expenses	184,979,085.45	372,209,602.40	45,661,192.39	77,891,494.63		680,741,374.87
Operating profits	210,162,769.73	-34,302,265.49	107,723,479.14	-51,610,844.04	5,791,569.06	237,764,708.38
Total assets	3,132,548,989.63	3,005,552,737.70	1,374,618,801.14	1,890,471,636.60	-1,456,975,740.55	7,946,216,424.52
Total liabilities	1,215,953,268.96	1,104,102,904.57	385,951,536.65	1,894,817,925.80	-725,899,432.84	3,874,926,203.14

Notes to Main Items in Consolidated Financial Statement (Continued)

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

Reporting segments of six months ended June 30, 2021 and as at 31 December 2021

Item	Chemical bulk drugs	Preparations	Chemical intermediates and other products	Unallocated item	Offset amount	Total
Operating revenue	1,630,328,299.38	1,854,677,116.80	868,039,630.32		-802,001,293.55	3,551,043,752.95
Including: Revenues						
from external transactions	1,532,854,894.06	1,487,975,516.03	530,213,342.86			3,551,043,752.95
Revenues from transactions within segments	97,473,405.32	366,701,600.77	337,826,287.46		-802,001,293.55	
Operating costs	1,192,777,178.36	1,384,293,930.58	740,718,045.44		-806,755,308.36	2,511,033,846.02
Including: External transaction cost	1,048,579,120.29	1,020,141,030.82	442,313,694.91			2,511,033,846.02
Inter segment transaction cost	144,198,058.07	364,152,899.76	298,404,350.53		-806,755,308.36	
Period expenses	172,902,406.34	420,270,522.54	35,213,002.21	95,888,145.89		724,274,076.98
Operating profits	226,453,668.85	23,706,382.38	85,868,813.95	-77,593,059.49	4,754,014.81	263,189,820.50
Total assets	3,543,101,155.16	2,886,519,632.57	1,419,383,451.55	1,441,986,803.83	-1,958,957,385.13	7,332,033,657.98
Total liabilities	1,222,822,706.48	1,366,867,456.40	596,543,664.64	1,735,790,825.82	-1,241,135,829.49	3,680,888,823.85

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

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

Total non-current assets	Ending Balance	Beginning Balance
China (including Hong Kong)	4,453,338,797.90	4,359,271,533.61
Americas	100,027.30	122,800.07
Europe	29,572.22	21,762.20
Total	4,453,468,397.42	4,359,416,095.88

2. As of June 30 2022, the Group does not have any other material matters to disclose other than the above matters.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

(5) Listed by bad debt accrual method

Item	Book Balance		Ending Balance		Book Value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
To recognize the bad debt provision based on single item					
To recognize the bad debt provision based on combination	2,439,119.10	100.00	12,195.60	0.50	2,426,923.50
Total	<u>2,439,119.10</u>	<u>100.00</u>	<u>12,195.60</u>	<u>0.50</u>	<u>2,426,923.50</u>

(Continued)

Item	Book Balance		Beginning Balance		Book Value
	Amount	Proportion (%)	Amount	Proportion of Provision (%)	
To recognize the bad debt provision based on single item					
To recognize the bad debt provision based on combination	2,520,015.06	100.00	12,600.08	0.50	2,507,414.98
Total	<u>2,520,015.06</u>	<u>100.00</u>	<u>12,600.08</u>	<u>0.50</u>	<u>2,507,414.98</u>

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

- 1) To recognize the bad-debt provision for notes receivable based on combination

Item	Ending Balance			Beginning Balance		
	Book Balance	Provision for Bad Debt (%)	Proportion of Provision	Book Balance	Provision for Bad Debt (%)	Proportion of Provision
Within 1 period	2,439,119.10	12,195.60	0.50	2,520,015.06	12,600.08	0.50
Total	<u>2,439,119.10</u>	<u>12,195.60</u>	<u>0.50</u>	<u>2,520,015.06</u>	<u>12,600.08</u>	<u>0.50</u>

Note: The Company confirms that the account age of the combination is within 1 period according to the maturity date of bank acceptance bill, and withdraws the bad debt provision of notes receivable according to the general model of expected credit loss.

(6) The bad-debt provision of notes receivable recognized, recovered and reversed in current period

Item	Beginning balance	Changes of amount in current period				Ending balance
		Accrual	Reversed or recovered	Transferred or written off	Other	
Bank acceptance bills	12,600.08	-404.48				12,195.60
Total	<u>12,600.08</u>	<u>-404.48</u>	<u></u>	<u></u>	<u></u>	<u>12,195.60</u>

(7) Aging of notes receivable at the end of the period

The age of the Company's notes receivable at the period end is within 1 year.

