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: 0719)

2018 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "**Board**") and directors ("**Directors**") of Shandong Xinhua Pharmaceutical Company Limited (the "**Company**") hereby announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018 (the "**Reporting Period**"). The following financial information has been prepared in accordance with China Accounting Standards for Business Enterprises (the "**CASBE**").

This announcement is published in Chinese and English. In case of 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 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 publication of the annual 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. FINANCIAL SUMMARY

Principal financial data prepared in accordance with CASBE (audited)

Unit: Renminbi (“**RMB**”)

	2018	2017	Change as compared to that of last year	2016
Operating income	5,207,868,838.88	4,515,716,784.19	15.33%	4,014,963,065.74
Total profits	325,075,858.17	268,173,876.00	21.22%	159,968,492.21
Income tax expense	50,791,868.25	46,925,124.11	8.24%	26,921,218.34
Net profits	274,283,989.92	221,248,751.89	23.97%	133,047,273.87
Minority interest income	23,450,564.77	11,656,844.66	101.17%	10,775,724.19
Net profit attributable to shareholders of listed company	250,833,425.15	209,591,907.23	19.68%	122,271,549.68
Net profit attributable to shareholders of listed company after deduction of non-recurring profit or loss	232,945,689.24	168,348,978.97	38.37%	100,986,664.19
Net cash flow from operating activities	344,609,119.10	389,971,809.35	（11.63%）	439,348,332.79
Basic earnings per share	0.40	0.35	14.29%	0.21
Diluted earnings per share	0.40	0.35	14.29%	0.21
Ratio of weighted average return on net assets	9.77%	9.70%	Increased 0.07 percentage points	6.31%

	As at 31 December 2018	As at 31 December 2017	Change as compared to that of last year	As at 31 December 2016
Total assets	5,916,156,319.63	5,273,647,124.63	12.18%	4,722,785,963.84
Total liabilities	3,119,603,287.55	2,694,193,743.82	15.79%	2,643,478,538.19
Minority shareholders’ equity	109,304,714.07	99,429,604.22	9.93%	90,887,601.32

Total of equity assigned to the shareholders of listed company	2,687,248,318.01	2,480,023,776.59	8.36%	1,988,419,824.33

Note: In this year, the Company implemented a capital reserve fund to allot 3 shares for every 10 shares held by all shareholders, and re-presented the basic earnings per share and diluted earnings per share for the previous year.

III. CHANGES IN SHARE CAPITAL STRUCTURE AND SHAREHOLDERS' INFORMATION

1. Table of changes in share capital structure

Unit: share

	31 December 2018		31 December 2017	
Class of shares	Number of shares	% of the total share capital	Number of shares	% of the total share capital
1. Total number of conditional tradable shares	27,364,370	4.400	21,049,516	4.400
State-owned shares	-	-	-	-
Shares owned by domestic legal persons	27,352,768	4.398	21,040,591	4.398
Conditional tradable shares owned by senior management (A shares)	11,602	0.002	8,925	0.002
Others	-	-	-	-
2. Total number of unconditional tradable shares	594,495,077	95.600	457,303,905	95.600
RMB-denominated ordinary shares (A shares)	399,495,077	64.242	307,303,905	64.242
Non-RMB-denominated foreign listed shares (H shares)	195,000,000	31.358	150,000,000	31.358
3. Total number of shares	621,859,447	100.00	478,353,421	100.00

2. Shareholders' information

(1) As at 31 December 2018, the Company had a total of 31,019 shareholders, including 44 holders of H Shares and 30,975 holders of A Shares. As at 28 February 2019, the Company had a total of 30,943 shareholders, including 44 holders of H Shares and 30,899 holders of A Shares.

(2) As at 31 December 2018, the top ten shareholders of the Company were as follows:

