山東新華製藥股份有限公司

Shandong Xinhua Pharmaceutical Company Limited

（a joint stock company established in the People's Republic of China with limited liability）

（Stock Code: 00719）

2017 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the "**Board**") and directors ("**Directors**") of Shandong Xinhua Pharmaceutical Company Limited (the "**Company**") hereby announce the unaudited results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2017 (the "**Reporting Period**"). The following financial information has been prepared in accordance with China Accounting Standards for Business Enterprises (the "**CASBE**") (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")).

The Announcement is published in Chinese and English. If there are any discrepancies between the Chinese version and the English version, the Chinese version shall prevail.

I. COMPANY INFORMATION

Chinese Name of the Company : 山東新華製藥股份有限公司

English Name of the Company: SHANDONG XINHUA PHARMACEUTICAL COMPANY LIMITED

Legal Representative: Mr. Zhang Daiming

Secretary to the Board: Mr. Cao Changqiu

Telephone Number: 86-533-2196024

Facsimile Number: 86-533-2287508

E-mail Address of the Secretary to the Board: cqcao@xhzy.com

Registered Address: Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, the People's Republic of China (the "**PRC**")

Office Address: No. 1 Lutai Ave., Hi-tech Industry Development Zone, Zibo City, Shandong Province, the PRC

Postal Code: 255086

Website of the Company: http://www.xhzy.com

E-mail Address of the Company: xhzy@xhzy.com

PRC newspaper for information disclosure: Securities Times

Website designated by the China Securities Regulatory Commission (the "**CSRC**") for the publication of the interim report :

http://www.cninfo.com.cn

Listing Information:

H Shares: The Stock Exchange of Hong Kong Limited (the "**SEHK**")

Stock Short Name: Shandong Xinhua

Stock Code: 00719

A Shares: Shenzhen Stock Exchange

Stock Short Name: Xinhua Pharm

Stock Code: 000756

II. SUMMARY OF FINANCIAL RESULTS

Principal Financial Data (prepared in accordance with CASBE)
Unit: RMB Yuan

Item	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)	Change as compared to the same period last year (%)
Total operating income	**2,403,274,161.26**	1,998,500,412.91	20.25
Total profits	**147,562,389.11**	67,886,265.86	117.37
Income tax expense	**33,522,526.85**	15,298,546.67	119.12
Net profits	**114,039,862.26**	52,587,719.19	116.86
Minority interest income	**7,264,909.40**	6,720,573.51	8.10
Net profit attributable to shareholders of parent company	**106,774,952.86**	45,867,145.68	132.79
Net profit attributable to shareholders of parent company after deduction of non-recurring profit and loss	**87,258,441.96**	44,711,687.66	95.16
Net cash flow from operating activities	**9,557,583.42**	83,830,656.73	(88.60)
Basic earnings per share	**0.23**	0.10	130.00
Diluted earnings per share	**0.23**	0.10	130.00
Return on equity	**5.19%**	2.40%	Increase by 2.79 percentage points

	As at 30 June 2017 (unaudited)	As at 31 December 2016(the "End of Last Year") (audited)	Change as compared to the End of Last Year (%)
Total assets	**4,997,677,442.42**	4,722,785,963.84	5.82
Total liabilities	**2,776,656,691.70**	2,643,478,538.19	5.04
Minority shareholder's equity	**96,974,277.64**	90,887,601.32	6.70
Total of equity assigned to the shareholders of parent company	**2,124,046,473.08**	1,988,419,824.33	6.82

III. CHANGES IN SHARE CAPITAL STRUCTURE AND INFORMATION ON SHAREHOLDERS

1. Share capital structure

	30 June 2017		1 January 2017	
Class of shares	**Number of shares (share)**	**Percentage of the total share capital (%)**	**Number of shares (share)**	**Percentage of the total share capital (%)**
1. Total number of conditional tradable shares	8,925	0.002	8,925	0.002
State-owned shares	-	-	-	-
Shares owned by domestic legal persons	-	-	-	-
Conditional tradable shares owned by senior management (A shares)	8,925	0.002	8,925	0.002
Others	-	-	-	-

2. Total number of unconditional tradable shares	457,303,905	99.998	457,303,905	99.998
Renminbi-denominated ordinary shares (A shares)	307,303,905	67.198	307,303,905	67.198
Overseas listed foreign shares (H shares)	150,000,000	32.80	150,000,000	32.80
3. Total number of shares	457,312,830	100.00	457,312,830	100.00

2. Shareholders information

(1) As at 30 June 2017，the Company had on record a total of 21,582 shareholders (the "**Shareholders**"), including 47 holders of H Shares and 21,535 holders of A Shares.

(2) As at 30 June 2017, the ten largest Shareholders were as follows:

Unit: share

Name of Shareholders	Nature of shareholders	% of the total share capital (%)	Number of shares held
山東新華醫藥集團有限責任公司 (Shandong Xinhua Pharmaceutical Group Co. Ltd.*) ("**SXPGC**")	State-owned shares	34.46	157,587,763
HKSCC (Nominees) Limited	Others	32.56	148,883,598
招商銀行股份有限公司－匯添富醫療服務靈活配置混合型證券投資基金 (China Merchants Bank Co., Ltd. – Hui Tian Fu Medical Services Flexible Configuration Hybrid Securities Investment Fund*)	Others	2.39	10,942,617
中銀基金－建設銀行－中國人壽－中國人壽委託中銀基金公司混合型組合 (Bank of China Investment — CCB—China Life Insurance—China Life Insurance entrusted BOC Investment Company Hybrid Portfolio*)	Others	2.10	9,603,857
中銀基金公司－中行－中國銀行股份有限公司 (Bank of China Investment Company – BOC—Bank of China Limited*)	Others	1.43	6,550,210

平安資產－郵儲銀行－如意 10 號資產管理產品 (Pingan Asset—Postal Savings Bank—Ruyi 10 Asset Management Products*)	Others	0.77	3,500,057
中國工商銀行股份有限公司－匯添富醫藥保健混合型證券投資基金 (The Industrial and Commercial Bank of China Co., Ltd. – Hui Tian Fu Healthcare Hybrid Securities Investment Fund*)	Others	0.60	2,743,174
中國對外經濟貿易信託有限公司－外貿信託・銳進 40 期兆天證券投資集合資金信託計劃 (China Foreign Economy and Trade Trust Co., Ltd －Foreign Trade and Trust Ruijin 40 Zhaotian Security Investment Collection Fund Trust Plan*)	Others	0.55	2,511,400
華夏成長證券投資基金 (Huaxia Growth Security Investment Fund*)	Others	0.52	2,372,006
中國銀行股份有限公司－博時醫療保健行業混合型證券投資基金 (Bank of China Limited – Bo Shi Healthcare Industry Hybrid Securities Investment Funds*)	Others	0.44	2,000,000

(3) As at 30 June 2017, the ten largest Shareholders of the unconditional tradable shares of the Company were as follows:

