



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 )

2023  
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 2023 (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. He Tongqing), 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. He Tongqing  |
| 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                                | : | <a href="http://www.xhzy.com">http://www.xhzy.com</a>  |
| 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 | : | <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>  |

## **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 2023<br>(unaudited) | 30 June 2022<br>(unaudited)                            |   |
| Operating revenue   | <b>4,672,269,049.13</b>     | 3,664,294,993.33                                       | 27.51%  |
| Total profits   | <b>331,945,812.26</b>       | 235,316,728.47   | 41.06%  |
| Income tax expense  | <b>56,265,379.99</b>        | 36,812,855.18  | 52.84%  |
| Net profits   | <b>275,680,432.27</b>       | 198,503,873.29   | 38.88%  |
| Minority interest income  | <b>5,873,274.42</b>         | 4,114,317.17   | 42.75%  |
| Net profits attributable to shareholders of listed company  | <b>269,807,157.85</b>       | 194,389,556.12   | 38.80%  |
| Net profits attributable to shareholders of listed company after deduction of non-recurring profit and loss | <b>252,506,003.03</b>       | 173,046,252.17   | 45.92%  |
| Net cash flow from operating activities   | <b>20,131,070.66</b>        | 194,801,492.76   | (89.67%)  |
| Basic earnings per share ( <i>yuan/share</i> )  | <b>0.40</b>                 | 0.30   | 33.33%  |
| Diluted earnings per share ( <i>yuan/share</i> )  | <b>0.39</b>                 | 0.30   | 30.00%  |
| Return on equity  | <b>6.27%</b>                | 5.23%  | Increased by 1.04 percentage points             |
| Item  | As at 30                    | As at 31   | Change as compared to the End of Last Year      |
|   | June 2023<br>(unaudited)    | December 2022<br>(the “End of Last Year”)<br>(audited) |   |
| Total assets  | <b>8,075,584,581.73</b>     | 8,265,131,332.13                                       | (2.29%)   |
| Total liabilities   | <b>3,525,405,717.37</b>     | 3,915,226,169.32                                       | (9.96%)   |
| Minority shareholders' equity   | <b>219,364,092.24</b>       | 223,444,771.86   | (1.83%)   |
| Total net assets attributable to the shareholders of listed company   | <b>4,330,814,772.12</b>     | 4,126,460,390.95                                       | 4.95%   |

## 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  | (156,200.96)         | 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)  | 11,695,552.06        | Government grants that are recorded into current profits and losses Investment income |
| Profit or loss from change in fair value of held-for-trading financial  |                      |   |
| 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 | 8,165,761.60         | Investment bonus and revenue from other equity interests instruments                  |
| Other non-operating revenue and cost except the above items   | (580,087.62)         |   |
| Less: Effect of income tax  | 1,738,625.50         |   |
| Impact on minority interest income  | 85,244.76            |   |
| Total   | <u>17,301,154.82</u> |   |

### Items measured at fair value

Unit: RMB Yuan

| Items                                     | Amount as at<br>1 January 2023 | Profit or loss<br>from change in<br>fair value | Cumulative<br>Change of fair<br>value recorded<br>in equity | Provision<br>impairment | Amount as at<br>30 June 2023 |
|---|--------------------------------|--|---|-------------------------|------------------------------|
| Financial assets:                         |                                |  |   |                         |                              |
| 1. Investment in other equity instruments | 182,029,156.02                 | -  | 122,693,737.86  | -                       | 195,570,891.95               |
| 2. Accounts receivable financing          | 189,752,210.65                 | -  | -   | -                       | 163,211,566.07               |
| Subtotal of financial assets              | <u>371,781,366.67</u>          | <u>-</u>                                       | <u>122,693,737.86</u>                                       | <u>-</u>                | <u>358,782,458.02</u>        |

## Key Financial Data and Financial Indicators prepared in accordance with CASBE

### Other comprehensive income items

Unit: RMB Yuan

| Items   | Six months ended<br>30 June 2023 | Six months ended<br>30 June 2022 |
|---|----------------------------------|----------------------------------|
| 1. Change in fair value of investment in other equity instruments                           | <b>13,541,735.93</b>             | (14,908,896.00)                  |
| Less: Income tax impact arising from investment in other equity instruments                 | <b>2,031,260.39</b>              | (2,236,334.40)                   |
| Net profit or loss carried from amounts previously recognized in other comprehensive income | -                                | -                                |
| Subtotal  | <b>11,510,475.54</b>             | (12,672,561.60)                  |
| 2. Conversion difference of financial statements in foreign currency                        | <b>2,362,531.33</b>              | 2,970,957.07                     |
| Less: net profit or loss carried from amounts incurred by disposal of foreign operation     | -                                | -                                |
| Subtotal  | <b>2,362,531.33</b>              | 2,970,957.07                     |
| Total   | <b>13,873,006.87</b>             | (9,701,604.53)                   |

# Changes In Share Capital Structure and Information on Shareholders

## 1. SHARE CAPITAL STRUCTURE

Count unit: share

| Class of shares   | 30 June 2023       |   | 1 January 2023   |   |
|---|--------------------|---|------------------|---|
|   | Number of shares   | Percentage of the total share capital (%) | Number of shares | Percentage of the total share capital (%) |
| <b>1. Total number of conditional tradable shares</b>             | <b>38,676,675</b>  | <b>5.73</b>                               | 38,294,533       | 5.72                                      |
| State-owned shares  | –                  | –   | –                | –   |
| Shares owned by domestic legal persons                            | <b>37,091,988</b>  | <b>5.50</b>                               | 37,091,988       | 5.54                                      |
| Conditional tradable shares owned by senior management (A shares) | <b>1,584,687</b>   | <b>0.23</b>                               | 1,202,545        | 0.18                                      |
| Others  | –                  | –   | –                | –   |
| <b>2. Total number of unconditional tradable shares</b>           | <b>636,006,160</b> | <b>94.27</b>                              | 631,332,702      | 94.28                                     |
| Renminbi-denominated ordinary shares (A shares)                   | <b>441,006,160</b> | <b>65.37</b>                              | 436,332,702      | 65.16                                     |
| Overseas listed foreign shares (H shares)                         | <b>195,000,000</b> | <b>28.90</b>                              | 195,000,000      | 29.12                                     |
| <b>3. Total number of shares</b>                                  | <b>674,682,835</b> | <b>100.00</b>                             | 669,627,235      | 100.00                                    |

Note: The third exercise period of the Company's 2018 A-share stock option incentive plan was exercised in two installments, 4,260,300 shares on 11 January 2023, and 795,300 shares on 9 May 2023, respectively.

# Changes In Share Capital Structure and Information on Shareholders

## 2. SHAREHOLDERS INFORMATION

- (1) As at 30 June 2023, the Company had on record a total of 110,533 shareholders (the “Shareholders”), including 36 holders of H Shares and 110,497 holders of A Shares.
- (2) As at 30 June 2023, 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.) <sup>(i)</sup><br>(“HHC”)  | State-owned                     | 30.36                        | 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                        | 28.66                        | 193,334,127   | Overseas listed foreign shares  |
| 華魯投資發展有限公司 Hualu Investment Development Co., Ltd (“Hualu Investment”) | State-owned                     | 5.50                         | 37,091,988  | RMB-denominated ordinary shares |
| 方威 Fang Wei   | Natural person in the territory | 1.07                         | 7,213,386   | RMB-denominated ordinary shares |
| 香港中央結算有限公司 HKSCC Limited  | Overseas Legal Person           | 0.50                         | 3,394,277   | RMB-denominated ordinary shares |
| 于海濤 Yu Haitao   | Natural person in the territory | 0.21                         | 1,385,400   | RMB-denominated ordinary shares |
| 鄭旭 Zheng Xu   | Natural person in the territory | 0.16                         | 1,086,700   | RMB-denominated ordinary shares |
| 廖軍祥 Liao Junxiang   | Natural person in the territory | 0.13                         | 850,000   | RMB-denominated ordinary shares |
| 張秋 Zhang Qiu  | Natural person in the territory | 0.07                         | 473,500   | RMB-denominated ordinary shares |
| 王品海 Wang Pinhai   | Natural person in the territory | 0.07                         | 472,100   | RMB-denominated ordinary shares |

## Changes In Share Capital Structure and Information on Shareholders

- (3) As at 30 June 2023 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 <sup>①</sup>            | State-owned                     | 30.36                        | 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                        | 28.66                        | 193,334,127   | Overseas listed foreign shares  |
| 方威 Fang Wei                            | Natural person in the territory | 1.07                         | 7,213,386   | RMB-denominated ordinary shares |
| 香港中央結算有限公司 HKSCC Limited               | Overseas Legal Person           | 0.50                         | 3,394,277   | RMB-denominated ordinary shares |
| 于海濤 Yu Haitao                          | Natural person in the territory | 0.21                         | 1,385,400   | RMB-denominated ordinary shares |
| 鄭旭 Zheng Xu                            | Natural person in the territory | 0.16                         | 1,086,700   | RMB-denominated ordinary shares |
| 廖軍祥 Liao Junxiang                      | Natural person in the territory | 0.13                         | 850,000   | RMB-denominated ordinary shares |
| 張秋 Zhang Qiu                           | Natural person in the territory | 0.07                         | 473,500   | RMB-denominated ordinary shares |
| 王品海 Wang Pinhai                        | Natural person in the territory | 0.07                         | 472,100   | RMB-denominated ordinary shares |
| 王香配 Wang Xiangpei                      | Natural person in the territory | 0.07                         | 460,000   | RMB-denominated ordinary shares |

*Notes:*

- i. Such figure excludes the 37,091,988 A Shares held by Hualu Investment, a direct wholly owned subsidiary of HHC. As of 30 June 2023, 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 3.09% of the issued share capital of the Company, the legal title of which are deposited into the clearing system of the SEHK and held by HKSCC Nominees Limited. Hualu Investment owns 37,091,988 A Shares of the Company, representing approximately 5.50% 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. Changes in the shares of the top 10 shareholders participating in margin trading: Yu Haitao holds 1,385,300 shares of the company through the credit securities account (1,385,300 shares at the beginning of the period); Zheng Xu holds 1,086,700 shares through the credit securities account (18,000 shares at the beginning of the period); Liao Junxiang holds 850,000 shares of the Company through the credit securities account (0 shares at the beginning of the period); Zhang Qiu holds 473,500 shares of the Company through the credit securities account (0 shares at the beginning of the period).
- v. Save as disclosed above and so far as the Directors are aware, as at 30 June 2023, 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 (Cap. 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.

# Directors, Supervisors, Senior Management and Staff

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

| Name                            | Position   | Number of Shares as at 30 June 2023 | Approximate percentage of shareholding in    | Approximate percentage of shareholding in  | Number of Shares as at 1 January 2023 |
|---------------------------------|--|-------------------------------------|--|--|---------------------------------------|
|                                 |  |                                     | total issued A Shares as at 30 June 2023 (%) | total issued Shares as at 30 June 2023 (%) |                                       |
| <b>Directors:</b>               |  |                                     |  |  |                                       |
| Mr. He Tongqing                 | Chairman   | 183,150                             | 0.0382                                       | 0.0271                                     | 110,550                               |
| Mr. Xu Wenhui                   | Executive Director, General Manager                              | 133,200                             | 0.0278                                       | 0.0197                                     | 80,400                                |
| Mr. Xu Lie                      | Non-executive Director   | 183,150                             | 0.0382                                       | 0.0271                                     | 110,550                               |
| Mr. Hou Ning                    | Executive Director, Financial Controller                         | 220,000                             | 0.0459                                       | 0.0326                                     | 147,400                               |
| 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                                   |
| Mr. Ling Peixue                 | Independent non-executive Director<br>(Resigned on 26 July 2023) | Nil                                 | –  | –  | Nil                                   |
| <b>Supervisors:</b>             |  |                                     |  |  |                                       |
| Mr. Liu Chengtong               | Chairman of Supervisory Committee                                | Nil                                 | –  | –  | Nil                                   |
| Mr. Tao Zhichao                 | Independent Supervisor   | Nil                                 | –  | –  | Nil                                   |
| Ms. Hu Yanhua                   | Employee Supervisor  | Nil                                 | –  | –  | Nil                                   |
| Mr. Wang Jianping               | Employee Supervisor  | Nil                                 | –  | –  | Nil                                   |
| Mr. Xiao Fangyu                 | Independent Supervisor   | Nil                                 | –  | –  | Nil                                   |
| <b>Other Senior Management:</b> |  |                                     |  |  |                                       |
| Mr. Zheng Zhonghui              | Deputy General Manager   | 183,150                             | 0.0382                                       | 0.0271                                     | 110,550                               |
| Mr. Wei Changsheng              | Deputy General Manager   | 133,200                             | 0.0278                                       | 0.0197                                     | 80,400                                |
| Mr. Liu Xuesong                 | Deputy General Manager   | 23,100                              | 0.0048                                       | 0.0034                                     | Nil                                   |
| Mr. Kou Zuxing                  | Deputy General Manager   | 23,100                              | 0.0048                                       | 0.0034                                     | Nil                                   |
| Mr. Cao Changqiu                | Secretary to the Board   | 133,200                             | 0.0278                                       | 0.0197                                     | 80,400                                |
| Total                           |  | <b>1,215,250</b>                    | <b>0.2533</b>                                | <b>0.1801</b>                              | 720,250                               |

# Directors, Supervisors, Senior Management 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. The increase in shareholding of the Shares held by Directors and Senior Management resulted from the exercise of share options under the 2018 A-share stock option incentive plan.
- iii. So far as the Directors, the Senior Management and Supervisors are aware, save as disclosed above, as at 30 June 2023, 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 deputy general counsel | 17 May 2019      | –                | Yes                                    |

# Directors, Supervisors, Senior Management 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                  | RMB2,902,072.00 was paid during this Reporting Period, the exercised share options amount to RMB2,702,700.00.   |

### Staff and remuneration information (As of 30 June 2023)

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 2023, the number of staff employed by the Group was 6,839, and the total amount of their salaries and wages for the half year was RMB406,537,000.

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

During the Reporting Period, the Company did not distribute any bonus.

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

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

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

## Directors, Supervisors, Senior Management 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 A share.

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 canceled.

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 A share.

As at 28 December 2022, the third 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, four 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 112,200 share options granted but not yet exercised were canceled. Accordingly, in January 2023, the total number of grantees under the Incentive Plan has been adjusted from 178 to 173, the number of options granted has been adjusted from 5,167,800 to 5,055,600, and 112,200 share options have been canceled.

The Company issued ordinary A shares in the Company to the eligible grantees in January and May 2023 respectively. During the third exercise period of share options, there were 173 eligible grantees in total and the number of exercised share options amounted to 5,055,600, with an adjusted exercise price of RMB5.46 per A share.

### 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.

## Directors, Supervisors, Senior Management and Staff

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 periods of 24 months, 36 months and 48 months from the date of grant respectively.

On December 23, 2022, the Company held the fourth extraordinary meeting of the 10th Board of Directors in 2022 and the first extraordinary meeting of the 10th Board of Supervisors in 2022 respectively, deliberating and passing the Motion on granting reserved share options to eligible grantees. In accordance with the approval and authorization of 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, the Board of Directors determined that the grant date of the reserved grant is 26 December 2022, and 1.75 million reserved share options will be granted to 35 eligible grantees.

The exercise price of the reserved share options granted was determined to be RMB37.53 per A share. The share options shall have vesting periods of 24 months, 36 months and 48 months from the date of grant respectively.

- Summary of the movements of share options of the Company during the six months ended 30 June 2023 in relation to the 2018 A Share Option Incentive Plan:

| Grantees       | Position                                  | Outstanding share options as at beginning of Reporting Period (Note 1) |                     | Exercise period (Note 2) | No. of share options granted during Reporting Period | No. of share options vested during Reporting Period (Note 3) | No. of share options exercised during Reporting Period (Note 4) | No. of share options cancelled during Reporting Period | No. of exercisable share options at end of Reporting Period | No. of unvested share options at end of Reporting Period |
|----------------|---|--|---------------------|--------------------------|--|--|---|--|---|--|
|                |   | Number   | Vesting period      |                          |  |  |   |  |   |  |
| He Tongqing    | Chairman                                  | 72,600   | 28/12/18 – 28/12/22 | 29/12/20 – 28/12/23      | 0  | 0  | 72,600  | 0  | 0   | 0  |
| Xu Wenhui      | Executive Director & General Manager      | 52,800   | 28/12/18 – 28/12/22 | 29/12/20 – 28/12/23      | 0  | 0  | 52,800  | 0  | 0   | 0  |
| Xu Lie         | Non-executive Director                    | 72,600   | 28/12/18 – 28/12/22 | 29/12/20 – 28/12/23      | 0  | 0  | 72,600  | 0  | 0   | 0  |
| Hou Ning       | Executive Director & Financial Controller | 72,600   | 28/12/18 – 28/12/22 | 29/12/20 – 28/12/23      | 0  | 0  | 72,600  | 0  | 0   | 0  |
| Zheng Zhonghui | Deputy General Manager                    | 72,600   | 28/12/18 – 28/12/22 | 29/12/20 – 28/12/23      | 0  | 0  | 72,600  | 0  | 0   | 0  |
| Wei Changsheng | Deputy General Manager                    | 52,800   | 28/12/18 – 28/12/22 | 29/12/20 – 28/12/23      | 0  | 0  | 52,800  | 0  | 0   | 0  |
| Liu Xuesong    | Deputy General Manager                    | 23,100   | 28/12/18 – 28/12/22 | 29/12/20 – 28/12/23      | 0  | 0  | 23,100  | 0  | 0   | 0  |

# Directors, Supervisors, Senior Management and Staff

| Grantees            | Position               | Number    | Vesting period      | Outstanding share options as at beginning of Reporting Period (Note 1) |                          | No. of share options granted during Reporting Period | No. of share options vested during Reporting Period (Note 3) | No. of share options exercised during Reporting Period (Note 4) | No. of share options cancelled during Reporting Period | No. of exercisable share options at end of Reporting Period | No. of unvested share options at end of Reporting Period |
|---------------------|------------------------|-----------|---------------------|--|--------------------------|--|--|---|--|---|--|
|                     |                        |           |                     | Exercise period (Note 2)   | Exercise period (Note 2) |  |  |   |  |   |  |
| Kou Zuxing          | Deputy General Manager | 23,100    | 28/12/18 - 28/12/22 | 29/12/20 - 28/12/23  |                          | 0  | 0  | 23,100  | 0  | 0   | 0  |
| Cao Changqiu        | Secretary to the Board | 52,800    | 28/12/18 - 28/12/22 | 29/12/20 - 28/12/23  |                          | 0  | 0  | 52,800  | 0  | 0   | 0  |
| Subtotal            |                        | 495,000   |                     |  |                          | 0  | 0  | 495,000   | 0  | 0   | 0  |
| Other staff members |                        | 4,672,800 | 28/12/18 - 28/12/22 | 29/12/20 - 28/12/23  |                          | 0  | 0  | 4,560,600   | 112,200  | 0   | 0  |
| Total               |                        | 5,167,800 |                     |  |                          | 0  | 0  | 5,055,600   | 112,200  | 0   | 0  |

## Notes:

- All of the share options under the 2018 A Share Option Incentive Plan were granted on 28 December 2018 with an exercise price of RMB5.98 per A share. These share options have vesting periods of 24 months, 36 months and 48 months from the date of grant respectively. The Company selected the Black-Scholes Model to calculate the fair value of share options under this Grant, the specific calculating methods and results of fair value of each share option are as follows:

| Parameters                     | Explanation for parameters   |
|--------------------------------|--|
| Price of underlying share      | RMB5.55 per share (the price on the date 28 December 2018 of grant)  |
| Exercise price                 | RMB5.98 per share option   |
| Expected term of share options | 4 years, representing "the weighted average expected term" under the Black-Scholes Model                         |
| Risk-free interest rate        | 3.50%, the selected time interval is the yield of the Treasury bond with a maturity of nearly 4 years            |
| Expected volatility            | 29.19%, the selected time interval is the volatility of the SZSE Component Index for the past 4 years (Note (a)) |
| Expected dividend yield        | 0% (Note (b))  |

*Note (a):* The calculation method of expected volatility is to select the daily logarithmic return rate of the SZSE Component Index for the period from 29 December 2014 to 28 December 2018. The Company will divide the specified interval into several sample intervals according to the aforesaid period, and then calculate the annualized value of the average return standard deviation of the specified period.

*Note (b):* When there is a dividend payment, the exercise price will be adjusted pursuant to the Share Option Incentive Plan. According to the parameter requirements of the Black-Scholes model, the dividend rate will be 0% when the exercise price is adjusted.

## Directors, Supervisors, Senior Management and Staff

The calculation results of the value of the share options are subject to a number of assumptions of the parameters used in this section and the limitation of the model adopted, therefore the estimated value of the share options may be subjective and uncertain. It is calculated that the fair value of the 16.25 million share options at the date of this grant was RMB1.42 per A share. The total cost reserved for grant under this incentive plan is RMB23.075 million, and the amortization of stock option costs from 2019 to 2022 is shown in the following table:

Unit: RMB10'000

| The costs<br>of share options | 2019   | 2020   | 2021   | 2022   |
|-------------------------------|--------|--------|--------|--------|
| 2,307.50                      | 836.47 | 836.47 | 444.20 | 190.36 |

The costs of share options incurred as a result of this incentive plan will be charged to recurring profit or loss. The above impact on the Company's financial status and operating results is only calculated data, and the final results shall be subject to the annual audit report issued by the accounting firm.

2. All of the share options under the 2018 A Share Option Incentive Plan are exercisable in three tranches from expiry of 24 months from the date of the grant:
  - (a) 34% the options granted may be exercised during the first exercise period, commencing from the first trading day after the expiry of the 24<sup>th</sup> month from the date of grant, and ending on the last trading day of the 36<sup>th</sup> month from the date of grant (i.e. from 29 December 2020 to 28 December 2021);
  - (b) 33% the options granted may be exercised during the second exercise period, commencing from the first trading day after the expiry of the 36<sup>th</sup> month from the date of grant, and ending on the last trading day of the 48<sup>th</sup> month from the date of grant (i.e. from 29 December 2021 to 28 December 2022); and
  - (c) 33% the options granted may be exercised during the third exercise period, commencing from the first trading day after the expiry of the 48<sup>th</sup> month from the date of grant, and ending on the last trading day of the 60<sup>th</sup> month from the date of grant (i.e. from 29 December 2022 to 28 December 2023).
3. There were no any share options granted to grantees were vested during the Reporting Period.
4. The share options were exercised by the relevant grantees in two installments at the exercise price of RMB5.46 per A share. The Company received stock exercise payments of RMB 23,261,238 and RMB 4,342,338 respectively paid by the incentive object at the net price of RMB 5.46 per share. and the weighted average closing price of A share of the Company on the Shenzhen Stock Exchange immediately before the date of the share options were exercised were RMB29.70 (10 January 2023) and RMB22.90 (8 May 2023) per A share.
5. There was no individual participant with options granted or to be granted in excess of 1% of the total issued share capital of the Company and there was no related entity participant or service provider with options granted or to be granted in any 12-month period exceeding 0.1% of the issued share capital of the Company.
6. No share options under the 2018 A Share Option Incentive Plan had lapsed during the Reporting Period.

## Directors, Supervisors, Senior Management and Staff

2. Summary of the movements of share options of the Company during the six months ended 30 June 2023 in relation to the 2021 A Share Option Incentive Plan:

| Grantees            | Position                                  | Outstanding share options as at beginning of Reporting Period (Note 1) |                     |                     | Share options granted during the Reporting Period (Note 2) |                |                 | No. of share options                                |  | No. of share options cancelled during Reporting Period | No. of unvested share options at end of Reporting Period |
|---------------------|---|--|---------------------|---------------------|--|----------------|-----------------|---|--|--|--|
|                     |   | Number   | Vesting period      | Exercise period     | Number   | Vesting period | Exercise period | No. of share options vested during Reporting Period | No. of share options exercised during Reporting Period |  |  |
|                     |   |  | (Note 3)            | (Note 4)            |  | (Note 3)       | (Note 4)        | (Notes 2 & 5)                                       | (Note 5)   |  |  |
| He Tongqing         | Chairman                                  | 320,000  | 31/12/21 – 31/12/25 | 01/01/24 – 31/12/26 | 0  | N/A            | N/A             | 0   | 0  | 0  | 320,000  |
| Xu Wenhui           | Executive Director & General Manager      | 320,000  | 31/12/21 – 31/12/25 | 01/01/24 – 31/12/26 | 0  | N/A            | N/A             | 0   | 0  | 0  | 320,000  |
| Xu Lie              | Non-executive Director                    | 320,000  | 31/12/21 – 31/12/25 | 01/01/24 – 31/12/26 | 0  | N/A            | N/A             | 0   | 0  | 0  | 320,000  |
| Hou Ning            | Executive Director & Financial Controller | 320,000  | 31/12/21 – 31/12/25 | 01/01/24 – 31/12/26 | 0  | N/A            | N/A             | 0   | 0  | 0  | 320,000  |
| Zheng Zhonghui      | Deputy General Manager                    | 320,000  | 31/12/21 – 31/12/25 | 01/01/24 – 31/12/26 | 0  | N/A            | N/A             | 0   | 0  | 0  | 320,000  |
| Wei Changsheng      | Deputy General Manager                    | 320,000  | 31/12/21 – 31/12/25 | 01/01/24 – 31/12/26 | 0  | N/A            | N/A             | 0   | 0  | 0  | 320,000  |
| Liu Xuesong         | Deputy General Manager                    | 200,000  | 31/12/21 – 31/12/25 | 01/01/24 – 31/12/26 | 0  | N/A            | N/A             | 0   | 0  | 0  | 200,000  |
| Kou Zuxing          | Deputy General Manager                    | 150,000  | 31/12/21 – 31/12/25 | 01/01/24 – 31/12/26 | 0  | N/A            | N/A             | 0   | 0  | 0  | 150,000  |
| Cao Changqiu        | Secretary to the Board                    | 200,000  | 31/12/21 – 31/12/25 | 01/01/24 – 31/12/26 | 0  | N/A            | N/A             | 0   | 0  | 0  | 200,000  |
| Subtotal            |   | <u>2,470,000</u>   |                     |                     | <u>0</u>   |                |                 | <u>0</u>  | <u>0</u>   | <u>0</u>   | <u>2,470,000</u>   |
| Other staff members |   | <u>20,680,000</u>  | 31/12/21 – 31/12/25 | 01/01/24 – 31/12/26 | <u>0</u>   | N/A            | N/A             | <u>0</u>  | <u>0</u>   | <u>0</u>   | <u>20,680,000</u>  |
|                     |   | <u>1,750,000</u>   | 26/12/22 – 26/12/26 | 27/12/24 – 26/12/27 | <u>0</u>   | N/A            | N/A             | <u>0</u>  | <u>0</u>   | <u>0</u>   | <u>1,750,000</u>   |
| Total               |   | <u><u>24,900,000</u></u>   |                     |                     | <u><u>0</u></u>  |                |                 | <u><u>0</u></u>                                     | <u><u>0</u></u>  | <u><u>0</u></u>  | <u><u>24,900,000</u></u>                                 |

# Directors, Supervisors, Senior Management and Staff

Notes:

- The unvested share options under the 2021 A Share Option Incentive Plan at the beginning and end of the Reporting Period were granted on 31 December 2021 with an exercise price of RMB7.96 per A share. The Company selected the Black-Scholes Model to calculate the fair value of share options under the first Grant, the specific calculating methods and results of fair value of each share option are as follows:

| Parameters                     | Explanation for parameters  |
|--------------------------------|---|
| Price of underlying share      | RMB11.19 per share (the price on the date 31 December 2021 of grant)                                  |
| Exercise price                 | RMB7.96 per share option  |
| Expected term of share options | 3.5 years, representing "the weighted average expected term" under the Black-Scholes Model            |
| Risk-free interest rate        | 2.46%, the selected time interval is the yield of the Treasury bond with a maturity of nearly 3 years |
| Expected volatility            | 44.98%, the selected time interval is the volatility of the Company for the past 3.5 years (Note (a)) |
| Expected dividend yield        | 0% (Note (b))   |

Note (a): The calculation method of expected volatility is to select the daily logarithmic return rate of the Company for the period from 1 July 2018 to 31 December 2021. The Company will divide the specified interval into several sample intervals according to the aforesaid period, and then calculate the annualized value of the average return standard deviation of the specified period.

Note (b): When there is a dividend payment, the exercise price will be adjusted pursuant to the Share Option Incentive Plan. According to the parameter requirements of the Black-Scholes model, the dividend rate will be 0% when the exercise price is adjusted.

The calculation results of the value of the share options are subject to a number of assumptions of the parameters used in this section and the limitation of the model adopted, therefore the estimated value of the share options may be subjective and uncertain. It is calculated that the fair value of the 23.15 million share options at the date of first grant was RMB5.31 per A share. The total cost reserved for grant under this incentive plan is RMB122.9264 million, and the amortization of stock option costs from 2022 to 2025 is shown in the following table:

Unit: RMB10'000

| The costs of share options | 2022      | 2023     | 2024     | 2025     |          |
|----------------------------|-----------|----------|----------|----------|----------|
|                            | 12,292.64 | 4,456.08 | 4,456.08 | 2,366.33 | 1,014.14 |

The costs of share options incurred as a result of this incentive plan will be charged to recurring profit or loss. The above impact on the Company's financial status and operating results is only calculated data, and the final results shall be subject to the annual audit report issued by the accounting firm.

## Directors, Supervisors, Senior Management and Staff

2. 1.75 million share options were granted under the 2021 A Share Option Incentive Plan during the Reporting Period on 26 December 2022 to certain employee participants with an exercise price of RMB37.53 per A share. The Company selected the Black-Scholes Model to calculate the fair value of share options under the Reserved Grant, the specific calculating methods and results of fair value of each share option are as follows:

| Parameters                     | Explanation for parameters   |
|--------------------------------|--|
| Price of underlying share      | RMB38.01 per share (the price on the date 26 December 2022 of grant)   |
| Exercise price                 | RMB37.53 per share option  |
| Expected term of share options | 3.5 years, representing “the weighted average expected term” under the Black-Scholes Model                                     |
| Risk-free interest rate        | 2.47%, the selected time interval is the yield of the Treasury bond with a maturity of nearly 3 years before the date of grant |
| Expected volatility            | 54.71%, the selected time interval is the volatility of the Company for the past 3.5 years ( <i>Note (a)</i> )                 |
| Expected dividend yield        | 0% ( <i>Note (b)</i> )   |

*Note (a):* The calculation method of expected volatility is to select the daily logarithmic return rate of the Company for the period from 27 June 2019 to 26 December 2022. The Company will divide the specified interval into several sample intervals according to the aforesaid period, and then calculate the annualized value of the average return standard deviation of the specified period.

*Note (b):* When there is a dividend payment, the exercise price will be adjusted pursuant to the Share Option Incentive Plan. According to the parameter requirements of the Black-Scholes model, the dividend rate will be 0% when the exercise price is adjusted.

The calculation results of the value of the share options are subject to a number of assumptions of the parameters used in this section and the limitation of the model adopted, therefore the estimated value of the share options may be subjective and uncertain. It is calculated that the fair value of the 1.75 million share options at the date of reserved grant was RMB16.02 per A share. The total cost reserved for grant under this incentive plan is RMB28.0351 million, and the amortization of share option costs from 2022 to 2026 is shown in the following table:

*Unit: RMB10'000*

| The costs of share options | 2022     | 2023  | 2024     | 2025   | 2026   |        |
|----------------------------|----------|-------|----------|--------|--------|--------|
|                            | 2,803.51 | 84.69 | 1,016.27 | 976.56 | 513.98 | 212.02 |

The costs of share options incurred as a result of this incentive plan will be charged to recurring profit or loss. The above impact on the Company's financial status and operating results is only calculated data, and the final results shall be subject to the annual audit report issued by the accounting firm.

The closing price of A share of the Company on the Shenzhen Stock Exchange on the last trading day (i.e. 23 December 2022) before the grant of the share options on 26 December 2022 was RMB36.17 per A share. The exercise of share options is subject to various conditions, including but not limited to the meeting or ascertaining of certain performance targets, details of which are set out in the circular of the Company dated 15 December 2021.

## Directors, Supervisors, Senior Management and Staff

3. All of the share options under the 2021 A Share Option Incentive Plan have vesting periods of 24 months, 36 months and 48 months from the date of grant respectively.
4. The share options under the 2021 A Share Option Incentive Plan are exercisable in three tranches from expiry of 24 months from the date of the grant:
  - (a) 34% the options granted may be exercised during the first exercise period, commencing from the first trading day after the expiry of the 24<sup>th</sup> month from the date of grant, and ending on the last trading day of the 36<sup>th</sup> month from the date of grant;
  - (b) 33% the options granted may be exercised during the second exercise period, commencing from the first trading day after the expiry of the 36<sup>th</sup> month from the date of grant, and ending on the last trading day of the 48<sup>th</sup> month from the date of grant; and
  - (c) 33% the options granted may be exercised during the third exercise period, commencing from the first trading day after the expiry of the 48<sup>th</sup> month from the date of grant, and ending on the last trading day of the 60<sup>th</sup> month from the date of grant.
5. There was no individual participant with options granted or to be granted in excess of 1% of the total issued share capital of the Company and there was no related entity participant or service provider with options granted or to be granted in any 12-month period exceeding 0.1% of the issued share capital of the Company.
6. No share options under the 2021 A Share Option Incentive Plan had lapsed during the Reporting Period.

The number of shares that may be issued (i.e. 24,900,000 A shares) in respect of options granted under all schemes of the Company (i.e. 24,900,000 share options under the 2021 Share Option Incentive Plan) during the Reporting Period (i) divided by the weighted average number of shares of the A shares in issue for the period (i.e. 478,885,037) and (ii) divided by the weighted average number of shares of the all the shares in issue for the period (i.e. 673,885,037) is 5.20% and 3.69%, respectively.

The accounting policies for 2018 A Share Option Incentive Plan and the 2021 A Share Option Incentive Plan are in accordance with the relevant requirements of “Enterprise Accounting Standard No. 11 – Share-based Payments” under the PRC GAAP. On each balance sheet date during the vesting period, the Company will ascertain the number of share options that are expected to be vested based on the latest information such as the change in the number of people who are entitled to exercise the options, the completion of performance indicators, the number of share options that are expected to be exercisable. Based on the fair value on the date of grant of share options, the Company will recognise the services obtained in the vesting period as relevant costs or expenses and capital reserves.

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 2022 Annual Report of the Company.

## Directors, Supervisors, Senior Management and Staff

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

| <b>Area of Work</b>     | <b>Number of Staff</b> |
|-------------------------|------------------------|
| Production              | 3,864                  |
| Engineering & Technical | 593                    |
| Administration          | 300                    |
| Finance                 | 91                     |
| Product R&D             | 472                    |
| Procurement             | 59                     |
| Sales                   | 904                    |
| Quality inspection      | 556                    |
| Total                   | <u>6,839</u>           |

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

| <b>Education level by category</b>              | <b>Number of Staff</b> |
|---|------------------------|
| Universities or above                           | 1,688                  |
| Tertiary institutions other than universities   | 2,189                  |
| Intermediate institutions and technical schools | 2,297                  |
| Senior high schools or below                    | 665                    |
| Total   | <u>6,839</u>           |

The Company formulated and implemented staff education and training plan in 2023. In the first half of 2023, 29 company-level training programs were carried out, with 1,285 employees attended the training, including youth workers safety skills and knowledge improvement training, training of professional environmental protection knowledge, training of professional quality knowledge, training of drug basic knowledge, production equipment and special facilities training and other aspects. The Company actively enriched the contents and innovated the training method to enhance the outcome.

# 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 2023.

In the first half of the year 2023, the operating revenue of the Group prepared under the CASBE was RMB4,672,269,000, representing an increase of 27.51% as compared with the same period last year. The Group recorded its net profits attributable to the Shareholders as RMB269,807,000, representing an increase of 38.80% 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 2023.

## BUSINESS REVIEW

In the first half of the year, the Group overcame the impacts brought by various unfavorable factors such as sluggish market demand, intense competition, and difficulties in production organisation, the Group united as one, made innovative breakthroughs, and accelerated the progress of various key tasks, successfully completing its interim target.

### 1. Stabilizing the market and seizing opportunities, multiple breakthroughs in various sectors

We made great efforts to overcome unprecedented difficulties in the international market, played a leading role in exporting raw materials for pharmaceuticals, and maintained a stable external sales situation. At the same time, we fully leveraged our Company's comprehensive advantages in the domestic raw materials market, promoted differentiated sales strategies, and achieved a year-on-year increase of 78.49% in the domestic sales of raw materials in the first half of the year.

We seized market opportunities and adhered unwaveringly to the development of major product categories and the cultivation of strategic product categories. In the first half of the year, the sales volume of industrial preparations increased by 48.66% year-on-year, and the sales volume of preparation processing and export businesses increased by 93.97% year-on-year.

Xinhua Medical Trade (新華醫貿商業) successfully obtained the modern medicine logistics qualification certification, laying a solid foundation for accelerating the implementation of breakthrough measures. Xinhua Health focused on two core businesses, namely the pharmaceutical and non-pharmaceutical sectors, to build an "Internet + medical health" closed-loop service ecosystem and a one-stop full industry chain service system, achieving rapid development on multiple tracks. In the first half of the year, the sales of commercial sector achieved rapid growth.

## 2. Accelerating the launch of new products and the development of new projects, boosting momentum

In the first half of the year, 7 new products were launched, including 5 preparation products such as ibuprofen suspension, 1 active pharmaceutical ingredient, namely Alogliptin Benzoate, and 1 health product of zinc vitamin C effervescent tablet.

The four key projects, including the DCB project and the Methyl dopa project have completed civil construction and started equipment installation.

## 3. Accelerating the pace of technological innovation and achieving a new record in approved patents

In the first half of the year, 10 drug production licenses and 6 veterinary drug licenses were obtained, and the Phase I clinical trial licenses were obtained for innovative drugs such as OAB-14. The number of approved patents obtained by the Group set a new record.

In addition, 22 patents were authorized, including 8 invention patents during the first half of the year. One project won the first prize of the Shandong Chemical Industry Association Science and Technology Progress Award (山東化學化工學會科技進步獎一等獎), and another project was nominated for the China Grand Award for Industry (中國工業大獎提名獎). XinCat Pharmaceutical and Gaomi Company were recognized as the first batch of "Specialized, Fine, Unique and Innovative Small and Medium-sized Enterprises (專精特新中小企業)" in Shandong Province in 2023. XinCat Pharmaceutical was recognized as a specialized and new small and medium-sized enterprise in Shandong Province in 2023, and the Pharmaceutical Chemical Industry Design Company was recognized as a "Science And Technology Small And Medium-sized Enterprise" in Shandong Province (科技型中小企業).

## 4. Strengthening the foundation, implementing reforms, and enhancing new momentum of development

We maintained a stable situation for the lifeline, with no general or above safety, environmental, or quality accidents occurring in the first half of the year.

We expedited our information construction, and the Company was recognized as an Intelligent Manufacturing Benchmark Enterprise for 2022 in the Shandong Province (2022年度山東省智能製造標桿企業) and an Excellent Enterprise of Fusing Informationization with Industrialization for 2022 (2022年兩化融合優秀企業).