Unit: share

Name of shareholders	Nature of shareholders	% of the total share capital	Number of shares held at the end of the Reporting Period	Change over the Reporting Period	Number of conditional tradable shares held	Number of unconditional tradable shares
山東新華醫藥集團有限責任公司 Shandong Xinhua Pharmaceutical Group Company Limited ("**SXPGC**")	State-owned; A shares	32.94 (Note 1)	204,864,092	47,276,329	-	204,864,092
香港中央結算（代理人）有限公司 HKSCC (Nominees) Limited	H shares	31.13	193,594,877	44,649,279	-	193,594,877
巨能資本管理有限公司－山東聚贏產業基金合夥企業（有限合夥） (Ju Neng Capital Management Company Limited — Shandong Ju Ying Industrial Fund Partnership (Limited Partnership)*)	Fund	3.75	23,310,176	5,379,271	23,310,176	-
黃佩玲（HUANG PEILING)	Natural person in the territory	0.74	4,616,906	4,616,906	-	4,616,906
全國社保基金一零七組合 (National Social Security Fund 107 Portfolio*)	Fund	0.69	4,302,177	992,810	-	4,302,177
山東新華制藥股份有限公司－第一期員工持股計劃 (Shandong Xinhua Pharmaceutical Company Limited －Phase I Employee Share	Share Ownership Scheme	0.65	4,042,592	932,906	4,042,592	-

Ownership Scheme*)						
中國建設銀行股份有限公司－鵬華醫療保健股票型證券投資基金 （China Construction Bank Co., Ltd. － Peng Hua Healthcare Equity Securities Investment Fund*）	Fund	0.50	3,092,750	3,092,750	-	3,092,750
林穗賢（LIN SUIXIAN）	Natural person in the territory	0.39	2,442,444	2,254,650	-	2,442,444
於泳（YU YONG）	Natural person in the territory	0.38	2,367,560	2,367,560	-	2,367,560
中海信託股份有限公司－中海－浦江之星353號集合資金信託 (Zhonghai Trust Co., Ltd. — Zhonghai-Pujiang Star No. 353 Collective Fund Trust*)	Trust Fund	0.33	2,030,000	2,030,000	-	2,030,000

(3) As at 31 December 2018, the ten largest shareholders of unconditional tradable shares of the Company were as follows:

Unit: share

Name of shareholders	Number of unconditional tradable shares at the end of the Reporting Period	Nature of shares
山東新華醫藥集團有限責任公司 SXPGC	204,864,092	RMB ordinary share
香港中央結算（代理人）有限公司 HKSCC (Nominees) Limited	193,594,877	Overseas listed foreign share
黃佩玲 HUANG PEILING	4,616,906	RMB ordinary share
全國社保基金一零七組合	4,302,177	RMB ordinary share

National Social Security Fund 107 Portfolio		
中國建設銀行股份有限公司－鵬華醫療保健股票型證券投資基金 China Construction Bank Co., Ltd.－Peng Hua Healthcare Equity Securities Investment Fund	3,092,750	RMB ordinary share
林穗賢 LIN SUIXIAN	2,442,444	RMB ordinary share
於泳 YU YONG	2,367,560	RMB ordinary share
中海信託股份有限公司－中海－浦江之星 353 號集合資金信託 Zhonghai Trust Co., Ltd. — Zhonghai-Pujiang Star No. 353 Collective Fund Trust	2,030,000	RMB ordinary share
陳勝泉 CHEN SHENGQUAN	1,519,360	RMB ordinary share
興業銀行股份有限公司－中郵核心競爭力靈活配置混合型證券投資基金 China Industrial Bank Co. Ltd. – China Post Core Competence Flexible Allocation Mixed Fund	1,377,850	RMB ordinary share

Notes:

(1) As of 31 December 2018, 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. SXPGC and Well Bring hold 204,864,092 A shares and 17,791,000 H shares (overseas listed foreign shares) of the Company respectively or approximately 32.94% and 2.86% of the issued share capital of the Company respectively. As such, Hualu Holdings is deemed to be interested in the abovementioned shares.

(2) Description of the relationships between the abovementioned shareholders or persons acting in concert:

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 of the Company, nor if any of them are persons acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies" ("**Administration Measures for Takeover**") issued by the CSRC. In addition, the Directors are not aware as to whether there is any Association Relationship 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 as to whether there is any Association Relationship amongst the abovementioned shareholders of unconditional tradable shares or between the abovementioned shareholders of unconditional tradable shares and the ten largest shareholders, or if any of them are persons acting in concert as defined in the Administration Measures for Takeover.

(3) Save as disclosed, as far as the Company is aware the only domestic shareholder directly holding more than 5% of the total issued shares of the Company is SXPGC.

(4) Save as disclosed above and so far as the Directors are aware, as at 31 December 2018, no other person (other than the Directors, supervisors of the Company (the "**Supervisors**"), chief executives 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 SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("**SFO**") and as recorded in the register required to be kept under section 336 of the SFO), or was otherwise a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**")) of the Company.