Unit: share

Name of Shareholders	Number of unconditional listed shares	Class of shares
山東新華醫藥集團有限責任公司 (**SXPGC**)	157,587,763	RMB-denominated ordinary Shares
HKSCC (Nominees) Limited	148,883,598	Overseas listed foreign shares
招商銀行股份有限公司－匯添富醫療服務靈活配置混合型證券投資基金 (China Merchants Bank Co., Ltd. – Hui Tian Fu Medical Services Flexible Configuration Hybrid Securities Investment Fund*)	10,942,617	RMB-denominated ordinary Shares

中銀基金－建設銀行－中國人壽－中國人壽委託中銀基金公司混合型組合 (Bank of China Investment — CCB—China Life Insurance—China Life Insurance entrusted BOC Investment Company Hybrid Portfolio*)	9,603,857	RMB-denominated ordinary Shares
中銀基金公司－中行－中國銀行股份有限公司 (Bank of China Investment Company – BOC—Bank of China Limited*)	6,550,210	RMB-denominated ordinary Shares
平安資產－郵儲銀行－如意 10 號資產管理產品 (Pingan Asset—Postal Savings Bank—Ruyi 10 Asset Management Products*)	3,500,057	RMB-denominated ordinary Shares
中國工商銀行股份有限公司－匯添富醫藥保健混合型證券投資基金(The Industrial and Commercial Bank of China Co., Ltd. – Hui Tian Fu Healthcare Hybrid Securities Investment Fund*)	2,743,174	RMB-denominated ordinary Shares
中國對外經濟貿易信託有限公司－外貿信託・銳進 40 期兆天證券投資集合資金信託計劃 (China Foreign Economy and Trade Trust Co., Ltd －Foreign Trade and Trust Ruijin 40 Zhaotian Security Investment Collection Fund Trust Plan*)	2,511,400	RMB-denominated ordinary Shares
華夏成長證券投資基金 (Huaxia Growth Security Investment Fund*)	2,372,006	RMB-denominated ordinary Shares
中國銀行股份有限公司－博時醫療保健行業混合型證券投資基金 (Bank of China Limited – Bo Shi Healthcare Industry Hybrid Securities Investment Funds*)	2,000,000	RMB-denominated ordinary Shares

Notes:

i. As of 30 June 2017, SXPGC and Well Bring Limited ("**Well Bring**") are a directly wholly owned subsidiary and an indirectly wholly owned subsidiary of 華魯集團有限公司 (Hualu Holdings Group Company Limited*) ("**Hualu Holdings**") respectively. Well Bring owns 13,686,000 H shares of the Company (being overseas listed foreign shares) or approximately 2.99% of the issued share capital of the Company. As such, Hualu Holdings is deemed to be interested in the abovementioned shares held by SXPGC and Well Bring.

ii. A description of any related parties or acting-in-concert relations of the above Shareholders under the applicable PRC laws and regulations: To the best 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 ten largest Shareholders, nor if any of them are persons acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies" ("**Administration Measures for Takeover**") issued by the CSRC. In addition, the Directors are not aware whether there is any association amongst the shareholders of H Shares of the Company or if any of them are persons acting in concert as defined in the Administration Measures for Takeover. The Directors are not aware whether there is any association amongst the ten largest shareholders of unconditional tradable shares of the Company, or any association between ten largest shareholders of unconditional tradable shares and the ten largest shareholders of the Company or if any of them are persons acting in concert as defined in the Administration Measures for Takeover.

iii. Save as disclosed, the only domestic Shareholder directly holding more than 5% of the total issued shares of the Company is SXPGC.

iv. Save as disclosed above and so far as the Directors are aware, as at 30 June 2017 no other person (other than the Directors, supervisors of the Company (the "**Supervisors**"), chief executive (if any) or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("**SFO**") and as recorded in the register required to be kept under section 336 of the SFO), or was otherwise a substantial shareholder (as defined under the Listing Rules) of the Company.

3. There was no change of controlling Shareholder (as defined under the Listing Rules) of the Company during the Reporting Period.

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

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 2017**	**Number of Shares as at 1 January 2017**
Directors:			
Mr. Zhang Daiming	Chairman	11,900	11,900
Mr. Ren Fulong	Non-executive Director	Nil	Nil
Mr. Du Deping	Executive Director, General Manager	Nil	Nil
Mr. Xu Lie	Non-executive Director	Nil	Nil
Mr. Zhao Bin	Non-executive Director	Nil	Nil
Mr. Chan Chung Kik, Lewis	Independent non-executive Director	Nil	Nil
Mr. Du Guanhua	Independent non-executive Director	Nil	Nil
Mr. Li Wenming	Independent non-executive Director	Nil	Nil
Supervisors:			
Mr. Li Tianzhong	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
Other Senior Management:			
Mr. Wang Xiaolong	Deputy General Manager	Nil	Nil
Mr. Dou Xuejie	Deputy General Manager	Nil	Nil
Mr. Du Deqing	Deputy General Manager	Nil	Nil
Mr. He Tongqing	Deputy General Manager	Nil	Nil
Mr. Hou Ning	Financial Controller	Nil	Nil
Mr. Zheng Zhonghui	Deputy General Manager (appointed with effect from 27 February 2017)	Nil	Nil
Mr. Cao Changqiu	Secretary to the Board	Nil	Nil

Total	**11,900**	**11,900**

Notes:

i. All Shares held by the Directors, Supervisors and the Senior Management are A Shares.

ii. Save as disclosed above and so far as the Directors are aware, as at 30 June 2017, no Director, Senior Management or Supervisor had any interest or short position in the shares, underlying shares and / or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, senior management or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

V. CHAIRMAN'S STATEMENT

To all Shareholders:

We hereby report to the Shareholders the operation results of the Company for the first half year of 2017.

In the first half year of 2017, the operating income of the Company and its subsidiaries prepared under the CASBE was RMB2,403,274,000, representing an increase of 20.25% as compared with the same period last year. The Group recorded its profit attributable to the Shareholders as RMB106,775,000, representing an increase of 132.79% as compared with the same period last year.

The Board proposes no interim dividends be declared for the first half year of 2017.

Business Review

In the first half year of 2017, despite the impacts of the increasing constraints on production and rising procurement costs of raw materials, the Group had proactively seized market opportunities and vigorously developed technologies, thus achieving continuous improvement in products and rapid growth in key indicators.

1. <u>Accelerating the implementation of the strategies of large-scale preparation and internationalization, with remarkable effects in structural adjustment</u>

   By proactive seizure of market opportunities and enhancement of marketing and sales efforts, the Group recorded rapid growth in various business sectors. Active pharmaceutical ingredients brought in revenues of RMB1.05 billion, representing an increase of 14.46% as compared with the same period last year; preparations brought in revenues of RMB1.067 billion, representing an increase of 23.57% as compared with the same period last year and becoming the largest business sector of the Company; medical intermediates and other products brought in revenues of RMB0.286 billion, representing an increase of 31.54% as compared with the same period last year.