We promoted internal reforms and established 5 new departments, including the Preparation International Trade Department and the Animal Health Trade Department. We also strengthened our functions of the procurement center and increased efforts in achieving open and centralized procurement. Public recruitment was implemented for 14 positions. Three system reform plans were formulated and implemented, and the economic responsibility system was further revised and improved, especially with the introduction of the "Management Measures for Incentives in the Full Lifecycle of New Products" and the "Management Measures for Major Scientific and Technological Innovation".

# Chairman's Statement

## PROSPECTS

Looking ahead, enterprises are facing an even more critical development challenges, and more pressing tasks ahead. Due to the continuous appreciation of the US dollar and the high interest rates maintained by the Federal Reserve, international market demand continues to be sluggish, and purchasing power has declined. Domestic consumption recovery fell short of expectations, and more products have been included in centralized procurement due to cost control measures of medical insurance, increasing the pressure on the price reduction of pharmaceutical products. Domestic enterprises are facing serious overcapacity and serious involution, and the Company's pace of development and profitability may face severe challenges in the second half of the year.

In light of the above, the Group will actively focus on the following key aspects in the second half of the year:

### 1. Stabilize the existing market share, expand the market share, and accelerate the market-driving forces

We shall fully leverage the advantages of diversified and differentiated specifications of active pharmaceutical ingredients, to gain access to customers, seize orders, and compete for the market share. Through actively cultivating the market for characteristic active pharmaceutical ingredients and balancing exports and domestic sales, we strive to achieve over-fulfillment of annual targets.

We target to utilize the advantages of integrated active pharmaceutical ingredients and preparations, focusing on the market development of large varieties and strategic varieties of formulations, and increase the promotion of new preparation products. At the same time, we need to stabilize and secure the operation of CMO projects with companies such as Bayer, Roche, and to accelerate the implementation of new projects.

For chemical and pharmaceutical intermediates, we shall firstly reduce costs and ensure quality to provide a strong backing for active pharmaceutical ingredients. Secondly, we shall pay attention to the market development of key chemical and pharmaceutical intermediates to enhance development capabilities. Thirdly, we strive to achieve stable production in Tongxin Pharmaceutical and enhance the overall competitiveness of the hormone industry chain.

Taking the opportunity of modern pharmaceutical logistics certification, we would expand vertically to upstream industrial enterprises and downstream pharmacy terminal businesses, and horizontally to other areas such as brand operation, modern logistics, to boost development and increase profitability. Xinhua Health will further integrate hospital and grassroots medical resources, accelerate the growth of the Xinhua-system medical ecosystem, speed up the development of self-owned brands such as healthcare and medical beauty, integrate high-quality resources from multiple fields, and achieve breakthrough in development barriers.

# Chairman's Statement

## 2. Accelerate technological innovation and continuously enhance development momentum

We strive to obtain 6 production licenses for new preparation products, 1 production license for active pharmaceutical ingredients, 2 clinical trial licenses for products, and 2 consistency evaluation licenses in the second half of the year.

We shall make efforts to obtain preliminary results for the Phase I clinical trial of the major innovative drug OAB-14.

## 3. Boost the development of key projects and fully tap development potential

We implement relevant regulations such as the “Assessment and Management Measures for Innovative Breakthrough Development Projects” and the “Management Measures for Green Channels for New Drug Research and Development (“R&D”) and Industrialization”, and requirements of the “123” development strategy and the “three upgrades, two breakthroughs, and one reduction”. In particular, we shall focus on technical quality control of key products, reduce product costs, enhance competitiveness, and accelerate the progress of innovative breakthrough projects.

We shall also accelerate the development of key projects and strive to put them into operation as soon as possible.

## 4. Strengthen management, control risks, and continuously enhance development strength

Aiming for the acceleration of the implementation of safety, environmental protection, and technological projects, we shall improve our information management capabilities, with the utilization of four new technologies to enhance the essential level of the lifeline, ensuring that no general or above safety, environmental, or quality incidents will occur throughout the year.

By strengthening internal control, compliance, risk control, and internal audit work, we shall further strengthen control over the use of “three funds”, strengthen control over funds and credit, tighten the control over major risk sources, early warning and prevention, and emergency response to ensure the healthy development of the Company.

*Chairman*  
**He Tongqing**  
24 August 2023

# 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 2023 (unaudited) |                            | As at 31 December 2022 (audited) |                            | Percentage increase or decrease | Description of changes |
|-----------------------------|--------------------------------|----------------------------|----------------------------------|----------------------------|---------------------------------|------------------------|
|                             | Amounts                        | Proportion of total assets | Amounts                          | Proportion of total assets |                                 |                        |
| Monetary funds              | 979,173,294.29                 | 12.13%                     | 1,158,741,565.90                 | 14.02%                     | (1.89%)                         | -                      |
| Accounts receivable         | 993,356,927.32                 | 12.30%                     | 761,259,339.93                   | 9.21%                      | 3.09%                           | -                      |
| Contract assets             | 1,782,427.90                   | 0.02%                      | 1,721,856.82                     | 0.02%                      | -                               | -                      |
| Inventories                 | 1,010,804,447.12               | 12.52%                     | 1,211,987,048.39                 | 14.66%                     | (2.14%)                         | -                      |
| Investment real estate      | 34,875,521.12                  | 0.43%                      | 48,354,011.36                    | 0.59%                      | (0.16%)                         | -                      |
| Long-term equity investment | 57,275,078.26                  | 0.71%                      | 57,154,487.58                    | 0.69%                      | 0.02%                           | -                      |
| Fixed assets                | 3,271,442,816.64               | 40.51%                     | 3,447,888,663.48                 | 41.72%                     | (1.21%)                         | -                      |
| Projects under construction | 705,962,107.58                 | 8.74%                      | 545,894,979.10                   | 6.60%                      | 2.14%                           | -                      |
| Right-of-use assets         | 5,387,376.18                   | 0.07%                      | 6,681,708.67                     | 0.08%                      | (0.01%)                         | -                      |
| Short-term borrowing        | 243,494,933.55                 | 3.02%                      | 118,023,275.00                   | 1.43%                      | 1.59%                           | -                      |
| Contract liability          | 95,400,657.92                  | 1.18%                      | 593,261,005.51                   | 7.18%                      | (6.00%)                         | -                      |
| Long-term borrowings        | 804,985,266.90                 | 9.97%                      | 545,655,801.48                   | 6.60%                      | 3.37%                           | -                      |
| Lease liabilities           | 2,073,041.41                   | 0.03%                      | 2,715,480.67                     | 0.03%                      | -                               | -                      |

# Management Discussion and Analysis

## Analysis of major changes of items

Unit: RMB Yuan

| Items                                       | As at<br>30 June 2023<br>(unaudited) | As at<br>31 December<br>2022 (the "End<br>of Last Year")<br>(audited) | Change as<br>compared to<br>the End of<br>Last Year | Description<br>of changes |
|---|--------------------------------------|---|---|---------------------------|
| Notes receivable                            | 7,595,862.25                         | 17,895,124.18   | (57.55%)  | (1)                       |
| Accounts receivable                         | 993,356,927.32                       | 761,259,339.93  | 30.49%  | (2)                       |
| Prepayments                                 | 30,354,723.43                        | 52,149,890.91   | (41.79%)  | (3)                       |
| Other non-current assets                    | 80,530,857.86                        | 21,492,373.85   | 274.70%   | (4)                       |
| Short-term borrowing                        | 243,494,933.55                       | 118,023,275.00  | 106.31%   | (5)                       |
| Non-current liabilities due within one year | 284,338,656.80                       | 717,461,309.60  | (60.37%)  |                           |
| Long-term loans                             | 804,985,266.90                       | 545,655,801.48  | 47.53%  |                           |
| Contract liabilities                        | 95,400,657.92                        | 593,261,005.51  | (83.92%)  | (6)                       |
| Other current liabilities                   | 14,208,834.74                        | 85,809,692.93   | (83.44%)  |                           |
| Other payables                              | 570,679,759.59                       | 424,961,296.31  | 34.29%  | (7)                       |
| Deferred income tax liabilities             | 102,833,288.81                       | 66,435,062.14   | 54.79%  | (8)                       |

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

- (1) 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.
- (2) 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.
- (3) The decrease in prepayment compared with the end of the last period was mainly due to the decrease in prepayment due to the stable supply of raw materials during the Reporting Period.
- (4) The increase in other non-current assets compared with the end of the last period is mainly due to the increase in the prepayment for outsourced patented technologies and the purchase of office estate for the Pharmaceutical Chemical Industry Design Company at the end of the report.
- (5) The main reason for the change in short-term borrowing, non-current liabilities due within one year and long-term loans was to reduce financing costs and further optimize the debt structure during the Reporting Period.

# Management Discussion and Analysis

- (6) The main reason for the decrease in contract liabilities and other current liabilities compared with the end of the last period was that the Company fulfilled its contractual obligations during the Reporting Period and received less advance payment from customers.
- (7) The main reason for the increase in other payables compared with the end of the last period is that the company's 2022 final dividend payment has not been paid out at the end of the Reporting Period;
- (8) The increase in deferred income tax liabilities compared to the end of the last period was mainly due to the increase in the company's profit during the Reporting Period, the decrease in deferred income tax assets recognized by deductible losses, resulting in a decrease in the amount of deferred income tax assets offset deferred income tax liabilities, which affected the increase in deferred income tax liabilities shown in net.

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

Unit: RMB Yuan

| Items   | Six months ended            | Six months ended            | Change as                                   | Description of changes |
|---|-----------------------------|-----------------------------|---|------------------------|
|   | 30 June 2023<br>(unaudited) | 30 June 2022<br>(unaudited) | compared to the<br>same period<br>last year |                        |
| Operating revenue   | <b>4,672,269,049.13</b>     | 3,664,294,993.33            | 27.51%                                      | -                      |
| Operating costs   | <b>3,281,046,254.21</b>     | 2,711,527,456.90            | 21.00%                                      | -                      |
| Selling expenses  | <b>487,038,936.17</b>       | 294,558,596.18              | 65.35%                                      | (1)                    |
| Administration expenses                                     | <b>246,316,699.21</b>       | 203,112,746.43              | 21.27%                                      | -                      |
| Financial expenses  | <b>1,341,987.35</b>         | 14,502,630.16               | (90.75%)                                    | (2)                    |
| Income tax expenses   | <b>56,265,379.99</b>        | 36,812,855.18               | 52.84%                                      | (3)                    |
| R&D input   | <b>225,778,632.69</b>       | 164,668,702.95              | 37.11%                                      | (4)                    |
| R&D expenses  | <b>235,529,909.24</b>       | 168,567,402.10              | 39.72%                                      |                        |
| Taxes and surcharges  | <b>60,476,643.03</b>        | 31,613,472.22               | 91.30%                                      | (5)                    |
| Credit impairment loss                                      | <b>(3,477,647.35)</b>       | (2,032,673.39)              | 71.09%                                      | (6)                    |
| Assets impairment loss                                      | <b>(44,340,776.07)</b>      | (29,349,965.64)             | 51.08%                                      | (7)                    |
| Gains from asset disposal                                   | <b>1,274,182.44</b>         | 2,454,007.49                | (48.08%)                                    | (8)                    |
| Operating profits   | <b>333,956,283.28</b>       | 237,764,708.38              | 40.46%                                      |                        |
| Total profits   | <b>331,945,812.26</b>       | 235,316,728.47              | 41.06%                                      |                        |
| Net profits   | <b>275,680,432.27</b>       | 198,503,873.29              | 38.88%                                      |                        |
| Net profits which belongs to shareholders of parent company | <b>269,807,157.85</b>       | 194,389,556.12              | 38.80%                                      | (9)                    |
| Total profits   | <b>331,945,812.26</b>       | 235,316,728.47              | 41.06%                                      |                        |
| Net profits   | <b>275,680,432.27</b>       | 198,503,873.29              | 38.88%                                      |                        |
| Net profits which belongs to shareholders of parent company | <b>269,807,157.85</b>       | 194,389,556.12              | 38.80%                                      |                        |

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

- (1) The main reason for the year-over-year increase in selling expenses was that the Company increased its market development efforts and expanded the sales scale during the Reporting Period.

## Management Discussion and Analysis

- (2) 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.
- (3) The main reason for the increase in income tax expense over the same period of last year was mainly due to the year-on-year increase of total profit during the Reporting Period.
- (4) The main reason for the increase in R&D input and R&D expenses over the same period of last year was that the Company continued to promote scientific and technological innovation and continued to increase R&D investment during the Reporting Period.
- (5) The increase in taxes and surcharges over the same period of last year was mainly due to the land value-added tax paid by the company during the Reporting Period, which affected the year-on-year increase in taxes and surcharges.
- (6) The year-over-year increase in credit impairment loss was primarily due to an increase in the receivable bad debt loss accrued during the Reporting Period.
- (7) The year-over-year increase in assets impairment loss was primarily due to an increase in the provision for impairment of inventories during the Reporting Period.
- (8) The year-over-year decrease in gains from asset disposal was mainly due to the decrease in income from disposal of fixed assets during the Reporting Period.
- (9) The increase in operating profit, total profit, net profit and net profit attributable to the shareholders of the parent company over the same period of last year was mainly due to the Company seizing market opportunities and expanding sales scale during the Reporting Period; At the same time, the Company practice of internal skills hardly, strengthen management, reduce costs and increase efficiency.

# Management Discussion and Analysis

## 3. Analysis of significant changes in cash flow statement items

Unit: RMB Yuan

| Items   | Six months ended<br>30 June 2023<br>(unaudited) | Six months ended<br>30 June 2022<br>(unaudited) | Change as<br>compared to<br>the same period<br>last year | Description of<br>changes |
|---|---|---|--|---------------------------|
| Net cash flow generated from operating activities | <b>20,131,070.66</b>                            | 194,801,492.76                                  | (89.67%)   | (1)                       |
| Net cash flow generated from investing activities | <b>(112,746,724.47)</b>                         | (115,450,914.87)                                | (2.34%)  |                           |
| Net cash flow generated from financing activities | <b>(65,369,861.68)</b>                          | 271,566,681.96                                  | (124.07%)  | (2)                       |
| Net increase in cash and cash equivalents         | <b>(156,464,600.78)</b>                         | 361,491,631.08                                  | (143.28%)  | (3)                       |

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

- (1) The net cash flow generated from operating activities decreased from the same period of the previous year mainly due to the receipt of payment in advance from customers at the end of the preceding year and the fulfillment of contractual obligations during the Reporting Period; Second, the sales scale of this reporting period expanded, some customers' sales business payment deadlines had not arrived.
- (2) The decrease in net cash flow from financing activities compared with the same period of last year was mainly due to the Company's receipt of RMB244 million in non-public offering of A-shares in the same period of last year.
- (3) The main reasons for the year-over-year decrease in net increase in cash and cash equivalents are shown in (1) and (2) above.

# 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 revenue | Operating costs  | Gross profit rate | Change in operating revenue 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 |
|---|-------------------|------------------|-------------------|--|--|--|
| <b>By industry</b>  |                   |                  |                   |  |  |  |
| Chemical bulk drugs   | 1,877,968,283.62  | 1,133,816,909.43 | 39.63%            | 25.43%   | 9.40%  | Increased by 8.86 percentage points                                  |
| Preparations  | 2,088,817,413.85  | 1,488,959,678.66 | 28.72%            | 28.46%   | 20.65%   | Increased by 4.62 percentage points                                  |
| Medical intermediates and other products                    | 705,483,351.66    | 658,269,666.12   | 6.69%             | 30.37%   | 49.26%   | Decreased by 11.81 percentage points                                 |
| Total   | 4,672,269,049.13  | 3,281,046,254.21 | 29.78%            | 27.51%   | 21.00%   | Increased by 3.78 percentage points                                  |
| <b>By product</b>   |                   |                  |                   |  |  |  |
| Antipyretic and analgesic active pharmaceutical ingredients | 1,877,968,283.62  | 1,133,816,909.43 | 39.63%            | 25.43%   | 9.40%  | Increased by 8.86 percentage points                                  |
| Preparations such as tablets, injections, capsules etc.     | 2,088,817,413.85  | 1,488,959,678.66 | 28.72%            | 28.46%   | 20.65%   | Increased by 4.62 percentage points                                  |
| Medical intermediates and others                            | 705,483,351.66    | 658,269,666.12   | 6.69%             | 30.37%   | 49.26%   | Decreased by 11.81 percentage points                                 |
| Total   | 4,672,269,049.13  | 3,281,046,254.21 | 29.78%            | 27.51%   | 21.00%   | Increased by 3.78 percentage points                                  |
| <b>By geographical location</b>                             |                   |                  |                   |  |  |  |
| PRC(including Hong Kong)                                    | 3,457,024,444.49  | 2,367,938,865.61 | 31.50%            | 41.67%   | 40.89%   | Increased by 0.38 percentage points                                  |
| Americas  | 405,303,329.38    | 308,309,175.73   | 23.93%            | (4.11%)  | (14.43%)   | Increased by 9.17 percentage points                                  |
| Europe  | 610,610,779.84    | 443,784,114.80   | 27.32%            | 13.92%   | 0.26%  | Increased by 9.89 percentage points                                  |
| Others  | 199,330,495.42    | 161,014,098.07   | 19.22%            | (24.90%)   | (29.35%)   | Increased by 5.08 percentage points                                  |
| Total   | 4,672,269,049.13  | 3,281,046,254.21 | 29.78%            | 27.51%   | 21.00%   | Increased by 3.78 percentage points                                  |
| <b>By sales model</b>                                       |                   |                  |                   |  |  |  |
| Direct selling  | 1,882,967,078.19  | 1,326,660,741.57 | 29.54%            | 12.72%   | 4.20%  | Increased by 5.75 percentage points                                  |
| Distribution selling  | 2,789,301,970.94  | 1,954,385,512.64 | 29.93%            | 39.90%   | 35.87%   | Increased by 2.07 percentage points                                  |
| Total   | 4,672,269,049.13  | 3,281,046,254.21 | 29.78%            | 27.51%   | 21.00%   | Increased by 3.78 percentage points                                  |

# Management Discussion and Analysis

Analysis of profit composition as compared to 2022 is as follows:

| Items                     | Amount (RMB Yuan)                |                | Percentage of the total profit (%) |        |
|---------------------------|----------------------------------|----------------|------------------------------------|--------|
|                           | Six months ended<br>30 June 2023 | 2022           | Six months ended<br>30 June 2023   | 2022   |
| Operating profits         | <b>333,956,283.28</b>            | 476,706,533.91 | <b>100.61</b>                      | 101.05 |
| Net non-operating revenue | <b>(2,010,471.02)</b>            | (4,932,183.30) | <b>(0.61)</b>                      | (1.05) |
| Total profits             | <b>331,945,812.26</b>            | 471,774,350.61 | <b>100.00</b>                      | 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 2023, the Group's current ratio was 130.33%; the quick ratio was 89.61%; the turnover rate of accounts receivable (annualised operating revenue/average net accounts receivable × 100%) and the rate of inventory turnover (annualised operating costs/average net inventories × 100%) were 1,065.14% and 590.44% respectively.

The current ratio and the quick ratio increased from the end of the last period respectively, primarily because of the decrease in current liabilities as at the end of 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 2023, the Group's total borrowing was RMB1,329,244,000. As at 30 June 2023, the Group's monetary funds amounted to RMB979,173,000. The Group is in good credit condition and has sufficient bank credit line available to meet the demand for working capital at any time.

As at 30 June 2023, the Company and the Company's subsidiary, pledged the monetary funds of RMB88,157,000 and RMB20,369,000 respectively to the bank for the conduction bank acceptance deposit. the Company's subsidiary has a housing loan deposit of RMB677,000 and a regulated advanced sales amount of RMB13,774,000. The Company's performance guarantee deposit is RMB1,001,000. The Company's subsidiary will use RMB896,000 for restricted funds such as deposit for migrant workers. Notes receivable of RMB5,481,000 by the Company and its subsidiaries have not been terminated for recognition. Besides, the ownership of the Company's the right-of-use assets of RMB5,387,000 does not belong to the Group. Save as disclosed, the Group did not have other secured assets.

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 2023, the number of the Group's employees was 6,839. The total employee salaries in the first half of 2023 amounted to RMB406,537,000.

As at 30 June 2023, the Group's asset-liability ratio was 43.66% (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 2023, the Group had a gross gearing ratio (i.e. gross liabilities divided by adjusted capital) of 30.69%, and a net gearing ratio (i.e. net liabilities divided by adjusted capital) of 8.08%. 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 2023, the Group's export revenue was USD173,736,000, 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 revenues | Operating Profits | Net profits |
|---|--------------|---|--------------------|--------------|------------|--------------------|-------------------|-------------|
| Xinhua Pharmaceutical (Shouguang) Co., Ltd. | Subsidiary   | Production and sales of chemical products | 230,000            | 898,530      | 630,806    | 559,978            | 31,355            | 26,173      |

- (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 2023, the total assets of the subsidiary were RMB898,530,000, and net assets was RMB630,806,000. In the first half of 2023, the operating revenue was RMB559,978,000, representing a decrease of 4.52% as compared with the same period last year. The net profits of the company was RMB26,173,000, representing a decrease of 13.82% as compared with the same period last year. The decrease in operating revenue and net profit was mainly due to the severe market volume and insufficient demand during the reporting period, resulting in lower product prices.

# 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 2023 (2022 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 evolving 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 R&D of new drugs: Generally speaking, the development of drugs has to undergo many processes including preclinical studies, clinical registry application, clinical trials approval, clinical trials, production registration filing, on-site assessment, production approval. It requires a lengthy period of time. Therefore, the approvals are uncertain and there is a risk in the research and development. Even if the product is successfully developed, it is uncertain whether effective market sales take place.

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 R&D 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 creates greater downward pressure on drug prices for pharmaceutical enterprises. Meanwhile, due to the industry policies such as macroeconomics, market competition, medical insurance budget, the drug price may be exposed to the risk of a further 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, and to 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

## PRINCIPAL RISKS FACED BY THE COMPANY AND RESPONSE MEASURES (CONTINUED)

- (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 different degrees of 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 is continuously increasing. Many pharmaceutical companies are even faced with the problems of production suspension and production limits.

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, strengthens internal control standards, strengthens the monitoring of key sewage discharge points, reduces the environmental risks, and match the emissions policy.

# Important Matters

## 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 2022 has been approved at the Annual General Meeting for year 2022.
3. For this Reporting Period and the six months ended 30 June 2022, 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 RMB5,387,000 from other companies; and the other companies leased assets of RMB34,876,000 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:

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 2023, 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"> <li>1. Within six months before the price determination date for the non-public issue of the Company (the announcement date of the resolution of the second extraordinary meeting of the 10th session of the Board of Directors of the Company in 2021), HHC and its concert parties do not reduce their shares in the Company;</li> <li>2. There is no plan for reduction in shares of the Company within six months after the completion of the non-public issue from the price determination date for the non-public issue;</li> <li>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;</li> <li>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.</li> </ol>   | 9 August 2021    | Long-term            | In progress                    |
|  | HHC                           | Horizontal competition | <ol style="list-style-type: none"> <li>1. There is no horizontal competition between HHC and other enterprises controlled by HHC and the Company;</li> <li>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;</li> <li>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.</li> </ol> | 9 August 2021    | Long-term            | In progress                    |

# 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: (Continued)

| 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"> <li>HHC undertakes not to act beyond its powers to interfere with the Company's operating and management activities or misappropriate the Company's interests;</li> <li>From the date of issuance of this undertaking to the completion of the Company's non-public issue, if the state and securities regulatory authorities make other new regulatory requirements on measures for listed companies to compensate the diluted current returns, and this undertaking cannot meet the requirements of the state and securities regulations, it promises to issue an undertaking in accordance with the latest regulations of the state and securities regulatory authorities;</li> <li>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.</li> </ol>   | 14 April 2021    | Long-term            | In progress                    |
|             | HHC                           | Commitment on industry competition, related transactions and capital occupation | <ol style="list-style-type: none"> <li>HHC will not use the voting rights of its shares in Xinhua Pharmaceutical to manipulate the general meeting of shareholders of Xinhua Pharmaceutical, or instruct Xinhua Pharmaceutical or its directors, supervisors or senior management personnel to cause Xinhua Pharmaceutical to provide or accept funds, commodities, services or other assets on unfair terms. Or engage in any conduct prejudicial to the interests of New China Pharmaceutical and shareholders holding less than 5% of New China Pharmaceutical's shares.</li> <li>HHC and other companies, enterprises and entities controlled by HHC shall follow the principles of equality, voluntality, equivalence and compensation when conducting transactions with Xinhua Pharmaceutical and its controlled subsidiaries, ensure the fairness and fairness of transactions, and safeguard the legitimate rights and interests of Xinhua Pharmaceutical. 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, Xinhua Pharmaceutical shall perform corresponding deliberation procedures and make timely disclosure.</li> </ol> | 25 June 2021     | Long-term            | In progress                    |

## 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: (Continued)

| 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"> <li>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.</li> <li>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 Xinhua Pharmaceutical'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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>The Company will strictly comply with the above undertakings and agree to bear the legal responsibility for breach of the undertakings.</li> </ol> | 20 December 2021 | Long-term            | In progress                    |

## 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: (Continued)

| 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"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>   | 24 December 2021 | Long-term            | In progress                    |
|             | Xinhua (Zibo) Real Estate Co., Ltd. | Other               | <ol style="list-style-type: none"> <li>The Company is actively promoting the building ownership registration of the "Jinding Huajun" items, without illegal impediment to obtain the building ownership certificate. The Company 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.</li> <li>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 Company's expert and talent apartment plan and will not be sold to external parties.</li> <li>In the event of future disputes 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. The Company 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, the Company will engage professional external agencies to assist in the handling.</li> </ol> | 24 December 2021 | Long-term            | In progress                    |

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

| Undertaking | Party involved in undertaking  | Type of undertaking | Details of undertaking   | Undertaking date | Term for undertaking | Particulars on the performance |
|-------------|--|---------------------|--|------------------|----------------------|--------------------------------|
|             | Zhang Dairing; Du Deping; Xu Lie; He Tongqing; Cong Kechun; Pan Guangcheng; Zhu Jianwei; Lo Wah Wai; Wang Xiaolong; Du Deqing; Hou Ning; Zheng Zhonghui; Wei Changsheng; Xu Wenhui; Cao Changqiu | Other               | <ol style="list-style-type: none"> <li>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;</li> <li>2. I undertake to restrain my duty consumption;</li> <li>3. I undertake not to use the assets of the Company for investment and consumption activities unrelated to the performance of my duties;</li> <li>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;</li> <li>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;</li> <li>6. From the date of this undertaking to the completion of the non-public issuance of 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;</li> <li>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.</li> </ol> | 14 July 2021     | Long-term            | In progress                    |

## 10. Purchase, Sales and Redemption of shares:

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

## 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.

## Important Matters

### 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%                                     | 129,900,000.00                                | 5,100,000.00                          | 6,205,000.00   |
| 601328     | BANKCOMM                | 14,225,318.00             | 0.01%                                     | 47,671,360.00                                 | 3,065,761.60                          | 7,405,499.20   |
| Total      |                         | 21,225,318.00             |   | 177,571,360.00                                | 8,165,761.60                          | 13,610,499.20  |

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

### 14. Performance of other social responsibilities

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

| Name of Company or Subsidiary                  | Names of Key Pollutants and Special Types of Pollutants | Discharge Mode                  | Number of Discharge Outlets | Distribution of Discharge Outlets                                    | Discharge Concentration   | Implemented Standards for Discharge of Pollutants   | Total Amount of Discharge  | Approved Total Amount of Discharge   | Excessive Discharge |
|--|---|---------------------------------|-----------------------------|--|---|---|--|--|---------------------|
| Shandong Xinhua Pharmaceutical Company Limited | Wastewater: chemical oxygen demand, ammonia nitrogen.   | Continuous wastewater discharge | 2                           | Main wastewater outlet of No. 1 factory; 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 111.2 tons/year; total amount of ammonia nitrogen 10.32 tons/year; No.2 factory: total amount of COD 78.55 tons/year; total amount of ammonia nitrogen 10.31 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                |

## 14. Performance of other social responsibilities (Continued)

| 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  | Total Amount of Discharge  | Approved Total Amount of Discharge   | Excessive Discharge |
|--|---|----------------------------------|--|--|---|--|--|--|---------------------|
|  | Discharge Mode  | Discharge Outlets                |  |  |   | Discharge of Pollutants  |  |  |                     |
| 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.  | VOC concentration less than 40 mg/m <sup>3</sup> ; sulfur dioxide concentration less than 40 mg/m <sup>3</sup> ; nitrogen oxide concentration less than 80 mg/m <sup>3</sup> ; particulate matter concentration less than 8 mg/m <sup>3</sup> . | Exhaust gas: VOC concentration less than 60 mg/m <sup>3</sup> ; sulfur dioxide concentration less than 50 mg/m <sup>3</sup> ; nitrogen oxide concentration less than 100 mg/m <sup>3</sup> ; particulate matter concentration less than 10 mg/m <sup>3</sup> . | No. 1 factory: total amount Of VOC 10.1546 tons; total amount of sulfur dioxide 0.0141 tons; total amount of nitrogen oxide 0.021 tons; total amount of particulate matter 0.008 tons. No.2 factory: total amount of VOC 5.0472 tons; total amount of sulfur dioxide 0.017 tons; total amount of nitrogen oxide 0.037 tons; total amount of particulate matter 0.041 tons. | 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, 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 30 mg/L.  | Wastewater: COD concentration less than or equal to 500 mg/L, ammonia nitrogen less than 45 mg/L; total phosphate less than 8 mg/L; total nitrogen less than 70 mg/L.  | Total amount of COD less than 30 tons/year; ammonia nitrogen less than 1 tons/year.  | 90 tons/year of COD; 8.1 tons/year of ammonia nitrogen.  | None                |

# Important Matters

## 14. Performance of other social responsibilities (Continued)

| 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  | Total Amount of Discharge  | Approved Total Amount of Discharge  | Excessive Discharge |
|--|--|----------------------------------|-----------------------------|--|---|--|--|---|---------------------|
|  | Discharge Mode   | Discharge Outlets                |                             |  |   | Discharge of Pollutants  |  |   |                     |
| Zibo Xinhua-Perrigo Pharmaceutical Company Limited | Exhaust gas: volatile organic compound (VOC) etc.            | Exhaust gas emission at interval | 3                           | Raw material medicine synthesis factory, preparation production base.  | VOC concentration less than 60 mg/m <sup>3</sup> , particulate matter concentration less than 4 mg/m <sup>3</sup> , sulfur dioxide concentration less than 5 mg/m <sup>3</sup> , nitrogen oxide concentration less than 5 mg/m <sup>3</sup> . | Exhaust gas: VOC concentration less than 60 mg/m <sup>3</sup> , particulate matter concentration less than 10 mg/m <sup>3</sup> , sulfur dioxide concentration less than 50 mg/m <sup>3</sup> , nitrogen oxide concentration less than 100 mg/m <sup>3</sup> . | Total amount of VOC less than 2 tons/year, particulate matter concentration less than 0.055 tons/year, sulfur dioxide concentration less than 0.11 tons/year, nitrogen oxide concentration less than 0.39 tons/year. | 15 tons/year of VOC, 0.055 tons/year of particulate matter concentration, 0.11 tons/year of sulfur dioxide concentration, 0.39 tons/year of nitrogen oxide concentration. | None                |
| Xinhua Pharmaceutical (Shouguang) Co., Ltd.        | Wastewater: chemical oxygen demand, ammonia Nitrogen         | Continuous discharge             | 1                           | Main wastewater outlet.  | COD less than 400 mg/L, ammonia nitrogen less than 25 mg/L, total phosphate less than 8 mg/L, total nitrogen less than 70 mg/L.   | COD 400 mg/L, ammonia nitrogen 25 mg/L, total phosphate 8 mg/L, total nitrogen 70 mg/L.  | Total amount of COD less than 69.5 ton/half a year, ammonia nitrogen less than 0.841 ton/half a year, total nitrogen less than 14.1 ton/half a year.   | COD concentration 221.62 tons/year, ammonia nitrogen 19.95 tons/year, total nitrogen 31.03 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 <sup>3</sup> , nitrogen oxide less than 100 mg/m <sup>3</sup> , particulate matter less than 10 mg/m <sup>3</sup> , NMHC less than 60 mg/m <sup>3</sup> .  | Sulfur dioxide less than 50 mg/m <sup>3</sup> , nitrogen oxide less than 100 mg/m <sup>3</sup> , particulate matter less than 10 mg/m <sup>3</sup> , NMHC less than 60 mg/m <sup>3</sup> .   | Total amount of sulfur dioxide less than 1.83 tons/half a year, nitrogen oxide less than 0.62 tons/half a year, particulate matter less than 0.42 tons/half a year, NMHC less than 21.84 tons/half a year.           | Total amount of sulfur dioxide 13.04 tons/half a year, nitrogen oxide 32.256 tons/half a year, particulate matter 3.87 tons/half a year, NMHC 69.29 tons/half a year.     | None                |
| Shandong Xinhua Wanbo Chemical Industry Co., Ltd   | Exhaust gas: volatile organic compound (VOC)                 | Discharge at Interval            | 1                           | 8-diazabicyclo (5,4,0) undec-7-ene 1.  | volatile organic compound (VOC) less than 7 mg/m <sup>3</sup> .   | volatile organic compound (VOC) less than 60 mg/m <sup>3</sup> .   | volatile organic compound (VOC) 0.01 tons/year.  | volatile organic compound (VOC) 7.6908 tons/year.   | None                |

## 14. Performance of other social responsibilities (Continued)

### ***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 500 tons/day. Shouguang has in place six sewage treatment facilities with treatment capacities of 3,000 tons/day. Such sewage treatment facilities can all fully meet the requirement of consistently reaching the wastewater discharge standards.

The production wastewater produced by each production workshop is first pretreated by specified facilities at the workplaces: the Company separate, recycle and reuse organic substances from waste water rich in organic substances through methods like absorption and filtration, separation by extraction and evaporative fractionation; recycle ammonia nitrogen from wastewater rich in ammonia nitrogen through 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 collected and pretreated by specialised facilities in production processes: wastewater with high content of organics realizes a separation between organics and aqueous phase through evaporation fractionation and other methods to recycle the organics. High salt Wastewater with high content of salt recovers inorganic salts through MVR method. After flowing into the Xinhua Perrigo's high-concentration wastewater pool, the pretreated production wastewater then enters water-collecting well through special conveying pipelines. After mixing with sanitary sewage, it then enters the Xinhua Perrigo's sewage treatment system for biochemical treatment. The general outlet of the Company is equipped with standardised online monitoring facilities, which are operated and maintained by authorized qualified three party. Online monitoring data of wastewater discharge will be uploaded real-time to the Environmental Automatic Monitoring and Control System of Shandong Province and will be published and managed real-time by Environmental Protection Office of Shandong Province. After a qualified monitoring by the Company it is then discharged into the sewage treatment plant of the No.1 factory of the Company.

# Important Matters

## 14. Performance of other social responsibilities (Continued)

### ***Construction and operation of pollution prevention & treatment facilities (Continued)***

#### *(1) Waste water treatment (Continued)*

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 300m<sup>3</sup>, 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.

## 14. Performance of other social responsibilities (Continued)

### ***Construction and operation of pollution prevention & treatment facilities (Continued)***

#### *(2) Waste gas control and treatment (Continued)*

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

The Company entrusted Shandong Jiayu Testing Technology Co., Ltd., Shandong Neolithic Testing Co., Ltd. and Shandong Huicheng Environmental Protection Technology Co., Ltd., the 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 Zhongyiyuan Environmental testing Co., Ltd., an independent third party, to conduct exhaust emission test of the Company, and it was up to standard. Shouguang entrusted Shandong Weike Testing Co., Ltd. and Shandong Shouguang Testing Group 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 in accordance with the provisions of pollutant Discharge Permit, and they were up to standard.

#### *(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 storage warehouses, strictly implemented relevant laws and regulations on hazardous waste, and strengthened standardized management of hazardous waste. As required by the "Transfer Manifest Management Procedures of Hazardous Waste in Zibo City (Shandong Province)", Xinhua Perrigo strictly implements a transfer processing system and transfer plan approval system and transports hazardous waste to qualified units for entrusted disposal.

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

# Important Matters

## 14. Performance of other social responsibilities (Continued)

### **Construction and operation of pollution prevention & treatment facilities (Continued)**

#### *(2) Waste gas control and treatment (Continued)*

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

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

The Company and its subsidiaries have formulated the “Emergency Response Plan for Environmental Emergencies”, which includes six parts: comprehensive emergency plan for 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 2018 respectively. In 2019, 2020, 2021 and 2022, its environment management system passed the certification of two new-version systems of environment and quality.

#### **Environmental protection investment and payment of environmental protection tax:**

In the half year of 2023, the Company invested RMB10,845,600 yuan in environmental protection and paid RMB87,100 yuan in environmental protection tax.

#### **Administrative penalties due to environmental problems during the Reporting Period:**

Xinhua Pharmaceutical, Shouguang Company, Xinhua Perrigo, Wanbo Chemical no administrative penalties due to environmental problems.

15. Please refer to the Company’s announcements dated 26 April 2023 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 2023.

17. On 11 January 2023 and 9 May 2023, 4.2603 million share options and 0.7953 million share options that can be exercised during the third 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 6 January 2023 and 3 May 2023 and announcement on the website ([www.cninfo.com.cn](http://www.cninfo.com.cn)) on and before 9 January 2023 and 4 May 2023.

## Important Matters

18. Events after the Reporting Period: On 26 July 2023, Mr. Ling Peixue, the independent non-executive Director of the Company, resigned from all his positions in the Company to devote more time to other matters, as detailed in the announcement on the website ([www.cninfo.com.cn](http://www.cninfo.com.cn)) dated 27 July 2023.
19. Except on disclosed herein, as of the date of this report, the Company did not have any future plans for material investments or capital assets, material acquisition and disposal of subsidiary, associates or joint ventures in the coming year.
20. Changes in Accounting Policies

| <b>Contents and reasons of accounting policy changes</b>   | <b>Approval processes</b>  | <b>Notes</b>   |
|--|--|--|
| <p>The Ministry of Finance issued the interpretation of accounting standards for Business Enterprises No. 16 (Finance and Accounting [2022] No. 31) (hereinafter referred to as "Interpretation No. 16") on 30 November 2022. Interpretation No. 16 clarifies "Accounting treatment regarding the non-application of initial recognition exemption to deferred income tax related to assets and liabilities arising from individual transactions" (effective January 1, 2023), "Accounting Treatment regarding the income tax impact of dividends related to financial instruments classified by the Issuer as equity instruments" (effective as of the date of publication), and "Accounting Treatment regarding the fact that the Enterprise will be settled in cash Accounting Treatment of Stock Payments settled with equity (effective as of the date of publication).</p> | <p>Relevant accounting policy changes were approved at the 11th meeting of the 10th Board of the Company on 20 April 2023.</p> | <p>Changes in relevant accounting policies have no significant impact on the Group's financial statements.</p> |

# Corporate Governance

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

## AUDIT COMMITTEE

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

The audit committee along with the management of the Company has reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting; the audit committee has reviewed the unaudited interim accounts and results for the six months ended 30 June 2023.

The audit committee agreed to the accounting standards, principles and methods adopted by the Group for the unaudited interim accounts and results for the six months ended 30 June 2023 and that sufficient disclosures have been made.

## REMUNERATION AND EXAMINATION COMMITTEE

During the Reporting Period, there are no material matters relating to share schemes mentioned in Chapter 17 of the Listing Rules that were reviewed and/or approved by the Remuneration Committee and the Company did not have matters relating to any grants of options or awards to the Directors or Senior Management of the Company as set out in Rule 17.03(F) and Rules 17.06B(7) and (8) of the Listing Rules.