3. As far as the Company is aware, there had been no change of controlling shareholder (as defined under the Listing Rules) of the Company during the Reporting Period.

IV. DIVIDENDS

The Board proposes the profit distribution plan for year 2018 as follows: based on the total issued shares of the Company of 621,859,447 shares (of which 426,859,447 shares were A shares and 195,000,000 shares were H shares) as at 31 December 2018, it is proposed a dividend of RMB0.1 (tax inclusive) for every share of the Company be paid to shareholders. The abovementioned proposed dividends distribution is subject to approval by shareholders of the Company. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

An announcement containing further details as to, amongst others, the payment currency and applicable foreign exchange rate for the proposed cash dividend, the relevant record date and book closure period will be disclosed in due course.

V. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Changes of Directors, Supervisors and senior management and their respective interests in the securities of the Company were as follows:

Name	Position	as at 31 December 2018	Change in shareholding	as at 31 December 2017
Directors				
Mr. Zhang Daiming	Chairman	190,358	3,570(note 2) 40,358(note 3)	11,900(note 2) 134,529(note 3)
Mr. Ren Fulong	Non-executive Director	58,596	13,453(note 3)	44,843(note 3)
Mr. Du Deping	Executive Director, General Manager	151,568	34,977 (note 3)	116,591 (note 3)
Mr. Xu Lie	Non-executive Director	81,614	18,834 (note 3)	62,780 (note 3)
Mr. Zhao Bin	Non-executive Director	Nil	Nil	Nil

Mr. Chan Chung Kik, Lewis	Independent non-executive Director (Resigned on 29 June 2018)	Nil	Nil	Nil
Mr. Lo Wah Wai	Independent non-executive Director(Appointed on 29 June 2018)	Nil	Nil	Nil
Mr. Du Guanhua	Independent non-executive Director	Nil	Nil	Nil
Mr. Li Wenming	Independent non-executive Director	Nil	Nil	Nil
Supervisors				
Mr. Li Tianzhong	Chairman of Supervisory Committee	93,272	21,524 (note 3)	71,748 (note 3)
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil	Nil
Mr.Xiao Fangyu	Independent Supervisor	Nil	Nil	Nil
Ms. Hu Yanhua	Employee Supervisor	34,977	8,072 (note 3)	26,905 (note 3)
Mr. Wang Jianping	Employee Supervisor	Nil	Nil	Nil
Other senior management				
Mr. Wang Xiaolong	Deputy General Manager	81,614	18,834 (note 3)	62,780 (note 3)
Mr. Dou Xuejie	Deputy General Manager	34,977	8,072 (note 3)	26,905 (note 3)
Mr. Du Deqing	Deputy General Manager	81,614	18,834 (note 3)	62,780 (note 3)
Mr. He Tongqing	Deputy General Manager	116,592	26,906 (note 3)	89,686 (note 3)
Mr. Hou Ning	Financial Controller	116,592	26,906 (note 3)	89,686 (note 3)
Mr. Zheng Zhonghui	Deputy General Manager	23,318	5,381 (note 3)	17,937 (note 3)
Mr. Cao Changqiu	Secretary to the Board	2,331	538 (note 3)	1,793 (note 3)
Total		**1,067,122**	**246,259**	**820,863**

Note:

(1) 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.

(2) Mr. Zhang Daiming personally holds15,470 A Shares.

(3) The relevant shares held by the Employee Share Ownership Scheme of the Company of which the relevant person is a participant.

(4) So far as the Directors, the senior management and Supervisors are aware, as at 31 December 2018, 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.

VI.MAIN BUSINESS AND FINANCIAL SITUATION

The Group is mainly engaged in the development, production and sale of chemical bulk drugs, preparations, medical intermediates and other products.

Analysis of operating results and financial situation in accordance with CABSE

As at 31 December 2018, the total assets of the Group were RMB5,916,156,000, representing an increase of 12.20% compared with the beginning of the year. The increase in total assets was mainly due to operating profits generated this year.

As at 31 December 2018, the prepayments of the Group were RMB31,787,000, representing an increase of 39.37% compared with the beginning of the year. The increase was mainly due to the increase in the prepaid procurement amount for maintaining normal production operations this year.