   The sales of new products saw breakthroughs. Taking the chance of the introduction of Jiening (介寧) Aspirin Enteric-coated Sustained Release Tablets and Baochang (保暢)

Calcium Polycarbophil Tablets on to the national list of medicines covered by medical insurance for 2017, the Group enhanced its effort in exploring markets for preparations, thus attaining a 60% increase in the sales income of Jiening, a double in the sales income of Baochang, a 20% increase in the sales income of Kuxin (庫欣) Cefuroxime Axetil Dispersible Tablets, and a 25% increase in the sales income of Xindaluo (新達羅) series, in the first half of 2017 as compared with the same period last year.

As the Group expedited its collaboration with international business partners, the income from export of preparations and CMO contracts reached RMB55.43 million, representing a 200.4% increase from the same period last year. Projects with international collaboration had proceeded smoothly.

The Company actively promoted innovation in business model and the use of E-commerce platforms. During the first half of 2017, the E-commerce recorded rapid growth, with the trial operation of Xinhua Pharmaceuticals E-commerce Innovation Park marking the official launch of the incubator of E-commerce, whereby business relationships with various reputable enterprises were first built up. Sales on E-commerce platforms have grown rapidly.

2. Increasing research and development input and speeding up key research projects to achieve technological advancements

In the first half year, the Company continued to increase its investment in research and development activities, while proceeding with the evaluation of product consistency at an orderly pace. The Group passed the European Good Manufacturing Practice (GMP) inspection and subsequently obtained the sales license for L-Dopa. The Company also obtained 3 approval documents for Oxiracetam capsules and other products to be applied in clinical trials and 1 production approval for VE+VC chewing tablets. In this period, the Group were granted 5 patents, of which 1 was for invention, 1 for utility model and 3 for design, and with 4 new projects put into production.

During the first half of the year, the Company collaborated to establish a post-doctoral research station with Shenyang Pharmaceutical University (瀋陽藥科大學), a platform for "consistency evaluation of solid dispersion system of insoluble drugs" (難溶性藥物固體分散體系一致性評價) with Tsinghua University, and "technological center for advanced production engineering of antipyretic and analgesic drugs" (解熱鎮痛藥先進製造工程技術中心) with Qingdao University of Science and Technology.

The Group has witnessed evident advance in technology in the first half of 2017: the Company concluded 33 projects in relation to technology and quality were concluded resulting in RMB8.92 million savings in regard of the consumption of raw materials and RMB9.6 million savings in regard of energy consumption.

3. Working to satisfy the Company's development requirements, and accelerating the key project works

During the first half year, the Company finished equipment installation, testing of machinery through jogging control, interior decontamination in its modern medicine international cooperation center, which is expected to be put into operation within the year. At the center, the single-layer warehouse was ready for use, and the multi-layer warehouse was under installation. The interior decontamination, equipment installation, tubing and preparation of apparatus and meters for the improvement project of hormone series technology had entered the final stage, and the whole project would be ready for a test operation within the year.

4. Proactively safeguarding production lines

   During the first half year, the Group undertook spring and summer seasonal inspections on various production lines and key posts thereof and had finished upgraded safety measures. The Group has also carried out thorough treatment of the emission of volatile organic compounds (VOC) and other environmental issues in securing stable production of high quality products.

   Meanwhile, the Group passed 98 on-site quality reviews by clients, passed the GMP accreditation for 4 products in 2 manufacturing branches, submitted GMP accreditation materials for 5 veterinary drugs in 1 manufacturing branch, made timely arrangements to be in compliance with Directive 2011/62/EU for exports to the European Union, and proceeded with the annual registration of new products outside the PRC as planned.

   With proper measures on safety, environmental protection and quality assurance in place, the Group saw no occurrence of accidents of a general nature or in relation to safety, environmental protection and quality assurance during the Reporting Period.

Prospects

With the deepening supply side reform by the state, and the implementation of a series of major policies, the domestic economy shows a favourable trend. Meanwhile, the development of the general healthcare industry, the nationwide public healthcare insurance, the population aging, two-child policy and improving income and living standards, lay solid foundations for the growth of the pharmaceutical sector.

As the Company's modern medicine international cooperation center is going into use, a number of international projects will be launched. The Company's participation in tendering in various parts of the country for contracts of basic drugs will see its effect in time. These will present valuable opportunities for the pharmaceutical preparations business for the Company. New products of active pharmaceutical ingredients, which are to be put into production in phrases, will turn into new growth drivers. Under stringent national regulations, law-abiding enterprises with prominent advantages, are bound to be blessed with more development opportunities.

However, as the national reforms continue, and that the manufacturing regulations grow more stringent, the prices for chemical raw materials and raw and auxiliary materials of preparations are on a rising trend, and these materials may not be supplied in a timely manner, thus posing a challenge for cost control. Moreover, investments in research and development, safety, environmental protection, quality assurance and employment are on the rise, and so are other overheads. The Company is under increasing pressure to control costs.

The Company is facing challenges and more uncertainties as a manufacturing enterprise, since the authorities are pressing ahead with structural adjustment and industrial upgrading.

As such, in the second half of the year the Group will focus on the following aspects:

1. Making full use of our comprehensive advantages to enhance our market status

The Group will continue to forge ahead with the macro-strategy in relation to preparations, by working out implementation schemes, improving success rates in tendering activities, securing significant sales growth in regions where contracts were awarded for successful tenders, and unswervingly cultivating key products. The launch of the pharmaceutical E-commerce Park will be an opportunity for the Company to consolidate its efforts in E-commerce, unleash its development vitality and step up its E-commerce practice.

The Group will enhance its advantages in active pharmaceutical ingredients, by expanding the market shares for major products, offering sales incentives for new products, accelerating advertising activities for new products, and cultivating new growth drivers.

The Group will secure stable development for medical intermediates. The focal point is to perfect the capacities related to active pharmaceutical ingredients, further solidify basic management, and secure stable production activities, with active market development.

2. <u>Continuously increasing investment in science and technology to speed up development of new products and attain technological advancements</u>

The Group will continue to increase its investment in research and development, monitor the progress of products pending review and approval, and proactively forge ahead with international registration of products. In particular, the Group will make sure adequate money and energy are invested in the orderly conducting of consistency evaluation. Based on the framework strategic cooperation agreements entered into between the Group and research institutions, active and substantive cooperation is expected to be unfolded.

Efforts will be made on technology development to reduce manufacturing costs. The Group will offer more incentives for employees to reduce costs and improve effectiveness, ensuring that all technological issues are solved as planned at the start of the year.

3. <u>Vigorously pushing ahead key projects for earliest application</u>

Production lines, facilities and public utilities will be installed in the modern medicine international center as soon as possible. The Group will strive to pass domestic GMP accreditation, and put the supporting warehouse and multi-layer warehouse into use after equipment installation and commissioning as soon as possible. The Group will try to secure the successful manufacturing of the hormone series products after upgrading relevant technologies. The Group plans to pass domestic GMP inspection in the fourth quarter and at the same time, make preparations for accreditation in Europe and America. The Group will also finish the upgrading project related to medical intermediates for the subsidiary in Shouguang, and the construction of Xincat quality inspection building.