## 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 four independent non-executive Directors including one with financial management expertise, of whom the biographical details were set out in the 2022 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.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the six months ended 30 June 2023.

# Consolidated Balance Sheet

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item                                | Notes  | Balance at the<br>end of<br>the period | Balance at the<br>beginning<br>of the period |
|-------------------------------------|--------|--|--|
| <b>Current assets:</b>              |        |  |  |
| Monetary funds                      | VI.1   | <b>979,173,294.29</b>                  | 1,158,741,565.90                             |
| Notes receivable                    | VI.2   | <b>7,595,862.25</b>                    | 17,895,124.18                                |
| Accounts receivable                 | VI.3   | <b>993,356,927.32</b>                  | 761,259,339.93                               |
| Accounts receivable financing       | VI.4   | <b>163,211,566.07</b>                  | 189,752,210.65                               |
| Prepayments                         | VI.5   | <b>30,354,723.43</b>                   | 52,149,890.91                                |
| Other receivables                   | VI.6   | <b>9,909,964.59</b>                    | 12,654,317.25                                |
| Including: Dividends receivable     | VI.6.2 | <b>3,065,761.60</b>                    |  |
| Inventories                         | VI.7   | <b>1,010,804,447.12</b>                | 1,211,987,048.39                             |
| Contract assets                     | VI.8   | <b>1,782,427.90</b>                    | 1,721,856.82                                 |
| Other current assets                | VI.9   | <b>39,000,092.41</b>                   | 50,798,073.85                                |
| <b>Total current assets</b>         |        | <b><u>3,235,189,305.38</u></b>         | <b><u>3,456,959,427.88</u></b>               |
| <b>Non-current assets:</b>          |        |  |  |
| Long-term equity investments        | VI.10  | <b>57,275,078.26</b>                   | 57,154,487.58                                |
| Other equity instrument investments | VI.11  | <b>195,570,891.95</b>                  | 182,029,156.02                               |
| Investment properties               | VI.12  | <b>34,875,521.12</b>                   | 48,354,011.36                                |
| Fixed assets                        | VI.13  | <b>3,271,442,816.64</b>                | 3,447,888,663.48                             |
| Construction in progress            | VI.14  | <b>705,962,107.58</b>                  | 545,894,979.10                               |
| Right-of-use asset                  | VI.15  | <b>5,387,376.18</b>                    | 6,681,708.67                                 |
| Intangible assets                   | VI.16  | <b>463,364,575.68</b>                  | 474,106,784.61                               |
| Goodwill                            | VI.17  |  |  |
| Long-term deferred expenses         | VI.18  | <b>7,224,226.52</b>                    | 8,607,826.50                                 |
| Deferred income tax assets          | VI.19  | <b>18,761,824.56</b>                   | 15,961,913.08                                |
| Other non-current assets            | VI.20  | <b>80,530,857.86</b>                   | 21,492,373.85                                |
| <b>Total non-current assets</b>     |        | <b><u>4,840,395,276.35</u></b>         | <b><u>4,808,171,904.25</u></b>               |
| <b>Total assets</b>                 |        | <b><u>8,075,584,581.73</u></b>         | <b><u>8,265,131,332.13</u></b>               |

# Consolidated Balance Sheet (Continued)

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item   | Notes   | Balance at the<br>end of<br>the period | Balance at the<br>beginning<br>of the period |
|--|---------|--|--|
| <b>Current liabilities:</b>  |         |  |  |
| Short-term borrowings  | VI.21   | <b>243,494,933.55</b>                  | 118,023,275.00                               |
| Notes payable  | VI.22   | <b>472,357,160.33</b>                  | 491,024,582.02                               |
| Accounts payable   | VI.23   | <b>677,938,237.15</b>                  | 599,055,763.12                               |
| Contract liabilities   | VI.24   | <b>95,400,657.92</b>                   | 593,261,005.51                               |
| Payroll payable  | VI.25   | <b>91,359,103.01</b>                   | 95,171,404.13                                |
| Taxes payable  | VI.26   | <b>32,441,793.52</b>                   | 33,717,210.48                                |
| Other payables   | VI.27   | <b>570,679,759.59</b>                  | 424,961,296.31                               |
| Including: Dividends payable   | VI.27.2 | <b>150,227,166.53</b>                  | 5,310,599.53                                 |
| Non-current liabilities due within one year                                | VI.28   | <b>284,338,656.80</b>                  | 717,461,309.60                               |
| Other current liabilities  | VI.29   | <b>14,208,834.74</b>                   | 85,809,692.93                                |
| <b>Total current liabilities</b>   |         | <b><u>2,482,219,136.61</u></b>         | <b><u>3,158,485,539.10</u></b>               |
| <b>Non-current liabilities:</b>  |         |  |  |
| Long-term loans  | VI.30   | <b>804,985,266.90</b>                  | 545,655,801.48                               |
| Lease liabilities  | VI.31   | <b>2,073,041.41</b>                    | 2,715,480.67                                 |
| Long-term payables   | VI.32   | <b>20,000,000.00</b>                   | 20,000,000.00                                |
| Deferred incomes   | VI.33   | <b>109,733,483.64</b>                  | 118,372,785.93                               |
| Deferred income tax liabilities  | VI.19   | <b>102,833,288.81</b>                  | 66,435,062.14                                |
| Other non-current liabilities  | VI.34   | <b>3,561,500.00</b>                    | 3,561,500.00                                 |
| <b>Total non-current liabilities</b>                                       |         | <b><u>1,043,186,580.76</u></b>         | <b><u>756,740,630.22</u></b>                 |
| <b>Total liabilities</b>   |         | <b><u>3,525,405,717.37</u></b>         | <b><u>3,915,226,169.32</u></b>               |
| <b>Shareholders' equity:</b>   |         |  |  |
| Capital stock  | VI.35   | <b>674,682,835.00</b>                  | 669,627,235.00                               |
| Capital reserve  | VI.36   | <b>1,048,054,337.57</b>                | 998,144,589.65                               |
| Other comprehensive income   | VI.37   | <b>125,473,695.32</b>                  | 112,126,734.41                               |
| Special reserve  | VI.38   | <b>2,723,387.89</b>                    | 1,551,906.40                                 |
| Surplus reserve  | VI.39   | <b>356,955,596.10</b>                  | 356,955,596.10                               |
| Undistributed profits  | VI.40   | <b>2,122,924,920.24</b>                | 1,988,054,329.39                             |
| <b>Total equity attributable to the shareholders<br/>of parent company</b> |         | <b><u>4,330,814,772.12</u></b>         | <b><u>4,126,460,390.95</u></b>               |
| Minority shareholders' interests   |         | <b><u>219,364,092.24</u></b>           | <b><u>223,444,771.86</u></b>                 |
| <b>Total shareholders' equity</b>  |         | <b><u>4,550,178,864.36</u></b>         | <b><u>4,349,905,162.81</u></b>               |
| <b>Total liabilities and shareholder's equity</b>                          |         | <b><u>8,075,584,581.73</u></b>         | <b><u>8,265,131,332.13</u></b>               |

# Parent Company's Balance Sheet

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item                                | Notes   | Balance at the<br>end of<br>the period | Balance at the<br>beginning<br>of the year |
|-------------------------------------|---------|--|--|
| <b>Current assets:</b>              |         |  |  |
| Monetary funds                      |         | <b>686,363,591.00</b>                  | 864,197,838.00                             |
| Notes receivable                    | XVI.1   | <b>637,300.00</b>                      | 3,539,757.97                               |
| Accounts receivable                 | XVI.2   | <b>801,166,545.17</b>                  | 633,196,246.85                             |
| Accounts receivable financing       | XVI.3   | <b>51,581,676.72</b>                   | 62,742,600.04                              |
| Prepayments                         |         | <b>5,945,478.52</b>                    | 13,085,595.80                              |
| Other receivables                   | XVI.4   | <b>348,965,869.14</b>                  | 333,438,097.31                             |
| Including: Dividends receivable     | XVI.4.2 | <b>3,065,761.60</b>                    |  |
| Inventories                         |         | <b>694,180,699.99</b>                  | 755,134,876.19                             |
| Other current assets                |         | <b>943,900.40</b>                      | 11,497,751.72                              |
|                                     |         | <b>2,589,785,060.94</b>                | 2,676,832,763.88                           |
| <b>Total current assets</b>         |         |  |  |
| <b>Non-current assets:</b>          |         |  |  |
| Long-term equity investments        | XVI.5   | <b>800,401,681.41</b>                  | 800,281,090.73                             |
| Other equity instrument investments |         | <b>195,570,891.95</b>                  | 182,029,156.02                             |
| Investment properties               |         | <b>60,769,117.62</b>                   | 75,273,205.66                              |
| Fixed assets                        |         | <b>2,514,579,334.89</b>                | 2,660,295,574.84                           |
| Construction in progress            |         | <b>373,085,060.70</b>                  | 264,393,161.46                             |
| Right-of-use asset                  |         | <b>4,290,042.18</b>                    | 2,692,580.69                               |
| Intangible assets                   |         | <b>289,097,635.55</b>                  | 298,794,397.04                             |
| Long-term deferred expenses         |         | <b>5,809,334.55</b>                    | 6,985,458.80                               |
| Other non-current assets            |         | <b>56,550,537.10</b>                   | 19,063,800.00                              |
|                                     |         | <b>4,300,153,635.95</b>                | 4,309,808,425.24                           |
| <b>Total non-current assets</b>     |         |  |  |
|                                     |         | <b>6,889,938,696.89</b>                | 6,986,641,189.12                           |
| <b>Total assets</b>                 |         |  |  |

# Parent Company's Balance Sheet (Continued)

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item  | Notes | Balance at the<br>end of<br>the period | Balance at the<br>beginning<br>of the year |
|---|-------|--|--|
| <b>Current liabilities:</b>                       |       |  |  |
| Short-term borrowings                             |       | 182,919,225.23                         | 80,068,444.44                              |
| Notes payable                                     |       | 436,484,301.26                         | 491,250,086.37                             |
| Accounts payable                                  |       | 545,138,387.03                         | 446,445,555.83                             |
| Contract liabilities                              |       | 45,802,290.27                          | 248,309,464.42                             |
| Payroll payable                                   |       | 66,323,583.60                          | 71,829,717.42                              |
| Taxes payable                                     |       | 13,581,021.99                          | 9,095,317.28                               |
| Other payables                                    |       | 443,859,499.54                         | 570,578,141.86                             |
| Including: Dividends payable                      |       | 140,247,166.53                         | 5,310,599.53                               |
| Non-current liabilities due within one year       |       | 282,018,509.33                         | 715,272,739.08                             |
| Other current liabilities                         |       | 3,184,546.82                           | 30,067,157.81                              |
|   |       | <b>2,019,311,365.07</b>                | 2,662,916,624.51                           |
| <b>Total current liabilities</b>                  |       |  |  |
| <b>Non-current liabilities:</b>                   |       |  |  |
| Long-term loans                                   |       | 786,485,266.90                         | 545,655,801.48                             |
| Lease liabilities                                 |       | 3,153,256.47                           | 2,246,999.22                               |
| Long-term payables                                |       | 20,000,000.00                          | 20,000,000.00                              |
| Deferred incomes                                  |       | 107,597,227.58                         | 116,073,543.53                             |
| Deferred income tax liabilities                   |       | 86,905,720.20                          | 51,451,424.72                              |
| Other non-current liabilities                     |       | 3,561,500.00                           | 3,561,500.00                               |
|   |       | <b>1,007,702,971.15</b>                | 738,989,268.95                             |
| <b>Total non-current liabilities</b>              |       |  |  |
|   |       | <b>3,027,014,336.22</b>                | 3,401,905,893.46                           |
| <b>Total liabilities</b>                          |       |  |  |
| <b>Shareholders' equity:</b>                      |       |  |  |
| Capital stock                                     |       | 674,682,835.00                         | 669,627,235.00                             |
| Capital reserve                                   |       | 1,105,356,890.19                       | 1,055,447,142.27                           |
| Other comprehensive income                        |       | 122,693,737.86                         | 111,183,262.32                             |
| Special reserve                                   |       | 56,144.76                              |  |
| Surplus reserve                                   |       | 350,701,609.03                         | 350,701,609.03                             |
| Undistributed profits                             |       | 1,609,433,143.83                       | 1,397,776,047.04                           |
|   |       | <b>3,862,924,360.67</b>                | 3,584,735,295.66                           |
| <b>Total shareholders' equity</b>                 |       |  |  |
|   |       | <b>6,889,938,696.89</b>                | 6,986,641,189.12                           |
| <b>Total liabilities and shareholder's equity</b> |       |  |  |

# Consolidated Income Statement

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item   | Notes | Amount of<br>current period | Amount of<br>previous period |
|--|-------|-----------------------------|------------------------------|
| <b>I. Gross revenue</b>  |       | <b>4,672,269,049.13</b>     | 3,664,294,993.33             |
| Including: Operating revenue   | VI.41 | <b>4,672,269,049.13</b>     | 3,664,294,993.33             |
| <b>II. Total operating cost</b>  |       | <b>4,311,750,429.21</b>     | 3,423,882,303.99             |
| Including: Operating cost  | VI.41 | <b>3,281,046,254.21</b>     | 2,711,527,456.90             |
| Taxes and surcharges   | VI.42 | <b>60,476,643.03</b>        | 31,613,472.22                |
| Selling expenses   | VI.43 | <b>487,038,936.17</b>       | 294,558,596.18               |
| Administration expenses  | VI.44 | <b>246,316,699.21</b>       | 203,112,746.43               |
| Research and development expense   | VI.45 | <b>235,529,909.24</b>       | 168,567,402.10               |
| Financial expenses   | VI.46 | <b>1,341,987.35</b>         | 14,502,630.16                |
| Including: Interest expenses   |       | <b>21,488,813.56</b>        | 24,376,640.19                |
| Interest income  |       | <b>6,731,842.63</b>         | 3,646,699.81                 |
| Add: Other income  | VI.47 | <b>11,695,552.06</b>        | 15,753,419.00                |
| Investment incomes (losses to be listed with "-")  | VI.48 | <b>8,286,352.28</b>         | 10,527,231.58                |
| Including: Incomes from investment into affiliates and joint ventures                        |       | <b>120,590.68</b>           | 2,609,415.58                 |
| Credit impairment loss(losses to be listed with "-")   | VI.49 | <b>-3,477,647.35</b>        | -2,032,673.39                |
| Asset impairment loss (losses to be listed with "-")   | VI.50 | <b>-44,340,776.07</b>       | -29,349,965.64               |
| Gains from asset disposals (losses to be listed with "-")                                    | VI.51 | <b>1,274,182.44</b>         | 2,454,007.49                 |
| <b>III. Operating profit (losses to be listed with "-")</b>                                  |       | <b>333,956,283.28</b>       | 237,764,708.38               |
| Add: Non-Operating revenue   | VI.52 | <b>632,015.65</b>           | 687,434.68                   |
| Less: Non-operating expenditure  | VI.53 | <b>2,642,486.67</b>         | 3,135,414.59                 |
| <b>IV. Total profits (total loss to be listed with "-")</b>                                  |       | <b>331,945,812.26</b>       | 235,316,728.47               |
| Less: Income tax expense   | VI.54 | <b>56,265,379.99</b>        | 36,812,855.18                |
| <b>V. Net profit (net loss to be listed with "-")</b>  |       | <b>275,680,432.27</b>       | 198,503,873.29               |
| (I) By operation continuity  |       |                             |                              |
| (1) Net profit from continued operations (listed with "-" for net loss)                      |       | <b>275,680,432.27</b>       | 198,503,873.29               |
| (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) |       | <b>269,807,157.85</b>       | 194,389,556.12               |
| (2) Minority interest in profit or loss (listed with "-" for net loss)                       |       | <b>5,873,274.42</b>         | 4,114,317.17                 |

# Consolidated Income Statement (Continued)

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item  | Notes | Amount of<br>current period | Amount of<br>previous period |
|---|-------|-----------------------------|------------------------------|
| <b>VI Net after-tax other comprehensive income</b>  | VI.55 | <b>13,873,006.87</b>        | -9,701,604.53                |
| Net after-tax other comprehensive income attributable to the owners of the parent company |       | <b>13,346,960.91</b>        | -10,361,840.79               |
| (I) Other comprehensive income not subject to reclassification to profit or loss          | VI.55 | <b>11,510,475.54</b>        | -12,672,561.60               |
| 1. change in fair value of other equity instrument investments                            | VI.55 | <b>11,510,475.54</b>        | -12,672,561.60               |
| (II) Other comprehensive income to be reclassified to profit or loss in future            | VI.55 | <b>1,836,485.37</b>         | 2,310,720.81                 |
| 1. Conversion difference of foreign currency statement                                    | VI.55 | <b>1,836,485.37</b>         | 2,310,720.81                 |
| Net after-tax other comprehensive income attributable to minority shareholders            |       | <b>526,045.96</b>           | 660,236.26                   |
| <b>VII. Total comprehensive income</b>  |       | <b>289,553,439.14</b>       | 188,802,268.76               |
| Total comprehensive income attributable to the shareholders of parent company             |       | <b>283,154,118.76</b>       | 184,027,715.33               |
| Total comprehensive income attributable to the minority shareholders                      |       | <b>6,399,320.38</b>         | 4,774,553.43                 |
| <b>VIII. Earnings per share:</b>  |       |                             |                              |
| (I) Basic earnings per share  | VI.56 | <b>0.40</b>                 | 0.30                         |
| (II) Diluted earnings per share   | VI.56 | <b>0.39</b>                 | 0.30                         |

# Parent Company's Income Statement

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item   | Notes | Amount of<br>current period | Amount of<br>previous period |
|--|-------|-----------------------------|------------------------------|
| <b>I. Gross revenue</b>  | XVI.6 | <b>2,474,920,495.39</b>     | 1,877,383,535.54             |
| Less: Operating cost   | XVI.6 | <b>1,655,828,518.37</b>     | 1,408,766,107.27             |
| Taxes and surcharges   |       | <b>27,646,632.59</b>        | 18,652,909.91                |
| Selling expenses   |       | <b>34,054,566.32</b>        | 12,076,099.89                |
| Administration expenses  |       | <b>178,639,129.12</b>       | 142,982,057.05               |
| Research and development expense   |       | <b>186,037,994.31</b>       | 125,880,884.19               |
| Financial expenses   |       | <b>1,688,843.56</b>         | 16,651,235.73                |
| Including: Interest expenses   |       | <b>20,394,576.25</b>        | 24,017,859.97                |
| Interest income  |       | <b>5,215,302.77</b>         | 2,162,064.60                 |
| Add: Other income  |       | <b>11,102,958.72</b>        | 15,323,110.21                |
| Investment incomes (losses to be listed with "-")                                | XVI.7 | <b>22,806,352.28</b>        | 20,547,231.58                |
| Including: Incomes from investment into affiliates and joint ventures            |       | <b>120,590.68</b>           | 2,609,415.58                 |
| Credit impairment loss(losses to be listed with "-")                             |       | <b>-2,413,790.36</b>        | -846,045.63                  |
| Asset impairment loss (losses to be listed with "-")                             |       | <b>-32,041,770.40</b>       | -33,205,597.82               |
| Gains from asset disposals (losses to be listed with "-")                        |       | <b>520,089.31</b>           | 2,394,741.43                 |
| <b>II. Operating profit (losses to be listed with "-")</b>                       |       | <b>390,998,650.67</b>       | 156,587,681.27               |
| Add: Non-operating revenue   |       | <b>260,382.95</b>           | 492,712.34                   |
| Less: Non-operating expenditure  |       | <b>1,578,471.15</b>         | 1,727,157.17                 |
| <b>III. Total profits (total loss to be listed with "-")</b>                     |       | <b>389,680,562.47</b>       | 155,353,236.44               |
| Less: Income tax expense   |       | <b>43,086,898.68</b>        | 20,047,144.92                |
| <b>IV. Net profit (net loss to be listed with "-")</b>                           |       | <b>346,593,663.79</b>       | 135,306,091.52               |
| (I) Net profit from continued operations(listed with "-" for net loss)           |       | <b>346,593,663.79</b>       | 135,306,091.52               |
| (II) Net profit from discontinued operations (listed with "-" for net loss)      |       |                             |                              |
| <b>V. Net after-tax other comprehensive income</b>                               |       | <b>11,510,475.54</b>        | -12,672,561.60               |
| (I) Other comprehensive income not subject to reclassification to profit or loss |       | <b>11,510,475.54</b>        | -12,672,561.60               |
| 1. change in fair value of other equity instrument investments                   |       | <b>11,510,475.54</b>        | -12,672,561.60               |
| (II) Other comprehensive income to be reclassified to profit or loss in future   |       |                             |                              |
| 1. Conversion difference of foreign currency statement                           |       |                             |                              |
| <b>VI. Total comprehensive income</b>  |       | <b>358,104,139.33</b>       | 122,633,529.92               |
| <b>VII. Earnings per share:</b>  |       |                             |                              |
| (I) Basic earnings per share   |       |                             |                              |
| (II) Diluted earnings per share  |       |                             |                              |

# Consolidated Cash Flow Statement

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item  | Notes   | Amount of<br>current period | Amount of<br>previous period |
|---|---------|-----------------------------|------------------------------|
| <b>I. Cash flow from operating activities:</b>  |         |                             |                              |
| Cash received from sale of goods or rendering services  |         | <b>3,707,223,079.63</b>     | 2,958,172,591.98             |
| Refunds of taxes and levies   |         | <b>40,197,606.85</b>        | 81,835,033.58                |
| Other cash received from operating-related activities   | VI · 57 | <b>32,566,512.66</b>        | 36,492,908.25                |
| <b>Subtotal of cash inflows from operating activities</b>                                     |         | <b>3,779,987,199.14</b>     | 3,076,500,533.81             |
|   |         |                             |                              |
| Cash paid for goods purchased and labor services received                                     |         | <b>2,445,747,105.90</b>     | 1,883,693,406.56             |
| Cash paid to and for employees  |         | <b>556,738,596.74</b>       | 473,443,065.22               |
| Cash paid for taxes and surcharges  |         | <b>218,257,736.69</b>       | 114,805,322.11               |
| Other cash paid related to operating activities   | VI · 57 | <b>539,112,689.15</b>       | 409,757,247.16               |
| <b>Subtotal of cash outflows from operating activities</b>                                    |         | <b>3,759,856,128.48</b>     | 2,881,699,041.05             |
| <b>Net cash flow from investing activities</b>  |         | <b>20,131,070.66</b>        | 194,801,492.76               |
| <b>II. Cash flow generated from investing activities:</b>                                     |         |                             |                              |
| Cash received from returns on investments   |         | <b>5,100,000.00</b>         |                              |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets |         | <b>2,054,138.44</b>         | 2,524,196.00                 |
| <b>Subtotal of cash inflows from investing activities</b>                                     |         | <b>7,154,138.44</b>         | 2,524,196.00                 |
|   |         |                             |                              |
| Cash paid for acquisitions of fixed assets, intangible assets and long-term assets            |         | <b>119,900,862.91</b>       | 117,975,110.87               |
| <b>Subtotal of cash outflow from investing activities</b>                                     |         | <b>119,900,862.91</b>       | 117,975,110.87               |
| <b>Net cash flow from investing activities</b>  |         | <b>-112,746,724.47</b>      | -115,450,914.87              |

# Consolidated Cash Flow Statement (Continued)

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item   | Notes   | Amount of<br>current period    | Amount of<br>previous period |
|--|---------|--------------------------------|------------------------------|
| <b>III. Cash flows from financing activities:</b>  |         |                                |                              |
| Cash received from capital contributions   |         | <b>6,018,012.00</b>            | 274,278,131.34               |
| Including: cash received from subsidiaries' receipt of investment from minority shareholders |         |                                | 18,179,996.22                |
| Cash received from loans   |         | <u><b>756,317,994.30</b></u>   | <u>595,388,000.00</u>        |
| <b>Subtotal of cash inflows from financing activities</b>                                    |         | <u><b>762,336,006.30</b></u>   | <u>869,666,131.34</u>        |
| Cash paid for repayment of debts   |         | <b>403,970,534.58</b>          | 558,030,534.58               |
| Cash paid for distributing dividends and profits or paying interest                          |         | <b>22,175,105.05</b>           | 32,802,695.65                |
| Including: dividends and profits paid to minority shareholders by subsidiaries               |         | <b>500,000.00</b>              |                              |
| Other cash paid related to financing activities  | VI · 57 | <u><b>401,560,228.35</b></u>   | <u>7,266,219.15</u>          |
| <b>Subtotal of cash outflows from financing activities</b>                                   |         | <u><b>827,705,867.98</b></u>   | <u>598,099,449.38</u>        |
| <b>Net cash flows from financing activities</b>  |         | <u><b>-65,369,861.68</b></u>   | <u>271,566,681.96</u>        |
| <b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>              |         |                                |                              |
|  |         | <u><b>1,520,914.71</b></u>     | <u>10,574,371.23</u>         |
| <b>V. Net increase in cash and cash equivalents</b>  |         |                                |                              |
| Add: Cash and cash equivalents at the beginning of the period                                |         | <b>-156,464,600.78</b>         | 361,491,631.08               |
|  |         | <u><b>1,010,764,347.51</b></u> | <u>596,391,588.69</u>        |
| <b>VI. Cash and cash equivalents at the end of the period</b>                                |         |                                |                              |
|  |         | <u><b>854,299,746.73</b></u>   | <u>957,883,219.77</u>        |

# Parent Company Cash Flow Statement

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item  | Notes | Amount of<br>current period | Amount of<br>previous period |
|---|-------|-----------------------------|------------------------------|
| <b>I. Cash flow from operating activities:</b>  |       |                             |                              |
| Cash received from sale of goods or rendering services  |       | <b>1,761,577,419.88</b>     | 1,425,329,520.67             |
| Refunds of taxes and levies   |       | <b>27,345,182.90</b>        | 55,107,055.91                |
| Other cash received from operating-related activities   |       | <b>31,740,192.40</b>        | 171,676,895.71               |
|   |       | <b>1,820,662,795.18</b>     | 1,652,113,472.29             |
| <b>Subtotal of cash inflows from operating activities</b>                                     |       |                             |                              |
| Cash paid for goods purchased and labor services received                                     |       | <b>1,026,433,746.23</b>     | 929,504,320.46               |
| Cash paid to and for employees  |       | <b>347,067,524.55</b>       | 298,999,289.01               |
| Cash paid for taxes and surcharges  |       | <b>70,836,069.66</b>        | 30,340,019.98                |
| Other cash paid related to operating activities   |       | <b>378,698,313.93</b>       | 153,989,743.07               |
|   |       | <b>1,823,035,654.37</b>     | 1,412,833,372.52             |
| <b>Subtotal of cash outflows from operating activities</b>                                    |       |                             |                              |
|   |       | <b>-2,372,859.19</b>        | 239,280,099.77               |
| <b>Net cash flow from investing activities</b>  |       |                             |                              |
| <b>II. Cash flow generated from investing activities:</b>                                     |       |                             |                              |
| Cash received from returns on investments   |       | <b>19,620,000.00</b>        | 10,020,000.00                |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets |       | <b>632,536.00</b>           | 2,478,036.00                 |
|   |       | <b>20,252,536.00</b>        | 12,498,036.00                |
| <b>Subtotal of cash inflows from investing activities</b>                                     |       |                             |                              |
| Cash paid for acquisitions of fixed assets, intangible assets and long-term assets            |       | <b>82,603,566.59</b>        | 65,620,545.14                |
| Cash paid for acquisitions of investments   |       |                             | 21,600,000.00                |
| Other cash paid related to investing activities   |       |                             | 15,200,000.00                |
|   |       | <b>82,603,566.59</b>        | 102,420,545.14               |
| <b>Subtotal of cash outflow from investing activities</b>                                     |       |                             |                              |
|   |       | <b>-62,351,030.59</b>       | -89,922,509.14               |
| <b>Net cash flow from investing activities</b>  |       |                             |                              |

# Parent Company Cash Flow Statement (Continued)

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item  | Notes | Amount of<br>current period | Amount of<br>previous period |
|---|-------|-----------------------------|------------------------------|
| <b>III. Cash flows from financing activities:</b>                                   |       |                             |                              |
| Cash received from capital contributions  |       | <b>6,018,012.00</b>         | 256,098,135.12               |
| Cash received from loans  |       | <b>682,817,994.30</b>       | 587,388,000.00               |
| <b>Subtotal of cash inflows from financing activities</b>                           |       | <b>688,836,006.30</b>       | 843,486,135.12               |
| Cash paid for repayment of debts  |       | <b>372,770,534.58</b>       | 558,030,534.58               |
| Cash paid for distributing dividends and profits or<br>paying interest              |       | <b>20,652,949.48</b>        | 32,602,106.01                |
| Other cash paid related to financing activities                                     |       | <b>400,000,000.00</b>       | 6,720,000.00                 |
| <b>Subtotal of cash outflows from financing activities</b>                          |       | <b>793,423,484.06</b>       | 597,352,640.59               |
| <b>Net cash flows from financing activities</b>                                     |       | <b>-104,587,477.76</b>      | 246,133,494.53               |
| <b>IV. Effect of foreign exchange rate changes on cash and cash<br/>equivalents</b> |       |                             |                              |
|   |       | <b>1,357,500.92</b>         | 10,153,817.11                |
| <b>V. Net increase in cash and cash equivalents</b>                                 |       |                             |                              |
| Add: Cash and cash equivalents at the beginning of the period                       |       | <b>765,159,252.90</b>       | 284,036,466.95               |
| <b>VI. Cash and cash equivalents at the end of the period</b>                       |       |                             |                              |
|   |       | <b>597,205,386.28</b>       | 689,681,369.22               |

# Consolidated Statement of Changes in Shareholder's Equity

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item  | Six months ended 30 June 2023                         |                  |                            |                 |                 |                       |                  | Minority shareholders' equity | Total shareholder's equity |
|---|---|------------------|----------------------------|-----------------|-----------------|-----------------------|------------------|-------------------------------|----------------------------|
|   | Equity assigned to the shareholders of parent company |                  |                            |                 |                 |                       |                  |                               |                            |
|   | Capital stock   | Capital surplus  | Other comprehensive income | Special reserve | Surplus reserve | Undistributed profits | Subtotal         |                               |                            |
| <b>I. Balance at the end of last period</b>                                   | 669,627,235.00  | 998,144,589.65   | 112,126,734.41             | 1,551,906.40    | 356,955,596.10  | 1,988,054,329.39      | 4,126,460,390.95 | 223,444,771.86                | 4,349,905,162.81           |
| <b>II. Balance at the beginning of current period</b>                         | 669,627,235.00  | 998,144,589.65   | 112,126,734.41             | 1,551,906.40    | 356,955,596.10  | 1,988,054,329.39      | 4,126,460,390.95 | 223,444,771.86                | 4,349,905,162.81           |
| <b>III. Current period increase/decrease (decrease to be listed with "-")</b> | 5,055,600.00  | 49,909,747.92    | 13,346,960.91              | 1,171,481.49    |                 | 134,870,590.85        | 204,354,381.17   | -4,080,679.62                 | 200,273,701.55             |
| (I) Total comprehensive income  |   |                  | 13,346,960.91              | 1,171,481.49    |                 | 269,807,157.85        | 283,154,118.76   | 6,399,320.38                  | 289,553,439.14             |
| (II) Invested and decreased capital of shareholders                           | 5,055,600.00  | 49,909,747.92    |                            |                 |                 |                       | 54,965,347.92    |                               | 54,965,347.92              |
| 1. Shareholder's contribution of capital                                      | 5,055,600.00  | 29,726,928.00    |                            |                 |                 |                       | 34,782,528.00    |                               | 34,782,528.00              |
| 2. Other  |   | 20,182,819.92    |                            |                 |                 |                       | 20,182,819.92    |                               | 20,182,819.92              |
| (III) Profit distribution   |   |                  |                            |                 |                 | -134,936,567.00       | -134,936,567.00  | -10,480,000.00                | -145,416,567.00            |
| 1. Distribution to shareholders   |   |                  |                            |                 |                 | -134,936,567.00       | -134,936,567.00  | -10,480,000.00                | -145,416,567.00            |
| (IV) Special reserve  |   |                  |                            | 1,171,481.49    |                 |                       | 1,171,481.49     |                               | 1,171,481.49               |
| 1. Appropriation in current period  |   |                  |                            | 11,913,622.94   |                 |                       | 11,913,622.94    |                               | 11,913,622.94              |
| 2. Amount used in current period  |   |                  |                            | 10,742,141.45   |                 |                       | 10,742,141.45    |                               | 10,742,141.45              |
| <b>IV. Balance at end of current period</b>                                   | 674,682,835.00  | 1,048,054,337.57 | 125,473,695.32             | 2,723,387.89    | 356,955,596.10  | 2,122,924,920.24      | 4,330,814,772.12 | 219,364,092.24                | 4,550,178,864.36           |
|   | Six months ended 30 June 2022                         |                  |                            |                 |                 |                       |                  |                               |                            |
|   | Equity assigned to the shareholders of parent company |                  |                            |                 |                 |                       |                  |                               |                            |
| Item  | Capital stock   | Capital surplus  | Other comprehensive income | Special reserve | Surplus reserve | Undistributed profits | Subtotal         | Minority shareholders' equity | Total shareholder's equity |
| <b>I. Balance at the end of last period</b>                                   | 627,367,447.00  | 677,941,287.82   | 126,254,375.09             | 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           |
| <b>II. Balance at the beginning of current period</b>                         | 627,367,447.00  | 677,941,287.82   | 126,254,375.09             | 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           |
| <b>III. Current period increase/decrease (decrease to be listed with "-")</b> | 42,259,788.00   | 280,278,807.41   | -10,361,840.79             | 2,321,541.31    |                 | 93,945,470.87         | 408,443,766.80   | 11,701,620.45                 | 420,145,387.25             |
| (I) Total comprehensive income  |   |                  | -10,361,840.79             | 2,321,541.31    |                 | 194,389,556.12        | 184,027,715.33   | 4,774,553.43                  | 188,802,268.76             |
| (II) Invested and decreased capital of shareholders                           | 42,259,788.00   | 280,278,807.41   |                            |                 |                 |                       | 322,538,595.41   | 16,907,067.02                 | 339,445,662.43             |
| 1. Shareholder's contribution of capital                                      | 42,259,788.00   | 232,370,909.41   |                            |                 |                 |                       | 274,630,697.41   | 16,907,067.02                 | 291,537,764.43             |
| 2. Amount of share-based payment recognized as share holder's interest        |   | 23,197,698.00    |                            |                 |                 |                       | 23,197,698.00    |                               | 23,197,698.00              |
| (III) Profit distribution   |   | 24,710,200.00    |                            |                 |                 |                       | 24,710,200.00    |                               | 24,710,200.00              |
| 1. Distribution to shareholders   |   |                  |                            |                 |                 | -100,444,085.25       | -100,444,085.25  | -9,980,000.00                 | -110,424,085.25            |
| (IV) Special reserve  |   |                  |                            |                 |                 | -100,444,085.25       | -100,444,085.25  | -9,980,000.00                 | -110,424,085.25            |
| 1. Appropriation in current period  |   |                  |                            | 2,321,541.31    |                 |                       | 2,321,541.31     |                               | 2,321,541.31               |
| 2. Amount used in current period  |   |                  |                            | 10,087,967.34   |                 |                       | 10,087,967.34    |                               | 10,087,967.34              |
| (V) Other   |   |                  |                            | 7,766,426.03    |                 |                       | 7,766,426.03     |                               | 7,766,426.03               |
| <b>IV. Balance at end of current period</b>                                   | 669,627,235.00  | 958,220,095.23   | 115,892,534.30             | 4,439,671.64    | 325,192,624.19  | 1,803,013,173.89      | 3,876,365,334.25 | 194,904,887.13                | 4,071,290,221.38           |

# Parent Company Statement of Changes in Shareholder's Equity

June 30, 2023

Prepared by: Shandong Xinhua Pharmaceutical Company Limited

Unit: RMB

| Item  | Six months ended 30 June 2023 |                  |                            |                 |                 |                       |                               |
|---|-------------------------------|------------------|----------------------------|-----------------|-----------------|-----------------------|-------------------------------|
|   | Capital stock                 | Capital surplus  | Other comprehensive income | Special reserve | Surplus reserve | Undistributed profits | Total of shareholder's equity |
| <b>I. Balance at the end of last period</b>                                   | 669,627,235.00                | 1,055,447,142.27 | 111,183,262.32             |                 | 350,701,609.03  | 1,397,776,047.04      | 3,584,735,295.66              |
| <b>II. Balance at the beginning of current period</b>                         | 669,627,235.00                | 1,055,447,142.27 | 111,183,262.32             |                 | 350,701,609.03  | 1,397,776,047.04      | 3,584,735,295.66              |
| <b>III. current period increase/decrease (decrease to be listed with "-")</b> | 5,055,600.00                  | 49,909,747.92    | 11,510,475.54              | 56,144.76       |                 | 211,657,096.79        | 278,189,065.01                |
| (I) Total comprehensive income  |                               |                  | 11,510,475.54              |                 |                 | 346,593,663.79        | 358,104,139.33                |
| (II) Invested and decreased capital of shareholders                           | 5,055,600.00                  | 49,909,747.92    |                            |                 |                 |                       | 54,965,347.92                 |
| 1. Shareholder's contribution of capital                                      | 5,055,600.00                  | 29,726,928.00    |                            |                 |                 |                       | 34,782,528.00                 |
| 2. Amount of share-based payment recognized as share holder's interest        |                               | 20,182,819.92    |                            |                 |                 |                       | 20,182,819.92                 |
| (III) Profit distribution   |                               |                  |                            |                 |                 | -134,936,567.00       | -134,936,567.00               |
| 1. Distribution to shareholders   |                               |                  |                            |                 |                 | -134,936,567.00       | -134,936,567.00               |
| (IV) Special reserve  |                               |                  |                            | 56,144.76       |                 |                       | 56,144.76                     |
| 1. Appropriation in current period  |                               |                  |                            | 6,708,975.26    |                 |                       | 6,708,975.26                  |
| 2. Amount used in current period  |                               |                  |                            | 6,652,830.50    |                 |                       | 6,652,830.50                  |
| <b>IV. Balance at end of current period</b>                                   | 674,682,835.00                | 1,105,356,890.19 | 122,693,737.86             | 56,144.76       | 350,701,609.03  | 1,609,433,143.83      | 3,862,924,360.67              |

  

| Item  | Six months ended 30 June 2022 |                  |                            |                 |                 |                       |                               |
|---|-------------------------------|------------------|----------------------------|-----------------|-----------------|-----------------------|-------------------------------|
|   | Capital stock                 | Capital surplus  | Other comprehensive income | Special reserve | Surplus reserve | Undistributed profits | Total of shareholder's equity |
| <b>I. Balance at the end of last period</b>                                   | 627,367,447.00                | 736,516,769.64   | 129,425,414.90             |                 | 318,938,637.12  | 1,212,353,385.08      | 3,024,601,653.74              |
| <b>II. Balance at the beginning of current period</b>                         | 627,367,447.00                | 736,516,769.64   | 129,425,414.90             |                 | 318,938,637.12  | 1,212,353,385.08      | 3,024,601,653.74              |
| <b>III. current period increase/decrease (decrease to be listed with "-")</b> | 42,259,788.00                 | 279,005,878.21   | -12,672,561.60             | 2,087,204.65    |                 | 34,862,006.27         | 345,542,315.53                |
| (I) Total comprehensive income  |                               |                  | -12,672,561.60             |                 |                 | 135,306,091.52        | 122,633,529.92                |
| (II) Invested and decreased capital of shareholders                           | 42,259,788.00                 | 279,005,878.21   |                            |                 |                 |                       | 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   |                               |                  |                            |                 |                 | -100,444,085.25       | -100,444,085.25               |
| 1. Distribution to shareholders   |                               |                  |                            |                 |                 | -100,444,085.25       | -100,444,085.25               |
| (IV) Special reserve  |                               |                  |                            | 2,087,204.65    |                 |                       | 2,087,204.65                  |
| 1. Appropriation in current period  |                               |                  |                            | 5,710,310.04    |                 |                       | 5,710,310.04                  |
| 2. Amount used in current period  |                               |                  |                            | 3,623,105.39    |                 |                       | 3,623,105.39                  |
| <b>IV. Balance at end of current period</b>                                   | 669,627,235.00                | 1,015,522,647.85 | 116,752,853.30             | 2,087,204.65    | 318,938,637.12  | 1,247,215,391.35      | 3,370,143,969.27              |

# 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 of the issuance of 30 million shares of common stock of A shares, while reducing the holding of 3 million shares of state-owned shares. After the change, the registered capital of the Company was RMB457,312,830.00.