As at 31 December 2018, the inventories of the Group were RMB951,723,000, representing an increase of 33.44% compared with the beginning of the year. The increase was mainly attributable to stocking of goods in response to the uncertainties over production in the winter this year, resulting in significant increase in part of the finished products.

As at 31 December 2018, the projects in progress of the Group was RMB253,212,000, representing a decrease of 41.73% compared with the beginning of the year. The decrease was mainly due to the fact that the modern medicine international cooperation center project and other projects met the requirement of transfer of capital in advance, which was transferred as a fixed asset item for accounting purpose.

As at 31 December 2018, the short-term borrowing of the Group was RMB235,000,000, representing an increase of RMB83,162,000 compared with the beginning of the year. The non-current liabilities due within one year was RMB606,637,000, representing an increase of RMB517,016,000 compared with the beginning of the year. The long-term borrowing was RMB522,643,000, representing a decrease of RMB408,857,000 compared with the beginning of the year. Such changes in the bank loans structure were mainly because part of the long-term borrowings were transferred to non-current liabilities due within one year.

As at 31 December 2018, the contract liabilities of the Group were RMB228,622,000, representing an increase of 85.43% compared with the beginning of the year. The increase was mainly because the subsidiaries of the Group received payments in advance for property sale this year.

As at 31 December 2018, the taxes and dues payable of the Group was RMB23,623,000, representing an increase of 96.90% compared with the beginning of the year. The increase was mainly due to the increase in the amount of the value added and income tax payable.

As at 31 December 2018, the long-term amount payables of the Group were RMB 74,174,000, representing a decrease of 37.93% compared with the beginning of the year. The decrease was primarily due to the carryover of the funds received from the budget of the central government in the prior period to be included in the capital reserve this year.

As at 31 December 2018, the deferred income tax liabilities of the Group were RMB30,883,000, representing an increase of 80.92% from the beginning of the year. The main reason for the increase was that the Company deducted the depreciation expense of newly purchased machinery and equipment with a unit value of not more than RMB5 million in the calculation of taxable income during the Reporting Period in accordance with the Ministry of Finance and the State Administration of Taxation [2018] No. 54 document.

As at 31 December 2018, the total liabilities of the Group were RMB3,119,603,000, representing an increase of 15.79% from the beginning of the year.

As at 31 December 2018, the total equity attributable to the shareholders of the Company was RMB2,687,248,000, representing an increase of 8.39% from the beginning of the year. The increase was primarily due to operating profits generated this year.

For the year of 2018, the Group's administration expense amounted to RMB259,892,000, representing an increase of 16.26% as compared with the same period last year. The increase was mainly attributable to the increase in employee remuneration.

The Group's selling expense amounted to RMB654,909,000 in 2018, representing an increase of 28.48% as compared with the same period last year, and the increase was mainly attributable to the increase of terminal sales expenses due to the enhancement of market development.

The Group's research and development expense amounted to RMB186,976,000 in 2018, representing an increase of 16.01% as compared with the same period last year, and the increase was mainly attributable to continuous investment in research and development by the Company.

The Group's financial expenses amounted to RMB34,434,000 in 2018, representing decrease of 56.82% as compared with the same period last year, and the decrease was mainly attributable to the increase in exchange gains as a result of the exchange rate changes this year.

The Group's asset impairment loss amounted to RMB54,640,000 in 2018, representing an increase of RMB38,504,000 as compared with the same period last year, and the increase was mainly attributable to the increase in provision for asset impairment loss.

The Group's other income amounted to RMB21,165,000 in 2018, representing an increase of RMB8,657,000 as compared with the same period last year, and the increase was mainly attributable to the increase of government subsidies received this year.

The Group's gains from asset disposal amounted to RMB3,931,000 in 2018, representing a decrease of RMB42,116,000 as compared with the same period last year, and the decrease was mainly attributable to the disposal of a land use right last year.

The Group's operating profit amounted to RMB337,314,000 in 2018, representing an increase of 19.75% as compared with the same period last year; Gross profit was RMB325,076,000, representing an increase of 21.22% as compared with the same period last year; The net profit attributable to the shareholders of the Company was RMB250,833,000, representing an increase in 19.68% as compared with the same period last year, The increase was mainly attributable to the fact that the Company continued to implement its innovation-driven, international-based development strategy, actively advance its greater preparations strategy in 2018; The Company also attached high importance to structural adjustment of its products, seized development opportunities and improved its operation efficiency in 2018.