(8) Notes receivable actually written off this period

The Company has no written off notes receivable this period.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

2. Accounts receivable

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

Item	Book Balance		Ending Balance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
To recognize the bad-debt provision based on single item	1,152,406.66	0.17	1,152,406.66	100.00	
To recognize the bad-debt provision based on combination					
Including: Combination of age	297,366,010.27	42.89	2,727,328.56	0.92	294,638,681.71
Combination of related parties within consolidation scope	394,789,764.41	56.94			394,789,764.41
Subtotal of combination	<u>692,155,774.68</u>	<u>99.83</u>	<u>2,727,328.56</u>	<u>0.39</u>	<u>689,428,446.12</u>
Total	<u><u>693,308,181.34</u></u>	<u><u>100.00</u></u>	<u><u>3,879,735.22</u></u>		<u><u>689,428,446.12</u></u>

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

(Continued)

Item	Book Balance		Beginning Balance		Book value
	Amount	Proportion (%)	Provision for bad debt		
			Amount	Proportion (%)	
To recognize the bad-debt provision based on single item	1,152,406.66	0.22	1,152,406.66	100.00	
To recognize the bad-debt provision based on combination					
Including: Combination of age	224,968,669.00	42.15	1,920,233.92	0.85	223,048,435.08
Combination of related parties within consolidation scope	307,579,754.61	57.63			307,579,754.61
Subtotal of combination	<u>532,548,423.61</u>	<u>99.78</u>	<u>1,920,233.92</u>	<u>0.36</u>	<u>530,628,189.69</u>
Total	<u>533,700,830.27</u>	<u>100.00</u>	<u>3,072,640.58</u>		<u>530,628,189.69</u>

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

As of June 30, 2022, it is expected that the amount of RMB1,152,406.66 in accounts receivable with an aging of more than 2 years is unlikely to recover, the Group recognized the bad-debt provision of the single item at the full amount of RMB1,152,406.66.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

Item	Ending Balance			Beginning Balance		
	Accounts Receivable	Provision for Bad Debt	Accrual proportion (%)	Accounts Receivable	Provision for Bad Debt	Accrual proportion (%)
Within 1 year	686,932,645.55	1,460,714.41	0.21	529,607,899.26	1,110,140.72	0.21
1-2 years	4,945,643.72	989,128.74	20.00	2,663,038.94	532,607.79	20.00
2-3 years						
3-4 years						
4-5 years						
Over 5 years	277,485.41	277,485.41	100.00	277,485.41	277,485.41	100.00
Total	692,155,774.68	2,727,328.56		532,548,423.61	1,920,233.92	

(2) Aging schedule of Accounts receivable

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

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

Account Age	Ending Balance			Beginning Balance		
	Accounts Receivable	Provision for Bad Debt	Accrual proportion (%)	Accounts Receivable	Provision for Bad Debt	Accrual proportion (%)
Within 1 year	686,932,645.55	1,460,714.41	0.21	529,607,899.26	1,110,140.72	0.21
1-2 years	4,945,643.72	989,128.74	20.00	2,663,038.94	532,607.79	20.00
2-3 years	919,016.86	919,016.86	100.00	919,016.86	919,016.86	100.00
3-4 years	225,264.80	225,264.80	100.00	225,264.80	225,264.80	100.00
4-5 years	8,125.00	8,125.00	100.00	8,125.00	8,125.00	100.00
Over 5 years	277,485.41	277,485.41	100.00	277,485.41	277,485.41	100.00
Total	693,308,181.34	3,879,735.22		533,700,830.27	3,072,640.58	

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

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

Item	Beginning Balance	Changes of amount in Current Period			Ending Balance
		Recognized	Recovered or reversed	Transferred or written off	
To recognize the bad-debt provision based on single item	1,152,406.66				1,152,406.66
To recognize the bad-debt provision based on combination	1,920,233.92	807,094.64			2,727,328.56
Total	3,072,640.58	807,094.64			3,879,735.22

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

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

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

Organization Name	Ending Balance	Account Age	Proportion of Total Ending Balance of Accounts Receivables (%)	Ending Balance of Bad Debt Provision
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	337,040,412.16	Within 1 year	48.61	
Shandong Xinhua Pharmaceutical (Europe) B.V	50,263,775.27	Within 1 year	7.25	
Perrigo Company	25,076,364.15	Within 1 year	3.62	125,381.82
F.Hoffmann-La Roche AG	20,970,675.34	Within 1 year	3.02	104,853.38
Bayer Healthcare Co., Ltd.	14,941,881.53	Within 1 year	2.16	74,709.41
Total	448,293,108.45		64.66	304,944.61