4. <u>Accelerating implementation of internationalisation strategy</u>

The Group will deploy adequate production capacity for such products as Redoxon and Saridon commissioned by Bayer, products commissioned by Perrigo to be exported to the United Kingdom, Centrum effervescent tablets commissioned by Pfizer, and ensures timely supplies. Enhanced efforts will be put in speeding up the implementation of international projects, and product registration directed towards European and American markets, introducing more preparations into such markets as soon as possible. The modern medicine international cooperation centre will provide the Group a platform to showcase its advantages in quality, brand, customer resources, and thus bring about more international projects. This will in turn help more Xinhua products enter standardised markets in an accelerated pace.

5. Completing the allotment and placing of A shares as soon as possible

   The Group will seek to complete the allotment and placing of A Shares as soon as possible to optimise its structure. It will actively study and work out equity incentive scheme to attract and retain talents, and arouse the aggressiveness in employees. Moreover, it will research on the possibilities of merger and acquisition based on the strategic positioning of the Company.

6. Further strengthening management to safeguard production activities

   The Group will firmly erect the principle of safe and green development, overcome various challenges to maintain stability in production activities. For key products, overhauls of the production lines will be reasonably scheduled, adequate production capacity will be deployed, and preparatory work will be done in advance for delivery.

   The Group will put strict safety and environmental protection measures in place, raise the employees' awareness of work safety, strengthen safety inspection according to seasonal features and production conditions and complete the annual plan for safety measures. To ensure clean production, the Group will invest more in environmental protection, prevent pollution with forward-thinking measures and make sure that relevant facilities are functioning effectively. It is also important to ensure the quality and safety of our products, by further improving quality control, and proceeding with accreditation of new products and relevant preparatory work as planned.

VI. 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

Key Financial Data

Unit: RMB Yuan

Item	Six months ended 30 June		Change as compared to the same period of last year（%）
	2017	2016	
Operating income	2,403,274,161.26	1,998,500,412.91	20.25
Operating costs	1,743,223,368.05	1,540,700,405.16	13.14
Sales expenses	264,204,922.60	190,013,019.85	39.05
Administration expenses	205,450,952.80	154,128,143.32	33.30

Financial expenses	36,124,129.67	27,453,462.70	31.58
Tax and surcharges	32,208,204.39	15,371,596.63	109.53
Income and expenses	33,522,526.85	15,298,546.67	119.12
Research and development investment	96,515,407.67	39,983,826.82	141.39
Net cash flows from operating activities	9,557,583.42	83,830,656.73	（88.60）
Net cash flows from investing activities	（108,144,178.17）	(88,232,736.33)	22.57
Net cash flows from financing activities	148,424,596.13	(66,730,755.41)	（322.42）
Net increase in cash and cash equivalents	48,503,461.08	(70,336,001.78)	（168.96）

Total assets of the Group as at 30 June 2017 were approximately RMB4,997,677,000, representing an increase of 5.82% as compared with the beginning of the year. The increase in total assets was mainly due to profits from operation in the Reporting Period. As at 30 June 2017, borrowing amount was approximately RMB2,776,657,000, representing an increase of 5.04% as compared with the beginning of the year, mainly attributable to the increased borrowings in preparation for production operation, construction projects, and research and development projects of the Company.

As at 30 June 2017, total equity attributable to the shareholders of the Company was approximately RMB2,124,046,000, increasing by 6.82% as compared with the beginning of the year. The increase was mainly attributable to the business profits generated in the Reporting Period.

As at 30 June 2017, the Group’s notes receivable increased by 73.81% as compared with the beginning of the year, mainly attributable to the receipt of more notes from increased sales activities during this Reporting Period; accounts receivable increased by 47.91% as compared with the beginning of the year, mainly attributable to increased sales activities and part of the accounts receivable not yet fell due during the Reporting Period. The number of projects under construction increased by 29.16% as compared with the beginning of the year, mainly attributable to the increased investment in projects during the Reporting Period.

Operating income of the Group amounted to RMB2,403,274,000 for the first half year, representing an increase of 20.25% as compared with the same period last year; operating profit of the Group amounted to RMB129,907,000, increasing by RMB89.23% as compared with the same period last year. The increase of operating income and operating profit are mainly attributable to active market exploration and enhanced marketing and sales efforts, with relatively rapid growth in the sales of bulk drugs and preparation products.

The Group’s sales expense amounted to RMB264,205,000 for the first half of 2017, representing an increase of approximately 39.05% as compared with the same period last year, and the increase was mainly attributable to active market exploration, especially for the preparation products in particular.

The Group’s administrative expenses amounted to RMB205,451,000 for the first half of 2017, representing an increase of approximately 33.30% as compared with the same period last year. The increase was mainly attributable to the increase of expenses in research and development.

The Group’s financial expenses amounted to RMB36,124,000 for the first half of 2017, representing an increase of approximately 31.58% as compared with the same period last year, and the increase was mainly attributable to the increase of exchange loss.

The Group's taxes and surcharges were approximately RMB32,208,000 for the first half of 2017, increasing by109.53% as compared with the same period last year. The main reason was that the property tax, land use tax and other taxes were moved to taxes and surcharges for computation in accordance with the interpretation of the Ministry of Finance on relevant questions on Accounting Treatment Regulations of Value-added Tax, whereas the data of the same period last year have not been so adjusted.

The Group's income tax was approximately RMB33,523,000 for the first half of 2017, increasing by 119.12% as compared with the same period last year. The increase was mainly attributable to substantial growth in profits from operating business in the Reporting Period.

For the first half year of 2017, the Group's research and development input was approximately RMB96,515,000, increasing by 141.39% as compared with the same period last year. The increase was due to the fact that the Company has always attached great importance to the enhancement of its potentiality and bolstered its research and development efforts.

Net cash flow from operating activities of the Group for the first half of 2017 was approximately RMB9,558,000, representing a decrease by RMB74,273,000 as compared with the same period last year. The decrease was mainly attributable to increased sales activities and increased receivables as part of the payments have not yet fallen due.

For the first half of 2017, net cash inflow from investment activities of the Group was RMB108,144,000, representing a decrease by RMB19,911,000 as compared with the same period last year. The main reason was the increase of investment in construction projects.

For the first half of 2017, net cash flow from financing activities of the Group was RMB148,425,000, increasing by RMB215,155,000 as compared with the same period last year. The increase was mainly attributable to the increase of loan.

For the first half year of 2017, the Group's net increase in cash and cash equivalents was RMB48,503,000, increasing by RMB118,839,000, attributable mainly to the increase of net cash flow from financing activities.