The Group's net cash outflow from investing activities was RMB398,350,000 in 2018, representing a year-on-year increase of RMB229,813,000, and the increase was mainly attributable to the continuous increase in investment of modern medicine international cooperation center project and other engineering projects this year.

The Group's net cash flows from financing activities were RMB44,529,000, representing a year-on-year increase of RMB69,761,000, and the increase was mainly due to the active exploration of financing channels and ensuring funding requirements for key projects .

The Group's operating revenue classified by industry, by product and by geographical location in accordance with CASBE in 2018 is as follow (RMB):

	Operating revenue	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	2,319,416,709.05	1,577,758,924.23	31.98%	18.07%	12.97%	Increase by 3.07 percentage points
Preparations	2,213,078,367.19	1,507,324,760.63	31.89%	11.65%	9.08%	Increase by 1.60 percentage points
Medical intermediates and other products	675,373,762.64	564,584,729.38	16.40%	18.69%	20.33%	Decrease by 1.14 percentage points
Total	5,207,868,838.88	3,649,668,414.24	29.92%	15.33%	12.38%	Increase by 1.84 percentage points
By product						
Raw material pharmaceuticals such as antipyretic and analgesic	2,319,416,709.05	1,577,758,924.23	31.98%	18.07%	12.97%	Increase by 3.07 percentage points
Preparations such as tablet, injection, capsule etc.	2,213,078,367.19	1,507,324,760.63	31.89%	11.65%	9.08%	Increase by 1.60 percentage points
Medical intermediates and others	675,373,762.64	564,584,729.38	16.40%	18.69%	20.33%	Decrease by 1.14 percentage points
Total	5,207,868,838.88	3,649,668,414.24	29.92%	15.33%	12.38%	Increase by 1.84 percentage

points

By geographical location

PRC(including Hong Kong)	3,431,359,065.39	2,401,191,117.49	30.02%	11.82%	15.43%	Decrease by 2.19 percentage points
America	835,550,000.85	595,811,638.60	28.69%	23.80%	7.80%	Increase by 10.58 percentage points
Europe	359,195,154.84	261,325,110.16	27.25%	8.38%	(2.10%)	Increase by 7.79 percentage points
Others	581,764,617.80	391,340,547.99	32.73%	32.05%	12.56%	Increase by 11.65 percentage points
Total	5,207,868,838.88	3,649,668,414.24	29.92%	15.33%	12.38%	Increase by 1.84 percentage points

Liquidity and analysis of financial resources and capital structure

As at 31 December 2018, the current ratio and the quick ratio of the Group were 99.54% and 59.21% respectively, the accounts receivables turnover rate (accounts receivables turnover rate = operating revenue/average trade and bill receivables ×100%) and the inventory turnover rate (inventory turnover rate = cost of sales/ net amount of average inventories×100%) were 1,592.07% and 438.42% respectively.

The current ratio and quick ratio varied from those at the end of the previous year, mainly due to the fact that part of the long-term borrowings were transferred to non-current liabilities due within one year. The Group's demand for working capital did not show significant seasonal fluctuation.

The Group's main sources of funds were loans and operating profits. As at 31 December 2018, the total amount of outstanding loans was RMB1,431,185,000. As at 31 December 2018, currency funds of the Group amounted to RMB778,423,000 (including approximately RMB98,965,000 as security deposit for bank acceptance bills). The Group has a good credit record with banks and has sufficient credit lines from banks at its disposal. Therefore, it can meet the liquidity requirements at any time.

As at 31 December 2018, the Company and its subsidiary Shandong Zibo Xincat Pharmaceutical Co., Ltd. charged their respective currency funds of RMB84,204,000 and RMB14,761,000 to the bank for arrangement of bank acceptance bills. The Company's fixed asset of RMB123,285,000 was charged as security for loans. Save as disclosed, the Group did not have other assets charged.

On 6 November 2018, the Company acquired 40% equity interest of Shandong Zibo Xincat Pharmaceutical Co., Ltd. with a listing price of RMB70,673,800 and entered into an equity transfer agreement with Hualu Holdings Co., Ltd.; On 30 November 2018, the Company acquired 40% equity interest of Wanbo Chemical with a listing price of RMB19,582,300 and entered into a capital increase agreement with Xinhua Group; On 20 December 2018, the Company acquired 30% equity interest of Sinochem DSM (Zibo) Co., Ltd. with a listing price of RMB63,030,660 and entered into an equity transfer agreement with Xinhua Group. On 20 February 2019, the above transactions were considered and approved at the extraordinary general meeting of the Company.