The Company was approved to issue 21,040,591 RMB A-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 eligible grantees expired. The Company issued A-share common shares to the eligible grantees. In the first exercise period of stock options, 184 eligible grantees actually exercised, and the number of stock options exercised was 5.508 million. The listing and circulation date of the exercise shares: January 19, 2021. After the exercise, the additional registered capital is RMB5,508,000.00.

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 eligible grantees expired. The Company issued A-share common shares to the eligible grantees. In the first exercise period of stock options, 178 eligible grantees actually exercised, and the number of stock options exercised was 5.1678 million. The listing and circulation date of the exercise shares: January 13, 2022. After the exercise, the additional registered capital is RMB5,167,800.00.

In March 2022, the Company was approved to issue 37,091,988 RMB-A shares to one specific investor at an issue price of RMB6.74 and an additional registered capital of RMB37,091,988.00.

On December 28, 2022, according to the provisions of the 2018 A-share stock option incentive plan (Draft), the third vesting period for granting stock options to eligible grantees expired. The Company issued A-share common shares to the eligible grantees. In the third exercise period of stock options, 173 eligible grantees actually exercised, and the number of stock options exercised was 5.0556 million. Among them, 159 eligible grantees exercised for the first time, and the number of stock options exercised was 4.2603 million, and the listing and circulation date of the exercise shares: 11 January 2023; 14 eligible grantees exercised for the second time, and the number of stock options exercised was 0.7953 million, and the listing and circulation date of the exercise shares: 9 May 2023. After the exercise, the additional registered capital is RMB5,055,600.00.

## Notes to the Interim Financial Statements (Continued)

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

As of June 30, 2023, the registered capital of the Company was RMB 674,682,835.00, and the capital structure was as follows:

| <b>Class of Shares</b>   | <b>Quantity<br/>of Shares</b> | <b>Proportion<br/>to Total<br/>Share Capital<br/>(%)</b> |
|--|-------------------------------|--|
| I. Subtotal of tradable shares with restricted sale conditions     | 38,676,675                    | 5.73   |
| A share with restricted sale conditions                            | 38,676,675                    | 5.73   |
| Among them: Domestic legal person shareholding                     | 37,091,988                    | 5.50   |
| Executive shares of A share with restricted sale conditions        | 1,584,687                     | 0.23   |
| II. Subtotal of tradable shares without restricted sale conditions | 636,006,160                   | 94.27  |
| RMB common stocks (A share)  | 441,006,160                   | 65.37  |
| Overseas listed foreign shares (H share)                           | 195,000,000                   | 28.90  |
| III. Total number of shares  | 674,682,835                   | 100.00   |

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 exercise the power to make decisions on major matters such as the Company’s business policy, financing, investment, profit distribution and other resolution rights of significant events according to the law. The board of directors is accountable to the general meeting of shareholders, and shall exercise the business decision-making right of the Company in accordance with law; the managers are responsible for organizing the implementation of resolution matters of the general meeting of shareholders and the board of directors and managing the production and operation of the Company.

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

# 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 such as Shandong Xinhua Pharmaceutical Trading Co., Ltd., Xinhua Pharmaceutical (Shouguang) Co., Ltd., 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

The financial statements of the Company have been prepared on a going-concern basis, based on transactions and items that have actually occurred and in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC, and other relevant regulations (hereinafter referred to as "ASBE"), and the disclosure requirements stipulated under the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Rules on Financial Reporting (2014 revised) issued by the China Securities Regulatory Commission and related provisions, relevant disclosures required by the Hong Kong Companies Ordinance and the Listing Rules, and the Company's 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 subsidiaries is local currency.

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

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

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

## Notes to the Interim Financial Statements (Continued)

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

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

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

### 6. Compilation method of consolidated financial statements

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

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

All significant internal transactions, balances and unrealized profits shall be offset during preparation of consolidated financial statements. The portion of subsidiary owners' equity which does not belong to the parent company and the portion of minority 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 last period are adjusted, and it is deemed that the entity of financial statements formed after the merger has existed since the beginning of control by the ultimate controlling party.

## Notes to the Interim Financial Statements (Continued)

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

If the equity of an investee under the common control is acquired step by step through multiple transactions and the acquisition eventually form 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 net asset arised 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 under the control of the ultimate controller simultaneously. To avoid double counting of the value of the combined party's net asset, the long-term equity investments held by the Group before the consolidation, and the recognized changes of profit or loss, other comprehensive income and net asset occur during the period from the later of the date of the acquisition of the original equity or the date both the Group and the merged party are under the control of the ultimate controller simultaneously, to the combination date, should be offset the opening retained earnings and current profit or loss of comparative statements separately.

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

If the equity of an investee not under the same control is acquired step by step through multiple transactions and the acquisition eventually forms a business combination, the accounting treatment in the consolidated financial statements should be 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 arises 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))*

At 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 should be entitled by the Group in the subsidiaries continuously calculated since the purchase date or merger date correspondingly to the disposed long-term equity investments, such difference shall be adjusted to capital premium or share premium. If the capital reserve is insufficient to offset, retained earnings shall be adjusted.

If the Group loses control over the investees due to the disposal of part of the equity investments and other reasons, when preparing the consolidated financial statements, for the residual equity, a re-measurement shall be carried out according to the fair value on the date of loss of control. The sum of the consideration obtained by disposing of the equity and the fair value of the remaining equity, shall deduct the share of net assets which should be entitled by the Group in the subsidiaries continuously calculated since the purchase date or merger date according to the original shareholding percentage correspondingly to the disposed long-term equity investments, the difference after such deduction shall be recognized into 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 amount based on the spot exchange rate on the first day of transaction month. Monetary items calculated in foreign currency in the balance sheet shall be translated into RMB at the spot exchange rate on the balance sheet date; the exchange difference shall be included into current profit and loss, after disposal of the balance of exchange that is formed by foreign currency loans borrowed for acquiring or producing assets which meet capitalized terms. Foreign currency non-monetary items calculated at fair value are converted into RMB by using the spot rate on the date when the fair value is determined. The generated conversion difference is included in current profits and losses or other comprehensive income directly as the change of fair value. Foreign currency non-monetary items measured at historical cost are still converted based on the spot exchange rate of the transaction date, with the RMB amount unchanged.

#### **(2) Conversion of financial statements in foreign currency**

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

# Notes to the Interim Financial Statements (Continued)

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

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

## 9. Financial assets and financial liabilities

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

### (1) **Financial assets**

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

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

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

The Group classifies the financial assets that simultaneously meet the following conditions as the financial assets measured at fair value and whose changes recorded in other comprehensive income: ① The business model of managing the financial assets aims at both collecting contract cash flows and selling the financial assets. ② The contract clauses of the financial assets stipulates that the cash flows generated on a specific date are only used to pay for the principles and interests which are based on the amount of unpaid principals. Such financial assets are initially measured at fair value. The relevant transaction costs are recorded in the initial recognition amount. Except those designated as hedged items, as to such type of financial assets, except for credit impairment losses or gains, exchange gains or losses, and interest on the financial asset calculated according to 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. Such financial assets includes receivables financing.

## Notes to the Interim Financial Statements (Continued)

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

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

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

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

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

## Notes to the Interim Financial Statements (Continued)

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

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

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

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

If the overall transfer of financial assets satisfies the conditions for derecognition, the carrying amount of the transferred financial assets at the derecognition date and the amount corresponding to the amount corresponding to the derecognition portion of the consideration received as a result of the transfer and the cumulative amount of fair value changes originally directly included in other comprehensive income (the following conditions are met at the same time as the transferred financial assets: ① the Group's business model for managing the financial assets is aimed at both receiving contractual cash flows and selling the financial assets; ② The contractual terms of the financial asset provide that the difference between the sum of the principal and interest based on the outstanding principal amount generated on a particular date is recognized in profit or loss for the period.

If the partial transfer of financial assets satisfies the conditions for derecognition, the carrying amount of the transferred financial assets as a whole shall be apportioned between the derecognized part and the non-derecognized part according to their respective relative fair value. and the amount corresponding to the derecognition portion of the consideration received as a result of the transfer and the amount corresponding to the cumulative amount of changes in fair value that were originally included in other comprehensive income that should be apportioned to the derecognition portion (the financial assets involved in the transfer are also subject to: ① the Group's business model for managing the financial asset is aimed at both the collection of contractual cash flows and the sale of the financial asset; ② The contractual terms of the financial asset provide that the cash flows generated on a particular date are only the sum of the principal and interest based on the outstanding principal amount, and the difference between the overall carrying amount of the aforesaid financial asset apportioned is included in profit or loss for the period.

# Notes to the Interim Financial Statements (Continued)

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

## **(2) Financial liabilities**

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

Except for the following, the Group classifies financial liabilities as financial liabilities measured at amortized cost, which are subsequently measured at amortized cost using the effective interest rate method:

- ① The financial liabilities measured at fair value and whose changes are recorded in current profits or losses, including trading financial liabilities (including the derivative instruments 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 recorded in current profits or losses.
- ② Financial asset transfer failing to meet the recognition conditions or the financial liabilities resulting from continued involvement in the transferred financial assets. Such financial liabilities are measured by the Group in accordance with the relevant standards for the transfer of financial assets.
- ③ The financial guarantee contracts that do not belong to the conditions stated in the aforementioned ① or ②, and the loan commitments at the interest rate lower than the market interest rates that do not belong to the condition stated in the aforementioned ①. Where the Group is the issuer of such financial liabilities, the amount of loss allowance determined in accordance with the impairment of financial instruments standard and the balance of the initial recognition amount less accumulated amortization determined in accordance with the relevant provisions of the revenue standard are measured after initial recognition.

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.

## Notes to the Interim Financial Statements (Continued)

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

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

### 2) *De-recognition conditions of financial liabilities*

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

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

The Group measures the fair value of financial assets and financial liabilities according to the prices in major markets. For the assets or liabilities of which no major market exists, the most favorable market price will be adopted as the fair value of financial assets and financial liabilities. The Group also adopts the valuation techniques which are applicable at that time, and to which there 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 the priority to the use of the first level input value, and uses the third level input value at last. The equity investments in other equity instruments use the first level input value. The level to which the fair value measurement results belong is determined by the lowest level to which the input value which is of great significance to the overall fair value measurement belongs.

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

## Notes to the Interim Financial Statements (Continued)

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

### **(4) Offset of financial assets and financial liabilities**

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

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

# Notes to the Interim Financial Statements (Continued)

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

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

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

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

## 10. 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.

# Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)  
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Comparative table between bill receivable portfolio and expected credit loss rate in the whole duration

| <b>Aging</b>  | <b>Expected credit<br/>losses rate<br/>(%)</b> |
|---------------|--|
| Within 1 year | 0.50–1.00                                      |
| 1–2 years     | 20.00–50.00                                    |
| 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.

## Notes to the Interim Financial Statements (Continued)

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

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

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

# Notes to the Interim Financial Statements (Continued)

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

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

| <b>Aging</b>  | <b>Expected credit losses rate</b><br>(%) |
|---------------|---|
| Within 1 year | 0.50–1.00                                 |
| 1–2 years     | 20.00–50.00                               |
| 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 upon the following situations:

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

## Notes to the Interim Financial Statements (Continued)

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

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

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

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

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

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

## Notes to the Interim Financial Statements (Continued)

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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 last periods, and also considering the prospective information in the current period, 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, low value consumables, products in process, goods in stock, and goods in transit.

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 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 with 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.

# Notes to the Interim Financial Statements (Continued)

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

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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 contract 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 amount of write-off is greater than the accrued impairment loss provision, the 'assets impairment loss' shall be debited according to the difference.

# Notes to the Interim Financial Statements (Continued)

*(Unless otherwise indicated, all figures are stated in RMB)  
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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 clearly borne by the customers and other costs incurred solely because of the contract; the costs increase the Group's future resources for fulfilling its compliance obligations; the costs are expected to be recovered.

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

### **(2) Amortization of assets related to contract costs**

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

# 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) 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 accrued 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 last 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 into subsidiaries, associated enterprise and cooperative enterprise.

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

The Group's recognition basis for significant influence is that the Company holds the voting shares of the invested entity directly or indirectly through subsidiaries, which is more than 20% (included) but less than 50%. If there is clear evidence that the Group cannot participate in decision making related to production and operation of the invested entity in that case, no significant influence can be formed. If the investee holds less than 20% of the voting rights of the investee, it is also necessary to comprehensively consider the fact and situation that it has a representative in the board of directors or similar authority of the investee entity, or participates in the financial and operational policy formulation process of the investee entity, or has an important transaction with the investee entity, or sends management personnel to the investee entity, or provides key technical information to the investee entity, etc., which has a significant impact on the investee entity.

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.

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*(Unless otherwise indicated, all figures are stated in RMB)  
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If the equity of the investee unit under the same control is acquired step by step through multiple transactions, and the final business combination is formed, the treatment of long-term equity investment in the financial statements of the parent company should be disclosed in additionally during the reporting period of the acquisition of control. For example, if the equity of an investee under the same control is acquired step by step through multiple transactions, which ultimately results in a business combination, the Group will account for each transaction as a transaction to acquire control. In the case of a package transaction, at the date of consolidation, the initial investment cost of a long-term equity investment is based on the share of the carrying amount of the consolidated party's net assets in the consolidated financial statements of the ultimate controlling party after the merger. The difference between the initial investment cost and the carrying amount of the long-term equity investment before the merger plus the carrying amount of the new consideration for the shares to be acquired on the date of the merger, adjusted for capital reserve, and if the capital reserve is insufficient to write, the retained earnings are written off. Long-term equity investments obtained through business combinations that are not under common control, with the initial investment cost of the merger.

If the equity of an investee unit under different control is acquired step by step through multiple transactions, and an enterprise combination is eventually formed, the treatment of long-term equity investment costs in the parent company's financial statements should be additionally disclosed during the reporting period of acquiring control. For example, if the equity of investee units under different control is acquired step by step through multiple transactions, which ultimately results in a business combination, which is a package transaction, the Group will account for each transaction as a transaction to acquire control. If it is not a package transaction, the sum of the carrying amount of the equity investment originally held plus the cost of the new investment shall be used as the initial investment cost to be accounted for according to the cost method. If the equity held before the date of purchase is accounted for by the equity method, the relevant other comprehensive income of the original equity method accounting will not be adjusted for the time being, and the disposal of the investment shall be accounted for on the same basis as the direct disposal of the relevant assets or liabilities by the investee. Equity held prior to the purchase date is a non-tradable equity instrument designated as measured at fair value and changes in which are recognized in other comprehensive income, and cumulative fair value changes originally recognized in other comprehensive income may not be transferred to profit or loss for the period.

In addition to the above-mentioned long-term equity investment obtained through a business combination, long-term equity investment obtained by paying cash shall be used as the investment cost according to the actual purchase price paid; Long-term equity investments obtained from the issuance of equity securities are treated as investment costs based on the fair value of the equity securities issued; Long-term equity investment invested by investors, with the initial investment cost as the value agreed in the investment contract or agreement; Long-term equity investments acquired through debt restructuring, non-monetary asset exchanges, etc., are determined at the initial investment cost in accordance with the relevant accounting standards.

The Group adopts the cost method of accounting for investments in subsidiaries and the equity method for investments in joint ventures and associated enterprises.

## Notes to the Interim Financial Statements (Continued)

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

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Long-term equity investments are subsequently measured using the cost method, and the carrying amount of long-term equity investment costs is increased by the fair value of the costs paid for by the additional investments and the related transaction costs incurred. The cash dividends or profits declared by the investee are recognized as investment income in the current period according to the amount to which they are entitled.

Long-term equity investments accounted for using the equity method are subsequently measured, and the carrying amount of long-term equity investments is increased or decreased as the owner's equity of the investee unit changes. In recognizing the share of net profit or loss attributable to the investee unit, the net profit of the investee unit is recognized after adjustment based on the fair value of the identifiable assets, etc. of the investee unit at the time of acquisition, in accordance with the Group's accounting policies and accounting period, and offsetting the portion of the insider transaction gains and losses attributable to the investee enterprise in accordance with the shareholding ratio calculated with the associated enterprise and the joint venture.

The difference between the carrying amount of the disposal of long-term equity investments and the actual price obtained is included in the investment income of the current period. For long-term equity investments accounted for by the equity method, other comprehensive income related to the original equity method accounting should be accounted for on the same basis as the investee's direct disposal of the relevant assets or liabilities when the equity method is terminated, and the owner's equity recognized due to changes in the investee's ownership interests other than net profit and loss, other comprehensive income and profit distribution should be fully transferred to the current investment income when the equity method is terminated.

If the equity of the investee loses common control or significant influence on the investee due to the disposal of part of the equity investment, etc., if the remaining equity after the disposal is accounted for by the Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (Cai Kuai [2017] No. 7), the difference between the fair value and the carrying value of the remaining equity on the date of loss of common control or significant impact is included in the profit or loss of the current period. Other comprehensive income recognized by the original equity investment due to the adoption of the equity method of accounting shall be treated on the same basis as the investee's direct disposal of the relevant assets or liabilities and carried forward proportionally when the equity method is terminated, and the owner's equity recognized due to changes in the investee's ownership interests other than net profit and loss, other comprehensive income and profit distribution shall be transferred to the current investment income on a proportional basis.

## Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)  
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If the disposal of part of the long-term equity investment loses control of the investee unit, and the remaining equity after disposal can exercise common control or exert significant influence on the investee entity, the accounting shall be changed to the equity method, and the difference between the carrying value of the disposed equity and the disposal consideration shall be included in the investment income, and the remaining equity shall be deemed to have been adjusted using the equity method from the time of acquisition; If the remaining equity after disposal cannot exercise common control or exert significant influence on the investee entity, the accounting treatment shall be applied to Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (Cai Kuai [2017] No. 7), the difference between the carrying amount of the disposed equity and the disposal consideration shall be included in the investment income, and the difference between the fair value and the carrying amount of the remaining equity on the date of loss of control shall be included in the profit or loss of the current period.

If the Group does not account for each transaction from the step-by-step disposal of equity to the loss of controlling interest, which is not a package transaction. In the case of “package transactions”, transactions are accounted for as a transaction to dispose of a subsidiary and loss of control, but the difference between the disposal price of each transaction prior to the loss of control and the carrying amount of the long-term equity investment corresponding to the equity disposed of is recognized as other comprehensive income and is transferred to the current profit or loss of loss of control upon loss of control.

### 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 expenditures that can directly be attributed to this asset; cost for self-constructing investment property shall be composed of necessary expenditures for making this asset reach usable status.

The Group shall conduct follow-up measurement of investment properties by 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:

| <b>Category</b>        | <b>Depreciation period</b><br><i>(year)</i> | <b>Expected residual rate</b><br><i>(%)</i> | <b>Annual depreciation rate</b><br><i>(%)</i> |
|------------------------|---|---|---|
| Land use right         | 40–50                                       | 0   | 2.00–2.50                                     |
| Premises and buildings | 20  | 5   | 4.75  |

# Notes to the Interim Financial Statements (Continued)

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

If an investment property is disposed 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 expenditures directly attributable to the fixed assets to the expected conditions for use; the cost of self-built fixed assets consists of the necessary expenses for building the assets to the expected conditions for use; the fixed assets invested by investors shall be taken as entry value as per the value agreed in the investment contract or agreement; however, if the value agreed in the contract or agreement is not fair, it shall be accounted at fair value; for the fixed assets for financial lease, the fair value of leased assets on the lease commencement date and the present value of minimum leasing payment shall be the entry value, whichever is lower.

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

| <b>Category</b>                 | <b>Period of<br/>Depreciation<br/>(Year)</b> | <b>Annual Rate of<br/>Depreciation<br/>(%)</b> |
|---------------------------------|--|--|
| Premises and buildings          | 20   | 4.75   |
| Machinery equipment             | 10   | 9.50   |
| Transportation equipment        | 5  | 19.00  |
| Electronic equipment and others | 5  | 19.00  |

## Notes to the Interim Financial Statements (Continued)

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

At the end of the 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.

If a fixed asset is disposed of or if no economic benefit will be obtained from the use or disposal, the recognition of such fixed asset is terminated. The disposal income from selling, transferring, discarding or damaging of fixed assets shall be deducted by the book value thereof and relevant taxes and then included in current 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 actual occurred 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 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 long time (usually referred as more than one year) of construction or production to reach their intended usable and marketable condition.

If assets satisfying capitalization conditions are 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 that the Group can use the leased asset during the lease term.

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

### (2) **Subsequent measurement**

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

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

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

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

## Notes to the Interim Financial Statements (Continued)

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

### Impairment of right-of-use assets

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 actually paid amount and other relevant expenditures. Intangible assets invested by investors shall be confirmed as actual cost as per value as defined in the investment contract or agreement; however, if the value as defined in the investment contract or agreement is not fair, its actual cost shall be confirmed as per fair value.
- (2) Amortization methods and period of intangible assets: land use right of the Group shall be amortized evenly according to its transfer years from the starting date of transferring; software license and non-patented technology of the Group shall be amortized evenly by stages according to the shortest one among the expected service life, the benefit period under contract and the effective period stated by law. The land use right shall be amortized as per the benefit and transfer period, and the software license shall be amortized as per the expected benefit period (5 years). The amortized amounts shall be included into current profits and losses or relevant asset costs according to beneficiaries.
- (3) The anticipated service life and the amortization method of intangible assets with limited life shall be reviewed by the Group at the end of each year. Any change shall be treated as changes in accounting estimates. The Company shall review the expected service life of intangible assets with uncertain service life in each accounting period. If any 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 expenditures 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 expenditures and whether a great uncertainty lies in the conversion of the research and development activities into intangible assets.

## Notes to the Interim Financial Statements (Continued)

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

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

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

### 25. Impairment of long-term assets

The Group shall check long-term equity investments, investment properties, fixed assets, construction in progress, right-of-use asset, 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 expenditures of housing renovation, renovation costs, etc.

The long-term deferred expenses are expenses which have been paid but will be amortized within the period over one year(excluding one year). Long-term deferred expenses are recorded according to the actual amount incurred and amortized evenly during the benefit period or the prescribed period. If the long-term deferred expenses are no longer beneficial to the subsequent accounting periods, then the amortized value of the item which has not been amortized shall all be transferred to 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: ① The fixed payment amount and the substantial fixed payment amount, if there exist lease incentives, the amount associated with the lease incentives should be deducted; ② The variable lease payment depending on the index or ratio, this amount is determined at the time of initial recognition on the basis of the index or ratio on the commencement date; ③ The exercise price of the purchase option when the Group reasonably confirms that the option will be exercised; ④ The payment required when the Group chooses to terminate the lease option, if it indicates that the Group shall exercise option to terminate the lease during the lease period; ⑤ The amount expected to be paid according to the guaranteed residual value provided by the Group.

#### 2) Discount rate

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

# Notes to the Interim Financial Statements (Continued)

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## **(2) Subsequent measurement**

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

The Group 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: ① The amounts of the substantial fixed payments have changed(in this case, discounted at the original discount rate); ② The expected amounts payable of guaranteed residual value have changed(in this case, discounted at the original discount rate); ③ The index or ratio used for ascertaining the lease payments has changed(in this case, discount in revised discount rate); ④ The assessment results of the purchase option have changed(in this case, discount in revised discount rate); ⑤ The assessment results or actual exercise of the lease's renewal option or termination option have changed(in this case, discount in revised discount rate).

## 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 into the relevant costs or expenses according to the calculation of straight-line method, with the capital reserve increased correspondingly.

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

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

If the Group cancelled the granted equity instruments during the waiting period (except for the situation in which the cancellation takes place because the vesting conditions have not been met), such 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, 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 is 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 obtainment of such assets by other forms. The revenue-related government grants refer to those other than the asset-related government grants. If no assistance object is specified in the government documents, the Group shall determine based on the above principles. If it is difficult to distinguish, it is integrally classified as revenue-related government grants.

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

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

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

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

When the Company obtains discounted interest on preferential loans, 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.

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

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

### 36. Lease

#### **(1) The recognition of lease**

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

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

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## **(2) The Group as lessee**

At the beginning of the lease period, the Group, as the lease, 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 “22. Right-of-use assets” and “30. 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 on the contract. The effective date of the changed lease agreement is the date on which the parties reach a consensus on the changes.

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

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

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

# Notes to the Interim Financial Statements (Continued)

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

## 1) Accounting treatment of financial lease

### Initial recognition

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

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

### Subsequent measurement

The Group calculates and recognizes the interest income for each period of the lease term at a fixed cyclical interest rate. The periodic interest rate is the implicit discount rate used to determine the net investment amount of the lease (under the 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)*

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

### Accounting treatment for lease change

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

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

### 2) *Accounting treatment of operating lease*

#### Treatment of rent

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

#### Incentives

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

#### Initial direct cost

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

#### Depreciation

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

# Notes to the Interim Financial Statements (Continued)

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

## Variable lease payments

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

## Change of operating lease

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

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

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

## Notes to the Interim Financial Statements (Continued)

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

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

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

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

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

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

The non-current asset classified as held for sale, or included within a disposal group, is not depreciated or amortized. Interest 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 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)  
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## 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 withdrew and used and accounted for safety production expenses in accordance with the Administrative Measures for the Withdrawal and Use of Enterprise Safety Production Expenses (Cai Zi [2022] No. 136) issued by the Ministry of Finance and the Ministry of Emergency Response on November 21, 2022.

The Company was involved in the production and storage of dangerous goods, and based on the actual operating revenue of the last period, adopted the excess regressive method to extract averagely and monthly according to the following standard. The standards for accrual are as follows:

| No. | Sales of the last period                           | Proportion of accrual |
|-----|--|-----------------------|
| 1   | Part of less than RMB10 million                    | 4.5%                  |
| 2   | Part of RMB10 million to RMB100 million (included) | 2.25%                 |
| 3   | Part of RMB100 million to RMB1 billion (included)  | 0.55%                 |
| 4   | Part of more than RMB1 billion                     | 0.20%                 |

## Notes to the Interim Financial Statements (Continued)

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

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

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

### **(2) Segment information**

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

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

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

# Notes to the Interim Financial Statements (Continued)

(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

| <b>The content and reasons for the change in accounting policies</b>   | <b>Approval process</b>   | <i>remark</i>   |
|--|---|---|
| The Ministry of Finance issued the interpretation of accounting standards for Business Enterprises No. 16 (Finance and Accounting [2022] No. 31) (hereinafter referred to as "Interpretation No. 16") on 30 November 2022. Interpretation No. 16 clarifies "Accounting treatment regarding the non-application of initial recognition exemption to deferred income tax related to assets and liabilities arising from individual transactions" (effective January 1, 2023), "Accounting Treatment regarding the income tax impact of dividends related to financial instruments classified by the Issuer as equity instruments" (effective as of the date of publication), and "Accounting Treatment regarding the fact that the Enterprise will be settled in cash Accounting Treatment of Stock Payments settled with equity" (effective as of the date of publication). | Relevant accounting policy changes were approved at the 11th meeting of the 10th Board of the Company on 20 April 2023. | Changes in relevant accounting policies have no significant impact on the Group's financial statements. |

Apart from the above, there are no other significant changes in the Group's accounting policies during the Reporting Period.

### (2) Changes in important accounting estimates

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

# Notes to the Interim Financial Statements (Continued)

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

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

## V. TAXES

### 1. Main taxes and rates

| <b>Tax Category</b>                        | <b>Taxation Basis</b>   | <b>Tax Rate</b>                                 |
|--|---|---|
| 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 rate: 21%;<br>State tax rate: 8.84% |
| Netherlands corporate income tax           | Taxable income  | 25%/19%   |
| Hong Kong Profits Tax                      | Taxable income  | 8.25%   |

Explanation of tax payers with different corporate income tax rates:

| <b>Taxpaying Bodies</b>   | <b>Income Tax Rate</b>                          |
|---|---|
| The Company   | 15%   |
| Shandong Zibo Xinda Pharmaceutical Co., Ltd                           | 15%   |
| Xinhua Pharmaceutical (Shouguang) Co., Ltd                            | 15%   |
| Shandong Xinhua Pharmaceutical Chemical Design Co., Ltd               | 15%   |
| Shandong Xinhua Pharmaceutical (Europe) B.V.                          | 25%/19%   |
| Shandong Xinhua Pharmaceutical (USA) Inc.                             | Federal tax rate: 21%;<br>State tax rate: 8.84% |
| Shandong Xinhua Mechanical and Electrical Engineering Co., Ltd        | 2.50%   |
| Xinhua Health Technology (Hong Kong) Limited (second-tier subsidiary) | 8.25%   |
| The other 8 subsidiaries and 3 second-tier subsidiary                 | 25%   |

# Notes to the Interim Financial Statements (Continued)

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

## 2. Tax preference

### (1) **Income Tax**

According to the approval of the document Lu Ke Zi [2021] No.10 by Department of Science and Technology of Shandong province, Shandong Province Finance Department, Shandong State Tax Bureau, the Company was identified as high and new technology enterprise. The certificate of high and new technology enterprises No. GR202037002800, of which the validity period is 3 years. According to the Enterprise Income Tax Law of the People's Republic of China, the Company enjoys the preferential tax policy of corporate income tax levied at the rate of 15%. In the first half of 2023, the Company's high-tech enterprise qualification is being re-recognized, and the Company's income tax is temporarily paid at a tax rate of 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 Xinda Pharmaceutical) was identified as high and new technology enterprise. The certificate of high and new technology enterprises No. GR202037003952, of which the validity period is 3 years. According to the Enterprise Income Tax Law of the People's Republic of China, Xincat Pharmaceutical enjoys the preferential tax policy of corporate income tax levied at the rate of 15%. In the first half of 2023, the Xincat Pharmaceutical's high-tech enterprise qualification is being re-recognized, and the Xincat Pharmaceutical's income tax is temporarily paid at a tax rate of 15%.

According to the reply of 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 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%. In the first half of 2023, Xinhua Shouguang is still in the period of preferential tax, during which the applicable income tax rate is 15%.

According to the approval of the Shandong Provincial Department of Science and Technology, the Shandong Provincial Department of Finance and the Shandong Provincial Taxation Bureau of the State Administration of Taxation "Notice on Announcing the List of High-tech Enterprises in Shandong Province in 2022", Shandong Xinhua Pharmaceutical and Chemical Design Co., Ltd. (hereinafter referred to as "Pharmaceutical and Chemical Design Company"), a subsidiary of the Company, was recognized as a high-tech enterprise, certificate number GR202237003571, valid for 3 years. According to the Enterprise Income Tax Law of the People's Republic of China, pharmaceutical and chemical design companies enjoy preferential tax policies of enterprise income tax levied at a rate of 15%. Pharmaceutical and chemical design companies are in the tax preferential period in the first half of 2023, and the applicable income tax rate is 15%.

# Notes to the Interim Financial Statements (Continued)

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

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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 (Cai Shui [2019] No. 13), the enterprise income tax shall be reduced by half.

## **(2) Value-added tax (VAT)**

The Group's export commodities enjoy the preferential VAT exemption and refund policy.

According to the Announcement of the State Administration of Taxation of the Ministry of Finance No. 14 of 2022 "Announcement of the State Administration of Taxation of the Ministry of Finance on Further Increasing the Implementation of the VAT End-of-Period Retention and Refund Policy", the policy of VAT end-of-period retention and refund for small and micro enterprises will be strengthened, and the scope of the policy of fully refunding the incremental VAT retained tax credit in advanced manufacturing industries on a monthly basis will be expanded to eligible small and micro enterprises (including individual industrial and commercial enterprises, the same below), and the stock retained tax credit of small and micro enterprises will be refunded in one lump sum. Expand the scope of the policy of fully refunding the incremental retained tax credit for advanced manufacturing industries on a monthly basis to eligible manufacturing and other industry enterprises (including individual industrial and commercial enterprises, the same below), and refund the stock retained tax credit of manufacturing and other industries in one lump sum.

According to the Announcement of the State Administration of Taxation of the Ministry of Finance No. 21 of 2022 "Announcement on Expanding the Industry Scope of the Policy on Full Refund of VAT Retained Tax Credit" and the Announcement of the State Administration of Taxation No.11 of 2022 "Announcement of the State Administration of Taxation on Expanding the Industry Scope of the Policy on Full Refund of VAT Retained Tax Credit", the industry scope of the policy of fully refunding VAT incremental retained tax credit on a monthly basis and refunding the existing retained tax credit has been expanded (new wholesale and retail trade, agriculture, forestry, animal husbandry and fishery, accommodation and catering industry, resident service industry, education, health and social work, culture, sports and recreation).

## Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)  
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### VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENT

The following disclosed data of the financial statements, unless specifically noted, “the beginning of the period” refers to January 1, 2023; “the end of the period” refers to June 30, 2023; “the current period” refers to the period from January 1, 2023 to June 30, 2023; “the last period” refers to the period from January 1, 2022 to June 30, 2022; the monetary unit is RMB.

#### 1. Monetary funds

| <b>Item</b>                              | <b>Ending Balance</b> | <b>Beginning Balance</b> |
|--|-----------------------|--------------------------|
| Cash in hand                             | <b>33,397.83</b>      | 66,908.51                |
| Bank deposit                             | <b>849,166,348.90</b> | 1,010,393,137.85         |
| Other monetary funds                     | <b>129,973,547.56</b> | 148,281,519.54           |
| Total                                    | <b>979,173,294.29</b> | 1,158,741,565.90         |
| Including: total amount deposited abroad | <b>44,129,538.21</b>  | 10,682,880.51            |

The restricted amount of monetary funds of the Group are as follows:

| <b>Item</b>                                 | <b>Ending Balance</b> | <b>Beginning Balance</b> |
|---|-----------------------|--------------------------|
| The banker's acceptance bill margin deposit | <b>108,525,957.76</b> | 132,632,598.45           |
| Performance guarantee bond                  | <b>1,001,204.72</b>   |                          |
| The housing loan deposit                    | <b>677,143.10</b>     | 676,300.28               |
| Pre-collected house sales funds             | <b>13,773,552.87</b>  | 13,773,552.87            |
| The deposit of migrant workers              | <b>895,689.11</b>     | 894,766.79               |
| Total                                       | <b>124,873,547.56</b> | 147,977,218.39           |

*Note:* The pre-collected house sales funds subject to supervision are according to the Measures for the Supervision of Pre-sale Funds.



## Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)  
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### (5) Classified by the method of recognizing provision for bad debt

| Item   | Book Balance               |                      | Ending Balance<br>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 | <u>7,638,550.00</u>        | <u>100.00</u>        | <u>42,687.75</u>                         | <u>0.56</u>                 | <u>7,595,862.25</u>        |
| Total  | <u><u>7,638,550.00</u></u> | <u><u>100.00</u></u> | <u><u>42,687.75</u></u>                  | <u><u>0.56</u></u>          | <u><u>7,595,862.25</u></u> |

| Item   | Book Balance                |                      | Beginning Balance<br>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 | <u>17,996,561.99</u>        | <u>100.00</u>        | <u>101,437.81</u>                           | <u>0.56</u>                 | <u>17,895,124.18</u>        |
| Total  | <u><u>17,996,561.99</u></u> | <u><u>100.00</u></u> | <u><u>101,437.81</u></u>                    | <u><u>0.56</u></u>          | <u><u>17,895,124.18</u></u> |

#### 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 | <u>7,638,550.00</u>        | <u>42,687.75</u>        | <u>0.56</u>                 | <u>17,996,561.99</u>        | <u>101,437.81</u>        | <u>0.56</u>                 |
| Total         | <u><u>7,638,550.00</u></u> | <u><u>42,687.75</u></u> | <u><u>0.56</u></u>          | <u><u>17,996,561.99</u></u> | <u><u>101,437.81</u></u> | <u><u>0.56</u></u>          |

Note: The Group confirms that the portfolio is within 1 year of its age based on the maturity date of bankers' acceptances, and makes provision for bad debts of notes receivable in accordance with the general model of expected credit loss.

## Notes to the Interim Financial Statements (Continued)

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

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

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

| Item                  | Beginning<br>balance | Changes of amount in current period |                          |  | Ending<br>balance |
|-----------------------|----------------------|-------------------------------------|--------------------------|--|-------------------|
|                       |                      | Accrual                             | Reversed or<br>recovered | Transferred<br>or written off<br>Other |                   |
| Bank acceptance bills | 101,437.81           | -58,750.06                          |                          |  | 42,687.75         |
| Total                 | 101,437.81           | -58,750.06                          |                          |  | 42,687.75         |

### (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<br>Provision for Bad Debt |                              | Book Value     |
|---|------------------|-------------------|--|------------------------------|----------------|
|   | Amount           | Proportion<br>(%) | Amount                                   | Accrual<br>Proportion<br>(%) |                |
| To recognize the bad debt provision<br>based on single item |                  |                   |  |                              |                |
| To recognize the bad debt provision<br>based on combination | 1,018,003,254.48 | 100.00            | 24,646,327.16                            | 2.42                         | 993,356,927.32 |
| Total   | 1,018,003,254.48 | 100.00            | 24,646,327.16                            | 2.42                         | 993,356,927.32 |

## 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 (%) |                       |
| To recognize the bad debt provision based on single item |                       |                |                      |                |                       |
| To recognize the bad debt provision based on combination | 782,049,783.85        | 100.00         | 20,790,443.92        | 2.66           | 761,259,339.93        |
| <b>Total</b>   | <b>782,049,783.85</b> | <b>100.00</b>  | <b>20,790,443.92</b> | <b>2.66</b>    | <b>761,259,339.93</b> |

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

As at 30 June 2023, the Group had no accounts receivable on a separate basis for bad debts.