Notes to Main Items in Consolidated Financial Statement (Continued)

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

3. Accounts receivable financing

(1) Details of accounts receivable financing

Item	Initial cost	Ending Balance		Provision for impairment
		Fair value changes	Book value	
Notes receivable measured at FV with changes included in OCI	83,879,021.60	_____	83,879,021.60	_____
Total	<u>83,879,021.60</u>	<u>_____</u>	<u>83,879,021.60</u>	<u>_____</u>

(Continued)

Item	Initial cost	Beginning Balance		Provision for impairment
		Fair value changes	Book value	
Notes receivable measured at FV with changes included in OCI	90,667,479.18	_____	90,667,479.18	_____
Total	<u>90,667,479.18</u>	<u>_____</u>	<u>90,667,479.18</u>	<u>_____</u>

At the end of the period, all accounts receivable financing were bank acceptance bills. The company believes that the book value of bank acceptance bills receivable is close to the fair value due to the short remaining maturity; because its credit risk is very low and there is no significant credit risk, no provision for impairment is made.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

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

Item	Derecognized Amount At Period End	Not Derecognized Amount At Period End
Bank acceptance bills	290,595,539.48	—
Total	290,595,539.48	—

4. Other receivables

Item	Ending Balance	Beginning Balance
Interest receivables		
Dividends receivables	7,917,816.00	
Other receivables	326,703,259.71	480,504,554.58
Total	334,621,075.71	480,504,554.58

4.1 Interest receivables: None

4.2 Dividends receivables

Item	Ending Balance	Beginning Balance
Bank of Communications Co., Ltd.	2,917,816.00	
China Pacific Insurance (Group) Co., Ltd	5,000,000.00	
Total	7,917,816.00	—

Notes to Main Items in Consolidated Financial Statement (Continued)

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

4.3 Other receivables

(1) Classification of other receivables by account nature

Nature	Ending Book Balance	Beginning Book Balance
Current accounts within the consolidation scope	317,859,269.51	472,228,491.92
Petty cash	140,000.00	170,000.00
Sales and leaseback deposit	8,000,000.00	8,000,000.00
Others	1,670,455.76	1,033,172.75
Total	327,669,725.27	481,431,664.67

(2) Bad-debt provision for other receivables

Bad debt provision	Stage 1 The expected credit losses in the next 12 months	Stage2 The expected credit losses of the entire duration (without any credit impairment occurred)	Stage 3 The expected credit losses of the entire duration(with credit impairment already occurred)	Total
Balance as of January 1, 2022	44,116.09		882,994.00	927,110.09
Balance of other receivable as of January 1, 2022 in the current period				
– Transferred to stage 2				
– Transferred to stage3				
– Reversed to stage 2				
– Reversed to stage 1				
Accrued in current period	39,355.47			39,355.47
Reversed in current period				
Transferred out in current period				
Written-off in current period				
Other changes				
Balance as of June 30, 2022	83,471.56		882,994.00	966,465.56

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

(3) Aging analysis of other receivables

Account Age	Ending Balance			Beginning Balance		
	Other receivables	Provision for Bad Debt	Proportion (%)	Other receivables	Provision for Bad Debt	Proportion (%)
Within 1 year	100,482,176.42	83,471.56	0.08	63,885,249.72	26,116.09	0.04
1-2 years	50,434,142.00			53,464,142.00	18,000.00	0.03
2-3 years	84,076,467.88			84,126,481.77		
3-4 years	41,500,614.19			41,500,614.19		
4-5 years	5,001,317.42			5,001,317.42		
Over 5 years	46,175,007.36	882,994.00	1.91	233,453,859.57	882,994.00	0.38
Total	<u>327,669,725.27</u>	<u>966,465.56</u>		<u>481,431,664.67</u>	<u>927,110.09</u>	

(4) Provisions for bad debt of other receivables

Item	Beginning Balance	Changes in Current Period			Ending Balance
		Accrued	Recovered or reversed	Transferred or written off	
Bad-debt provision	927,110.09	39,355.47			966,465.56
Total	<u>927,110.09</u>	<u>39,355.47</u>			<u>966,465.56</u>