Save as the transactions listed above, 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 operating results and financial situation in accordance with CABSE".

As at 31 December 2018, the number of staff employed by the Group was 6,357, and the total amount of salaries and wages for 2018 was RMB493,367,000.

The asset-liability ratio of the Group was 52.73% (asset-liability ratio = total liabilities/total assets ×100%).

The main purposes of the current bank deposits of the Company are for working capital for projects, production and operation.

The assets and liabilities of the Group were mainly recorded in RMB. For the year 2018, the revenue from the Group's exports was approximately US$260,770,000, which was subject to risks associated with the fluctuation of exchange rates. Therefore, the Group has taken the following measures to lower the risks from the fluctuation of exchange rates: (1) the Group has increased the price of its export products to reduce the risks of fluctuation of exchange rates; and (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 the parties.

VII. BUSINESS REVIEW

In 2018, the Group continued to implement its innovation-driven, international-based development strategy and actively advance its greater preparations strategy; It attached high importance to structural adjustment of its products, further consolidated its foundation in management and reinforced the construction of production line engineering projects; It strived to overcome various adversities in market competition and seize development opportunities, such that the operating results of the Company achieved a historical high.

1. <u>To achieve comprehensive development in each of the business segments by increasing its efforts in market expansion</u>

By overcoming various limitations, the Company leveraged on its comprehensive strengths, carried out scientific, steady and organized production of bulk drugs to ensure market needs, hence the sales revenue of bulk drugs showed a year-on-year increase of 18.07%, of which the sales of featured bulk drugs achieved rapid growth. The revenue from the Group's exports was approximately US$261 million, representing a year-on-year increase of 25.46%.

To accelerate marketing promotion on preparations, the Group focused on the new product sales of six major bulk drugs including Rabeprazole and implemented the concept of one strategy for one product. The sales revenue of new products such as preparations showed a year-on-year increase of 40.4%.

The Company proactively pushed forward its international development strategy. Xinhua Perrigo has begun its products transfer of 5 billion solid preparations. Further, the implementation of some key international cooperation projects have been accelerating. During the year, the Company received three ANDA registration numbers from FDA in the United States, and the Company's Ibuprofen tablets were allowed to enter the United States market.

Relying on the planning and layout of e-commerce innovation park, the Company aims to further integrate the development of various businesses, such as B2C, B2B, B2B2C, new retail, healthy city and e-commerce incubation. The e-commerce has achieved a year-on-year increase in sales revenue of 2.93 times.

2. Focusing on technological research to yield significant results in scientific progress

The Company increased investment in research and development and actively accelerated evaluation about consistency of generic drugs. 14 specifications out of 10 varieties passed the clinical BE test, while 6 varieties and 8 approval numbers were declared to CDE and accepted. 3 products completed the onsite inspection conducted by China Food and Drug Administration. Further research on 10 chemical pharmaceutical raw materials was submitted for registration and filing, while re-evaluation for the injections of 5 products was initiated. 4 chemical pharmaceutical raw materials passed technical evaluation and have been qualified for direct marketing. Caffeine green synthesis technology has obtained the Second Prize of Shandong Province Science and Technology Progress Award and Second Prize of Science and Technology Progress in Petrochemical Industry. It received 6 authorized patents and applied for 23 patents. The Company successfully passed the review of high-tech enterprises and once again passed the accreditation from the National Enterprise Technology Center.

3. Focusing on major construction projects vigorously to consolidate the foundation for development

Phase one of the international cooperation center for modern pharmacy project has passed the GMP certification and is ready for use. Construction of the main factory building for phase two of the international cooperation center has been completed and entered the phase of renovation and decoration. With ongoing implementation of continuous, automatic and intelligent transformation, the Group has completed 15 major projects which further improved the automation of production and the productivity of the Company.