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 | 993,476,482.35          | 6,685,273.77           | 0.67                   | 759,264,822.15        | 4,991,272.35           | 0.66                   |
| 1-2 years     | 9,129,751.30            | 2,564,032.56           | 28.08                  | 9,799,014.39          | 2,814,200.23           | 28.72                  |
| 2-3 years     | 5,053,148.86            | 5,053,148.86           | 100.00                 | 2,665,478.86          | 2,664,502.89           | 99.96                  |
| 3-4 years     | 919,016.86              | 919,016.86             | 100.00                 | 972,136.86            | 972,136.86             | 100.00                 |
| 4-5 years     | 278,384.80              | 278,384.80             | 100.00                 | 299,880.95            | 299,880.95             | 100.00                 |
| Over 5 years  | 9,146,470.31            | 9,146,470.31           | 100.00                 | 9,048,450.64          | 9,048,450.64           | 100.00                 |
| <b>Total</b>  | <b>1,018,003,254.48</b> | <b>24,646,327.16</b>   |                        | <b>782,049,783.85</b> | <b>20,790,443.92</b>   |                        |

# 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:

| Item          | Ending Balance          |                        |                        | Beginning balance     |                        |                        |
|---------------|-------------------------|------------------------|------------------------|-----------------------|------------------------|------------------------|
|               | Accounts Receivable     | Provision for Bad Debt | Accrual Proportion (%) | Accounts Receivable   | Provision for Bad Debt | Accrual Proportion (%) |
| Within 1 year | 993,476,482.35          | 6,685,273.77           | 0.67                   | 759,264,822.15        | 4,991,272.35           | 0.66                   |
| 1-2 years     | 9,129,751.30            | 2,564,032.56           | 28.08                  | 9,799,014.39          | 2,814,200.23           | 28.72                  |
| 2-3 years     | 5,053,148.86            | 5,053,148.86           | 100.00                 | 2,665,478.86          | 2,664,502.89           | 99.96                  |
| 3-4 years     | 919,016.86              | 919,016.86             | 100.00                 | 972,136.86            | 972,136.86             | 100.00                 |
| 4-5 years     | 278,384.80              | 278,384.80             | 100.00                 | 299,880.95            | 299,880.95             | 100.00                 |
| Over 5 years  | 9,146,470.31            | 9,146,470.31           | 100.00                 | 9,048,450.64          | 9,048,450.64           | 100.00                 |
| Total         | <u>1,018,003,254.48</u> | <u>24,646,327.16</u>   |                        | <u>782,049,783.85</u> | <u>20,790,443.92</u>   |                        |

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

| Item  | Beginning balance    | Changes of amount in current period |                       |                            | Ending balance       |
|---|----------------------|-------------------------------------|-----------------------|----------------------------|----------------------|
|   |                      | Recognized                          | Reversed or recovered | Transferred or written off |                      |
| To recognize the bad-debt provision based on single item* |                      |                                     |                       |                            |                      |
| To recognize the bad-debt provision based on combination  | 20,790,443.92        | 3,855,883.24                        |                       |                            | 24,646,327.16        |
| Total   | <u>20,790,443.92</u> | <u>3,855,883.24</u>                 |                       |                            | <u>24,646,327.16</u> |

## (4) Accounts receivable actually written off in current period: None

# Notes to the Interim Financial Statements (Continued)

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

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

| Debtors                                   | Ending balance        | Accounts age  | Proportion of total | Ending balance of   |
|---|-----------------------|---------------|---------------------|---------------------|
|   |                       |               | ending balance of   |                     |
|   |                       |               | accounts receivable | (%)                 |
| Zibo Central Hospital                     | 55,197,905.32         | Within 1 year | 5.70                | 479,286.97          |
|   | 2,778,267.93          | 1-2years      |                     | 1,111,307.17        |
| Perrigo Company                           | 53,954,755.61         | Within 1 year | 5.30                | 269,773.78          |
| Beijing Jingdong Hongjian Health Co., Ltd | 47,831,631.79         | Within 1 year | 4.70                | 239,158.16          |
| Bayer Healthcare GMBH                     | 45,612,962.24         | Within 1 year | 4.48                | 228,064.81          |
| Roche Company                             | 34,244,874.02         | Within 1 year | 3.36                | 171,224.37          |
| Total                                     | <u>239,620,396.91</u> |               | <u>23.54</u>        | <u>2,498,815.26</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>163,211,566.07</u> |                    | <u>163,211,566.07</u> |                          |
| Total  | <u>163,211,566.07</u> |                    | <u>163,211,566.07</u> |                          |
| Item   | Initial cost          | Beginning Balance  |                       | Provision for impairment |
|  |                       | Fair value changes | Book value            |                          |
| Notes receivable measured at FV with changes included in OCI | <u>189,752,210.65</u> |                    | <u>189,752,210.65</u> |                          |
| Total  | <u>189,752,210.65</u> |                    | <u>189,752,210.65</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))

Note: At the end of the 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 period

| Item                  | Derecognized amount at period end | Un-derecognized amount at period end |
|-----------------------|-----------------------------------|--------------------------------------|
| Bank acceptance bills | 552,026,498.61                    | _____                                |
| Total                 | <u>552,026,498.61</u>             | <u>_____</u>                         |

## 5. Prepayments

### (1) Age of prepayments

| Item          | Ending Balance       |                | Beginning Balance    |                |
|---------------|----------------------|----------------|----------------------|----------------|
|               | Amount               | Proportion (%) | Amount               | Proportion (%) |
| Within 1 year | 28,330,673.43        | 93.33          | 50,023,638.88        | 95.92          |
| 1-2 years     |                      |                | 202.03               |                |
| 2-3 years     |                      |                | 2,126,050.00         | 4.08           |
| 3-4 years     | <u>2,024,050.00</u>  | <u>6.67</u>    | _____                | _____          |
| Total         | <u>30,354,723.43</u> | <u>100.00</u>  | <u>52,149,890.91</u> | <u>100.00</u>  |

The prepayment amount of the group with an aging of more than one year at the period end is RMB2,024,050.00. The main reason for the unsettled is that the contract has not been fully implemented, including RMB1,171,720.00 in advance to Guangzhou Aomi Biomedical Technology Co., Ltd., and RMB852,330.00 in advance to Jiangxi Yixin Medical Technology Co., Ltd.

### (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 RMB9,446,893.77, accounting for 31.12% 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 | <b>3,065,761.60</b> |                   |
| Other receivables    | <b>6,844,202.99</b> | 12,654,317.25     |
| Total                | <b>9,909,964.59</b> | 12,654,317.25     |

#### 6.1 Interest receivable: None

#### 6.2 Dividends receivable: None

| Item                                       | Ending Balance      | Beginning Balance |
|--|---------------------|-------------------|
| Bank of Communications Corporation Limited | <b>3,065,761.60</b> |                   |
| Total                                      | <b>3,065,761.60</b> |                   |

#### 6.3 Other receivables

##### (1) Other receivables classified by nature

| Nature                | Ending Balance       | Beginning Balance |
|-----------------------|----------------------|-------------------|
| Bid security, deposit | <b>8,279,798.61</b>  | 6,581,739.21      |
| Petty cash            | <b>405,000.00</b>    | 185,000.00        |
| Tax receivable        | <b>1,031,654.97</b>  | 741,255.77        |
| Others                | <b>6,183,061.48</b>  | 14,521,120.17     |
| Total                 | <b>15,899,515.06</b> | 22,029,115.15     |

## Notes to the Interim Financial Statements (Continued)

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

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

### (2) Bad-debt provision for other receivables

| Bad-debt provision  | Stage 1  | Stage 2  | Stage 3   | Total               |
|---|--|--|---|---------------------|
|   | The expected credit losses in the next 12 months | The expected credit losses of the entire duration (without any credit impairment occurred) | The expected credit losses of the entire duration (with credit impairment already occurred) |                     |
| Balance of January 1,2023   | 2,575,675.34                                     |  | 6,799,122.56  | 9,374,797.90        |
| during the period, the opening balance of other receivable, which was |  |  |   |                     |
| - Transferred to stage 2  |  |  |   |                     |
| - Transferred to stage 3  |  |  |   |                     |
| - Reversed to stage 2   |  |  |   |                     |
| - Reversed to stage 1   |  |  |   |                     |
| Accrued in current period   | -695,775.83                                      |  | 376,290.00  | -319,485.83         |
| Reversed in current period  |  |  |   |                     |
| Transferred out in current period                                     |  |  |   |                     |
| Written-off in current period   |  |  |   |                     |
| Other changes   |  |  |   |                     |
| <b>Balance of June 30,2023</b>  | <b>1,879,899.51</b>                              |  | <b>7,175,412.56</b>   | <b>9,055,312.07</b> |

### (3) Aging analysis of other receivables

| Account Age   | Ending Balance       |                        |                        | Beginning Balance |                        |                        |
|---------------|----------------------|------------------------|------------------------|-------------------|------------------------|------------------------|
|               | Other receivables    | Provision for bad debt | Accrual Proportion (%) | Other receivables | Provision for bad debt | Accrual Proportion (%) |
| Within 1 year | 6,711,201.56         | 422,412.16             | 6.29                   | 13,281,593.01     | 1,271,825.14           | 9.58                   |
| 1-2 years     | 1,240,243.49         | 773,283.10             | 62.35                  | 953,496.29        | 501,588.91             | 52.61                  |
| 2-3 years     | 772,657.45           | 684,204.25             | 88.55                  | 994,903.29        | 802,261.29             | 80.64                  |
| 3-4 years     | 649,538.00           | 649,538.00             | 100.00                 | 270,248.00        | 270,248.00             | 100.00                 |
| 4-5 years     | 425,519.38           | 425,519.38             | 100.00                 | 427,519.38        | 427,519.38             | 100.00                 |
| Over 5 years  | 6,100,355.18         | 6,100,355.18           | 100.00                 | 6,101,355.18      | 6,101,355.18           | 100.00                 |
| Total         | <b>15,899,515.06</b> | <b>9,055,312.07</b>    |                        | 22,029,115.15     | 9,374,797.90           |                        |

## Notes to the Interim Financial Statements (Continued)

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

(4) Provisions for bad debt of other receivables

| Item               | Beginning<br>Balance | Changes in current period |                          | Ending<br>Balance          |
|--------------------|----------------------|---------------------------|--------------------------|----------------------------|
|                    |                      | Accrued                   | Recovered or<br>reversed |                            |
| Bad-debt provision | 9,374,797.90         | <b>-319,485.83</b>        |                          | <b>9,055,312.07</b>        |
| Total              | <u>9,374,797.90</u>  | <u><b>-319,485.83</b></u> |                          | <u><b>9,055,312.07</b></u> |

(5) Other receivables actually written off in the current period: None

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

| Name   | Nature of<br>payments          | Ending<br>Balance        | Account<br>Age             | Proportion of<br>the Total Ending<br>Balance of Other<br>Receivables<br>(%) | Ending<br>Balance of<br>Bad-debt<br>Provision |
|--|--------------------------------|--------------------------|----------------------------|---|---|
| Chen Weisen  | current<br>payments            | 1,900,409.00             | Over 5 years               | 11.95   | 1,900,409.00                                  |
| Gaoqing County People's Hospital   | guarantee fee                  | 1,000,000.00             | Within 1 year              | 6.29  | 70,000.00                                     |
| Harbin Pharmaceutical Group<br>Shiyitang Baichuan Pharmaceutical<br>Trade Co., Ltd | current<br>payments            | 794,917.61               | Over 5 years               | 5.00  | 794,917.61                                    |
| Alipay Financial Services<br>(Hong Kong) Co., Ltd                                  | guarantee fee<br>guarantee fee | 300,000.00<br>300,000.00 | Within 1 year<br>1-2 years | 1.89<br>1.89  | 1,500.00<br>60,000.00                         |
| GlaxoSmithKline Consumer Health<br>Products (Hong Kong) Limited                    | current<br>payments            | 505,825.26               | Within 1 year              | 3.18  | 2,529.13                                      |
| Total  |                                | <u>4,801,151.87</u>      |                            | <u>30.20</u>  | <u>2,829,355.74</u>                           |

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

As at June 30, 2023, 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) Classification of inventories

| Item                                     | Ending Balance          |                           |                         | Beginning Balance       |                           |                         |
|--|-------------------------|---------------------------|-------------------------|-------------------------|---------------------------|-------------------------|
|  | Book Balance            | Provision for inventories | Book Value              | Book Balance            | Provision for inventories | Book Value              |
| Raw materials                            | 161,283,681.44          | 12,089,420.96             | 149,194,260.48          | 168,967,264.83          | 9,926,776.68              | 159,040,488.15          |
| Products in process                      | 205,783,396.63          | 20,526,537.86             | 185,256,858.77          | 244,413,486.82          | 18,649,109.99             | 225,764,376.83          |
| Goods in stock                           | 619,689,784.07          | 18,978,200.54             | 600,711,583.53          | 746,712,095.81          | 20,581,877.73             | 726,130,218.08          |
| Low-value consumables                    | 23,938,273.56           | 335,980.87                | 23,602,292.69           | 28,319,161.52           | 335,980.87                | 27,983,180.65           |
| Materials reserved with special approval | 1,735,878.19            |                           | 1,735,878.19            | 1,735,878.19            |                           | 1,735,878.19            |
| Goods in transit                         | 50,342,529.81           | 38,956.35                 | 50,303,573.46           | 71,545,331.30           | 212,424.81                | 71,332,906.49           |
| Total                                    | <u>1,062,773,543.70</u> | <u>51,969,096.58</u>      | <u>1,010,804,447.12</u> | <u>1,261,693,218.47</u> | <u>49,706,170.08</u>      | <u>1,211,987,048.39</u> |

### (2) Provision for impairment of inventories

| Classification of inventories | Beginning Balance    | Amount recognized in current period | Reduction in current period due to |                      | Ending Balance       |
|-------------------------------|----------------------|-------------------------------------|------------------------------------|----------------------|----------------------|
|                               |                      |                                     | Other Transfer-out                 | Write-off            |                      |
| Raw materials                 | 9,926,776.68         | 11,329,988.73                       |                                    | 9,167,344.45         | 12,089,420.96        |
| Products in process           | 18,649,109.99        | 14,992,558.21                       |                                    | 13,115,130.34        | 20,526,537.86        |
| Goods in stock                | 20,581,877.73        | 17,978,968.40                       |                                    | 19,582,645.59        | 18,978,200.54        |
| Low-value consumables         | 335,980.87           |                                     |                                    |                      | 335,980.87           |
| Goods in transit              | 212,424.81           | 38,956.35                           |                                    | 212,424.81           | 38,956.35            |
| Total                         | <u>49,706,170.08</u> | <u>44,340,471.69</u>                | <u></u>                            | <u>42,077,545.19</u> | <u>51,969,096.58</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 | 1,897,621.01        | 115,193.11               | 1,782,427.90        | 1,836,745.55        | 114,888.73               | 1,721,856.82        |
| Total           | <u>1,897,621.01</u> | <u>115,193.11</u>        | <u>1,782,427.90</u> | <u>1,836,745.55</u> | <u>114,888.73</u>        | <u>1,721,856.82</u> |

### (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         |
|---|-------------------|---------------------------|
| Relocation into the garden renovation project | 314,000.00        | A new project this period |
| Total   | <u>314,000.00</u> |                           |

### (3) Provision for impairment of contract assets during the period

| Bad-debt provision  | Stage 1  | Stage 2  | Stage 3   | Total      |
|---|--|--|---|------------|
|   | The expected credit losses in the next 12 months | The expected credit losses of the entire duration (without any credit impairment occurred) | The expected credit losses of the entire duration (with credit impairment already occurred) |            |
| Balance of January 1, 2023  |  |  |   | 114,888.73 |
| The book balance of contract assets as of January 1, 2023 is the current period |  |  |   |            |
| – Transferred to stage 2  |  |  |   |            |
| – Transferred to stage 3  |  |  |   |            |
| – Reversed to stage 2   |  |  |   |            |
| – Reversed to stage 1   |  |  |   |            |
| Accrued in current period   | 304.38   |  |   | 304.38     |
| 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))

| 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) |                   |
| Transferred out in current period |  |  |   |                   |
| Written-off in current period     |  |  |   |                   |
| Other changes                     |  |  |   |                   |
| <b>Balance of June 30, 2023</b>   | <b>115,193.11</b>                                |  |   | <b>115,193.11</b> |

### 9. Other current assets

| Item                               | Ending Balance       | Beginning Balance | Nature                             |
|------------------------------------|----------------------|-------------------|------------------------------------|
| Subject to input tax deduction     | <b>35,712,285.82</b> | 48,928,780.13     | Subject to input tax deduction     |
| Prepayment of corporate income tax | <b>3,264,379.07</b>  | 1,869,293.72      | Prepayment of corporate income tax |
| Pay VAT and other taxes in advance | <b>23,427.52</b>     |                   | Pay VAT and other taxes in advance |
| Total                              | <b>39,000,092.41</b> | 50,798,073.85     |                                    |

# Notes to the Interim Financial Statements (Continued)

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

## 10. Long-term equity investment

| Invested company                        | Beginning<br>balance(book<br>value) | Added<br>investment | Reduced<br>investment | Increase or decrease in current period                                    |   |                               | Declared<br>cash<br>dividends or<br>profit | Ending<br>balance(book<br>value) | Ending<br>balance of<br>impairment<br>provision |
|---|-------------------------------------|---------------------|-----------------------|---|---|-------------------------------|--|----------------------------------|---|
|   |                                     |                     |                       | Investment<br>gains and<br>losses<br>recognized<br>under equity<br>method | Adjustment<br>of other<br>comprehensive<br>income | Other<br>changes in<br>equity |  |                                  |   |
| I. Joint ventures                       |                                     |                     |                       |   |   |                               |  |                                  |   |
| Cansheng Pharmaceutical (Zibo) Co., Ltd | 57,154,487.58                       |                     |                       | 120,590.68  |   |                               |  | 57,275,078.26                    |   |
| Total                                   | 57,154,487.58                       |                     |                       | 120,590.68  |   |                               |  | 57,275,078.26                    |   |

## 11. Investments of other equity instruments

### (1) Investments of other equity instrument

| Item  | Ending balance | Beginning balance |
|---|----------------|-------------------|
| Bank of Communications Co., Ltd.                  | 47,671,360.00  | 38,959,008.00     |
| China Pacific Insurance (Group) Co., Ltd          | 129,900,000.00 | 122,600,000.00    |
| North Health Medical big Data Technology Co., Ltd | 17,999,531.95  | 20,470,148.02     |
| Total   | 195,570,891.95 | 182,029,156.02    |

# Notes to the Interim Financial Statements (Continued)

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

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

## (2) 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 fair value and changes are recognized through other comprehensive incomes | Reasons of transferring other comprehensive into retained earnings |
|---|--|-----------------------|----------------------|---|---|--|
| Bank of Communications Co., Ltd.                  | 3,065,761.60                                 | 61,521,643.28         |                      |   | The Group invests for equity purposes   |  |
| China Pacific Insurance (Group) Co., Ltd          | 5,100,000.00                                 | 161,059,896.00        |                      |   | The Group invests for equity purposes   |  |
| North Health Medical big Data Technology Co., Ltd |  |                       | 10,200,397.84        |   | The group is for strategic investment purposes  |  |
| Total   | <u>8,165,761.60</u>                          | <u>222,581,539.28</u> | <u>10,200,397.84</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<br>Buildings | Land Use Right | Total                |
|---|---------------------------|----------------|----------------------|
| I. Original book value                                    |                           |                |                      |
| 1. Beginning balance                                      | 99,821,433.31             | 11,574,770.18  | 111,396,203.49       |
| 2. Increased amount in current period                     |                           |                |                      |
| (1) Purchase  |                           |                |                      |
| (2) Transferred from fixed assets or intangible assets    |                           |                |                      |
| 3. Decreased amount in current period                     | 22,147,041.07             | 11,574,770.18  | 33,721,811.25        |
| (1) Disposal or scrap                                     |                           |                |                      |
| (2) Transferred to fixed assets or intangible assets      | 22,147,041.07             | 11,574,770.18  | 33,721,811.25        |
| <b>4. Ending Balance</b>                                  | <b>77,674,392.24</b>      |                | <b>77,674,392.24</b> |
| II. Accumulated depreciation and accumulated amortization |                           |                |                      |
| 1. Beginning Balance                                      | 58,690,116.64             | 4,352,075.49   | 63,042,192.13        |
| 2. Increased amount in current period                     | 2,095,343.82              | 192,634.92     | 2,287,978.74         |
| (1) Accrual or amortization                               | 2,095,343.82              | 192,634.92     | 2,287,978.74         |
| (2) Transferred from fixed assets or intangible assets    |                           |                |                      |
| 3. Decreased amount in current period                     | 17,986,589.34             | 4,544,710.41   | 22,531,299.75        |
| (1) Disposal or scrap                                     |                           |                |                      |
| (2) Transferred to fixed assets or intangible assets      | 17,986,589.34             | 4,544,710.41   | 22,531,299.75        |
| <b>4. Ending Balance</b>                                  | <b>42,798,871.12</b>      |                | <b>42,798,871.12</b> |
| III. Provision for impairment                             |                           |                |                      |
| IV. Book value  |                           |                |                      |
| <b>1. Ending book value</b>                               | <b>34,875,521.12</b>      |                | <b>34,875,521.12</b> |
| 2. Beginning book value                                   | 41,131,316.67             | 7,222,694.69   | 48,354,011.36        |

In current period, an amount of RMB2,287,978.74 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 Company were located in the territory of China and were in the medium-term (10–50 years) phase.

## Notes to the Interim Financial Statements (Continued)

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

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

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

At the end of the period, investment real estate included properties with a book value of RMB26,927,427.82 (beginning balance: RMB35,538,564.89), and their title certificates were being processed. In view of the fact that the above properties are carried out in accordance with relevant legal procedures, the Board of Directors of the Company is satisfied that there are no substantial legal obstacles to the transfer of its property rights or affect the normal use of such buildings by the Group, which does not have a material impact on the normal operation of the Group, and there is no need to make an impairment provision for investment real estate.

| <b>Item</b>  | <b>Book Value</b>    | <b>Reason for<br/>incompleted<br/>certificate of title</b> |
|--|----------------------|--|
| 13-22/F, Xinhua Mansion in the Headquarters          | 21,858,006.37        | In progress  |
| No. 1 Scientific Research Centre in the Headquarters | 5,069,421.45         | In progress  |
| Total  | <u>26,927,427.82</u> |  |

### 13. Fixed assets

| <b>Item</b>              | <b>Ending Book<br/>Value</b>   | <b>Beginning Book<br/>Value</b> |
|--------------------------|--------------------------------|---------------------------------|
| Fixed assets             | <b>3,271,442,816.64</b>        | 3,447,888,663.48                |
| Disposal of fixed assets |                                |                                 |
| Total                    | <u><b>3,271,442,816.64</b></u> | <u>3,447,888,663.48</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) Detail list of fixed assets

| Item  | Premises and Buildings  | Machinery and Equipment | Transportation Equipment | Electronic Equipment and Others | Total                   |
|---|-------------------------|-------------------------|--------------------------|---------------------------------|-------------------------|
| <b>I. Original book value</b>                 |                         |                         |                          |                                 |                         |
| 1. Beginning balance                          | 2,245,525,554.35        | 4,221,282,746.63        | 35,098,977.69            | 221,937,746.69                  | 6,723,845,025.36        |
| 2. Increased amount in the current period     | 1,596,766.13            | 60,631,882.88           | 1,659,082.50             | 4,230,353.18                    | 68,118,084.69           |
| (1) Purchase                                  |                         | 37,230,216.50           | 1,659,082.50             | 4,104,069.77                    | 42,993,368.77           |
| (2) Transferred from construction in progress | 1,596,766.13            | 23,401,666.38           |                          | 126,283.41                      | 25,124,715.92           |
| 3. Decreased amount in the current period     | 17,007,122.84           | 23,344,165.31           | 2,615,816.56             | 1,074,400.64                    | 44,041,505.35           |
| (1) Disposal or scrap                         | 6,286,246.92            | 23,344,165.31           | 2,615,816.56             | 1,074,400.64                    | 33,320,629.43           |
| (2) Transferred to other non-current assets   | 10,720,875.92           |                         |                          |                                 | 10,720,875.92           |
| 4. Ending balance                             | <b>2,230,115,197.64</b> | <b>4,258,570,464.20</b> | <b>34,142,243.63</b>     | <b>225,093,699.23</b>           | <b>6,747,921,604.70</b> |
| <b>II. Accumulated depreciation</b>           |                         |                         |                          |                                 |                         |
| 1. Beginning balance                          | 943,299,486.83          | 2,181,093,380.41        | 26,398,359.13            | 113,706,564.76                  | 3,264,497,791.13        |
| 2. Increased amount in the current period     | 55,908,790.25           | 164,521,968.54          | 1,546,818.21             | 17,200,091.40                   | 239,177,668.40          |
| (1) Accrual                                   | 55,908,790.25           | 164,521,968.54          | 1,546,818.21             | 17,200,091.40                   | 239,177,668.40          |
| (2) Other transfer-in                         |                         |                         |                          |                                 |                         |
| 3. Decreased amount in the current period     | 12,961,308.51           | 22,107,417.02           | 2,488,675.73             | 1,022,554.90                    | 38,579,956.16           |
| (1) Disposal or scrap                         | 5,533,336.39            | 22,107,417.02           | 2,488,675.73             | 1,022,554.90                    | 31,151,984.04           |
| (2) Transferred to other non-current assets   | 7,427,972.12            |                         |                          |                                 | 7,427,972.12            |
| 4. Ending balance                             | <b>986,246,968.57</b>   | <b>2,323,507,931.93</b> | <b>25,456,501.61</b>     | <b>129,884,101.26</b>           | <b>3,465,095,503.37</b> |
| <b>III. Provision for impairment</b>          |                         |                         |                          |                                 |                         |
| 1. Beginning balance                          | 1,409,671.38            | 10,044,073.08           |                          | 4,826.29                        | 11,458,570.75           |
| 2. Increased amount in the current period     |                         |                         |                          |                                 |                         |
| (1) Accrual                                   |                         |                         |                          |                                 |                         |
| 3. Decreased amount in the current period     |                         | 75,286.06               |                          |                                 | 75,286.06               |
| (1) Disposal or scrap                         |                         | 75,286.06               |                          |                                 | 75,286.06               |
| 4. Ending balance                             | <b>1,409,671.38</b>     | <b>9,968,787.02</b>     |                          | <b>4,826.29</b>                 | <b>11,383,284.69</b>    |
| <b>IV. Book value</b>                         |                         |                         |                          |                                 |                         |
| 1. Ending book value                          | <b>1,242,458,557.69</b> | <b>1,925,093,745.25</b> | <b>8,685,742.02</b>      | <b>95,204,771.68</b>            | <b>3,271,442,816.64</b> |
| 2. Beginning book value                       | 1,300,816,396.14        | 2,030,145,293.14        | 8,700,618.56             | 108,226,355.64                  | 3,447,888,663.48        |

The depreciation amount of fixed assets recognized as profit or loss in the current period was RMB238,960,902.44, and the depreciation amount of fixed assets recognized as capitalization was RMB216,765.96 (the amount recognized as profit or loss in the last period: RMB225,569,970.93).

## Notes to the Interim Financial Statements (Continued)

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

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

- (2) All 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 by sale and leaseback: None
- (4) Fixed assets that have not completed the title certificate

At the end of the period, the fixed assets included properties with a book value of RMB387,210,595.13 (amount at the beginning of the period: RMB439,721,548.17), and their title certificates were being processed. In view of the fact that the above properties are carried out in accordance with relevant legal procedures, the Board of Directors of the Company is satisfied that there are no substantial legal obstacles to the transfer of property rights or affect the normal use of such buildings by the Group, which does not have a significant impact on the normal operation of the Group, and there is no need to make provision for impairment of fixed assets.

| <b>Project</b>                    | <b>Book Value</b>            | <b>Reasons for failure to complete the title deed</b> |
|-----------------------------------|------------------------------|---|
| A branch factory park property    | 81,521,295.09                | In progress   |
| Second branch plant park property | 177,183,603.36               | In progress   |
| Headquarters Park Property        | 71,384,833.03                | In progress   |
| Shouguang Park property           | 26,041,868.41                | In progress   |
| High-density park properties      | <u>31,078,995.24</u>         | In progress   |
| Total                             | <u><u>387,210,595.13</u></u> |   |

### **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 | <b>705,962,107.58</b> | 545,894,979.10    |
| Project materials        |                       |                   |
| Total                    | <b>705,962,107.58</b> | 545,894,979.10    |

### 14.1 Construction in progress

#### (1) Details of construction in progress

| Item   | Ending Balance |                      | Beginning Balance |                |                      |                |
|--|----------------|----------------------|-------------------|----------------|----------------------|----------------|
|  | Book Balance   | Impairment Provision | Book Balance      | Book Balance   | Impairment Provision | Book Balance   |
| High-end steroid series API construction project   | 137,129,417.52 |                      | 137,129,417.52    | 129,126,302.54 |                      | 129,126,302.54 |
| International Cooperation Program in Solid Dosages – Merck Formulations                      | 73,118,873.46  |                      | 73,118,873.46     | 52,123,751.70  |                      | 52,123,751.70  |
| 15,000 tons of isobutylbenzene expansion project   | 50,949,853.15  |                      | 50,949,853.15     | 8,888,189.56   |                      | 8,888,189.56   |
| EPA70 expansion and transformation project   | 38,009,990.78  |                      | 38,009,990.78     | 35,121,417.40  |                      | 35,121,417.40  |
| Methyl dopa and series of products production items  | 33,226,797.56  |                      | 33,226,797.56     | 15,301,969.36  |                      | 15,301,969.36  |
| Annual output of 10,000 tons of 3,3-dichlorobenzidine production project                     | 31,796,547.05  |                      | 31,796,547.05     | 20,509,924.01  |                      | 20,509,924.01  |
| International Processing Technology Transformation Project for Solid Dosage Forms            | 17,868,520.64  |                      | 17,868,520.64     | 18,453,660.90  |                      | 18,453,660.90  |
| Public works of high-end new pharmaceutical preparation industrialization projects           | 17,332,617.72  |                      | 17,332,617.72     | 16,949,513.57  |                      | 16,949,513.57  |
| Annual output of 1,000 tons of 3-hydroxybutyrate and 500 tons of D-β-hydroxybutyrate project | 16,727,716.56  |                      | 16,727,716.56     | 16,727,716.56  |                      | 16,727,716.56  |
| Organic waste gas and odor RTO treatment project in the plant                                | 14,313,724.96  |                      | 14,313,724.96     | 14,068,782.38  |                      | 14,068,782.38  |
| Project of the Center for Gene and Cell Engineering  | 12,968,965.19  |                      | 12,968,965.19     | 8,880,938.11   |                      | 8,880,938.11   |
| L-Dopa capacity optimization project   | 9,677,441.40   |                      | 9,677,441.40      | 9,407,358.49   |                      | 9,407,358.49   |

## 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   | Ending Balance |                      | Beginning Balance |                      |
|--|----------------|----------------------|-------------------|----------------------|
|  | Book Balance   | Impairment Provision | Book Balance      | Impairment Provision |
| Carbidopa product expansion and transformation project | 9,369,284.21   |                      | 9,369,284.21      | 8,927,520.25         |
| Other  | 243,472,357.38 |                      | 243,472,357.38    | 191,407,934.27       |
| Total  | 705,962,107.58 |                      | 705,962,107.58    | 545,894,979.10       |

### (2) Changes in major projects under construction

| Name of Project  | Beginning Balance | Increase                 | Decreased Amount of current period | Decreased                |
|--|-------------------|--------------------------|------------------------------------|--------------------------|
|  |                   | Amount of Current Period | Transferred to Fixed Assets        | Amount of current period |
| High-end steroid series API construction project   | 129,126,302.54    | 8,003,114.98             |                                    | 137,129,417.52           |
| International Cooperation Program in Solid Dosages – Merck Formulations                      | 52,123,751.70     | 20,995,121.76            |                                    | 73,118,873.46            |
| 15,000 tons of isobutylbenzene expansion project   | 8,888,189.56      | 42,061,663.59            |                                    | 50,949,853.15            |
| EPA70 expansion and transformation project   | 35,121,417.40     | 2,888,573.38             |                                    | 38,009,990.78            |
| Methyldopa and series of products production items   | 15,301,969.36     | 17,924,828.20            |                                    | 33,226,797.56            |
| Annual output of 10,000 tons of 3,3-dichlorobenzidine production project                     | 20,509,924.01     | 11,286,623.04            |                                    | 31,796,547.05            |
| International Processing Technology Transformation Project for Solid Dosage Forms            | 18,453,660.90     |                          | 585,140.26                         | 17,868,520.64            |
| Public works of high-end new pharmaceutical preparation industrialization projects           | 16,949,513.57     | 383,104.15               |                                    | 17,332,617.72            |
| Annual output of 1,000 tons of 3-hydroxybutyrate and 500 tons of D-β-hydroxybutyrate project | 16,727,716.56     |                          |                                    | 16,727,716.56            |

## Notes to the Interim Financial Statements (Continued)

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

| <b>Name of Project</b>  | <b>Beginning Balance</b>     | <b>Increase<br/>Amount of<br/>Current Period</b> | <b>Decreased Amount of current period<br/>Transferred to<br/>Fixed Assets</b> | <b>Decreased<br/>Other<br/>Decreases</b> | <b>Decreased<br/>Amount of<br/>current period</b> |
|---|------------------------------|--|---|--|---|
| Organic waste gas and odor<br>RTO treatment project in<br>the plant | 14,068,782.38                | 244,942.58                                       |   |  | <b>14,313,724.96</b>                              |
| Project of the Center<br>for Gene and Cell<br>Engineering           | 8,880,938.11                 | 4,088,027.08                                     |   |  | <b>12,968,965.19</b>                              |
| L-Dopa capacity<br>optimization project                             | 9,407,358.49                 | 270,082.91                                       |   |  | <b>9,677,441.40</b>                               |
| Carbidopa product<br>expansion and<br>transformation project        | 8,927,520.25                 | 441,763.96                                       |   |  | <b>9,369,284.21</b>                               |
| Other   | <u>191,407,934.27</u>        | <u>76,603,998.77</u>                             | <u>24,539,575.66</u>  |  | <b><u>243,472,357.38</u></b>                      |
| Total   | <u><u>545,894,979.10</u></u> | <u><u>185,191,844.40</u></u>                     | <u><u>25,124,715.92</u></u>   |  | <b><u><u>705,962,107.58</u></u></b>               |

# 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)

| Name of Project   | Budget         | Projected capacity         | Construction period (the moon) | Proportion               | Engineering Schedule | Accumulated Amount of Interest Capitalization | Including: Amount of Capitalized Interest in current period | Capitalization Rate of Interest in current period | Capital Source |
|---|----------------|----------------------------|--------------------------------|--------------------------|----------------------|---|---|---|----------------|
|   |                |                            |                                | Investment in Budget (%) |                      |   |   |   |                |
| High-end steroid series API construction project  | 152,060,000.00 | 500 tonnes/Year            | 19                             | 90.18                    | 99.00                |   |   |   | Self-provided  |
| International Cooperation Program in Solid Dosages – Merck Formulations                     | 150,000,000.00 | 8 billion tablets/Year     | 45                             | 48.75                    | 60.00                |   |   |   | Self-provided  |
| 15,000 tons of isobutylbenzene expansion project  | 180,000,000.00 | 15,000 tonnes/Year         | 16                             | 28.31                    | 45.00                |   |   |   | Self-provided  |
| EPA70 expansion and transformation project  | 42,000,000.00  | 700 tonnes/Year            | 24                             | 90.50                    | 98.00                |   |   |   | Self-provided  |
| Methylodopa and series of products production items   | 73,850,000.00  | 200 tonnes/Year            | 18                             | 44.99                    | 50.00                |   |   |   | Self-provided  |
| Annual output of 10,000 tons of 3,3-dichlorobenzidine production project                    | 113,900,000.00 | 10,000 tonnes/Year         | 20                             | 27.92                    | 40.00                |   |   |   | Self-provided  |
| International Processing Technology Transformation Project for Solid Dosage Forms           | 150,000,000.00 | 5 billion tablets/Year     | 60                             | 73.00                    | 73.00                |   |   |   | Self-provided  |
| Public works of high-end new pharmaceutical preparation industrialization projects          | 27,000,000.00  |                            | 24                             | 64.19                    | 70.00                |   |   |   | Self-provided  |
| Annual output of 1000 tons of 3-hydroxybutyrate and 500 tons of D-β-hydroxybutyrate project | 17,500,000.00  | 1,500 tonnes/Year          | 16                             | 95.59                    | 96.00                |   |   |   | Self-provided  |
| Organic waste gas and odor RTO treatment project in the plant                               | 20,500,000.00  | 100,000 Nm <sup>3</sup> /h | 9                              | 69.82                    | 85.00                |   |   |   | Self-provided  |
| Project of the Center for Gene and Cell Engineering   | 16,810,000.00  |                            | 18                             | 77.15                    | 85.00                |   |   |   | Self-provided  |
| L-Dopa capacity optimization project  | 13,200,000.00  | 1,500 tonnes/Year          | 36                             | 73.31                    | 85.00                |   |   |   | Self-provided  |
| Carbidopa product expansion and transformation project                                      | 9,500,000.00   | 48 tonnes/Year             | 24                             | 98.62                    | 99.00                |   |   |   | Self-provided  |
| Total   | 966,320,000.00 |                            |                                |                          |                      |   |   |   |                |

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 assets

### (1) Detail of right-of-use assets

| Item                                  | Premises and<br>Buildings | land<br>use right | Total                |
|---------------------------------------|---------------------------|-------------------|----------------------|
| <b>I. Original book value</b>         |                           |                   |                      |
| 1. Beginning balance                  | 10,983,022.87             | 38,578.44         | 11,021,601.31        |
| 2. Increased amount in current period | 248,782.56                |                   | 248,782.56           |
| (1) Lease-in                          | 248,782.56                |                   | 248,782.56           |
| 3. Decreased amount in current period | 314,815.85                |                   | 314,815.85           |
| (1) Disposal                          | 314,815.85                |                   | 314,815.85           |
| <b>4. Ending balance</b>              | <b>10,916,989.58</b>      | <b>38,578.44</b>  | <b>10,955,568.02</b> |
| <b>II. Accumulated depreciation</b>   |                           |                   |                      |
| 1. Beginning balance                  | 4,322,746.67              | 17,145.97         | 4,339,892.64         |
| 2. Increased amount in current period | 1,455,585.00              | 8,572.98          | 1,464,157.98         |
| (1) Accrual or amortization           | 1,455,585.00              | 8,572.98          | 1,464,157.98         |
| 3. Decreased amount in current period | 235,858.78                |                   | 235,858.78           |
| (1) Disposal                          | 235,858.78                |                   | 235,858.78           |
| <b>4. Ending balance</b>              | <b>5,542,472.89</b>       | <b>25,718.95</b>  | <b>5,568,191.84</b>  |
| <b>III. Impairment provision</b>      |                           |                   |                      |
| <b>IV. Book value</b>                 |                           |                   |                      |
| <b>1. Ending book value</b>           | <b>5,374,516.69</b>       | <b>12,859.49</b>  | <b>5,387,376.18</b>  |
| 2. Beginning book value               | 6,660,276.20              | 21,432.47         | 6,681,708.67         |

In current period, the amount of right-of-use assets' depreciation and amortization recognized as profits or losses was RMB1,464,157.98 (Last period: RMB1,805,857.74).