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

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

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

Name of enterprise	Ending Balance	Account Age	Proportion % (%)	Ending Balance of Bad Debt Provision	Nature or Content
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	43,962,119.05	Within 1 year	40.80		Related party transaction within the scope of consolidation
	16,544,238.90	1-2 years			
	73,193,642.05	2-3 years			
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	51,883,859.42	Within 1 year	29.37		Related party transaction within the scope of consolidation
	44,362,727.22	Over 5 years			
Zibo Xinhua Pharmacy Chain Co., Ltd.	3,708,736.19	Within 1 year	26.83		Related party transaction within the scope of consolidation
	33,889,903.10	1-2 years			
	2,882,825.83	2-3 years			
	41,500,614.19	3-4 years			
	5,001,317.42	4-5 years			
Ping An Dian Chuang International Financial Leasing Co., Ltd	929,286.14	Over 5 years	1.53		Deposit
	5,000,000.00	2-3 years			
Yuan Dong International Financial Leasing Co., Ltd	3,000,000.00	2-3 years	0.92		Deposit
Total	<u>325,859,269.51</u>		<u>99.45</u>		

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

As at June 30, 2022, there were no employees' borrowings in other receivables.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

5. Long-term equity investments

(1) Classifications of long-term equity investment

Item	Ending Balance		Beginning Balance			
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	714,326,603.15		714,326,603.15	692,726,603.15		692,726,603.15
Investment in joint ventures and associate enterprises	59,316,725.91		59,316,725.91	56,707,310.33		56,707,310.33
Total	773,643,329.06		773,643,329.06	749,433,913.48		749,433,913.48

(2) Investment in subsidiaries

Invested Entity	Beginning Balance	Increase in Current Period	Decrease in Current Period	Ending Balance	Impairment	Balance of
					Provision Accrued in Current Period	Provision for Impairment as at the end of Period
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	48,582,509.23			48,582,509.23		
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	230,712,368.00			230,712,368.00		
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	35,000,000.00			35,000,000.00		
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd	3,037,700.00			3,037,700.00		
Zibo Xinhua- Perrigo Pharmaceutical Company Limited	72,278,174.60			72,278,174.60		
Shandong Xinhua Pharmaceutical (Europe) B.V.	4,596,798.56			4,596,798.56		
Xinhua (Zibo) Real Estate Co., Ltd.	20,000,000.00			20,000,000.00		
Shandong Xinhua Pharmaceutical Import and Export Co., Ltd.	5,500,677.49			5,500,677.49		
Shandong Xinhua Pharmaceutical (USA) Inc.	9,370,650.00			9,370,650.00		
Shandong Xinhua Mechanical & Electrical Engineering Co., Ltd.	8,000,000.00			8,000,000.00		
Shandong Zibo Xincat Pharmaceutical Company Limited	138,073,454.68			138,073,454.68		
Shandong Xinhua Wanbo Chemical Industry Co., Ltd.	46,974,270.59			46,974,270.59		
Shandong Xinhua Health Technology Co., Ltd	49,000,000.00			49,000,000.00		
Shandong Tongxin Pharmaceutical Co., Ltd.	21,600,000.00	21,600,000.00		43,200,000.00		
Total	692,726,603.15	21,600,000.00		714,326,603.15		

Notes to Main Items in Consolidated Financial Statement (Continued)

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

(3) Investment in joint ventures and cooperative enterprises

Invested Entity	Beginning Balance	Add investment	Reduced Investment	Increase or decrease in current period				Accrued impairment	Others	Ending Balance	Provision of Impairment
				Investment gains and losses recognized under Equity method	Adjustment of other comprehensive income	Other changes in equity	Declared cash dividends or profit				
I. Joint ventures											
Centrient Pharmaceuticals (Zibo) Co., Ltd.	56,707,310.33			2,609,415.58						59,316,725.91	
Total	56,707,310.33			2,609,415.58						59,316,725.91	

6. Operating revenues and costs

(1) Operating revenues and costs

Item	Amount Incurred in Current Period		Amount Incurred in Previous Period	
	Revenue	Cost	Revenue	Cost
Principal business activities	1,792,899,529.73	1,318,895,262.04	1,760,094,502.09	1,294,718,318.47
Other business activities	84,484,005.81	89,870,845.23	42,683,251.74	50,430,833.39
Total	1,877,383,535.54	1,408,766,107.27	1,802,777,753.83	1,345,149,151.86