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

	Operating income	**Operating costs**	**Gross profit rate (%)**	**Change in operating income as compared to the same period last year (%)**	**Change in operating costs as compared to the same period last year (%)**	**Change in gross profit rate as compared to the same period last year**

By industry						
Chemical bulk drugs	1,049,851,436.87	724,063,162.72	31.03	14.46	3.68	Increase by 7.17 percentage points
Preparations	1,067,395,251.96	784,023,429.33	26.55	23.57	20.76	Increase by 1.71 percentage points
Medical intermediates and other products	286,027,472.43	235,136,776.00	17.79	31.54	21.77	Increase by 6.60 percentage points
Total	2,403,274,161.26	1,743,223,368.05	27.46	20.25	13.14	Increase by 4.56 percentage points
By product						
Antipyretic and analgesic active pharmaceutical ingredients	614,890,720.51	484,104,846.13	21.27	22.92	16.98	Increase by 4.00 percentage points
other products	1,788,383,440.75	1,259,118,521.92	29.59	19.37	11.74	Increase by 4.81 percentage points
Total	2,403,274,161.26	1,743,223,368.05	27.46	20.25	13.14	Increase by 4.56 percentage points
By geographical location						
PRC(including Hong Kong)	1,663,245,696.61	1,161,591,486.82	30.16	26.15	20.73	Increase by 3.13 percentage points
America	333,989,164.92	295,014,108.19	11.67	(6.02)	(1.90)	Decrease by 3.71 percentage points
Europe	173,615,603.92	155,170,741.34	10.62	11.99	19.25	Decrease by 5.44 percentage points
Others	232,423,695.81	131,447,031.70	43.45	37.04	(11.02)	Increase by 30.55 percentage points
Total	**2,403,274,161.26**	**1,743,223,368.05**	**27.46**	**20.25**	**13.14**	Increase by 4.56 percentage points

An analysis of profit as compared to 2016 was as follows:

Items	Amount (RMB Yuan)		Percentage of the total profit (%)	
	Six months ended 30 June 2017	2016	Six months ended 30 June 2017	2016
Operating profits	**129,907,340.89**	147,166,513.10	**88.04**	92.00
Net non-operating income	**17,655,048.22**	12,801,979.11	**11.96**	8.00
Total profits	**147,562,389.11**	159,968,492.21	**100.00**	100.00

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

Liquidity and analysis of financial resources and capital structure

As at 30 June 2017, the current ratio was 103.28% (current assets/current liabilities×100%), the quick ratio was 75.55% ((current assets - net balance of inventory)/current liabilities×100%), the turnover rate of account receivables (annualised revenue/average trade and bill receivables×100%) and the rate of inventory turnover (annualised operating costs/average inventories×100%) were 1,129.24% and 658.25% respectively.

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

The main sources of funds for the Group were loans and operating profits. As at 30 June 2017, the Group's total borrowing was RMB1,614,296,000. The amount of cash the Group had on hand and in bank amounted to RMB575,212,000 (including deposits for, *inter alia*, bank acceptance bills of RMB33,616,000).

As at 30 June 2017, the Company and Shandong Zibo Xincat Pharmaceutical Co., Ltd., a subsidiary of the Company, charged the monetary capital of RMB23,625,000 and RMB9,991,000 to the bank for arrangement of bank acceptance bill respectively. Besides, RMB164,348,000's worth of the Company's fixed asset was charged as security for loans. Save as disclosed, the Group did not have other assets charged.

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

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

As at 30 June 2017, the number of employees of the Group was 6,312. The total salaries for employees in the first half of 2017 amounted to RMB224,833,000.

As at 30 June 2017, the asset-liability ratio of the Group was 55.56% (total liabilities / total assets ×100%).

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

The assets and liabilities of the Group were mainly recorded in Renminbi. For the first half year of 2017, the revenue from the Group's exports was approximately US$105,150,000, which exposed the Group to the risks associated with the fluctuation of exchange rate. Therefore, the Group has taken the following measures to lower the risks from the fluctuation of exchange rates: (1) the Group has increased export prices; (2) the Group has made arrangements with overseas customers, when entering into material export contracts that the risks associated with the fluctuation in exchange rates shall be borne by both parties if the fluctuation exceeds the range agreed by both parties.

VII. REVIEW OF MAJOR EVENTS

Save as disclosed herein:

1. The Company has generally complied with the relevant PRC regulatory requirements of corporate governance of listed companies.

2. The annual general meeting for year 2016 did not recommend distribution of final dividend for year 2016.

3. The Board did not recommend the payment of any interim dividend, or the conversion of any capital reserve into share capital for the six-month period ended 30 June 2017.

4. Save for the contingent liabilities disclosed under Note XIII to the financial statements of the Company's 2016 annual report, the Group was not involved in any material litigation or arbitration, whether pending or threatened during the Reporting Period.

5. There was no material purchase or disposal of assets or assets reorganisation of the Company during the Reporting Period and no such incident took place before the Reporting Period and continued into the Reporting Period.

6. During the Reporting Period, there was no material entrustment, subcontracting or lease of assets between the Company and other companies.

7. The specific illustration and independent opinions of the independent non-executive Directors in respect of the use of funds by related parties and external guarantee provided are as follows:

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

   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 2017, 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.

8. Disclosure undertaking by the Company and Shareholders holding more than 5% of the total number of issued Shares: Nil

9. Purchase, Sales and Redemption of Shares:

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

10. 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.

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

Stock Code	Stock short name	Initial investment amount	Proportion of equity interest in investee	Book value at end of the Reporting Period	Profit/loss over the Reporting Period	Change in shareholder's equity over the Reporting Period	Accounting classifications	Share source
601601	China Pacific Insurance	7,000,000.00	0.06%	169,350,000.00	-	25,925,000.00	Financial assets available for sale	Purchase
601328	BANKCOMM	14,225,318.00	0.01%	50,630,272.00	-	2,724,664.80	Financial assets available for sale	Purchase
Total		**21,225,318.00**	-	219,980,272.00	-	28,649,664.80		-

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

13. On 26 April 2017, the Company received the Reply on Approval in relation to the Non-public Issuance of the Shares by Shandong Xinhua Pharmaceutical Company Limited (Zhengjian Xuke [2017] No. 459) from the CSRC. The Company has been actively pursuing relevant works for the approved issuance. For details, please refer to the announcements published on JuChao (cninfo.com.cn), HKExnews and the Company's website on and prior to 26 April 2017.

14. There were no research, communication or interview activities organised in respect of the Company during the Reporting Period.

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

The audit committee along with the management of the Company has reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting including the unaudited interim accounts for the six months ended 30 June 2017.

The audit committee agreed to the accounting standards, principles and methods adopted by the Group for the unaudited interim accounts for the six months ended 30 June 2017 and that sufficient disclosures have been made.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of a sufficient number of independent non-executive Directors and at least one independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive Directors including one with financial management expertise, details of their biographies were set out in the 2016 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.