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

# Notes to the Interim Financial Statements (Continued)

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

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

## 16. Intangible assets

### (1) Intangible assets

| Item                                      | Land Use<br>Right     | Software<br>License  | Non-patented<br>Technology | Others*             | Total                 |
|---|-----------------------|----------------------|----------------------------|---------------------|-----------------------|
| <b>I. Original book value</b>             |                       |                      |                            |                     |                       |
| 1. Beginning balance                      | 548,448,109.31        | 24,951,478.25        | 80,446,949.38              | 2,614,923.24        | 656,461,460.18        |
| 2. Increased amount in the current period |                       | 2,137,475.22         | 348,113.20                 |                     | 2,485,588.42          |
| (1) Purchase                              |                       | 2,137,475.22         | 348,113.20                 |                     | 2,485,588.42          |
| 3. Decreased amount in the current period |                       |                      |                            |                     |                       |
| (1) Disposal                              |                       |                      |                            |                     |                       |
| <b>4. Ending balance</b>                  | <b>548,448,109.31</b> | <b>27,088,953.47</b> | <b>80,795,062.58</b>       | <b>2,614,923.24</b> | <b>658,947,048.60</b> |
| <b>II. Accumulated amortization</b>       |                       |                      |                            |                     |                       |
| 1. Beginning balance                      | 128,816,342.82        | 14,718,941.45        | 36,204,468.06              | 2,614,923.24        | 182,354,675.57        |
| 2. Increased amount in the current period | 5,861,274.80          | 1,364,447.74         | 6,002,074.81               |                     | 13,227,797.35         |
| (1) Accrual                               | 5,861,274.80          | 1,364,447.74         | 6,002,074.81               |                     | 13,227,797.35         |
| 3. Decreased amount in the current period |                       |                      |                            |                     |                       |
| (1) Disposal                              |                       |                      |                            |                     |                       |
| <b>4. Ending balance</b>                  | <b>134,677,617.62</b> | <b>16,083,389.19</b> | <b>42,206,542.87</b>       | <b>2,614,923.24</b> | <b>195,582,472.92</b> |
| <b>III. Provision for impairment</b>      |                       |                      |                            |                     |                       |
| <b>IV. Book value</b>                     |                       |                      |                            |                     |                       |
| <b>1. Ending book value</b>               | <b>413,770,491.69</b> | <b>11,005,564.28</b> | <b>38,588,519.71</b>       |                     | <b>463,364,575.68</b> |
| 2. Beginning book value                   | 419,631,766.49        | 10,232,536.80        | 44,242,481.32              |                     | 474,106,784.61        |

\* Others are client sources purchased from American Midwest 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 RMB13,172,090.95, and the amortization amount of intangible assets recognized as capitalization is RMB55,706.40 (the amortization amount of intangible assets recognized as profit and loss last period is RMB11,190,333.24, and the amortization amount of intangible assets recognized as capitalization last period is RMB55,706.40).

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

## Notes to the Interim Financial Statements (Continued)

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

At the end of the period, an amount of RMB6,642,827.50 (beginning balance: RMB6,754,297.29) of land use right in fixed assets was in the process of obtaining the title certificate. In view of the fact that the aforesaid right are carried out in accordance with the relevant legal procedures, the board of directors confirms that the transfer of the property rights will not be prevented from any material legal obstacles or have negative effects on the normal use of the land use right, which does not constitute a material impact on the Group's operation, therefore, no provision for the impairment of the fixed assets is required.

| Item                   | Book Value   | Reason for incompleting certificate of title |
|------------------------|--------------|--|
| Headquarters park land | 6,642,827.50 | In progress                                  |
| Total                  | 6,642,827.50 |  |

## 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                                   | 2,715,585.22      | —                          | —                          | 2,715,585.22   |

### (2) Provision for impairment of goodwill

| Invested Entity                         | Beginning Balance | Increase in current period | Decrease in current period | Ending Balance |
|---|-------------------|----------------------------|----------------------------|----------------|
| Xinhua Pharmaceutical (Gaomi) Co., Ltd. | 2,715,585.22      | —                          | —                          | 2,715,585.22   |
| Total                                   | 2,715,585.22      | —                          | —                          | 2,715,585.22   |

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   | Beginning<br>balance       | Increase<br>in current<br>period | Amortization<br>amount<br>this period | Other<br>Decrease<br>in current<br>period | Ending<br>Balance          |
|--|----------------------------|----------------------------------|---------------------------------------|---|----------------------------|
| Decoration of the<br>Pharmaceutical<br>Innovation Park   | 6,985,458.80               |                                  | 1,176,124.25                          |   | <b>5,809,334.55</b>        |
| Decoration of health<br>technology new function<br>complex building                              | 499,522.91                 |                                  | 62,440.38                             |   | <b>437,082.53</b>          |
| Decoration of<br>comprehensive outpatient<br>department  | 626,398.04                 |                                  | 32,399.88                             |   | <b>593,998.16</b>          |
| Office space decoration<br>of Pharmaceutical<br>and Chemical Design<br>Company Qingdao<br>Branch | 371,070.00                 |                                  | 48,270.00                             |   | <b>322,800.00</b>          |
| Amortization of ECS etc.   | <u>125,376.75</u>          | <u>14,400.00</u>                 | <u>78,765.47</u>                      |   | <u><b>61,011.28</b></u>    |
| <b>Total</b>   | <b><u>8,607,826.50</u></b> | <b><u>14,400.00</u></b>          | <b><u>1,397,999.98</u></b>            |   | <b><u>7,224,226.52</u></b> |

# Notes to the Interim Financial Statements (Continued)

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

## 19. 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                              | 11,425,600.04                   | 1,798,379.88               | 11,425,600.04                   | 1,798,379.88               |
| Provision for bad debt  | 29,722,797.51                   | 6,638,873.59               | 29,957,299.72                   | 6,667,099.86               |
| Provision for inventory falling price                                 | 59,021,965.70                   | 9,566,473.27               | 47,457,421.09                   | 7,737,062.68               |
| Salaries and wages unpaid   | 16,687,924.42                   | 2,723,188.66               | 16,687,924.42                   | 2,723,188.66               |
| Deferred incomes  | 4,480,578.93                    | 672,086.84                 | 3,489,166.79                    | 523,375.03                 |
| Unrealized internal profits arise from transactions with subsidiaries | 57,167,367.63                   | 9,912,029.20               | 56,504,892.75                   | 8,494,940.66               |
| Deductible loss   | 8,930,237.39                    | 2,232,559.35               | 229,751,874.41                  | 35,398,898.36              |
| Share-based payment   | 193,032,569.94                  | 28,954,885.50              | 193,032,569.94                  | 28,954,885.50              |
| Changes in fair value of other equity instrument investments          | 12,000,468.07                   | 1,800,070.21               | 9,529,851.98                    | 1,429,477.80               |
| Others  | 43,619,111.99                   | 6,775,093.13               | 44,047,001.83                   | 6,833,578.79               |
| Total   | <u>436,088,621.62</u>           | <u>71,073,639.63</u>       | <u>641,883,602.97</u>           | <u>100,560,887.22</u>      |

### (2) Deferred income tax liabilities without being offset

| Item  | Ending Balance               |                               | Beginning Balance            |                               |
|---|------------------------------|-------------------------------|------------------------------|-------------------------------|
|   | Taxable Temporary Difference | Deferred Income Tax Liability | Taxable Temporary Difference | Deferred Income Tax Liability |
| Changes in fair value of other equity instruments investments | 156,346,042.00               | 23,451,906.30                 | 140,333,690.00               | 21,050,053.50                 |
| Depreciation of fixed assets                                  | 827,681,883.95               | 131,693,197.58                | 781,281,845.98               | 129,983,982.78                |
| Total   | <u>984,027,925.95</u>        | <u>155,145,103.88</u>         | <u>921,615,535.98</u>        | <u>151,034,036.28</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))

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

| Item                            | Amount of Which<br>the Deferred Income<br>Tax Assets are<br>Offset with Liabilities<br>at period end | Ending Balance of<br>Deferred Income Tax<br>Assets or Liabilities<br>after Offset | Amount of Which<br>the Deferred Income<br>Tax Assets are<br>Offset with Liabilities<br>at Beginning of Year | Beginning Balance of<br>Deferred Income Tax<br>Assets or Liabilities<br>after Offset |
|---------------------------------|--|---|---|--|
| Deferred Income Tax Assets      | 52,311,815.07  | 18,761,824.56   | 84,598,974.14   | 15,961,913.08  |
| Deferred Income Tax Liabilities | 52,311,815.07  | 102,833,288.81  | 84,598,974.14   | 66,435,062.14  |

Note: The net offset of deferred tax assets and liabilities of a single company is presented as deferred tax assets or deferred tax liabilities.

### (4) Details of the unrecognized deferred income tax assets

| Item                            | Ending Balance | Beginning Balance |
|---------------------------------|----------------|-------------------|
| Deductible temporary difference | 17,257,473.18  | 2,705,988.35      |
| Deductible loss                 | 27,300,107.73  | 33,018,271.80     |
| Total                           | 44,557,580.91  | 35,724,260.15     |

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

| Year  | Ending Balance | Beginning Balance | Note |
|-------|----------------|-------------------|------|
| 2025  |                | 745,652.80        |      |
| 2026  |                | 2,492,961.01      |      |
| 2027  |                | 10,344,034.53     |      |
| 2028  |                | 622,857.74        |      |
| 2029  |                | 265,334.42        |      |
| 2030  | 244,305.59     | 3,759,240.89      |      |
| 2031  | 11,117,510.20  | 9,128,101.00      |      |
| 2032  | 15,938,291.94  | 5,660,089.41      |      |
| Total | 27,300,107.73  | 33,018,271.80     |      |

## Notes to the Interim Financial Statements (Continued)

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

### 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                   | 42,137,800.00        |                      | 42,137,800.00        | 19,063,800.00        |                      | 19,063,800.00        |
| Advance payment for the purchase of the office occupancy | 21,740,680.88        |                      | 21,740,680.88        |                      |                      |                      |
| Government demolition project                            | 14,897,821.30        |                      | 14,897,821.30        |                      |                      |                      |
| Software Development Fund                                | 1,754,555.68         |                      | 1,754,555.68         | 2,428,573.85         |                      | 2,428,573.85         |
| Total  | <u>80,530,857.86</u> |                      | <u>80,530,857.86</u> | <u>21,492,373.85</u> |                      | <u>21,492,373.85</u> |

### 21. Short-term borrowing

#### (1) Classification of short-term borrowings

| Category     | Ending Balance        | Beginning Balance     |
|--------------|-----------------------|-----------------------|
| Credit loan* | <u>243,494,933.55</u> | <u>118,023,275.00</u> |
| Total        | <u>243,494,933.55</u> | <u>118,023,275.00</u> |

\* At the end of the period, the credit loan included a principal of RMB243,317,994.30 and an unexpired interest payable of RMB176,939.25.

#### (2) Overdue short-term borrowings not yet repaid

The group has no overdue short-term borrowings at the end of the period

#### (3) As at June 30, 2023, the interest rate of short-term borrowings ranged from 2.45%-5.05%.

### 22. Notes payable

| Category              | Ending Balance        | Beginning Balance     |
|-----------------------|-----------------------|-----------------------|
| Bank acceptance bills | <u>472,357,160.33</u> | <u>491,024,582.02</u> |
| Total                 | <u>472,357,160.33</u> | <u>491,024,582.02</u> |

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

## 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

| <u>Item</u>       | <u>Ending Balance</u>        | <u>Beginning Balance</u>     |
|-------------------|------------------------------|------------------------------|
| Payment for goods | <u>677,938,237.15</u>        | <u>599,055,763.12</u>        |
| Total             | <u><u>677,938,237.15</u></u> | <u><u>599,055,763.12</u></u> |

#### (2) Significant accounts payable aged over 1 year

There was no significant accounts payable with the age of over 1 year at the end of the current period.

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

| <u>Item</u>   | <u>Ending Balance</u>        | <u>Beginning Balance</u>     |
|---------------|------------------------------|------------------------------|
| Within 1 year | <u>659,409,120.16</u>        | <u>572,436,889.19</u>        |
| 1-2 years     | <u>7,959,240.64</u>          | <u>15,230,740.10</u>         |
| 2-3 years     | <u>3,678,491.98</u>          | <u>3,393,501.61</u>          |
| Over 3 years  | <u>6,891,384.37</u>          | <u>7,994,632.22</u>          |
| Total         | <u><u>677,938,237.15</u></u> | <u><u>599,055,763.12</u></u> |

### 24. Contract liabilities

#### (1) Presentation of contract liabilities

| <u>Item</u>                                  | <u>Ending Balance</u>       | <u>Beginning Balance</u>     |
|--|-----------------------------|------------------------------|
| Payments for goods sales received in advance | <u>95,400,657.92</u>        | <u>593,261,005.51</u>        |
| Total  | <u><u>95,400,657.92</u></u> | <u><u>593,261,005.51</u></u> |

Note: The revenue recognized in this period includes the advance payment for sales at the beginning of the year of RMB579.7257 million.

## Notes to the Interim Financial Statements (Continued)

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

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

| Item   | Changing amount        | Reason                                    |
|--|------------------------|---|
| Payments for goods sales received in advance | <b>-497,860,347.59</b> | Delivery of goods, recognition of revenue |
| Total  | <b>-497,860,347.59</b> |   |

## 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                             | 95,171,404.13        | 500,961,723.31             | 504,774,024.43             | <b>91,359,103.01</b>        |
| Post-employment benefits-Defined contribution plans |                      | 51,691,572.31              | 51,691,572.31              |                             |
| Dismissal benefits                                  |                      |                            |                            |                             |
| Total   | <u>95,171,404.13</u> | <u>552,653,295.62</u>      | <u>556,465,596.74</u>      | <u><b>91,359,103.01</b></u> |

### (2) Short-term remuneration

| Item  | Beginning Balance    | Increase in current period | Decrease in current period | Ending Balance              |
|---|----------------------|----------------------------|----------------------------|-----------------------------|
| Salary, bonus, allowance and subsidy                | 91,088,681.57        | 401,834,177.12             | 406,537,494.18             | <b>86,385,364.51</b>        |
| Employee welfare expenses                           |                      | 17,756,846.46              | 17,756,846.46              |                             |
| Social insurance premiums                           |                      | 27,214,818.99              | 27,214,818.99              |                             |
| Including: Medical insurance premiums               |                      | 24,539,828.98              | 24,539,828.98              |                             |
| Work-related injury insurance premiums              |                      | 2,674,990.01               | 2,674,990.01               |                             |
| Housing fund  |                      | 26,769,305.50              | 26,769,305.50              |                             |
| Labor union expenditure and employee education fund | 4,068,722.56         | 7,803,418.19               | 6,913,402.25               | <b>4,958,738.50</b>         |
| Labor costs   | <u>14,000.00</u>     | <u>19,583,157.05</u>       | <u>19,582,157.05</u>       | <u><b>15,000.00</b></u>     |
| Total   | <u>95,171,404.13</u> | <u>500,961,723.31</u>      | <u>504,774,024.43</u>      | <u><b>91,359,103.01</b></u> |

## Notes to the Interim Financial Statements (Continued)

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

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

### (3) Defined contribution plan

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

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

| Item                           | Beginning<br>Balance | Increase in<br>current period | Decrease in<br>current period | Ending<br>Balance |
|--------------------------------|----------------------|-------------------------------|-------------------------------|-------------------|
| Basic endowment insurance      |                      | 49,531,327.13                 | 49,531,327.13                 |                   |
| Unemployment insurance premium |                      | 2,160,245.18                  | 2,160,245.18                  |                   |
| Total                          |                      | <u>51,691,572.31</u>          | <u>51,691,572.31</u>          |                   |

The Group should pay RMB51,691,572.31 (last period: RMB44,488,059.49) to the participating defined contribution plan this period. The endowment insurance and unemployment insurance that the Group plans to pay on 30 June 2023 have been fully paid.

In each of the two reporting periods ended 31 December 2022 and 30 June 2023, 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.

## Notes to the Interim Financial Statements (Continued)

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

### 26. Taxes payable

| Item                                   | Ending Balance       | Beginning Balance    |
|--|----------------------|----------------------|
| VAT                                    | 7,469,001.26         | 11,322,476.40        |
| Corporate income tax                   | 14,614,957.69        | 7,994,487.98         |
| Urban maintenance and construction tax | 1,788,882.24         | 2,034,112.95         |
| Individual income tax                  | 620,438.53           | 1,860,044.20         |
| Property tax                           | 4,777,595.76         | 5,521,821.22         |
| Land use tax                           | 730,868.15           | 2,092,611.53         |
| Stamp duty                             | 1,296,955.83         | 1,431,942.53         |
| Educational surcharges                 | 1,139,784.97         | 1,452,103.41         |
| Environmental protection tax           | 3,309.09             | 7,610.26             |
|  | <b>32,441,793.52</b> | <b>33,717,210.48</b> |
| Total                                  | <b>32,441,793.52</b> | <b>33,717,210.48</b> |

As at 30 June 2023, the tax payable of the Group included Hong Kong income tax payable of RMB79,932.47, Netherlands income tax payable of RMB0.00, and U.S. income tax payable of RMB729,357.57.

### 27. Other payable

| Item              | Ending Balance        | Beginning Balance     |
|-------------------|-----------------------|-----------------------|
| Interest payable  |                       |                       |
| Dividends payable | 150,227,166.53        | 5,310,599.53          |
| Other payable     | 420,452,593.06        | 419,650,696.78        |
|                   | <b>570,679,759.59</b> | <b>424,961,296.31</b> |
| Total             | <b>570,679,759.59</b> | <b>424,961,296.31</b> |

#### 27.1 Interest payable: None

#### 27.2 Dividends payable

| Item                   | Ending Balance        | Beginning Balance   |
|------------------------|-----------------------|---------------------|
| Common stock dividends | 150,227,166.53        | 5,310,599.53        |
| Total                  | <b>150,227,166.53</b> | <b>5,310,599.53</b> |
|                        | <b>150,227,166.53</b> | <b>5,310,599.53</b> |

*Note:* The balance of dividends payable at the end of the period is RMB5,310,599.53, which is the common stock dividends that have not been paid for more than one year.

## Notes to the Interim Financial Statements (Continued)

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

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

### 27.3 Other payable

(1) Classification of other payable by nature

| Nature of Payments                                | Ending Balance        | Beginning Balance |
|---|-----------------------|-------------------|
| Payments payable for engineer and equipments      | <b>245,985,289.27</b> | 271,507,214.51    |
| Cash deposit and guarantee deposite               | <b>48,443,659.05</b>  | 44,533,893.69     |
| Power expenses, freight and consulting fees, etc. | <b>94,002,993.29</b>  | 40,398,846.44     |
| Stock options incentive                           |                       | 21,585,564.00     |
| Others  | <b>32,020,651.45</b>  | 41,625,178.14     |
|   | <b>420,452,593.06</b> | 419,650,696.78    |
|   | <b>77,339,726.87</b>  | 94,200,116.64     |

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

| Organization Name   | Ending Balance      | Reasons for not repaying or carrying forward |
|---|---------------------|--|
| Shandong Xinghe Steel structure Co., Ltd                        | <b>3,163,798.79</b> | Unliquidated                                 |
| Hubei Kelosi Tongda Technology Co., Ltd                         | <b>1,614,833.02</b> | Unliquidated                                 |
| Zhong'an Construction and Installation Group Co., Ltd           | <b>1,100,996.97</b> | Unliquidated                                 |
| Guangzhou Tangpu building decoration materials Co., Ltd         | <b>850,000.00</b>   | Unliquidated                                 |
| Shanghai Zhongteng Environmental Protection Technology Co., Ltd | <b>808,000.00</b>   | Unliquidated                                 |
|   | <b>7,537,628.78</b> |  |

# Notes to the Interim Financial Statements (Continued)

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

## 28. Non-current liabilities due within one year

| Item                                    | Ending Balance        | Beginning Balance |
|---|-----------------------|-------------------|
| Long-term loans due within one year*    | <b>281,794,003.68</b> | 314,411,833.83    |
| Long-term payables due within one year  |                       | 400,358,027.40    |
| Lease liabilities due within one year** | <b>2,544,653.12</b>   | 2,691,448.37      |
| Total                                   | <b>284,338,656.80</b> | 717,461,309.60    |

\* The long-term loans due within one year included the principal of the long-term loans due within one year of RMB280,941,069.16 and the unexpired loans interest payable of RMB852,934.52.

\*\* The lease liabilities due within one year include the lease payments due within one year of RMB2,717,057.69, and the unrecognized financing expenses are RMB172,404.57.

## 29. Other current liabilities

### (1) Classifications of long-term loans

| Item                             | Ending Balance       | Beginning Balance |
|----------------------------------|----------------------|-------------------|
| Output tax to be transferred     | <b>8,727,784.74</b>  | 73,480,273.54     |
| Un-derecognized notes receivable | <b>5,481,050.00</b>  | 12,329,419.39     |
| Total                            | <b>14,208,834.74</b> | 85,809,692.93     |

## 30. Long-term loans

### (1) Classifications of long-term loans

| Category        | Ending Balance        | Beginning Balance |
|-----------------|-----------------------|-------------------|
| Guarantee loans | <b>196,500,000.00</b> | 426,500,000.00    |
| Credit loans    | <b>608,485,266.90</b> | 119,155,801.48    |
| Total           | <b>804,985,266.90</b> | 545,655,801.48    |

Note: As at 30 June 2023, the range of long-term loan interest rate was 2.7%–3.7%.

## Notes to the Interim Financial Statements (Continued)

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

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

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

| Item      | Ending Balance        | Beginning Balance |
|-----------|-----------------------|-------------------|
| 1-2 years | <b>96,885,266.90</b>  | 262,655,801.48    |
| 2-5 years | <b>708,100,000.00</b> | 283,000,000.00    |
| Total     | <b>804,985,266.90</b> | 545,655,801.48    |

## 31. Lease liabilities

### (1) Detail of lease liabilities

| Item              | Ending Balance      | Beginning Balance |
|-------------------|---------------------|-------------------|
| Lease liabilities | <b>2,073,041.41</b> | 2,715,480.67      |
| Total             | <b>2,073,041.41</b> | 2,715,480.67      |

### (2) Analysis of the maturity date of lease liabilities

| Item      | Ending Balance      | Beginning Balance |
|-----------|---------------------|-------------------|
| 1-2 years | <b>2,203,542.29</b> | 1,951,299.17      |
| 2-5 years | <b>43,761.42</b>    | 1,156,225.18      |
| Total     | <b>2,247,303.71</b> | 3,107,524.35      |

## 32. Long-term payables

| Item               | Ending Balance       | Beginning Balance |
|--------------------|----------------------|-------------------|
| Long-term payables |                      |                   |
| Special payables   | <b>20,000,000.00</b> | 20,000,000.00     |
| Total              | <b>20,000,000.00</b> | 20,000,000.00     |

## Notes to the Interim Financial Statements (Continued)

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

### 32.1 Long-term payables: None

### 32.2 Special payables

| Item   | Beginning Balance    | Increase in Current Period | Decrease in Current Period | Ending Balance       | Reason   |
|--|----------------------|----------------------------|----------------------------|----------------------|--|
| Industrialization project of new continuous synthesis technology | 20,000,000.00        |                            |                            | 20,000,000.00        | Industrialization project of new continuous synthesis technology |
| Total  | <u>20,000,000.00</u> | <u></u>                    | <u></u>                    | <u>20,000,000.00</u> |  |

## 33. Deferred income

### (1) Classification of deferred income

| Item              | Beginning Balance     | Increase in current period | Decrease in current period | Ending Balance        |
|-------------------|-----------------------|----------------------------|----------------------------|-----------------------|
| Government grants | 118,372,785.93        | 1,600,650.00               | 10,239,952.29              | 109,733,483.64        |
| Total             | <u>118,372,785.93</u> | <u>1,600,650.00</u>        | <u>10,239,952.29</u>       | <u>109,733,483.64</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))

### (2) Government grants

| Project   | Beginning Balance | Increased Amounts 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 |
|---|-------------------|---|--|---------------|-----------------|----------------|-------------------------------------|
| Comprehensive prevention and control project of atmospheric pollution caused by recovered organic gases such as dichloromethane | 21,069,250.00     |   | 1,780,500.00                                       |               |                 | 19,288,750.00  | Related to assets                   |
| Modern medicine international cooperation center project  | 45,887,196.40     |   | 3,790,557.60                                       |               |                 | 42,096,638.80  | Related to assets                   |
| East garden new 2,000 T/d sewage treatment system project   | 1,867,999.96      |   | 233,500.02   |               |                 | 1,634,499.94   | Related to assets                   |
| Modern Chemical and Pharmaceutical Industrialization Center (II) Project  | 1,094,973.34      |   | 131,938.80   |               |                 | 963,034.54     | Related to assets                   |
| Technical transformation project of hormone series products   | 3,195,849.85      |   | 298,238.88   |               |                 | 2,897,610.97   | Related to assets                   |
| Research and industrialization project of Polycarbofil calcium and tablets  | 1,986,764.71      |   | 168,151.26   |               |                 | 1,818,613.45   | Related to assets                   |
| Aspirin technical transformation project (matching funds for major national science and technology projects)                    | 2,333,333.37      |   | 199,999.98   |               |                 | 2,133,333.39   | Related to assets                   |
| Key technology and continuous system construction project of caffeine greening  | 1,200,000.10      |   | 79,999.98  |               |                 | 1,120,000.12   | Related to assets                   |
| Government subsidies for equipment  | 8,327,183.38      |   | 535,699.98   |               |                 | 7,791,483.40   | Related to assets                   |
| Injection GMP transformation project (industrialization project of high-end new pharmaceutical preparations)                    | 18,124,400.00     |   | 970,950.00   |               |                 | 17,153,450.00  | Related to assets                   |
| International cooperation project of solid preparations   | 2,000,000.00      |   |  |               |                 | 2,000,000.00   | Related to assets                   |
| Intelligent improvement and transformation project of raw material medicine of No. 1 Branch                                     | 1,186,574.99      |   | 60,850.02  |               |                 | 1,125,724.97   | Related to assets                   |
| High performance core industrial enzyme   |                   | 1,600,650.00                                  |  |               |                 | 1,600,650.00   | Related to assets                   |

## Notes to the Interim Financial Statements (Continued)

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

| Project                                    | Beginning Balance | Increased Amounts 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 |
|--|-------------------|---|--|---------------|-----------------|----------------|-------------------------------------|
|  |                   |   |  |               |                 |                |                                     |
| Calcium acetyl acetone equipment allowance | 1,750,000.00      |   | 100,000.00   |               |                 | 1,650,000.00   | Related to assets                   |
| Other deferred incomes                     | 8,349,259.83      |   | 1,189,565.77                                       |               | 700,000.00      | 6,459,694.06   | Related to assets                   |
| Total                                      | 118,372,785.93    | 1,600,650.00                                  | 9,539,952.29                                       |               | 700,000.00      | 109,733,483.64 |                                     |

### 34. Other non-current liabilities

| Item                 | Ending Balance | Beginning Balance |
|----------------------|----------------|-------------------|
| Special reserve fund | 3,561,500.00   | 3,561,500.00      |
| Total                | 3,561,500.00   | 3,561,500.00      |

### 35. Capital stock

| Item         | Beginning Balance | New Shares Issued | Increase (+)/decrease (-) during the period |  |        | Subtotal     | Ending Balance |
|--------------|-------------------|-------------------|---|--|--------|--------------|----------------|
|              |                   |                   | Stock Dividend Offered                      | Capital Reserve Converted into Capital Stock | Others |              |                |
| Total shares | 669,627,235.00    | 5,055,600.00      |   |  |        | 5,055,600.00 | 674,682,835.00 |

In accordance with the provisions of the 2018 A Share Option Incentive Plan (Draft), the third waiting period for the grant of incentive object stock options expired. The Company issued the Company's A-share common shares to the incentive objects, and the number of stock options exercised was 5.0556 million. Of them, the total number of incentive objects who actually exercised the stock options in the third exercise period was 159 for the first time, and the number of stock options exercised was 4.2603 million; the total number of incentive objects who actually exercised the stock options in the third exercise period was 14 for the second time, and the number of stock options exercised was 0.7953 million. After this exercise, the registered capital will be increased by RMB5,055,600.00.

## 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 reserve

| Item                     | Beginning Balance     | Increase in<br>current period | Decrease in<br>current period | Ending Balance                 |
|--------------------------|-----------------------|-------------------------------|-------------------------------|--------------------------------|
| Capital stock premium *  | 724,102,344.64        | 29,726,928.00                 |                               | <b>753,829,272.64</b>          |
| Other capital reserve ** | 274,042,245.01        | 27,361,771.92                 | 7,178,952.00                  | <b>294,225,064.93</b>          |
| Total                    | <u>998,144,589.65</u> | <u>57,088,699.92</u>          | <u>7,178,952.00</u>           | <b><u>1,048,054,337.57</u></b> |

\* The capital stock premium increased by RMB29,726,928.00 in total this period which was due to the exercise of 5,055,600 shares of stock options.

\*\* Other capital reserves increased by RMB27,361,771.92 in total this period which was due to the company's equity incentive plan granted in 2021, and the provision of equity instrument consideration in the waiting period; Total of other capital reserves this period decrease of RMB7,178,952.00 was caused by the offset of other capital reserves by the cost recognized in the waiting period after the exercise of stock options.

# 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 incomes

| Item   | Beginning Balance     | Pre-tax Amount Incurred in current period | Amount Incurred in Current Period  |  |                     | Less: Income Tax Expense | After-tax Amount Attributable to the Parent Company | After-tax Amount Attributable to Minority Shareholders | Ending Balance |
|--|-----------------------|---|--|--|---------------------|--------------------------|---|--|----------------|
|  |                       |   | Recognized in OCI in last period and Carried over into P/L in Current Period | Less: Included in OCI in the last period and transferred into RE in the current period |                     |                          |   |  |                |
| <b>I. Other comprehensive incomes that cannot be reclassified into profits or losses in future</b> | 111,183,262.32        | 13,541,735.93                             |  |  | 2,031,260.39        | 11,510,475.54            |   | <b>122,693,737.86</b>                                  |                |
| Including: Changes in fair value of other equity instrument investments                            | 111,183,262.32        | 13,541,735.93                             |  |  | 2,031,260.39        | 11,510,475.54            |   | 122,693,737.86   |                |
| <b>II. Other comprehensive income to be reclassified to profit or loss in future</b>               | 943,472.09            |   |  |  |                     | 1,836,485.37             | 526,045.96  | <b>2,779,957.46</b>                                    |                |
| Including: Translation difference of foreign currency financial statement                          | 943,472.09            |   |  |  |                     | 1,836,485.37             | 526,045.96  | 2,779,957.46   |                |
| Total other comprehensive incomes  | <u>112,126,734.41</u> | <u>13,541,735.93</u>                      | <u></u>  | <u></u>  | <u>2,031,260.39</u> | <u>13,346,960.91</u>     | <u>526,045.96</u>                                   | <u>125,473,695.32</u>                                  |                |

## 38. Special reserve

| Item                       | Beginning Balance   | Increase in Current Period | Decrease in Current Period | Ending Balance             |
|----------------------------|---------------------|----------------------------|----------------------------|----------------------------|
| Safety production expenses | 1,551,906.40        | 11,913,622.94              | 10,742,141.45              | <b>2,723,387.89</b>        |
| Total                      | <u>1,551,906.40</u> | <u>11,913,622.94</u>       | <u>10,742,141.45</u>       | <u><b>2,723,387.89</b></u> |

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

## Notes to the Interim Financial Statements (Continued)

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

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

### 39. Surplus reserves

| Item                           | Beginning Balance | Increase in Current Period | Decrease in Current Period | Ending Balance        |
|--------------------------------|-------------------|----------------------------|----------------------------|-----------------------|
| Statutory surplus reserves     | 292,159,722.36    |                            |                            | <b>292,159,722.36</b> |
| Discretionary surplus reserves | 64,795,873.74     |                            |                            | <b>64,795,873.74</b>  |
| Total                          | 356,955,596.10    |                            |                            | <b>356,955,596.10</b> |

### 40. Undistributed profits

| Item   | Amount Incurred in Current Period | Amount Incurred in Previous Period |
|--|-----------------------------------|------------------------------------|
| <b>Ending balance of last period before adjustment</b>                                   | <b>1,988,054,329.39</b>           | 1,709,067,703.02                   |
| Beginning balance of current period after adjustment                                     | <b>1,988,054,329.39</b>           | 1,709,067,703.02                   |
| Add: net profits attributable to the parent company's shareholders in the current period | <b>269,807,157.85</b>             | 194,389,556.12                     |
| Less: Common stock dividends payable   | <b>134,936,567.00</b>             | 100,444,085.25                     |
| <b>Ending balance of current period</b>  | <b>2,122,924,920.24</b>           | <b>1,803,013,173.89</b>            |

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 period ended at 30 June 2023

According to the 2022 annual general meeting of shareholders held on June 26, 2023, the Company will distribute a cash dividend of RMB2.00 (including tax) to all shareholders for every 10 shares, with a total cash dividend of RMB134,936,567.00. No bonus shares will be given, nor will the accumulation fund be converted into share capital.

Pursuant to the resolution of the Company's Board on August 24, 2023, 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 period ended at 30 June 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.

# Notes to the Interim Financial Statements (Continued)

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

## 41. 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  | 4,595,163,474.83                  | 3,201,149,392.15        | 3,541,962,738.63                   | 2,607,853,424.40        |
| Other business | 77,105,574.30                     | 79,896,862.06           | 122,332,254.70                     | 103,674,032.50          |
| Total          | <u>4,672,269,049.13</u>           | <u>3,281,046,254.21</u> | <u>3,664,294,993.33</u>            | <u>2,711,527,456.90</u> |

### (2) Details of revenues generated from contracts

| Classification of contract                                  | Chemical bulk drugs     |                         | Pharmaceutical intermediates and other products | Total                   |
|---|-------------------------|-------------------------|---|-------------------------|
|   | drugs                   | Preparations            |   |                         |
| <b>Commodity type</b>                                       |                         |                         |   |                         |
| Including: Chemical bulk drugs                              | 1,877,968,283.62        |                         |   | 1,877,968,283.62        |
| Preparations  |                         | 2,088,817,413.85        |   | 2,088,817,413.85        |
| Pharmaceutical intermediates and other products             |                         |                         | 705,483,351.66                                  | 705,483,351.66          |
| Total   | <u>1,877,968,283.62</u> | <u>2,088,817,413.85</u> | <u>705,483,351.66</u>                           | <u>4,672,269,049.13</u> |
| <b>Classification by operating regions</b>                  |                         |                         |   |                         |
| Including: China (including Hong Kong)                      | 931,782,229.46          | 1,889,953,567.38        | 635,288,647.65                                  | 3,457,024,444.49        |
| Americas  | 374,865,579.97          | 9,338,067.86            | 21,099,681.55                                   | 405,303,329.38          |
| Europe  | 386,869,175.28          | 189,396,168.85          | 34,345,435.71                                   | 610,610,779.84          |
| Others  | 184,451,298.91          | 129,609.76              | 14,749,586.75                                   | 199,330,495.42          |
| Total   | <u>1,877,968,283.62</u> | <u>2,088,817,413.85</u> | <u>705,483,351.66</u>                           | <u>4,672,269,049.13</u> |
| <b>Classification by contractual performance obligation</b> |                         |                         |   |                         |
| Among: Revenue recognised at a certain point of time        | 1,877,968,283.62        | 2,088,817,413.85        | 670,556,100.61                                  | 4,637,341,798.08        |
| Revenue recognised within a certain period                  |                         |                         | 32,652,712.82                                   | 32,652,712.82           |
| Rental income   |                         |                         | 2,274,538.23                                    | 2,274,538.23            |
| Total   | <u>1,877,968,283.62</u> | <u>2,088,817,413.85</u> | <u>705,483,351.66</u>                           | <u>4,672,269,049.13</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))

*Note:* The company's sales model can be divided into direct selling model and distribution model, in which the operating revenue of direct selling model is RMB1,882,967,078.19, and that of distribution model is RMB2,789,301,970.94.

### (3) Information related to the performance obligations

According to the contractual stipulations, the Group, being the principal responsible party, fulfills its obligations to supply goods in a timely manner in accordance with the categories and standards demanded by the customers. For sales contracts within the PRC, when the Group delivers the goods to the customer or the carrier, the contractual obligation is deemed to be fulfilled, and the customer obtains control of the relevant goods; for outside the PRC territory, the contractual obligation is fulfilled when the goods are issued and shipped at the port of shipment and the customer has 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 current period, the amount of revenue corresponds to the unfulfilled or incomplete performance obligations is RMB95,400,657.92. Among this amount, RMB82,205,642.49 is expected to be recognized as revenues in the coming year.

(5) The recognized income this period, included the amount of RMB579,725,734.39 that has been included in contract liabilities at the end of the last period.