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

(2) Revenues from contracts

Classification of contract	Chemical bulk drugs	Preparations	Medical intermediates and other products	Total
Commodity type				
Including : Chemical bulk drugs	1,398,212,008.97			1,398,212,008.97
Preparations		394,687,520.76		394,687,520.76
Medical Intermediates and other products			84,484,005.81	84,484,005.81
Total	1,398,212,008.97	394,687,520.76	84,484,005.81	1,877,383,535.54
Classification by operation regions				
Including : China (including Hong Kong)	591,360,267.85	282,222,287.36	44,631,979.50	918,214,534.71
Americas	261,905,529.20	551,702.72	11,377,416.93	273,834,648.85
Europe	312,018,046.47	110,343,294.09	18,309,196.64	440,670,537.20
Others	232,928,165.45	1,570,236.59	10,165,412.74	244,663,814.78
Total	1,398,212,008.97	394,687,520.76	84,484,005.81	1,877,383,535.54
Classification by contract performance obligation				
Including : To recognize revenues at a certain time	1,398,212,008.97	394,687,520.76	78,912,749.23	1,871,812,278.96
To recognize revenues within a certain period				
Rental income			5,571,256.58	5,571,256.58
Total	1,398,212,008.97	394,687,520.76	84,484,005.81	1,877,383,535.54

Note: The company's sales model can be divided into direct selling model and distribution model, in which the operating income of direct selling model is 857,106,336.40 and that of distribution model is RMB1,020,277,199.14.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

(3) Information related to performance obligations

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

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

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

At the end of the current year, the amount of revenue that corresponds to the unfulfilled or incomplete performance obligations is RMB40,660,840.95. It is expected that the amount of RMB37,612,833.84 shall be recognized within the next year.

(5) Among the recognized income this year, the amount that has been included in the contract liabilities at the end of the previous year is RMB64,754,096.93.

7. Investment income

Item	Amount Incurred in Current Period	Amount Incurred in Previous Period
Long term equity investment income calculated by cost method	10,020,000.00	15,900,000.00
Investment income of long-term equity calculated by equity method	2,609,415.58	596,471.59
Dividends income of other equity instruments investment during holding period	7,917,816.00	6,500,000.00
Total	<u>20,547,231.58</u>	<u>22,996,471.59</u>

XVIII. APPROVAL OF FINANCIAL REPORTS

The financial report was released after being approved by the Board of the Company on August 30, 2022.

Notes to Main Items in Consolidated Financial Statement (Continued)

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

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

XIX. SUPPLEMENTARY INFORMATION

1. List of non-recurring profit and loss

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

Item	Amount Incurred in Current Period	Notes
Profits and losses from disposal of non-current assets	1,912,021.60	
Government grants recognized in current profits or losses (related to enterprise business closely, except for the government grants according to the national uniform standard quota or quantity)	15,813,019.00	
Except for the effective hedging related to normal businesses, profits or losses generated from changes in fair value for holding of trading financial assets, derivative financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, derivative financial assets, trading financial liabilities, derivative financial liabilities and other creditor's rights investments	7,917,816.00	
Other non-operating income or expenditure except the above items	-1,965,594.02	
Subtotal	23,677,262.58	
Less: Effect of income tax	2,311,577.15	
Impact on minority interest income (after-tax)	22,381.48	
Total	21,343,303.95	

Notes to Main Items in Consolidated Financial Statement (Continued)

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

2. Return on net worth and earnings per share

Based on provisions in Information Disclosure and Reporting Rules No. 9 on Companies that publicly issue securities.– Calculation and Disclosure of Rate of Return on Equity (ROE) and Earnings per Share (EPS) (Revised in 2010) issued by the China Securities Regulatory Commission, the weighted average return on equity, basic EPS and diluted EPS for the Group in the current period is listed below:

Profit for the Reporting Period	Weighted Average ROE (%)	Earnings per share (EPS)	
		Basic EPS	Diluted EPS
Net profit attributable to shareholders of the parent company	5.23	0.30	0.30
Net profit attributable to shareholders of the parent company after deducting non-recurring profit or loss	<u>4.65</u>	<u>0.27</u>	<u>0.26</u>

Documents Available for Inspection

(1) DOCUMENTS AVAILABLE FOR INSPECTION

1. The Company's 2022 interim report signed by the Chairman of the Board.
2. Financial report signed and stamped by the legal representative, the financial controller and the chief of the accounting department of the Company.
3. All original copies of the Company's announcements and Company's documents publicly disclosed in PRC newspapers in the reporting period.

(2) PLACE FOR INSPECTION

Office of the secretary to the Board of the Company

Shandong Xinhua Pharmaceutical Co., Ltd.
30 August,2022