IX. FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH CASBE

Consolidated Balance Sheet

Unit: RMB Yuan

Assets	Notes	30 June 2017 (unaudited)	31 December 2016 (audited)
Current assets:			
Currency funds		575,212,117.79	561,331,585.33
Notes receivable		185,985,199.19	107,005,175.90
Accounts receivable	*3*	507,897,346.60	343,392,085.04
Prepayments		20,986,606.51	29,151,280.72
Interest receivable		-	-
Other accounts receivable	*4*	54,556,940.88	46,590,419.30
Inventories		499,815,794.90	559,487,133.74
Other current assets		17,186,139.33	63,631,331.50
Total current assets		**1,861,640,145.20**	**1,710,589,011.53**
Non-current assets:			
Financial assets available for sale		223,180,272.00	189,474,784.00
Investment real estate		73,275,758.23	75,635,320.09
Fixed assets		2,114,531,021.85	2,120,995,100.52
Projects under construction		354,436,432.95	274,420,412.04
Intangible assets		344,328,302.00	283,274,940.35
Deferred income tax assets		26,285,510.19	25,630,317.07
Other non-current assets		-	42,766,078.24
Total non-current assets		**3,136,037,297.22**	**3,012,196,952.31**
Total assets		**4,997,677,442.42**	**4,722,785,963.84**

Consolidated Balance Sheet (Continued)

Unit: RMB Yuan

Liabilities and Shareholders' Equity	Notes	30 June 2017 (unaudited)	31 December 2016 (audited)
Current liabilities:			
Short-term borrowing		614,000,000.00	910,000,000.00
Notes payable		110,122,168.35	254,077,627.50
Accounts payable	*5*	492,793,206.92	433,116,202.88
Accounts received in advance		38,186,870.33	67,393,449.91
Payroll payable	*6*	42,839,917.68	66,078,587.82
Taxes and dues payable		21,111,207.92	17,694,627.36
Interest payable		4,739,594.18	3,902,110.16
Dividends payable		5,310,599.53	5,310,599.55

Other payables		218,560,745.25	163,347,304.20
Non-current liabilities due within one year		249,466,855.80	344,854,126.83
Other current liabilities		5,319,000.00	4,732,000.00
Total current liabilities		**1,802,450,165.96**	**2,270,506,636.21**
Non-current liabilities:			
Long-term loans		670,000,000.00	100,000,000.00
Long-term payables		80,829,282.30	64,938,492.33
Special payables		84,960,000.00	84,960,000.00
Deferred income		129,544,304.97	118,317,680.77
Deferred income tax liabilities		5,311,438.47	1,194,228.88
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		**974,206,525.74**	**372,971,901.98**
Total liabilities		**2,776,656,691.70**	**2,643,478,538.19**
Shareholders' equity:		-	-
Capital Stock		457,312,830.00	457,312,830.00
Capital reserve	*7*	513,092,452.66	513,092,452.66
Less: Treasury stock		-	-
Other comprehensive income	*8*	168,272,917.58	139,421,221.69
Special reserve		-	-
Surplus reserve		221,217,539.36	221,217,539.36
Undistributed profits	*9*	764,150,733.48	657,375,780.62
Total of equity assigned to the shareholders of parent company		2,124,046,473.08	1,988,419,824.33
Minority shareholders' equities		96,974,277.64	90,887,601.32
Total of shareholders' equity		**2,221,020,750.72**	**2,079,307,425.65**
Total of liabilities and shareholder's equity		**4,997,677,442.42**	**4,722,785,963.84**

Consolidated Income Statement

Unit: RMB Yuan

		Six months ended 30 June	
Item		**2017 (unaudited)**	**2016 (unaudited)**
I. Gross revenue		**2,403,274,161.26**	**1,998,500,412.91**
Including: operating **income**	*10*	2,403,274,161.26	1,998,500,412.91
II. Total operating costs		**2,273,416,875.20**	**1,929,863,877.24**
Including: operating costs	*10*	1,743,223,368.05	1,540,700,405.16
Taxes and surcharges	*11*	32,208,204.39	15,371,596.63
Selling expenses		264,204,922.60	190,013,019.85
Administration expenses		205,450,952.80	154,128,143.32
Financial expenses		36,124,129.67	27,453,462.70
Assets impairment loss		(7,794,702.31)	2,197,249.58
Add: incomes from changes in fair value (losses to be listed with brackets)		-	-
Investment incomes (losses to be listed with brackets)		50,054.83	12,981.57

Including: income from investment into affiliates and joint ventures		-	-
Other incomes		-	-
III. Operating profits (losses to be listed with brackets)		**129,907,340.89**	**68,649,517.24**
Add: non-operating income		21,892,417.22	6,464,006.72
Including: gains from disposal of non-current assets		13,662,119.97	1,229,732.89
Less: non-operating expenditure		4,237,369.00	7,227,258.10
Including: losses from disposal of non-current assets		613,347.75	424,844.28
IV. Total profits (total loss to be listed with brackets)		**147,562,389.11**	**67,886,265.86**
Less: income tax expense	*12*	33,522,526.85	15,298,546.67
V. Net profits (net loss to be listed with brackets)		**114,039,862.26**	**52,587,719.19**
Net profit which belongs to shareholders of parent company		**106,774,952.86**	**45,867,145.68**
Minority interest income		7,264,909.40	6,720,573.51
VI Net of tax of other comprehensive income		**29,121,487.89**	**(13,311,026.89)**
Net of tax of other comprehensive income that belongs to the owners of parent company		**28,851,695.89**	**(13,263,822.99)**
(I) Other comprehensive income not subject to reclassification to profit or loss in future		-	-
1. Changes in net indebtedness or net assets subject to remeasurement of defined benefit plans		-	-
2. Shares enjoyed in other comprehensive income not subject to reclassification to loss or profit in investment-receiving company under equity law		-	-
(II) Other comprehensive income to be reclassified to profit or loss in future		28,851,695.89	(13,263,822.99)
1. Shares enjoyed in other comprehensive income to be reclassified to loss or profit in investment-receiving company under equity law		-	-
2. Profit and loss of change in fair value of financial assets available for sale		28,649,664.80	(13,393,919.20)
3.Profit and loss of held-to-maturity investment reclassified to available-for-sale financial assets		-	-
4. Effective part of cash flow hedging profit and loss		-	-
5. Conversion difference of foreign currency statement		202,031.09	130,096.21
6. Others			
Net of tax of other consolidated income that belongs to the minority shareholders		269,792.00	(47,203.90)
VII. Total comprehensive income		**143,161,350.15**	**39,276,692.30**
Total comprehensive income attributable to the shareholders of parent company		**135,626,648.75**	**32,603,322.69**
Total comprehensive income attributable		7,534,701.40	6,673,369.61

to the minority shareholders			
VIII. Earnings per share:			
(I) Basic earnings per share	*13*	0.23	0.10
(II) Diluted earnings per share		0.23	0.10

SUMMARY NOTES TO THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CASBE

NOTES:

1. Basis of preparation

Preparation basis

On a going-concern basis, the financial statements of the Company have been prepared based on transactions and items that have actually occurred, and in accordance with Accounting Standards for Business Enterprises – Basic Principles, the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and thereafter 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 CSRC, disclosure requirements in the Listing Rules and the Companies Ordinance of Hong Kong.

Going concern

The Group has evaluated the continuing of operation for 12 months from the end of the current reporting period and has not found any significant doubts about its ability to continue to operate. Accordingly, the financial statements are prepared on a going concern basis.

2. Segment information

(a) Description of segments

The Group determines business segments based on the structure of internal organisation, management requirements and internal reporting system and determines reporting segments for disclosure purposes based on business segments. Business segment refers to each different business unit within the Group which satisfies the following conditions: (1) the business unit should be able to generate income and incur expenses in its daily operation; (2) the management of the Group would be able to evaluate the operating results of such business unit at regular intervals so as to decide resources allocation and conduct performance evaluation; (3) the Company would be able to obtain the relevant accounting information of such business unit, such as financial position, operating results and cash flow. If two or more business units share similar economic characteristics and meet certain conditions, these business segments would be merged into one business segment.