## 42. Taxes and surcharges

| <b>Item</b>                            | <b>Amount Incurred<br/>in current period</b> | Amount Incurred<br>in last period |
|--|--|-----------------------------------|
| Urban maintenance and construction tax | <b>15,848,299.80</b>                         | 9,170,861.92                      |
| Property tax                           | <b>9,102,013.26</b>                          | 9,310,858.21                      |
| Educational surcharges                 | <b>11,405,928.38</b>                         | 6,543,300.69                      |
| Land use tax                           | <b>4,321,187.45</b>                          | 4,125,083.54                      |
| Stamp duty                             | <b>2,970,015.34</b>                          | 2,412,647.01                      |
| Vehicle and vessel usage tax           | <b>35,417.80</b>                             | 32,676.86                         |
| Land Appreciation Tax and others       | <b>16,793,781.00</b>                         | 18,043.99                         |
| Total                                  | <b>60,476,643.03</b>                         | 31,613,472.22                     |

## Notes to the Interim Financial Statements (Continued)

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

### 43. Selling expenses

| Item                                       | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|--|--------------------------------------|-----------------------------------|
| Employee compensation                      | <b>80,393,651.92</b>                 | 54,643,611.38                     |
| Market development and Terminal sales fees | <b>382,581,167.40</b>                | 218,882,251.60                    |
| Advertising expenses                       | <b>4,074,091.92</b>                  | 4,966,411.75                      |
| Travel expense                             | <b>7,886,442.17</b>                  | 6,563,622.03                      |
| Office expenses                            | <b>224,393.08</b>                    | 171,041.73                        |
| Conference expenses                        | <b>1,866,206.51</b>                  | 491,281.51                        |
| Others                                     | <b>10,012,983.17</b>                 | 8,840,376.18                      |
| Total                                      | <b>487,038,936.17</b>                | 294,558,596.18                    |

### 44. Administrative expenses

| Item  | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|---|--------------------------------------|-----------------------------------|
| Employee compensation   | <b>107,025,098.44</b>                | 84,864,992.02                     |
| Depreciation cost   | <b>33,660,331.57</b>                 | 33,073,389.77                     |
| Amortization of intangible assets                                   | <b>12,556,272.45</b>                 | 10,860,257.56                     |
| Warehouse expenses  | <b>13,251,746.90</b>                 | 11,281,933.48                     |
| Business entertainment expenses                                     | <b>2,896,241.33</b>                  | 2,455,754.39                      |
| Office expenses   | <b>1,655,555.17</b>                  | 1,172,743.76                      |
| Travel expense  | <b>2,127,756.58</b>                  | 1,015,201.73                      |
| Water, electricity and gas charges                                  | <b>2,332,918.90</b>                  | 2,899,321.65                      |
| Royalty fee of trademark  | <b>4,718,411.00</b>                  | 4,758,516.00                      |
| Annual fee of listing, audit fee and expenses of board of directors | <b>2,376,596.51</b>                  | 1,784,008.92                      |
| Repair costs  | <b>4,285,741.45</b>                  | 3,037,938.30                      |
| Share-based payment   | <b>27,361,771.92</b>                 | 23,197,698.00                     |
| Party construction funds  | <b>2,549,070.10</b>                  | 2,283,806.46                      |
| Others  | <b>29,519,186.89</b>                 | 20,427,184.39                     |
| Total   | <b>246,316,699.21</b>                | 203,112,746.43                    |

## Notes to the Interim Financial Statements (Continued)

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

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

### 45. Research and development cost

| Item                           | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|--------------------------------|--------------------------------------|-----------------------------------|
| New products                   | <b>129,585,862.62</b>                | 66,758,605.35                     |
| New technology and new process | <b>105,944,046.62</b>                | 101,808,796.75                    |
| Total                          | <b><u>235,529,909.24</u></b>         | <b><u>168,567,402.10</u></b>      |

### 46. Financial expenses

| Item  | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|---|--------------------------------------|-----------------------------------|
| Interest expenditure                        | <b>21,488,813.56</b>                 | 24,376,640.19                     |
| Less: Interest income                       | <b>6,731,842.63</b>                  | 3,646,699.81                      |
| Add: Exchange gains or losses               | <b>-14,404,794.85</b>                | -7,934,889.01                     |
| Add: Service charges and other expenditures | <b>989,811.27</b>                    | 1,707,578.79                      |
| Total                                       | <b><u>1,341,987.35</u></b>           | <b><u>14,502,630.16</u></b>       |

Details of interest expenditure are listed as follows:

| Item                                       | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|--|--------------------------------------|-----------------------------------|
| Interest expenditure of bank loans         | <b>21,372,211.75</b>                 | 23,616,548.97                     |
| Interest expenditure of sale and leaseback |                                      | 137,609.09                        |
| Interest expenditure of lease liabilities  | <b>116,601.81</b>                    | 622,482.13                        |
| Total                                      | <b><u>21,488,813.56</u></b>          | <b><u>24,376,640.19</u></b>       |

## 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

| <b>Sources of other incomes</b>                                     | <b>Amount Incurred<br/>in current period</b> | Amount Incurred<br>in last period |
|---|--|-----------------------------------|
| Government grants   | <b>11,695,552.06</b>                         | 15,753,419.00                     |
| Including: Use/amortization of deferred income in<br>current period | <u><b>9,539,952.29</b></u>                   | <u>10,194,180.51</u>              |
| Total   | <u><b>11,695,552.06</b></u>                  | <u>15,753,419.00</u>              |

Details of government grants

| <b>Category of grants</b>   | <b>Amount Incurred in<br/>Current Period</b> | Amount Incurred in<br>last Period | <b>Source and Basis</b>  | <b>Related to Assets/<br/>Related to Income</b> |
|---|--|-----------------------------------|--|---|
| <b>Government grants received in this period</b>  |  |                                   |  |   |
| 2023 Taishan Industry leading talents<br>engineering science and technology<br>innovation funding | <b>1,400,000.00</b>                          |                                   |  | Related to income                               |
| Matching funds for national key talents   |  | 4,000,000.00                      | Notice on the Release<br>of Supporting<br>Funds for Talent<br>Work | Related to income                               |
| Others  | <b>755,599.77</b>                            | 1,559,238.49                      |  | Related to income                               |
| Subtotal  | <b>2,155,599.77</b>                          | 5,559,238.49                      |  |   |
| Amortization of deferred income   | <b>9,539,952.29</b>                          | 10,194,180.51                     |  | Related to assets                               |
| Subtotal  | <u><b>9,539,952.29</b></u>                   | <u>10,194,180.51</u>              |  |   |
| Total   | <u><b>11,695,552.06</b></u>                  | <u>15,753,419.00</u>              |  |   |

## Notes to the Interim Financial Statements (Continued)

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

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

### 48. Investment income

| Item   | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|--|--------------------------------------|-----------------------------------|
| Investment income of long-term equity accounted by<br>equity method              | 120,590.68                           | 2,609,415.58                      |
| Dividends income of other equity instruments investment<br>during holding period | 8,165,761.60                         | 7,917,816.00                      |
| Total  | 8,286,352.28                         | 10,527,231.58                     |

### 49. Credit impairment loss

| Item                                 | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|--------------------------------------|--------------------------------------|-----------------------------------|
| Bad debt loss of notes receivable    | 58,750.06                            | 64,952.91                         |
| Bad debt loss of accounts receivable | -3,855,883.24                        | -2,100,477.11                     |
| Bad debt loss of other receivables   | 319,485.83                           | 2,850.81                          |
| Total                                | -3,477,647.34                        | -2,032,673.39                     |

### 50. Assets impairment loss

| Item                               | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|------------------------------------|--------------------------------------|-----------------------------------|
| Impairment loss of contract assets | -304.38                              | -572,123.07                       |
| Inventory falling price provision  | -44,340,471.69                       | -28,777,842.57                    |
| Total                              | -44,340,776.07                       | -29,349,965.64                    |

## Notes to the Interim Financial Statements (Continued)

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

### 51. Gains or losses from asset disposal

| Item  | Amount Incurred<br>in current period | Amount Incurred<br>in last period | Amount Recognized<br>in Non-recurring<br>Profits or Losses<br>of current period |
|---|--------------------------------------|-----------------------------------|---|
| Gains from disposal of non-current assets             | 1,274,182.44                         | 2,454,007.49                      | 1,274,182.44  |
| Including: Gains from disposal of fixed assets        | 1,278,676.47                         | 2,454,007.49                      | 1,278,676.47  |
| Proceeds from disposal of assets with<br>right to use | -4,494.03                            |                                   | -4,494.03   |
| Total   | 1,274,182.44                         | 2,454,007.49                      | 1,274,182.44  |

### 52. Non-operating revenue

#### (1) Details of non-operating revenue

| Item              | Amount Incurred<br>In Current Period | Amount Incurred<br>In Last Period | Amount Recognized<br>in Non-recurring<br>Profits or Losses<br>of Current Period |
|-------------------|--------------------------------------|-----------------------------------|---|
| Government grants |                                      | 59,600.00                         |   |
| Others            | 632,015.65                           | 627,834.68                        | 632,015.65  |
| Total             | 632,015.65                           | 687,434.68                        | 632,015.65  |

Note: in current period, the amount charged to non-recurring profits or losses was RMB632,015.65 (last period: RMB632,015.65).

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

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

## 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) Details of government grants

| Item                           | Amount Incurred<br>in current period | Amount Incurred<br>in last period | Source and basis    | Related to Assets/<br>Related to Income |
|--------------------------------|--------------------------------------|-----------------------------------|---------------------|---|
| National tuition<br>assistance |                                      | 59,600.00                         | ZCKJZ(2021) NO. 151 | Related to income                       |
| Total                          |                                      | 59,600.00                         |                     |   |

### 53. Non-operating expenditure

| Item  | Amount Incurred<br>in current period | Amount Incurred<br>in last period | Amount Recognized<br>in Non-recurring<br>Profits or Losses<br>of current period |
|---|--------------------------------------|-----------------------------------|---|
| Losses from disposal of scrapped non-current assets | 1,430,383.40                         | 541,985.89                        | 1,430,383.40  |
| Environmental penalty                               |                                      | 505,000.00                        |   |
| Others  | 1,212,103.27                         | 2,088,428.70                      | 1,212,103.27  |
| Total   | 2,642,486.67                         | 3,135,414.59                      | 2,642,486.67  |

Note: in current period, the amount recognized in non-recurring profits or losses was RMB2,642,486.67 (last period: RMB3,135,414.59).

## Notes to the Interim Financial Statements (Continued)

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

### 54. Income tax expenses

#### (1) Income tax expenses

| Item   | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|--|--------------------------------------|-----------------------------------|
| The current income tax calculated in accordance with the tax law and related regulations | <b>21,841,448.06</b>                 | 13,643,007.10                     |
| – PRC enterprise income tax  | <b>21,841,448.06</b>                 | 13,489,549.93                     |
| – Dutch corporation tax  |                                      | 153,457.17                        |
| Deferred income tax expense  | <b>31,567,054.80</b>                 | 20,434,047.84                     |
| Over Under (or under) recognized amount in last periods                                  | <b>2,856,877.13</b>                  | 2,735,800.24                      |
| Total  | <b>56,265,379.99</b>                 | 36,812,855.18                     |

#### (2) Reconciliation process between accounting profit and income tax expenses

| Item   | Amount Incurred<br>in current period |
|--|--------------------------------------|
| Total consolidated profits for the current period  | <b>331,945,812.26</b>                |
| Income tax expense calculated in accordance with statutory/applicable tax rate                 | <b>49,791,871.84</b>                 |
| Effect of different tax rate applicable to subsidiaries  | <b>4,984,920.66</b>                  |
| Effect of supplementary payment of income tax in last periods in current period                | <b>2,856,877.13</b>                  |
| Effect of non-taxable income   | <b>-1,242,952.84</b>                 |
| Effect of using the deductible loss of the unrecognized deferred income assets in prior period | <b>-125,336.80</b>                   |
| Income tax expenses  | <b>56,265,379.99</b>                 |

### 55. Other comprehensive incomes

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

# Notes to the Interim Financial Statements (Continued)

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

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

## 56. Earnings per share

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

The basic earnings per share is calculated according to the net profit attributable to the shareholders of the parent company of RMB269,807,157.85 (last period: RMB194,389,556.12), divided by the weighted average of 674,306,582.00 ordinary shares issued by the company (last period: 650,219,941.00 shares).

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

| <b>Item</b>   | <b>Amount Incurred<br/>in current period</b> | Amount Incurred<br>in last period |
|---|--|-----------------------------------|
| Net profit attributable to shareholders of the parent Company         | <b>269,807,157.85</b>                        | 194,389,556.12                    |
| Weighted average number of outstanding ordinary shares of the company | <b>674,306,582.00</b>                        | 650,219,941.00                    |
| Basic earnings per share (RMB/share)                                  | <b>0.40</b>                                  | 0.30                              |

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

Diluted earnings per share is calculated by dividing the net profit attributable to shareholders of the parent company of RMB269,807,157.85 (last period: RMB194,389,556.12) by the adjusted weighted average of 693,318,857.00 ordinary shares issued by the company (last period: 658,552,036.00 shares).

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

| <b>Item</b>   | <b>Amount Incurred<br/>in current period</b> | Amount Incurred<br>in last period |
|---|--|-----------------------------------|
| Net profit attributable to shareholders of the parent Company                     | <b>269,807,157.85</b>                        | 194,389,556.12                    |
| Weighted average number of outstanding ordinary shares of the company             | <b>674,306,582.00</b>                        | 650,219,941.00                    |
| Diluted potential common stock  | <b>19,012,275.00</b>                         | 8,332,095.00                      |
| Weighted average number of ordinary shares issued by the company after adjustment | <b>693,318,857.00</b>                        | 658,552,036.00                    |
| Diluted earnings per share (RMB/share)  | <b>0.39</b>                                  | 0.30                              |

# Notes to the Interim Financial Statements (Continued)

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

## 57. Cash Flow Statement

### (1) Other cash received/paid in relation to operating/investing/financing activities

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

| Item                     | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|--------------------------|--------------------------------------|-----------------------------------|
| Interest income          | <b>6,731,842.63</b>                  | 3,646,699.81                      |
| Government grants income | <b>3,756,249.77</b>                  | 7,563,612.48                      |
| Bank acceptance deposit  | <b>9,880,380.38</b>                  | 5,590,000.00                      |
| Others                   | <b>12,198,039.88</b>                 | 19,692,595.96                     |
| Total                    | <b>32,566,512.66</b>                 | 36,492,908.25                     |

#### 2) Other cash paid in relation to operating activities

| Item  | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|---|--------------------------------------|-----------------------------------|
| Office expenses   | <b>1,918,044.88</b>                  | 1,383,802.26                      |
| Travel expense  | <b>11,784,427.17</b>                 | 7,904,565.82                      |
| Annual fee of listing, audit fee, expenses of<br>board of directors | <b>1,828,380.56</b>                  | 2,312,785.11                      |
| Advertising and market development fees                             | <b>397,176,428.32</b>                | 226,562,735.75                    |
| Business entertainment expenses                                     | <b>2,916,714.32</b>                  | 2,458,753.79                      |
| Technology development expenses                                     | <b>79,996,172.69</b>                 | 75,284,151.27                     |
| Security deposit of bank acceptance bills                           | <b>16,868,957.76</b>                 | 38,350,612.48                     |
| Royalty fee of trademark  | <b>5,000,000.00</b>                  | 5,000,000.00                      |
| Transactions and others   | <b>21,623,563.45</b>                 | 50,499,840.68                     |
| Total   | <b>539,112,689.15</b>                | 409,757,247.16                    |

## Notes to the Interim Financial Statements (Continued)

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

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

### 3) Other cash payment in relation to financing activities

| <b>Item</b>   | <b>Amount Incurred<br/>in current period</b> | Amount Incurred<br>in last period |
|---|--|-----------------------------------|
| Repayment of loans to controlling shareholders                  | <b>400,000,000.00</b>                        |                                   |
| Payments of the principal and interest of sale<br>and leaseback |  | 6,720,000.00                      |
| Payment of rental fees and others                               | <b>1,560,228.35</b>                          | 546,219.15                        |
| Total   | <b>401,560,228.35</b>                        | 7,266,219.15                      |

# Notes to the Interim Financial Statements (Continued)

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

## (2) Supplementary information of consolidated cash flow statement

| Item   | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|--|--------------------------------------|-----------------------------------|
| <b>1. Reconciliation of net profit to cash flows from operation activities:</b>                            |                                      |                                   |
| Net Profit   | <b>275,680,432.27</b>                | 198,503,873.29                    |
| Add: Impairment loss of credit   | <b>3,477,647.35</b>                  | 2,032,673.39                      |
| Provision for impairment of assets   | <b>2,263,230.88</b>                  | 280,754.77                        |
| Depreciation of investment real estate   | <b>2,287,978.74</b>                  | 2,125,622.52                      |
| Depreciation of fixed assets   | <b>239,177,668.40</b>                | 225,569,970.93                    |
| Depreciation of right-of-use assets  | <b>1,464,157.98</b>                  | 1,805,857.74                      |
| Amortization of intangible assets  | <b>13,227,797.35</b>                 | 11,190,333.24                     |
| Amortization of long-term deferred expenses  | <b>1,397,999.98</b>                  | 1,341,438.40                      |
| Losses from disposal of fixed assets, intangible assets and other long-term assets (gains listed with "-") | <b>-1,274,182.44</b>                 | -2,454,007.49                     |
| Losses from scrapping fixed assets (gains listed with "-")   | <b>1,430,383.40</b>                  | 541,985.89                        |
| Gains or losses from changes in fair value (gains listed with "-")   |                                      |                                   |
| Financial expenses (gains listed with "-")   | <b>7,084,018.71</b>                  | 28,880,682.34                     |
| Investment losses (gain listed with "-")   | <b>-8,286,352.28</b>                 | -10,527,231.58                    |
| Decreases of deferred income tax assets (increases listed with "-")  | <b>-2,429,319.07</b>                 | -1,170,784.94                     |
| Increases of deferred income tax liabilities (decreases listed with "-")                                   | <b>33,996,373.87</b>                 | 21,604,832.78                     |
| Decreases of inventory (increases listed with "-")   | <b>198,919,674.77</b>                | -7,582,372.82                     |
| Decreases of operating receivables (increases listed with "-")*  | <b>-370,320,261.06</b>               | -426,741,768.00                   |
| Increases of operating payables (decreases listed with "-") *  | <b>-405,327,950.11</b>               | 126,201,934.30                    |
| Others (Share based payment)   | <b>27,361,771.92</b>                 | 23,197,698.00                     |
|  | <b>20,131,070.66</b>                 | 194,801,492.76                    |
| Net cash flows from operating activities   | <b>20,131,070.66</b>                 | 194,801,492.76                    |

## Notes to the Interim Financial Statements (Continued)

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

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

| Item  | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|---|--------------------------------------|-----------------------------------|
| <b>2. Significant investing and financing activities not related to cash receipts and payments:</b> |                                      |                                   |
| Conversion of debts into capital  |                                      |                                   |
| Convertible corporate bonds due within one year   |                                      |                                   |
| Fixed assets acquired under finance lease   |                                      |                                   |
| <b>3. Net changes in cash and cash equivalents:</b>   |                                      |                                   |
| Ending balance of cash  | 854,299,746.73                       | 957,883,219.77                    |
| Less: Beginning Balance of cash   | 1,010,764,347.51                     | 596,391,588.69                    |
| Add: Ending balance of cash equivalents   |                                      |                                   |
| Less: Beginning balance of cash equivalents   |                                      |                                   |
| Net increase in cash and cash equivalents   | <u>-156,464,600.78</u>               | <u>361,491,631.08</u>             |

\* "Decrease of operating receivables" and "increase of operating payables" are filled in according to 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), "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<br>in current period | Amount Incurred<br>in last period |
|---|--------------------------------------|-----------------------------------|
| Payments by endorsement of notes receivable * | <u>606,142,203.60</u>                | <u>554,723,335.52</u>             |

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

## Notes to the Interim Financial Statements (Continued)

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

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

| Item   | Amount Incurred<br>in current period | Amount Incurred<br>in last period |
|--|--------------------------------------|-----------------------------------|
| Long-term assets purchased by endorsement of notes receivable* | <b>209,170,062.30</b>                | 264,884,628.54                    |

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

### (5) Cash and cash equivalents

| Item  | Ending<br>Balance     | Beginning<br>Balance |
|---|-----------------------|----------------------|
| Cash  | <b>854,299,746.73</b> | 1,010,764,347.51     |
| Including: cash on hand   | <b>33,397.83</b>      | 66,908.51            |
| Bank deposit available for payments at any time   | <b>849,166,348.90</b> | 1,010,393,137.85     |
| Other monetary funds available for payments at any time   | <b>5,100,000.00</b>   | 304,301.15           |
| Cash equivalents  |                       |                      |
| Ending balance of cash and cash equivalents   | <b>854,299,746.73</b> | 1,010,764,347.51     |
| 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      | <b>124,873,547.56</b> | Deposits of bank acceptance bills, advance receipts of house sale under supervision, etc. |
| Notes receivable    | <b>5,481,050.00</b>   | Confirmation not terminated   |
| Right-of-use assets | <b>5,387,376.18</b>   | Ownership does not belongs to the Group   |
| Total               | <b>135,741,973.74</b> |   |

## Notes to the Interim Financial Statements (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<br>of Foreign<br>Currency | Translating<br>Exchange Rate | Amount Translated<br>into RMB<br>at period end |
|----------------------------|--|------------------------------|--|
| <b>Monetary funds</b>      |  |                              |  |
| Including: USD             | 8,093,370.63                             | 7.2258                       | 58,481,077.53                                  |
| EUR                        | 807,724.72                               | 7.8771                       | 6,362,528.40                                   |
| HKD                        | 658.07                                   | 0.92198                      | 606.73   |
| GBP                        | 30,461.84                                | 9.1432                       | 278,518.70                                     |
| JPY                        | 1,217.00                                 | 0.050094                     | 60.96  |
| <b>Accounts receivable</b> |  |                              |  |
| Including: USD             | 43,728,464.66                            | 7.2258                       | 315,973,139.93                                 |
| GBP                        | 3,108,654.60                             | 9.1432                       | 28,423,050.74                                  |
| EUR                        | 787,623.01                               | 7.8771                       | 6,204,185.21                                   |
| <b>Other receivables</b>   |  |                              |  |
| Including: USD             | 65,350.00                                | 7.2258                       | 472,206.03                                     |
| <b>Accounts payable</b>    |  |                              |  |
| Including: USD             | 798,005.00                               | 7.2258                       | 5,766,224.53                                   |
| <b>Other payables</b>      |  |                              |  |
| Including: USD             | 153,801.88                               | 7.2258                       | 1,111,341.62                                   |

#### (2) Oversea operating entity

| Subsidiaries   | Principal Place of<br>Operation                        | Bookkeeping<br>Base Currency | Basis for Currency<br>Selection             |
|--|--|------------------------------|---|
| Shandong Xinhua Pharmaceutical<br>(Europe) B.V.                          | Reiswick, Netherlands                                  | USD                          | Statutory currency of the<br>business place |
| Shandong Xinhua Pharmaceutical(USA)<br>Inc.                              | South El Monte, USA                                    | USD                          | Statutory currency of the<br>business place |
| Xinhua Health Technology (Hong Kong)<br>Limited (second-tier subsidiary) | China Hong Kong<br>Special<br>Administrative<br>Region | CNY                          | Operating activities<br>mainly use RMB      |

## Notes to the Interim Financial Statements (Continued)

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

### 60. Government grants

| Category                                   | Increase in<br>current period | Presentation<br>Item | Amount included<br>in Current<br>Profit and Loss |
|--|-------------------------------|----------------------|--|
| Please see the Note VI. 33 for the details | 1,600,650.00                  | Deferred incomes     |  |
| Please see the Note VI. 47 for the details | 2,155,599.77                  | Other incomes        | 2,155,599.77                                     |
| Total                                      | 3,756,249.77                  |                      | 2,155,599.77                                     |

### 61. Lease

#### ***Leases of the group as lessee***

| Category  | Amount       |
|---|--------------|
| Interest expenses of lease liabilities                          | 116,601.81   |
| 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                            | 1,560,228.35 |
| Related profits and losses of sale and leaseback                |              |
|   |              |

# Notes to the Interim Financial Statements (Continued)

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

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

## VII. CHANGES IN CONSOLIDATION SCOPE

There is no change in the scope of consolidation of the Company this period compared with the last period. See Note VIII, 1 “Equity in subsidiaries” for details.

## VIII. INTERESTS IN OTHER ENTITIES

### 1. Interests in subsidiaries

#### (1) Composition of the Group

| Name of Subsidiary  | Enterprise Nature                                      | Business Premise                  | Registration Place                | Nature of Business                        | Registered Capital<br>(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) | Reiswick, Netherlands             | Reiswick, Netherlands             | Pharmaceutical and chemical sales         | EUR 76.90  | 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 | USD 2,094.90                                     | 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                              | South El Monte, USA               | South El Monte, USA               | Pharmaceutical and chemical sales         | USD 150.00                                       | 100.00                         |          | Establishment      |

## Notes to the Interim Financial Statements (Continued)

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

| Name of<br>Subsidiary   | Enterprise<br>Nature      | Business<br>Premise             | Registration<br>Place           | Nature of<br>Business                                     | Registered<br>Capital<br>(monetary<br>unit: 10,000RMB) | Proportion of Shareholding (%) |          | Acquisition<br>Method |
|---|---------------------------|---------------------------------|---------------------------------|---|--|--------------------------------|----------|-----------------------|
|   |                           |                                 |                                 |   |  | Direct                         | Indirect |                       |
| Shandong Xinhua Mechanical and Electrical Engineering Co., Ltd. | Limited liability company | Zibo City, Shandong Province    | Zibo City, Shandong Province    | Electric installation                                     | 800.00   | 100.00                         |          | Establishment         |
| Shandong Zibo Xincat Pharmaceutical Company Limited             | Limited liability company | Zibo City, Shandong Province    | Zibo City, Shandong Province    | Pharmaceutical and chemical manufacturing                 | 8,493.00   | 100.00                         |          | Merger                |
| Shandong Xinhua Wanbo Chemical Industry Co., Ltd                | Limited liability company | Zibo City, Shandong Province    | Zibo City, Shandong Province    | Pharmaceutical and chemical manufacturing                 | 4,662.45   | 100.00                         |          | Merger                |
| Shandong 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  | 57.65                          |          | Establishment         |

# Notes to the Interim Financial Statements (Continued)

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

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

## (2) Important subsidiaries which are not wholly-owned

| Name of Subsidiary                                      | Shareholding Proportion of Minority Shareholders (%) | Profits and Losses Attributable to Minority Shareholders in current period | Net Other  | Total Other  | Dividends to   | Ending Balance of Minority Equities |
|---|--|--|--|--|--|-------------------------------------|
|   |  |  | Comprehensive Income After Tax Attributable to Minority Shareholders in current period | Comprehensive Income Attributable to Minority Shareholders in current period | be Declared and Distributed to Minority Shareholders in current period |                                     |
| Shandong Xinhua Pharmaceutical (Europe) B.V.            | 35.00%   | 1,903,716.27   | 526,045.96   | 2,429,762.23   |  | 15,317,753.46                       |
| Zibo Xinhua- Perrigo Pharmaceutical Company Limited     | 49.90%   | 3,375,475.84   |  | 3,375,475.84   | 9,980,000.00   | 118,375,209.54                      |
| Shandong Xinhua Health Technology Co., Ltd              | 42.35%   | 331,549.89   |  | 331,549.89   |  | 34,805,087.24                       |
| Shandong Tongxin Pharmaceutical Co., Ltd                | 40.00%   | -69,862.22   |  | -69,862.22   |  | 48,010,868.52                       |
| Shandong Xinhua Pharmaceutical Chemical Design Co., Ltd | 10.00%   | 332,394.64   |  | 332,394.64   | 500,000.00   | 2,855,173.48                        |
| <b>Total</b>  |  | <b>5,873,274.42</b>  | <b>526,045.96</b>  | <b>6,399,320.38</b>  | <b>10,480,000.00</b>   | <b>219,364,092.24</b>               |

## (3) Main financial information of important subsidiaries which are not wholly-owned

Unit: RMB ten thousands

| 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.                            | 10,480.35      | 2.95               | 10,483.30    | 6,074.12            |                         | 6,074.12          | 4,654.04          | 2.57               | 4,656.61     | 941.66              |                         | 941.66            |
| Zibo Xinhua- Perrigo Pharmaceutical Company Limited                     | 14,988.25      | 16,836.53          | 31,824.78    | 5,442.45            | 2,631.57                | 8,074.02          | 13,058.92         | 17,186.20          | 30,245.12    | 2,613.36            | 2,557.45                | 5,170.81          |
| Shandong Xinhua Health Technology Co., Ltd                              | 30,580.17      | 1,306.06           | 31,886.23    | 24,532.30           | 80.47                   | 24,612.77         | 25,755.42         | 1,507.95           | 27,263.37    | 19,953.58           | 114.61                  | 20,068.19         |
| Shandong Tongxin Pharmaceutical Co., Ltd                                | 5,827.76       | 14,479.04          | 20,306.80    | 5,716.10            | 2,587.98                | 8,304.08          | 4,885.87          | 13,682.36          | 18,568.23    | 5,762.27            | 785.77                  | 6,548.04          |
| Shandong Xinhua Pharmaceutical Chemical Design Co., Ltd Design Co., Ltd | 1,708.01       | 2,777.92           | 4,485.93     | 1,503.92            | 126.84                  | 1,630.76          | 4,158.49          | 636.47             | 4,794.96     | 1,615.24            | 156.93                  | 1,772.17          |

## Notes to the Interim Financial Statements (Continued)

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

| 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.            | 10,585.51                         | 543.92     | 694.22                     | 3,117.29                          | 12,298.53                          | 471.92     | 660.56                     | 2,610.41                          |
| Zibo Xinhua- Perrigo Pharmaceutical Company Limited     | 12,156.82                         | 676.45     | 676.45                     | 3,667.33                          | 13,152.05                          | 456.30     | 456.30                     | 3,381.52                          |
| Shandong Xinhua Health Technology Co., Ltd              | 29,599.01                         | 78.29      | 78.29                      | -1,375.67                         | 21,557.67                          | 28.23      | 28.23                      | -515.27                           |
| Shandong Tongxin Pharmaceutical Co., Ltd                |                                   | -17.47     | -17.47                     | -1,428.58                         |                                    | 11.61      | 11.61                      | 8.94                              |
| Shandong Xinhua Pharmaceutical Chemical Design Co., Ltd | 3,595.25                          | 332.39     | 332.39                     | 991.68                            | 2,891.59                           | 302.24     | 302.24                     | 392.80                            |

**(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 30 June 2023, 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**

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))

## 3. Equity in cooperative enterprise or joint venture

### (1) Summarized financial information of unimportant joint venture

| <b>Item</b>   | <b>Ending balance/<br/>Amount incurred in<br/>current period</b> |
|---|--|
| <b>Joint venture:</b>   |  |
| Total of investment book value                                | <b>57,275,078.26</b>   |
| Total of the following items calculated by shareholding ratio |  |
| – Net profit  | <b>120,590.68</b>  |
| – Other comprehensive income                                  |  |
| – Total comprehensive income                                  | <b>120,590.68</b>  |

(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 loan, 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 limited.

### 1. Objectives and policies of risk management

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

# Notes to the Interim Financial Statements (Continued)

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

## (1) Market risk

### 1) Exchange rate risk

The Group's foreign exchange risk is mainly related to USD, GBP and Euro. Except for the subsidiaries of the Group which uses USD for purchasing and sales transactions, other main business operations are settled in RMB. As of 30 June 2023, except for assets and liabilities in balance of USD, EUR, GBP and small amounts of 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 30 June 2023 and 31 December 2022, the amount converted into RMB of the Group's foreign currency financial assets and foreign currency financial liabilities are as follows:

| Item                      | 30 June<br>2023       | 31 December<br>2022 |
|---------------------------|-----------------------|---------------------|
| Monetary funds-USD        | <b>58,481,077.53</b>  | 42,895,194.13       |
| Monetary funds -EUR       | <b>6,362,528.39</b>   | 3,463,830.67        |
| Monetary funds -HKD       | <b>606.73</b>         | 10,457.82           |
| Monetary funds – GBP      | <b>278,518.70</b>     | 255,686.80          |
| Monetary funds – JPY      | <b>60.96</b>          | 63.72               |
| Accounts receivable – USD | <b>315,973,139.94</b> | 309,524,738.69      |
| Accounts receivable – GBP | <b>28,423,050.74</b>  | 27,632,433.12       |
| Accounts receivable – EUR | <b>6,204,185.21</b>   | 2,887,237.24        |
| Other receivables – USD   | <b>472,206.03</b>     | 455,136.61          |
| Accounts payable – USD    | <b>5,766,224.53</b>   | 9,525,065.27        |
| Other payables – USD      | <b>1,111,341.62</b>   | 56,740.11           |

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

# Notes to the Interim Financial Statements (Continued)

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

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

## 2) *Interest rate risk*

The Group's interest rate risk arises from bank loans and liabilities with interest of shareholders' loans. Due to financial liabilities with floating interest rate, the Group faces cash flow interest rate risk; due to financial liabilities with fixed interest rate, the Group faces fair value interest rate risk. As of 30 June 2023, the interest-bearing debts of the Group mainly come from the RMB denominated floating interest rate loan contracts with the total amount of RMB1,003.6679 million and RMB denominated fixed rate contracts with the amount of RMB325.5764 million.

The Group's risk of changes in fair value of financial instrument caused by changes in interest rate is mainly related to fixed-rate bank 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 instrument 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**

On 30 June 2023, maximum credit risk exposure which may cause financial loss to the Group is mainly due to the failure of the counterparties to perform their obligations which 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 the Interim Financial Statements (Continued)

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

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

The total amount of the top five entities with the largest amount in “account receivables” is RMB239,620,396.91.

### (3) Liquidity risk

Liquidity risk is the risk that the Group will not be able to fulfill 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 institutes to keep a certain credit line and reduce the liquidity risk. As of 30 June 2023, 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              | 979,173,294.29   |               |                | 979,173,294.29   |                |
| Notes receivable            | 7,638,550.00     |               |                | 7,638,550.00     |                |
| Accounts receivable         | 1,018,003,254.48 |               |                | 1,018,003,254.48 |                |
| Receivables financing       | 163,211,566.07   |               |                | 163,211,566.07   |                |
| Other receivables           | 18,965,276.66    |               |                | 18,965,276.66    |                |
| Financial liabilities       |                  |               |                |                  |                |
| Short-term borrowings       | 243,494,933.55   |               |                | 243,494,933.55   |                |
| Notes payable               | 472,357,160.33   |               |                | 472,357,160.33   |                |
| Accounts payable            | 677,938,237.15   |               |                | 677,938,237.15   |                |
| Other payables              | 570,679,759.59   |               |                | 570,679,759.59   |                |
| Including: Interest payable |                  |               |                |                  |                |
| Dividends payable           | 150,227,166.53   |               |                | 150,227,166.53   |                |
| Non-current liabilities due |                  |               |                |                  |                |
| within one year             | 284,511,061.37   |               |                | 284,511,061.37   |                |
| Long-term loans             |                  | 96,885,266.90 | 708,100,000.00 |                  | 804,985,266.90 |
| Lease liabilities           |                  | 2,203,542.29  | 43,761.42      |                  | 2,247,303.71   |

# Notes to the Interim Financial Statements (Continued)

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

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

## 2. Sensitivity analysis

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

### (1) Sensitivity analysis of foreign exchange risk

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

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

| Item                   | Change in Exchange Rate    | Current period        |                              | 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 | 17,341,264.59         | 23,707,288.02                | 9,229,555.86          | 14,908,213.30                |
| All foreign currencies | 5% depreciated against RMB | <u>-17,341,264.59</u> | <u>-23,707,288.02</u>        | <u>-9,229,555.86</u>  | <u>-14,908,213.30</u>        |

### (2) Sensitivity analysis of interest rate risk

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

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

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

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

## Notes to the Interim Financial Statements (Continued)

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

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

| Item                         | Change in Interest Rate | Current period        |                              | 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%          | -5,649,288.39         | -5,649,288.39                | -8,068,160.94         | -8,068,160.94                |
| Floating interest rate loans | Decrease by 1%          | 5,649,288.39          | 5,649,288.39                 | 8,068,160.94          | 8,068,160.94                 |

### X. DISCLOSURE OF FAIR VALUE

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

| Item  | Fair Value in Period End       |                                |                                | Total                 |
|---|--------------------------------|--------------------------------|--------------------------------|-----------------------|
|   | Level 1 fair value measurement | Level 2 fair value measurement | Level 3 fair value measurement |                       |
| <b>Continuous fair value measurement</b>                |                                |                                |                                |                       |
| Accounts receivable financing                           |                                | 163,211,566.07                 |                                | 163,211,566.07        |
| Investment in other equity instruments                  | 177,571,360.00                 |                                | 17,999,531.95                  | 195,570,891.95        |
| <b>Total assets continuously measured at fair value</b> | <u>177,571,360.00</u>          | <u>163,211,566.07</u>          | <u>17,999,531.95</u>           | <u>358,782,458.02</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 period is determined based on the closing price on the last trading day of June, 2023.

- 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 into other comprehensive income. The bank acceptance bill held by the group is mainly the 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.

# Notes to the Interim Financial Statements (Continued)

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

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

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

The Group's financial instrument of level 3 fair value measurement are mainly unlisted equity investments held by the company. As the investee is an asset-light industry and is in the R&D period, the fair value is based on the net book value.

## XI. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

### (I) Relationships of 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 (industrial); asset management and operations, consulting | 310,300.00         | 30.36   | 30.36   |

##### (2) Registered capital of controlling shareholder and the changes

| Name of Controlling Shareholder | Beginning Balance | Increase in current period | Decrease in current period | Ending Balance   |
|---------------------------------|-------------------|----------------------------|----------------------------|------------------|
| Hualu Holdings Co., Ltd.        | 3,103,000,000.00  |                            |                            | 3,103,000,000.00 |

##### (3) Shares or equity of controlling shareholders and the changes

| Name of Controlling Shareholder | Amount of Shareholding    |                        | Proportion of shareholding       |                               |
|---------------------------------|---------------------------|------------------------|----------------------------------|-------------------------------|
|                                 | Balance in current period | Balance in last period | Proportion of current period (%) | Proportion of last period (%) |
| Hualu Holdings Co., Ltd.        | 204,864,092.00            | 204,864,092.00         | 30.36                            | 30.59                         |

# Notes to the Interim Financial Statements (Continued)

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

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

## 2. Subsidiaries

The details of the subsidiaries was described in the relevant contents of Note “VIII. Interests in other entities”.

## 3. Joint ventures and associated enterprises

The followings 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:

| <b>Name of joint ventures or associated enterprises</b> | <b>Relationship with the Company</b> |
|---|--------------------------------------|
| Centrient Pharmaceuticals (Zibo)Co. Ltd                 | An associate of the Company          |

## 4. Other related parties

| <b>Name of Related Party</b>   | <b>Relationship with the Company</b>            |
|--|---|
| Hualu Holding Co. Ltd. Shandong Xinhua Pharmaceutical Branch             | Branch of the controlling shareholder           |
| Shandong Hualu Hengsheng Co., Ltd  | Controlled by the same controlling shareholders |
| Shandong Lukang Pharmaceutical Co., Ltd                                  | Controlled by the same controlling shareholders |
| Zoucheng Branch of Shandong Lukang Pharmaceutical Co., Ltd               | Controlled by the same controlling shareholders |
| Qinghai Lukang Dadi Pharmaceutical Co., Ltd.                             | Controlled by the same controlling shareholders |
| Shandong Lukang Pharmaceutical Group Saite Co., Ltd                      | Controlled by the same controlling shareholders |
| Shandong Hualu International Business Center Co., Ltd                    | Controlled by the same controlling shareholders |
| Shandong Environmental Protection Research and Design Institute Co., Ltd | Controlled by the same controlling shareholders |
| Perrigo Company  | Subsidiary's participating shareholder          |
| Hualu Group Co., Ltd   | Controlled by the same controlling shareholders |
| Hubei Goto Biopharm Co., Ltd.  | Controlled by shareholders of subsidiaries      |

# 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) 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 transaction of purchase or sale of goods and provision or acceptance of services

#### (1) Purchase goods or receive services

| Name of related parties   | Content of Related-party Transaction      | Amount Incurred in current period | Approved Transaction Amount | Whether exceed the Approved Amount | Amount Incurred in last period |
|---|---|-----------------------------------|-----------------------------|------------------------------------|--------------------------------|
| Centrient Pharmaceuticals (Zibo) Co. Ltd*                                 | Purchase of raw materials of preparations | 5,534,623.87                      | 20,000,000.00               | No                                 | 4,037,278.77                   |
| Shandong Hualu Hengsheng Chemical Limited Liability Company*              | Purchase of chemical raw material         | 69,455,745.96                     | 234,000,000.00              | No                                 | 104,217,501.38                 |
| Shandong Lukang Pharmaceutical Co., Ltd.*                                 | Purchase of chemical raw material         | 1,874,723.93                      |                             | No                                 | 2,090,749.40                   |
| Shandong Lukang Pharmaceutical Co., Ltd.*                                 | Purchase of preparation product           | 3,824,511.46                      | 13,500,000.00               | No                                 | 4,029,429.13                   |
| Shandong Lukang Pharmaceutical Group Saite Co. Ltd*                       | Purchase of preparation product           | 11,948.67                         |                             | No                                 | 12,389.38                      |
| Shandong Environmental Protection Research and Design Institute Co., Ltd* | Purchase of labor services                | 56,603.77                         |                             |                                    |                                |
| Hubei Goto Biopharm Co., Ltd.*  | Purchase of chemical raw material         | 6,849,557.50                      |                             |                                    |                                |
| Total   |   | <u>87,607,715.16</u>              |                             |                                    | <u>114,387,348.06</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) Sale of goods/provision of 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 |
|---|--|-----------------------------------|-----------------------------|------------------------------------|--------------------------------|
| US Perrigo International Company *                            | Sales of bulk drugs                            | 98,358,408.87                     |                             |                                    | 112,984,836.68                 |
| US Perrigo International Company *                            | Sales of pharmaceutical products               | 109,565,469.61                    | 723,000,000.00              | No                                 | 77,728,199.80                  |
| Hualu Group Co., Ltd*   | Sales of bulk drugs                            | 15,956,408.41                     | 65,000,000.00               | No                                 | 12,511,059.88                  |
| Centrient Pharmaceuticals (Zibo)Co. Ltd *                     | Sales of power                                 | 4,182,755.65                      | 12,300,000.00               | No                                 | 4,326,920.22                   |
| CanSheng Pharmaceutical (Zibo) Co. Ltd*                       | Provide labor service                          | 78,665.26                         |                             |                                    | 94,784.78                      |
| Shandong Lukang Pharmaceutical Co., Ltd.*                     | Sales of chemical raw materials and bulk drugs | 1,728,523.89                      |                             |                                    | 2,275,486.73                   |
| Shandong Lukang Pharmaceutical Co., Ltd.*                     | Provide labor service                          | 18,867.92                         |                             |                                    |                                |
| Qinghai Lukang Dadi Pharmaceutical Co., Ltd.*                 | Sales of bulk drugs                            | 265,486.73                        | 9,000,000.00                | No                                 |                                |
| Shandong Lukang Pharmaceutical Group Saite Co. Ltd*           | Sales of bulk drugs                            | 4,729,203.54                      |                             |                                    | 126,106.19                     |
| Hualu Holding Co. Ltd. Shandong Xinhua Pharmaceutical Branch* | Sales of power                                 | 4,206.52                          |                             |                                    | 3,547.31                       |
| Hualu Holding Co. Ltd. Shandong Xinhua Pharmaceutical Branch* | Sales of goods                                 | 243.71                            |                             |                                    |                                |
| Shandong Hualu International Business Center Co., Ltd*        | Sales of pharmaceutical products               | 14,867.26                         |                             |                                    |                                |
| Total   |  | <u>234,903,107.37</u>             |                             |                                    | <u>210,050,941.59</u>          |

## 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>                    </u> | 2020-3-27     | 2023-3-27       |

Note: 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) 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%. As of 27 March 2023, all funds had been returned. The interest rate for the use of the above funds is the nominal interest rate of the bonds issued by the controlling shareholder Hualu Holdings. At the same time, according to the proportion of the use of the funds, the company has borne the corresponding issuance cost of RMB600,000.00, and the interest rate pricing is fair.