4. Enhancing overall strength to strengthen fundamental management

By further investing in production line engineering projects and reinforcing fundamental management, no major or dangerous safety incidents occurred during the year, reaching the standard of eco-friendly discharge. On one hand, the Company has completed 20 projects for safety measures, in which the Guide for the Implementation of Dual Preventive System in the Pharmaceutical Industry compiled by the Company was issued by the Shandong Bureau of Quality and Technical Supervision as the local standard. On the other hand, the Company completed 32 projects for environmental measures, such that the Company was rated by MIIT as among the 3rd group of green manufacturers, and the online monitoring system of energy was rated as the demonstration project of measurement services for the country's energy and resources. The Company's RMB0'000 output value of energy consumption for the year showed a year-on-year decrease of 5.3%, realizing energy conservation by approximately RMB21 million. 8 products obtained GMP certifications and production permits of veterinary drugs. Various official inspections and 169 external audits have been passed, with completion of DMF registration for 16 products in 50 countries, among which 5 products obtained an international registration number.

5. Optimizing incentive mechanism to expand team-building

On the basis of completing the First Phase Employee Share Ownership Scheme in 2017, the Company completed the A Share equity incentive scheme in 2018. There are additional 2 experts in the work station for the Thousand Talents Plan, additional 2 Taishan industry leading talents, of which one person was rated as a National Technical Expert, one as Qilu's Chief Technician and one as a Technician with Outstanding Contribution in Shandong Province. The Company was approved as the Work Station for the Thousand Talents Plan in the country, the Feature Work Station for Qilu's Chief Technicians of Shandong Province and was rated as an exemplary model of school-enterprise collaboration (integration of production and education).

VIII. PROSPECTS

With the economic and social development, aging population, prominent trend of urbanization, the awareness of public health, the coverage of national medical insurance and further increase in affordability, pharmaceutical demand will continue to increase. Government authorities of all levels regard medical healthcare and biomedicine as major emerging industries for incubation and the environment for the pharmaceutical industry is sound for development. Tightened market regulation, more stringent requirements for safety, environmental protection and quality, advanced evaluation of consistency of generic drugs, and the implementation of a "two-vote system" provided more opportunities for development. Along with the successive implementation of the Employee Share Ownership Scheme of the Company, equity incentive and other schemes, cohesion and centripetal force of all staff would be further enhanced.

Meanwhile, the Group faced multiple challenges in development amid a number of uncertainties. The introduction of a series of medical reform policies by the government has created a number of uncertainties. Internationally, the rise of trade protectionism and increase in non-custom trade barriers brought greater influence to new medicine development as well as exports. Tightened regulations on safety, environmental protection and quality increased the difficulty in production and organization of bulk drugs.

As such, in 2019, the Group will focus on the following aspects:

1. <u>Focusing on delivering preeminent sales to yield new results in market development</u>

The Company will accelerate structural adjustment and make breakthrough primarily in preparations. Based on the overall objectives and ultimate requirements of medical reform of the government, the Company will target the main direction of prospective policies and seize every opportunity to take active moves. It will coordinate the integration between marketing personnel working on preparations, network, terminal and other resources by making use of their strengths to offset shortcomings and realize the advantage of complementary effects. The Company will conduct in-depth research on evaluation about consistency, reforms for pharmaceutical and healthcare systems, and policies such as internet hospitals and remote diagnosis, while taking the approval of preparation products in the evaluation about consistency of generic drugs as a chance to execute the concept of one strategy for one product, arrange for planning in advance, and further speed up the development of strategic preparations varieties. It will make every effort to work on tendering, vigorously compete with high-end hospitals, expand the geographical scope for promotion of generic drugs, make greater effort in terminal development, and achieve new breakthroughs in the development of preparations. Relying on healthy city projects, it will spare no effort in setting a strategic layout for online sale of prescription drugs.

Leveraging on comprehensive advantages of bulk drugs such as ancillary production, diversified varieties and specifications, high quality and standard, the Company will seize the opportunity to increase profitability. Meanwhile, it will proactively plan for the business segment of veterinary drugs, further optimize incentive policies for the sales of new products, pay attention to the promotion of featured, exclusive products and new bulk drugs markets, and proactively foster new focal points for growth.

It will accelerate the construction of 7 major projects such as phase two of the modern medicine international cooperation center to realize industrial optimization and upgrade. The Company will accelerate automated and continuous transformation, implement 18 major projects, and further improve the guarantee of its productivity and control standards.

2. Emphasizing on scientific research development to realize new results in scientific and technological advancement

The Company will further invest in science and technology to speed up evaluation on consistency. During the year, it will strive to obtain approval for evaluation about consistency in five varieties, declare 6 varieties to the Center for Drug Evaluation (**CFDA**) and initiate preparatory BE tests for 5 varieties.