The Group's reporting segments are as follows:

Chemical bulk drugs	Development, production and sales of bulk pharmaceuticals
Preparations	Development, production and sales of preparations (e.g. tablets and injections)
Medical intermediate and other products	Production and sales of medical intermediate and other products

Information regarding the abovementioned segments is as below:

(b) Segment information for six months ended 30 June 2017 and six months ended 30 June 2016 (unaudited):

Six months ended 30 June 2017 (unaudited)

Unit: RMB Yuan

Item	**Chemical bulk drugs**	**Preparations**	**Medical intermediate and other products**	**Unallocated**	**Offset**	**Total**
Operating **income**	1,053,841,607.84	1,268,280,394.26	581,417,464.67	-	(500,265,305.51)	2,403,274,161.26
Include: Revenue from external customers	1,049,851,436.87	1,067,395,251.96	286,027,472.43	-	-	2,403,274,161.26
Inter-segment transaction income	3,990,170.97	200,885,142.30	295,389,992.24	-	(500,265,305.51)	-
Operating costs	765,415,272.42	951,030,108.19	499,836,776.78	-	(473,058,789.34)	1,743,223,368.05
Cost elimination	41,352,109.70	167,006,678.86	264,700,000.78	-	(473,058,789.34)	-
Expenses for the period	179,982,034.54	293,404,110.66	32,393,859.87	-	-	505,780,005.07
Total profit（loss）	-	-	-	160,715,212.46	(30,807,871.57)	129,907,340.89
Total assets	2,680,257,945.13	1,307,006,691.65	948,149,137.96	1,374,943,114.75	(1,312,679,447.07)	4,997,677,442.42
Total liability	801,924,592.23	718,660,896.72	408,684,026.32	1,650,754,531.27	(803,367,354.84)	2,776,656,691.70

Six months ended 30 June 2016 (unaudited)

Unit: RMB Yuan

Item	**Chemical bulk drugs**	**Preparations**	**Medical intermediate and other products**	**Unallocated**	**Offset**	**Total**
Operating **income**	919,977,340.93	1,019,799,135.66	466,048,770.72	-	(407,324,834.40)	1,998,500,412.91
Include: Revenue from external customers	917,243,597.27	863,807,066.84	217,449,748.80	-	-	1,998,500,412.91
Inter-segment transaction income	2,733,743.66	155,992,068.82	248,599,021.92	-	(407,324,834.40)	-
Operating costs	701,099,189.29	805,223,485.84	442,971,224.89	-	(408,593,494.86)	1,540,700,405.16
Cost elimination	38,599,832.66	120,125,979.82	249,867,682.38	-	(408,593,494.86)	-
Expenses for the period	133,858,824.84	206,482,846.25	31,252,954.78	-	-	371,594,625.87
Total profit （loss）	-	-	-	86,614,936.59	(17,965,419.35)	68,649,517.24
Total assets	2,607,631,975.84	1,214,770,333.03	967,382,126.46	1,167,544,323.60	(1,234,542,795.09)	4,722,785,963.84
Total liability	829,972,561.96	635,287,773.13	490,101,717.17	1,437,357,321.32	(749,240,835.39)	2,643,478,538.19

3. Accounts receivable

	30 June 2017 RMB Yuan (unaudited)	31 December 2016 RMB Yuan (audited)
Accounts receivable	566,100,358.62	400,769,602.29
Less: provision for bad debts	58,203,012.02	57,377,517.25
	507,897,346.60	**343,392,085.04**

The aging of accounts receivable based on their recording dates is analysed below:

	30 June 2017 RMB Yuan (unaudited)	31 December 2016 RMB Yuan (audited)
Within one year	507,446,301.95	342,764,839.78
More than one year but less than two years	181,934.71	479,299.12
More than two years but less than three years	269,109.94	147,946.14
Total	**507,897,346.60**	**343,392,085.04**

4. Other accounts receivable

	30 June 2017 RMB Yuan (unaudited)	31 December 2016 RMB Yuan (audited)
Other accounts receivable	71,060,011.55	71,075,858.34
Less: provision for bad debts of other accounts receivable	16,503,070.67	24,485,439.04
	54,556,940.88	**46,590,419.30**

The aging of other receivable based on their recording dates is analysed below:

	30 June 2017 RMB Yuan (unaudited)	31 December 2016 RMB Yuan (audited)
Within one year	37,421,267.35	28,438,033.63
More than one year but less than two years	10,135,928.12	10,230,658.71
More than two years but less than three years	1,299,745.41	2,221,726.96
Over three years	5,700,000.00	5,700,000.00
Total	**54,556,940.88**	**46,590,419.30**

5. Accounts payable

The aging of accounts payable based on their recording dates is analysed below:

	30 June 2017 RMB Yuan (unaudited)	31 December 2016 RMB Yuan (audited)
Within one year	476,856,576.61	414,778,212.02
More than one year but less than two years	10,062,172.34	11,147,066.41
More than two years but less than three years	1,467,615.60	1,924,616.11
Over three years	4,406,842.37	5,266,308.34
Total	**492,793,206.92**	**433,116,202.88**

6. Payroll payable

(1) Classification of payroll payable

	31 December 2016	Increase during the first half of 2017	Decrease during the first half of 2017	30 June 2017
	RMB Yuan (audited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Short-term remuneration	66,078,587.82	277,326,813.27	300,565,483.41	42,839,917.68
Post-employment welfare - Defined contribution plan	-	27,188,591.42	27,188,591.42	-
Dismission welfare	-	-	-	-
Total	**66,078,587.82**	**304,515,404.69**	**327,754,074.83**	**42,839,917.68**

(2) Short-term remuneration

	31 December 2016	Increase during the first half of 2017	Decrease during the first half of 2017	30 June 2017
	RMB Yuan (audited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Salary, bonus, allowance and subsidy	59,086,436.13	224,833,206.75	249,378,488.35	34,541,154.53
Employee welfare expenses	781,215.37	9,072,750.73	8,872,750.73	981,215.37
Social insurance charges	-	12,542,218.96	12,542,218.96	-
Including: Medical insurance premiums	-	9,918,611.35	9,918,611.35	-
Work-related injury insurance premiums	-	1,276,411.59	1,276,411.59	-
Maternity insurance premium	-	1,347,196.02	1,347,196.02	-
Housing fund	-	8,548,528.94	8,551,359.74	(2,830.80)
Labour union expenditure & personnel education fund	6,210,936.32	4,459,138.23	3,349,695.97	7,320,378.58
Dismission welfare	-	-	-	-
Labour costs	-	17,870,969.66	17,870,969.66	-
Total	**66,078,587.82**	**277,326,813.27**	**300,565,483.41**	**42,839,917.68**

(3) Defined contribution plan

	31 December 2016	Increase during the first half of 2016	Decrease during the first half of 2016	30 June 2017
	RMB Yuan （audited）	RMB Yuan (unaudited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Basic endowment insurance	-	26,042,540.55	26,042,540.55	-
Unemployment insurance premium	-	1,146,050.87	1,146,050.87	-
Total	**-**	**27,188,591.42**	**27,188,591.42**	**-**