# Notes to the Interim Financial Statements (Continued)

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

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

## 4. Payment of interest on loans and underwriting fees

| Name of related parties  | Content of Related-party Transaction | Amount Incurred in current period | Amount Incurred in last period |
|--------------------------|--------------------------------------|-----------------------------------|--------------------------------|
| Hualu Holdings Co., Ltd. | Interest on loans                    | <b>2,799,123.28</b>               | <b>8,959,500.00</b>            |

## 5. Accept guarantee

| Guarantee                | Amount guaranteed     | Guarantee period                  | Whether the guarantee has been fulfilled |
|--------------------------|-----------------------|-----------------------------------|--|
| Hualu Holdings Co., Ltd. | 430,000,000.00        | <b>2022-5-31 to<br/>2024-5-30</b> | No                                       |
| Hualu Holdings Co., Ltd. | 80,000,000.00         | <b>2023-6-29 to<br/>2024-6-28</b> | No                                       |
| Total                    | <u>510,000,000.00</u> |                                   |  |

## 6. Related party leasing

### (1) Rental situation

The company as the lessor: None

### (2) Lease situation

| Name of lessee  | Types of leased assets | Leases recognized this period recognized this period | Lease fee recognized last year |
|---|------------------------|--|--------------------------------|
| Hualu Holding Group Co., Ltd. Shandong Xinhua Pharmaceutical Branch | House building         | <u>                    </u>                          | <u>31,658.40</u>               |

# Notes to the Interim Financial Statements (Continued)

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

## 7. Other transaction

### (1) Royalty fee of using trademark

| Name of related parties  | Content of Related-party Transaction | Amount Incurred in current period | Amount Incurred in last period |
|--|--------------------------------------|-----------------------------------|--------------------------------|
| Hualu Holding Co. Ltd. Shandong Xinhua Pharmaceutical Branch * | Royalty fee of using trademark       | <b>4,716,981.00</b>               | 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 supplementary agreement has a valid period from January 1, 2021 to December 31, 2023. According to the supplementary agreement, the Company’s annual royalty fee of using the trademark “Xinhua” is still RMB10 million and other provisions of the trademark license agreement remain unchanged.

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

## (III) Balance of transactions with related parties

### 1. Items receivable

| Item                | Related parties  | Ending Balance       |                        | Beginning Balance |                        |
|---------------------|--|----------------------|------------------------|-------------------|------------------------|
|                     |  | Book balance         | Provision for bad debt | Book balance      | Provision for bad debt |
| Accounts receivable | Shandong Lukang Pharmaceutical Co., Ltd.                   |                      |                        | 175,354.99        | 876.77                 |
| Accounts receivable | Centrient Pharmaceuticals (Zibo)Co. Ltd                    | <b>70,000.00</b>     | <b>350.00</b>          | 441,564.65        | 2,207.82               |
| Accounts receivable | Perrigo Company  | <b>53,954,755.61</b> | <b>269,773.77</b>      | 55,562,878.70     | 277,814.39             |
| Accounts receivable | Zoucheng Branch of Shandong Lukang Pharmaceutical Co., Ltd | <b>867,406.99</b>    |                        | 740,000.00        |                        |
| Prepayments         | Shandong Hualu Hengsheng Chemical Limited Company          | <b>1,289,365.77</b>  |                        | 2,591,162.75      |                        |

## Notes to the Interim Financial Statements (Continued)

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

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

### 2. Items payable

| Item  | Related parties  | Ending Balance      | Beginning Balance |
|---|--|---------------------|-------------------|
| Accounts payable  | Shandong Lukang Pharmaceutical Co., Ltd                | <b>2,274,789.47</b> | 2,865,528.48      |
| Accounts payable  | Shandong Lukang Pharmaceutical Group<br>Saite Co., Ltd | <b>2,192.59</b>     | 2,192.59          |
| Accounts payable  | Centrient Pharmaceuticals (Zibo) Co. Ltd               |                     | 523,500.00        |
| Accounts payable  | Hubei Goto Biopharm Co., Ltd.                          | <b>4,440,890.20</b> | 1,050,890.20      |
| Contractual liabilities   | Centrient Pharmaceuticals (Zibo) Co. Ltd               | <b>439,126.49</b>   |                   |
| Contractual liabilities   | Shandong Lukang Pharmaceutical Group<br>Saite Co. Ltd  |                     | 504,424.78        |
| Contractual liabilities   | Shandong Lukang Pharmaceutical Co., Ltd                | <b>62,264.15</b>    | 62,264.15         |
| Contractual liabilities   | Shandong Lukang Biological Pesticide Co.,<br>Ltd       | <b>18,490.57</b>    | 18,490.57         |
| Non current liabilities due Hualu Holdings Co., Ltd.<br>within one year |  |                     | 358,027.40        |
|   |  |                     |                   |

### (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.

## Notes to the Interim Financial Statements (Continued)

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

On August 9, 2021, when the company implemented the 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 timely notify Xinhua Pharmaceutical that Xinhua Pharmaceutical will have the priority of development and project participation, Hualu holdings 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. 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 10<sup>th</sup> board of directors of Xinhua Pharmaceutical in 2021), Hualu holdings and the persons acting in concert of Hualu holdings did 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 case of reduction due to violation of the above commitments, 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 the Interim Financial Statements (Continued)

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

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

### (V) Remunerations for directors, supervisors and senior management

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

| <b>Item</b>   | <b>Amount of<br/>current period</b> | Amount of<br>last period |
|---|-------------------------------------|--------------------------|
| Salary and subsidy  | <b>2,402,914.00</b>                 | 1,822,347.00             |
| Social insurance premium, housing fund and retirement pension | <b>499,158.00</b>                   | 524,304.00               |
| Bonus   |                                     |                          |
| Share-based payment*  |                                     |                          |
| Total   | <b><u>2,902,072.00</u></b>          | <u>2,346,651.00</u>      |

\* The principal management remunerations did not include the share option that have been granted but not exercised in amount of RMB2,377,220.63.

The change of senior executives' positions this period: on 26 July 2023, Mr. Ling Peixue, the independent non-executive Director of the Company, resigned from all his positions in the Company to devote more time to other matters.

### (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 the Interim Financial Statements (Continued)

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

## XII. SHARE-BASED PAYMENT

### 1 · General information on share-base payment

| Item   | Situation  |
|--|--|
| Total amount of equity instruments granted by the Company in current period  |  |
| Total amount of equity instruments exercised by the Company in current period  | 5,055,600.00   |
| Total amount of equity instruments of the company lapsed in current period   | 112,200.00   |
| The scope of exercise price of the share option issued by the Company at the end of the period and the remaining period of contracts             | (1) At the end of the period, 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 3.5 years.<br><br>(2) The share option Xinhua JLC3 issued by the company at the end of the period, option code 037322, exercise price 37.53 yuan/share, and the remaining term of the contract is 4.5 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) JLC2 share options*

According to the provisions of the Company's 2021 A Share Option Incentive Plan (Draft), the share options granted to the eligible grantees will be exercised in three phases after 24 months from the grant date (i.e. December 31, 2021), with the proportion of each exercise period being 34%, 33% and 33% respectively. Among them, the first exercise period is from the first trading day 24 months after the grant date to the last trading day within 36 months after the grant date, and the proportion of exercisable stock options is 34% of the total stock options obtained.

On December 31, 2021, according to the 7<sup>th</sup> interim meeting of the 10<sup>th</sup> Board of Directors in 2021 and the 7<sup>th</sup> interim meeting of the 10<sup>th</sup> Board of Supervisors in 2021 held by the Company, the Proposal on the First Granting of 2021 A-share Option to eligible grantees was reviewed and passed. According to the authorization of the Company's first extraordinary general meeting in 2021 and the second A-share general meeting in 2021, the grant date of this stock option was determined as December 31, 2021, and 23.15 million stock options were granted to 196 eligible grantees.

## 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) JLC3 share options

On December 26, 2022, according to the approval and authorization of the Company's first extraordinary general meeting in 2021, the second A-share general meeting in 2021, and the second A-share general meeting in 2021, the fourth interim meeting in 2022 of the tenth board of directors and the first interim meeting in 2022 of the tenth board of supervisors reviewed and approved the Proposal on Granting Reserved Stock Options to Incentive Objects, and agreed to determine December 26, 2022 as the reserved grant date, 1.75 million shares will be reserved for 35 middle managers and key staff.

## 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, make 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 modify the estimated number of excisable equity instrument. |
| Reasons for the significant difference of estimate between this period and the last period | Not applicable   |
| Cumulative amount of equity settled share-based payment recognized into capital reserves   | 93,469,732.75  |
| Total recognized fees of share-based payment settled in equity in the current period       | 27,361,771.92  |

# Notes to the Interim Financial Statements (Continued)

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

## XIII. CONTINGENCIES

As of 30 June 2023, the Group has no significant contingencies to disclosure.

## XIV. COMMITMENTS

1. Signed large-scale contracts for contracting out that are being performed or are ready to be performed

| <u>Item</u>  | <u>Contract Amount</u>       | <u>Unpaid Amount</u>         |
|--|------------------------------|------------------------------|
| 15,000t isobutyl benzene expansion project   | 161,967,007.29               | 125,130,045.59               |
| High-end new pharmaceutical preparation industrialization project – Injection workshop | 118,610,733.88               | 8,472,497.00                 |
| Innovative drug raw materials and preparation development                              | 100,000,000.00               | 98,000,000.00                |
| Development of innovative drugs and preparations                                       | 100,000,000.00               | 92,000,000.00                |
| International cooperation project of solid preparations- Merck preparations            | <u>53,481,099.87</u>         | <u>13,425,419.00</u>         |
| Total  | <u><u>464,316,304.90</u></u> | <u><u>262,124,782.09</u></u> |

2. There was no other significant commitment to be disclosed by the Group as of 30 June 2023, except for the aforementioned commitments.

## XV. EVENTS AFTER BALANCE SHEET DATE

As of 30 June 2023, the Group has no major events after the balance sheet date that need to be disclosed.

## XVI. OTHER MAJOR MATTERS

1. Segment information

### **(1) Determination basis and accounting policies of reportable segments**

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

## Notes to the Interim Financial Statements (Continued)

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

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

### (2) Financial information of reportable segments in current period.

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

Current and final report segments

| Item  | Chemical<br>bulk drugs | Preparations     | Chemical<br>intermediates<br>and other<br>products | Unallocated<br>item | Offset<br>amount  | Total            |
|---|------------------------|------------------|--|---------------------|-------------------|------------------|
| Operating revenue                                   | 1,890,916,478.91       | 2,640,597,362.55 | 1,221,210,851.33                                   |                     | -1,080,455,643.66 | 4,672,269,049.13 |
| Including: Revenues                                 |                        |                  |  |                     |                   |                  |
| from external<br>transactions                       | 1,877,968,283.62       | 2,088,817,413.85 | 705,483,351.66                                     |                     |                   | 4,672,269,049.13 |
| Revenues from<br>transactions<br>within<br>segments | 12,948,195.29          | 551,779,948.70   | 515,727,499.67                                     |                     | -1,080,455,643.66 |                  |
| Operating costs                                     | 1,243,295,623.03       | 1,998,997,756.51 | 1,107,038,764.81                                   |                     | -1,068,285,890.14 | 3,281,046,254.21 |
| Including: External                                 |                        |                  |  |                     |                   |                  |
| transaction cost                                    | 1,133,816,909.43       | 1,488,959,678.66 | 658,269,666.12                                     |                     |                   | 3,281,046,254.21 |
| Inter segment<br>transaction<br>cost                | 109,478,713.60         | 510,038,077.85   | 448,769,098.69                                     |                     | -1,068,285,890.14 |                  |
| Period expenses                                     | 241,903,221.39         | 553,585,515.65   | 47,092,292.25                                      | 128,492,740.65      | -846,237.97       | 970,227,531.97   |
| Operating profits                                   | 453,490,543.07         | 13,596,029.34    | -30,104,329.45                                     | -93,990,836.31      | -9,035,123.37     | 333,956,283.28   |
| Total assets  | 3,483,608,322.23       | 3,224,388,123.79 | 1,556,819,313.99                                   | 1,798,328,306.93    | -1,987,559,485.21 | 8,075,584,581.73 |
| Total liabilities                                   | 1,161,793,519.49       | 1,404,473,837.43 | 461,605,459.26                                     | 1,597,847,803.69    | -1,100,314,902.50 | 3,525,405,717.37 |

# Notes to the Interim Financial Statements (Continued)

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

The previous period and the beginning of the year report segments

| 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                            | -51,610,844.06   | 5,791,569.06      | 237,764,708.38   |
| Total assets                               | 3,469,362,973.23    | 3,330,198,552.51 | 1,488,141,390.66                          | 1,942,386,619.75 | -1,964,958,204.02 | 8,265,131,332.13 |
| Total liabilities                          | 1,395,009,935.12    | 1,753,244,959.38 | 437,337,729.23                            | 1,510,359,815.08 | -1,180,726,269.49 | 3,915,226,169.32 |

## 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) | 4,625,981,120.34 | 4,610,078,336.02  |
| America                     | 51,985.10        | 76,797.67         |
| Europe                      | 29,454.40        | 25,701.46         |
| Total                       | 4,626,062,559.84 | 4,610,180,835.15  |

2. As of 30 June 2023, the Group does not have any other material matters to disclose other than the above matters.



## Notes to the Interim Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)  
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### (5) Listed by bad debt accrual method

| Item   | Book Balance             |                      | Ending Balance<br>Provision for Bad Debt |                                   | Book Value               |
|--|--------------------------|----------------------|--|-----------------------------------|--------------------------|
|  | Amount                   | Proportion<br>(%)    | Amount                                   | Proportion of<br>Provision<br>(%) |                          |
| To recognize the bad debt provision based on single item |                          |                      |  |                                   |                          |
| To recognize the bad debt provision based on combination |                          |                      |  |                                   |                          |
| Including: Combination of age                            | 540,000.00               | 84.38                | 2,700.00                                 | 0.50                              | 537,300.00               |
| Combination of related parties in consolidation scope    | 100,000.00               | 15.63                |  |                                   | 100,000.00               |
| Subtotal of combination                                  | <u>640,000.00</u>        | <u>100.00</u>        | <u>2,700.00</u>                          | <u>0.42</u>                       | <u>637,300.00</u>        |
| Total  | <u><u>640,000.00</u></u> | <u><u>100.00</u></u> | <u><u>2,700.00</u></u>                   |                                   | <u><u>637,300.00</u></u> |

| Item   | Book Balance               |                   | Beginning Balance<br>Provision for Bad Debt |                                   | Book Value                 |
|--|----------------------------|-------------------|---|-----------------------------------|----------------------------|
|  | Amount                     | Proportion<br>(%) | Amount                                      | Proportion of<br>Provision<br>(%) |                            |
| To recognize the bad debt provision based on single item |                            |                   |   |                                   |                            |
| To recognize the bad debt provision based on combination | 3,557,283.39               | 100.00            | 17,525.42                                   | 0.50                              | 3,539,757.97               |
| Total  | <u><u>3,557,283.39</u></u> |                   | <u><u>17,525.42</u></u>                     |                                   | <u><u>3,539,757.97</u></u> |

## Notes to the Interim Financial Statements (Continued)

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

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

- 1) 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 | 640,000.00        | 2,700.00               | 0.42                        | 3,557,283.39        | 17,525.42              | 0.50                        |
| Total         | <u>640,000.00</u> | <u>2,700.00</u>        |                             | <u>3,557,283.39</u> | <u>17,525.42</u>       |                             |

Note: The Group confirms that the account age of the portfolio is within 1 year according to the maturity date of bank acceptance bills, and accrues the bad debt provision for 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 | 17,525.42         | -14,825.42                          |                       |                            |       | 2,700.00        |
| Total                 | <u>17,525.42</u>  | <u>-14,825.42</u>                   |                       |                            |       | <u>2,700.00</u> |

### (7) Aging of notes receivable at the end of the period

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.

## Notes to the Interim Financial Statements (Continued)

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

### 2. Accounts receivable

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

| Item   | Book Balance                 |                      | Ending Balance<br>Provision for bad debt |                                   | Book value                   |
|--|------------------------------|----------------------|--|-----------------------------------|------------------------------|
|  | Amount                       | Proportion<br>(%)    | Amount                                   | Proportion of<br>Provision<br>(%) |                              |
| To recognize the bad-debt provision based on single item |                              |                      |  |                                   |                              |
| To recognize the bad-debt provision based on combination |                              |                      |  |                                   |                              |
| Including: Combination of age                            | 382,987,722.39               | 47.25                | 9,319,267.98                             | 2.43                              | 373,668,454.41               |
| Combination of related parties in consolidation scope    | 427,498,090.76               | 52.75                |  |                                   | 427,498,090.76               |
| Subtotal of combination                                  | <u>810,485,813.15</u>        | <u>100.00</u>        | <u>9,319,267.98</u>                      | <u>1.15</u>                       | <u>801,166,545.17</u>        |
| Total  | <u><u>810,485,813.15</u></u> | <u><u>100.00</u></u> | <u><u>9,319,267.98</u></u>               | <u><u>1.15</u></u>                | <u><u>801,166,545.17</u></u> |

## Notes to the Interim Financial Statements (Continued)

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

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

(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 |                              |                      |                            |                             |                              |
| Including: Combination of age                            | 355,426,917.04               | 55.53                | 6,910,272.20               | 1.94                        | 348,516,644.84               |
| Combination of related parties in consolidation scope    | 284,679,602.01               | 44.47                |                            |                             | 284,679,602.01               |
| Subtotal of combination                                  | <u>640,106,519.05</u>        | <u>100.00</u>        | <u>6,910,272.20</u>        | <u>1.08</u>                 | <u>633,196,246.85</u>        |
| Total  | <u><u>640,106,519.05</u></u> | <u><u>100.00</u></u> | <u><u>6,910,272.20</u></u> |                             | <u><u>633,196,246.85</u></u> |

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

Up to 30 June 2023, the Company has no accounts receivable with individual provision for bad debt reserves.

## 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) 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 (%) | Account Receivables | Provision for Bad Debt | Accrual Proportion (%) |
| Within 1 year | 798,670,937.56      | 1,855,864.23           | 0.23                   | 630,574,248.24      | 1,729,473.23           | 0.27                   |
| 1-2 years     | 5,439,339.80        | 1,087,867.96           | 20.00                  | 5,439,339.80        | 1,087,867.96           | 20.00                  |
| 2-3 years     | 4,945,643.72        | 4,945,643.72           | 100.00                 | 2,663,038.94        | 2,663,038.94           | 100.00                 |
| 3-4 years     | 919,016.86          | 919,016.86             | 100.00                 | 919,016.86          | 919,016.86             | 100.00                 |
| 4-5 years     | 225,264.80          | 225,264.80             | 100.00                 | 225,264.80          | 225,264.80             | 100.00                 |
| Over 5 years  | 285,610.41          | 285,610.41             | 100.00                 | 285,610.41          | 285,610.41             | 100.00                 |
| Total         | 810,485,813.15      | 9,319,267.98           |                        | 640,106,519.05      | 6,910,272.20           |                        |

### (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.

The aging analysis of accounts receivable (including accounts receivable from related parties) according to the transaction date is as follows:

| Item          | Ending Balance      |                        |                        | Beginning Balance   |                        |                        |
|---------------|---------------------|------------------------|------------------------|---------------------|------------------------|------------------------|
|               | Accounts Receivable | Provision for Bad Debt | Accrual Proportion (%) | Accounts Receivable | Provision for Bad Debt | Accrual Proportion (%) |
| Within 1 year | 798,670,937.56      | 1,855,864.23           | 0.23                   | 630,574,248.24      | 1,729,473.23           | 0.27                   |
| 1-2 years     | 5,439,339.80        | 1,087,867.96           | 20.00                  | 5,439,339.80        | 1,087,867.96           | 20.00                  |
| 2-3 years     | 4,945,643.72        | 4,945,643.72           | 100.00                 | 2,663,038.94        | 2,663,038.94           | 100.00                 |
| 3-4 years     | 919,016.86          | 919,016.86             | 100.00                 | 919,016.86          | 919,016.86             | 100.00                 |
| 4-5 years     | 225,264.80          | 225,264.80             | 100.00                 | 225,264.80          | 225,264.80             | 100.00                 |
| Over 5 years  | 285,610.41          | 285,610.41             | 100.00                 | 285,610.41          | 285,610.41             | 100.00                 |
| Total         | 810,485,813.15      | 9,319,267.98           |                        | 640,106,519.05      | 6,910,272.20           |                        |

## Notes to the Interim Financial Statements (Continued)

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

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

### (3) The situation of the bad-debt provision for accounts receivable in current period

| Item   | Beginning balance | Changes of amount in Current Period |                       |                            | Ending Balance |
|--|-------------------|-------------------------------------|-----------------------|----------------------------|----------------|
|  |                   | Recognized                          | Reversed or recovered | Transferred or written off |                |
| To recognize the bad-debt provision based on combination | 6,910,272.20      | 2,408,995.78                        |                       |                            | 9,319,267.98   |
| Total  | 6,910,272.20      | 2,408,995.78                        |                       |                            | 9,319,267.98   |

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

There was no accounts receivable actually written off in current period

### (5) The top five accounts receivable with year-end balance collected by debtors

| Organization Name                              | Ending Balance | Account Age   | Proportion of Total Ending Balance of Accounts Receivable (%) | Ending Balance of Bad-debt Provision |
|--|----------------|---------------|---|--------------------------------------|
| Shandong Xinhua Pharmaceutical Trade Co., Ltd. | 348,954,171.82 | Within 1 year | 43.05   |                                      |
| Shandong Xinhua Pharmaceutical (Europe) B.V    | 66,312,438.34  | Within 1 year | 8.18  |                                      |
| Roche Company                                  | 34,244,874.02  | Within 1 year | 4.23  | 171,224.37                           |
| Bayer Healthcare Co., Ltd.                     | 32,930,578.20  | Within 1 year | 4.06  | 164,652.89                           |
| Perrigo Company                                | 31,365,396.50  | Within 1 year | 3.87  | 156,826.98                           |
| Total  | 513,807,458.88 |               | 63.39   | 492,704.24                           |

## Notes to the Interim Financial Statements (Continued)

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

### 3. Accounts receivable financing

#### (1) Details of accounts receivable financing

| Item   | Ending Balance       |                    |                      | Beginning Balance        |                      |                    |                      |                          |
|--|----------------------|--------------------|----------------------|--------------------------|----------------------|--------------------|----------------------|--------------------------|
|  | Initial cost         | Fair value changes | Book value           | Provision for impairment | Initial cost         | Fair value changes | Book value           | Provision for impairment |
| Notes receivable measured at FV with changes included in OCI | 51,581,676.72        |                    | 51,581,676.72        |                          | 62,742,600.04        |                    | 62,742,600.04        |                          |
| <b>Total</b>   | <b>51,581,676.72</b> |                    | <b>51,581,676.72</b> |                          | <b>62,742,600.04</b> |                    | <b>62,742,600.04</b> |                          |

Note: The financing of receivables at the end of the period are all 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.

#### (2) Undue notes receivables on the balance sheet date that have been endorsed or discounted at the period end

| Item                  | Derecognized Amount at period end | Not Derecognized Amount at period end |
|-----------------------|-----------------------------------|---------------------------------------|
| Bank acceptance bills | 383,388,467.35                    |                                       |
| <b>Total</b>          | <b>383,388,467.35</b>             |                                       |

### 4. Other receivables

| Item                 | Ending Balance        | Beginning Balance     |
|----------------------|-----------------------|-----------------------|
| Interest receivable  |                       |                       |
| Dividends receivable | 3,065,761.60          |                       |
| Other receivables    | 345,900,107.54        | 333,438,097.31        |
| <b>Total</b>         | <b>348,965,869.14</b> | <b>333,438,097.31</b> |

## Notes to the Interim Financial Statements (Continued)

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

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

### 4.1 Interest receivable: None

### 4.2 Dividends receivable:

| <b>Item</b>                                | <b>Ending Balance</b>      | Beginning Balance |
|--|----------------------------|-------------------|
| Bank of Communications Corporation Limited | <u>3,065,761.60</u>        |                   |
| Total                                      | <u><u>3,065,761.60</u></u> |                   |

### 4.3 Other receivables

(1) Classification of other receivables by nature

| <b>Nature</b>                                   | <b>Ending Book Balance</b>          | Beginning Book Balance       |
|---|-------------------------------------|------------------------------|
| Current accounts within the consolidation scope | <b>345,602,957.54</b>               | 333,339,327.31               |
| Petty cash                                      | <b>405,000.00</b>                   | 185,000.00                   |
| Others  | <u><b>882,994.00</b></u>            | <u>884,994.00</u>            |
| Total   | <u><u><b>346,890,951.54</b></u></u> | <u><u>334,409,321.31</u></u> |

## Notes to the Interim Financial Statements (Continued)

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

### (2) Bad-debt provision for other receivables

| Bad debt provision  | Stage 1  | Stage 2  | Stage 3   | Total             |
|---|--|--|---|-------------------|
|   | The expected credit losses in the next 12 months | The expected credit losses of the entire duration (without any credit impairment occurred) | The expected credit losses of the entire duration (with credit impairment already occurred) |                   |
| Balance of January 1, 2023  | 88,230.00  |  | 882,994.00  | 971,224.00        |
| During the period, the opening balance of other receivable, which was |  |  |   |                   |
| – Transferred to stage 2  |  |  |   |                   |
| – Transferred to stage 3  |  |  |   |                   |
| – Reversed to stage 2   |  |  |   |                   |
| – Reversed to stage 1   |  |  |   |                   |
| Accrued in current period   | 19,620.00  |  |   | 19,620.00         |
| Reversed in current period  |  |  |   |                   |
| Transferred out in current period                                     |  |  |   |                   |
| Written-off in current period   |  |  |   |                   |
| Other changes   |  |  |   |                   |
| <b>Balance of June 30, 2023</b>                                       | <b>107,850.00</b>                                |  | <b>882,994.00</b>   | <b>990,844.00</b> |

## Notes to the Interim Financial Statements (Continued)

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

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

### (3) Aging analysis of other receivables

| Account Age   | Ending Balance        |                        |                | Beginning Balance     |                        |                |
|---------------|-----------------------|------------------------|----------------|-----------------------|------------------------|----------------|
|               | Other receivables     | Provision for Bad Debt | Proportion (%) | Other receivables     | Provision for Bad Debt | Proportion (%) |
| Within 1 year | 153,725,826.87        | 23,850.00              | 0.02           | 136,822,256.76        | 4,230.00               |                |
| 1-2 years     | 28,735,070.97         | 84,000.00              | 0.29           | 28,735,070.97         | 84,000.00              | 0.29           |
| 2-3 years     | 50,434,142.00         |                        |                | 50,434,142.00         |                        |                |
| 3-4 years     | 71,374,698.28         |                        |                | 73,891,668.88         |                        |                |
| 4-5 years     | 41,500,614.19         |                        |                | 41,500,614.19         |                        |                |
| Over 5 years  | 1,120,599.23          | 882,994.00             | 78.80          | 3,025,568.51          | 882,994.00             | 29.18          |
| Total         | <u>346,890,951.54</u> | <u>990,844.00</u>      |                | <u>334,409,321.31</u> | <u>971,224.00</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 | 971,224.00        | 19,620.00                 |                       |                            | 990,844.00        |
| Total              | <u>971,224.00</u> | <u>19,620.00</u>          |                       |                            | <u>990,844.00</u> |

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

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

## Notes to the Interim Financial Statements (Continued)

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

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

| Name  | Nature of payments   | Ending Balance   | Account Age   | Proportion of the Total Ending Balance of Other Receivables (%) | Ending Balance of Bad-debt Provision |
|---|--|--|---------------|---|--------------------------------------|
| Xinhua Pharmaceutical (Gaomi) Co., Ltd                          | Transaction of related party                                   | 37,341,383.49  | Within 1 year | 10.76   |                                      |
|   | within the scope of consolidation                              | 26,322,505.16  | 1-2 years     | 7.59  |                                      |
|   |  | 16,544,238.90  | 2-3 years     | 4.77  |                                      |
|   |  | 68,491,872.45  | 3-4 years     | 19.74   |                                      |
|   | Subtotal   | 148,700,000.00   |               | 42.87   |                                      |
| Xinhua Pharmaceutical (Shouguang) Co., Ltd.                     | Transaction of related party within the scope of consolidation | 113,188,226.87   | Within 1 year | 32.63   |                                      |
|   | Zibo Xinhua Pharmacy Chain Co., Ltd.                           | Transaction of related party within the scope of consolidation | 1,770,836.71  | Within 1 year   | 0.51                                 |
|   |  | 2,272,565.81   | 1-2 years     | 0.66  |                                      |
|   | 33,889,903.10  | 2-3 years  | 9.77          |   |                                      |
|   | 2,882,825.83   | 3-4 years  | 0.83          |   |                                      |
|   | 41,500,614.19  | 4-5 years  | 11.96         |   |                                      |
|   | 237,605.23   | Over 5 years   | 0.07          |   |                                      |
|   | Subtotal   | 82,554,350.87  |               | 23.80   |                                      |
| Shandong Xinhua Mechanical and Electrical Engineering Co., Ltd. | Transaction of related party within the scope of consolidation | 1,160,379.80   | Within 1 year | 0.33  |                                      |
| Wang Haisong  | Petty cash   | 220,000.00   | Within 1 year | 0.06  | 1,100.00                             |
| Total   |  | 37,341,383.49  |               | 99.69   | 1,100.00                             |

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

Up to June 30, 2023, 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))

## 5. Long-term equity investments

### (1) Classification 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                             | 743,126,603.15        |                          | 743,126,603.15        | 743,126,603.15        |                          | 743,126,603.15        |
| Investment in joint ventures and associate enterprises | 57,275,078.26         |                          | 57,275,078.26         | 57,154,487.58         |                          | 57,154,487.58         |
| Total  | <u>800,401,681.41</u> |                          | <u>800,401,681.41</u> | <u>800,281,090.73</u> |                          | <u>800,281,090.73</u> |

### (2) Investment to 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 Co., Ltd.                    | 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*                        | 72,000,000.00         |                            |                            | 72,000,000.00         |                                     |  |
| Total  | <u>743,126,603.15</u> |                            |                            | <u>743,126,603.15</u> |                                     |  |

# Notes to the Interim Financial Statements (Continued)

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

## (3) Investment in joint venture and cooperative enterprise

| Invested Entity                               | Beginning<br>Balance | Add<br>investment | Reduced<br>Investment | Increase or decrease in current period                              |   |                               | Declared<br>cash<br>dividends<br>or profit | Ending<br>Balance | Provision of<br>Impairment |
|---|----------------------|-------------------|-----------------------|---|---|-------------------------------|--|-------------------|----------------------------|
|   |                      |                   |                       | Investment<br>gains and losses<br>recognized under<br>Equity method | Adjustment of<br>other<br>comprehensive<br>income | Other<br>changes in<br>equity |  |                   |                            |
| I. Joint ventures                             |                      |                   |                       |   |   |                               |  |                   |                            |
| Centrient Pharmaceuticals (Zibo)<br>Co., Ltd. | 57,154,487.58        |                   |                       | 120,590.68  |   |                               |  | 57,275,078.26     |                            |
| Total   | 57,154,487.58        |                   |                       | 120,590.68  |   |                               |  | 57,275,078.26     |                            |

## 6. Operating revenues and operating costs

### (1) Operating revenues and costs

| Item           | Amount Incurred in Current Period |                  | Amount Incurred in Previous Period |                  |
|----------------|-----------------------------------|------------------|------------------------------------|------------------|
|                | Revenue                           | Cost             | Revenue                            | Cost             |
| Main business  | 2,431,810,831.83                  | 1,605,841,237.58 | 1,792,899,529.73                   | 1,318,895,262.04 |
| Other business | 43,109,663.56                     | 49,987,280.79    | 84,484,005.81                      | 89,870,845.23    |
| Total          | 2,474,920,495.39                  | 1,655,828,518.37 | 1,877,383,535.54                   | 1,408,766,107.27 |

## Notes to the Interim Financial Statements (Continued)

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

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

### (2) Revenues from contracts

| Classification of contract                                   | Chemical bulk<br>drugs  | Preparations          | Medical<br>intermediates<br>and other<br>products | Total                   |
|--|-------------------------|-----------------------|---|-------------------------|
| <b>Commodity type</b>  |                         |                       |   |                         |
| Including: Chemical bulk drugs                               | 1,803,781,736.18        |                       |   | 1,803,781,736.18        |
| Preparations   |                         | 628,029,095.65        |   | 628,029,095.65          |
| Medical Intermediates and<br>other products                  |                         |                       | 43,109,663.56                                     | 43,109,663.56           |
| <b>Total</b>   | <u>1,803,781,736.18</u> | <u>628,029,095.65</u> | <u>43,109,663.56</u>                              | <u>2,474,920,495.39</u> |
| <b>Classification by operation regions</b>                   |                         |                       |   |                         |
| Including: China (including Hong Kong)                       | 944,638,738.02          | 459,823,930.53        | 28,046,191.03                                     | 1,432,508,859.58        |
| Americas   | 287,822,523.97          | 761,615.44            | 4,231,359.35                                      | 292,815,498.76          |
| Europe   | 386,869,175.28          | 167,313,939.92        | 8,125,699.18                                      | 562,308,814.38          |
| Others   | 184,451,298.91          | 129,609.76            | 2,706,414.00                                      | 187,287,322.67          |
| <b>Total</b>   | <u>1,803,781,736.18</u> | <u>628,029,095.65</u> | <u>43,109,663.56</u>                              | <u>2,474,920,495.39</u> |
| <b>Classification by contract<br/>performance obligation</b> |                         |                       |   |                         |
| Including: To recognize revenues at a<br>certain time        | 1,803,781,736.18        | 628,029,095.65        | 39,659,201.49                                     | 2,471,470,033.32        |
| To recognize revenues within<br>a certain period             |                         |                       |   |                         |
| Rental income  |                         |                       | 3,450,462.07                                      | 3,450,462.07            |
| <b>Total</b>   | <u>1,803,781,736.18</u> | <u>628,029,095.65</u> | <u>43,109,663.56</u>                              | <u>2,474,920,495.39</u> |

*Note:* The company's sales model can be divided into direct selling model and distribution model, in which the operating revenue of direct selling model is RMB1,062,159,720.53 and that of distribution model is RMB1,412,760,774.86.

## Notes to the Interim Financial Statements (Continued)

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

### (3) Information related to performance obligations

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

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

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

At the end of current period, the amount of revenue corresponds to the unfulfilled or incomplete performance obligations is RMB45,802,290.27. It is expected that the amount of RMB43,609,311.28 shall be recognized as revenues in the coming year.

### (5) Among the recognized income this period, the amount that has been included in the contract liabilities at the end of the last period is RMB246,798,115.29.

## 7. Investment income

| Item  | Amount incurred<br>in current period | Amount incurred in<br>last period |
|---|--------------------------------------|-----------------------------------|
| Long term equity investment income calculated by cost method                  | 14,520,000.00                        | 10,020,000.00                     |
| Investment income of long-term equity calculated by equity method             | 120,590.68                           | 2,609,415.58                      |
| Dividends income of other equity instruments investment during holding period | 8,165,761.60                         | 7,917,816.00                      |
| Total   | 22,806,352.28                        | 20,547,231.58                     |

# Notes to the Interim Financial Statements (Continued)

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

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

## XVIII. APPROVAL OF FINANCIAL REPORTS

The financial report was released after being approved by Board of Directors of the Company on August 24, 2023.

## 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 in first half of 2023 is listed below:

| Item  | Amount<br>Incurred in<br>current period | Notes   |
|---|---|---|
| Profits and losses from disposal of non-current assets  | <b>-156,200.96</b>                      | Disposal of fixed assets  |
| Government subsidy recognized in current profits or losses (related to enterprise business closely, except for the government subsidy according to the national uniform standard quota or quantity)   | <b>11,695,552.06</b>                    | Received and amortized as government subsidies recognized into the current period |
| 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 | <b>8,165,761.60</b>                     | Received and amortized as government subsidies recognized into the current period |
| Other non-operating revenues or expenditures except for the above items   | <b>-580,087.62</b>                      |   |
| Subtotal  | <b>19,125,025.08</b>                    |   |
| Less: Effect of income tax  | <b>1,738,625.50</b>                     |   |
| Impact on minority interest income (after-tax)  | <b>85,244.76</b>                        |   |
| Total   | <b>17,301,154.82</b>                    |   |

## Notes to the Interim Financial Statements (Continued)

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

### 2. Return on net worth and earnings per share

Based on provisions in Information Disclosure and Reporting Rules No. 9 on Companies that publicly issue securities—Calculation and Disclosure of Rate of Return on Equity (ROE) and Earnings per Share (EPS) (Revised in 2010) issued by the China Securities Regulatory Commission, the weighted average return on equity, basic EPS and diluted EPS for the Group in first half of 2023 is listed below:

| Profit for the Reporting Period   | Weighted<br>Average ROE<br>(%) | Earnings per share (EPS) |             |
|---|--------------------------------|--------------------------|-------------|
|   |                                | Basic EPS                | Diluted EPS |
| Net profit attributable to shareholders of the parent<br>Company  | 6.27                           | 0.40                     | 0.39        |
| Net profit attributable to shareholders of the parent<br>Company after deducting non-recurring profit or loss | <u>5.87</u>                    | <u>0.37</u>              | <u>0.36</u> |

**Shandong Xinhua Pharmaceutical Co., Ltd.**  
August 24, 2023

# Documents Available for Inspection

## (1) DOCUMENTS AVAILABLE FOR INSPECTION

1. The Company's 2023 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.**

24 August, 2023