7. Capital reserve

	31 December 2016	Increase during the first half of 2017	Decrease during the first half of 2017	30 June 2017
	RMB Yuan （audited）	RMB Yuan (unaudited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Capital stock premium	424,084,320.48	-	-	424,084,320.48
Other capital reserves	89,008,132.18	-	-	89,008,132.18
Total	**513,092,452.66**	**-**	**-**	**513,092,452.66**

8. Other comprehensive income

	31 December 2016	Incurred pre-tax amount	Less: Amount included into other comprehensive incomes in previous period and carried over into profits and loss in current period	Less: income tax expense	After-tax amount attributable to the parent company	After-tax amount attributable to minority shareholders	30 June 2017
		Amount incurred in six months ended 30 June 2017(unaudited)					
	RMB Yuan (audited)	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan (unaudited)
I. Other comprehensive income that cannot be reclassified into profits and loss in future	-	-	-	-	-	-	-
II. Other comprehensive income to be reclassified into profits and loss in future	139,421,221.69	34,177,311.09	-	5,055,823.20	28,851,695.89	269,792.00	168,272,917.58
Profits and losses from changes in fair value of available for sale financial assets	140,292,046.10	33,705,488.00	-	5,055,823.20	28,649,664.80	-	168,941,710.90
Translation difference of foreign currency financial statement	(870,824.41)	471,823.09	-	-	202,031.09	269,792.00	(668,793.32)
Total	**139,421,221.69**	**34,177,311.09**	**-**	**5,055,823.20**	**28,851,695.89**	**269,792.00**	**168,272,917.58**

9. Undistributed profits

	Six months ended 30 June 2017	2016
	RMB Yuan (unaudited)	RMB Yuan (audited)

Ending balance of previous reporting period	657,375,780.62	552,002,849.22
Add: Beginning adjustment for undistributed profit	-	-
Including: Change of consolidation scope under common control	-	-
Beginning balance of the Reporting Period	657,375,780.62	552,002,849.22
Add: Net profits attributable to the parent company's shareholders in the current year	106,774,952.86	45,867,145.68
Less: appropriation of legal surplus reserve	-	-
Appropriation of discretionary surplus reserves	-	-
Appropriation of provision for general risk	-	-
Common stock dividends payable	-	9,146,256.60
others	-	-
Ending balance of the Reporting Period	**764,150,733.48**	**588,723,738.30**

10. Operating income and costs

	Six months ended 30 June	
	2017	2016
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Main operations	2,378,558,347.69	1,981,388,201.25
Other operation	24,715,813.57	17,112,211.66
Total	**2,403,274,161.26**	**1,998,500,412.91**

	Six months ended 30 June	
	2017	2016
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Main operations	1,708,859,077.50	1,515,564,517.80
Operation	34,364,290.55	25,135,887.36
Total	**1,743,223,368.05**	**1,540,700,405.16**

11. Taxes and surcharges

	Six months ended 30 June	
	2017	2016
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Business tax	-	207,109.62
City maintenance and construction tax	9,262,407.48	8,165,599.45
Educational surcharges	6,616,005.30	5,832,406.29

Local water conservancy fund	1,230,754.03	1,166,481.27
House property tax#	5,589,639.32	-
Tenure tax#	8,387,170.07	-
Vehicle usage tax#	38,004.39	-
Stamp duty#	1,084,223.80	-
Total	**32,208,204.39**	**15,371,596.63**

#Note: Taxes and surcharges for the Reporting Period is substantially higher than the same period in 2016 due to the promulgation of the 增值稅會計處理規定 (Provisions for the Accounting Treatment for Value Added Tax*) by the Accounting Department of Ministry of Finance of the PRC on 26 January 2017. The taxes and relevant surcharges recorded in the administrative expenses are placed under the tax and surcharges items, whereas the comparative data for the previous reporting period were not adjusted.

12. Income tax expenses

(1) Income tax expenses

	Six months ended 30 June	
	2017	2016
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
The current income tax calculated in accordance with the tax law and related regulations	29,310,628.71	12,763,098.20
Including: PRC enterprise income tax	28,802,264.57	12,763,098.20
Hong Kong profits tax	-	-
USA corporate tax	508,364.14	-
Deferred income tax expense	(412,443.17)	1,273,157.78
Overstatements (understatements) from previous years	4,624,341.31	1,262,290.69
Total	**33,522,526.85**	**15,298,546.67**

(2)Adjustment process between accounting profits and income tax expenses

	Six months ended 30 June
	2017
	RMB (unaudited)
Annual total profit from amalgamation	147,562,389.11
Income tax expense calculated in accordance with legal/applicable tax rate	22,134,358.37
Effect of different tax rate applicable to subsidiaries	5,835,302.62
Effect of income tax before adjustment	4,624,341.31
Effect of non-assessable income	-
Effect of cost, expense and loss non-deductible	-
Effect of deductible loss of the unrecognised deferred income tax assets before usage	(24,159.57)
Deductible temporary difference or effect of deductible loss of unrecognised deferred income assets in the current year	952,684.12

Income tax expense	**33,522,526.85**

13. Earnings per share

The calculation of the basic earnings per share is based on the Group's profit for the period attributable to the owners of the Company of RMB 106,774,952.86 (2016: RMB 45,867,145.68) and based on the weighted average of 457,312,830 shares (2016: 457,312,830 shares) in issue during the period.

	Six months ended 30 June	
	2017	2016
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Consolidated net profit attributable to shareholders of ordinary shares of the parent company	106,774,952.86	45,867,145.68
Weighted average of ordinary shares outstanding of the parent company	457,312,830.00	457,312,830.00
Basic earnings per share	0.23	0.10

Basic earnings per share and diluted earnings per share for the six months ended 30 June 2017 and that for the six months ended 30 June 2016 are the same as there were no dilutive events existed during both periods.

14. Dividends

The board of the directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: nil).

	Six months ended 30 June	
	2017	2016
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
No dividend was paid during the interim period (year ended 31 December 2015: RMB0.02 per share)	-	9,146,256.60

X. DOCUMENTS FOR INSPECTION AND PLACE FOR INSPECTION

(1) DOCUMENTS FOR INSPECTION

i. The Company's 2017 interim results announcement signed by the Chairman of the Board.

ii. Financial reports signed and stamped by the legal representative, the financial controller and the chief of the accounting department of the Company.

(2) PLACE FOR INSPECTION

Office of the secretary to the Board of the Company.

By Order of the Board
Shandong Xinhua Pharmaceutical Company Limited
Zhang Daiming
Chairman

14 August 2017, Zibo, PRC

As at the date of this announcement, the Board comprises:

Executive Directors:
Mr. Zhang Daiming (Chairman)
Mr. Du Deping

Independent Non-executive Directors:
Mr. Li Wenming
Mr. Du Guanhua
Mr. Chan Chung Kik, Lewis

Non-executive Directors:
Mr. Ren Fulong
Mr. Xu Lie
Mr. Zhao Bin

**for identification purpose only*