The Company will endeavor to obtain approval for 4 new drugs during the year. The Company will further increase cooperation with external parties, consolidate the collaboration with Chinese Academy of Medical Sciences and Shenyang Pharmaceutical University on research of industry, and urge for realizing significant new results in research and development of innovative drugs.

The Company will improve construction of the scientific and technological innovation system, strengthen the reward and punishment mechanism, strive for the best in the commercial production of new industrialized products, and actively cultivate new momentum of development.

3. Proactively implementing international development strategy to accomplish new achievements in international business

The Company will better organize the production of the existing internationally processed preparation products to guarantee product quality and ensure timely supply of goods.

The Company will accelerate the implementation of international cooperation projects to supply commercial goods as soon as possible. Meanwhile, it will accelerate construction of phase two project of the modern medicine international cooperation center, fully demonstrate advantages of customers' resources and introduce more international collaboration projects.

In advancing the export of preparations to the European and US markets, the Company will research and formulate an action plan for the development of markets of "Belt and Road" to expand export of preparations, especially taking Ibuprofen for obtaining the ANDA registration of American FDA certification as a chance to actively open up the international market of Ibuprofen.

On the basis of continuously focusing on DMF registration of bulk drugs, the Company will speed up the international registration of its preparation products. The Company will take advantage of existing internationally commissioned processing orders to improve its overall level of preparation development, and form a new development pattern of preparations for interdependence and accelerated development of the international and domestic markets.

4. Focusing on production line construction to yield new results in fundamental management

The Company will further increase investment in safety and conduct intensive risk assessment of hazardous processes, and improve the safety interlocks of hazardous processes and major sources of danger. Leveraging on implementing the safe production responsibility system for all staff, the Company will further promote the campaign for creation of a self-managed safety team, consolidate and improve the establishment of the safety management system, and promote and enhance the Company's safety culture.

The Company will adhere to the concept of clean production and circular economy and be determined to tackle pollution from its sources and control pollution by use of technology. The Company will secure investment in environmental protection and implement key environmental protection projects in place. The

Company will also reinforce quality management to ensure successful passing of customers' audits, as well as various on-site inspections and certification review. It will, by further strengthening on-site inspection and process management and control, achieve all-staff and full-process management and eliminate potential threats relating to quality. The Company will keep on carrying out all-staff technical quality research activities and better implement key projects.

IX. IMPORTANT ISSUES

Staff and Remuneration

The Group's staff remuneration was formulated in accordance with state policies, the Company's financial condition, and with reference to the remuneration level of the society.

As at 31 December 2018, the number of staff employed by the Group was 6,357, and the total amount of their salaries and wages for the year 2018 was RMB493,367,000.

Purchase, Sale and Redemption of the Company's Listed Securities

On 28 December 2018, at the first extraordinary general meeting of 2018, the second A share class meeting of 2018, and the second H share class meeting of 2018 of the Company, the 2018 A share stock options incentive scheme was considered and approved. On the same day, it was determined that 28 December 2018 was the date of grant at the eighth provisional meeting of the ninth session of the Board of the Company in 2018, and 16.25 million stock options were granted to 185 participants eligible for the incentive scheme.

Save for the above, during the year ended 31 December 2018, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Auditors

The accounts of the Company and the Group for this year prepared in accordance with CASBE have been audited by ShineWing Certified Public Accountants (certified public accountants in the PRC).

The Company had approved the re-appointment of ShineWing Certified Public Accountants as the Company's auditors for the year 2018 and the adaptation of the CASBE to prepare its financial statements as of 31 December 2018 and thereafter at the 2017 annual general meeting on 29 June 2018. The Company intends to re-appoint ShineWing Certified Public Accountants as auditors of the Company for the year 2019 at the 2018 annual general meeting to be held in 2019.

Corporate Governance Code

The Directors (including the independent non-executive Directors) confirm that for the year ended 31 December 2018, the Company complied with all provisions set out in the Corporate Governance Code contained in Appendix 14 to Listing Rules.

The Company has always strived to comply with the corporate governance practices in the Corporate Governance Code.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions conducted by the Directors. Having made specific enquiry to all Directors of the Company, they confirmed that they have complied with the prescribed standard set out in the Model Code throughout the year ended 31 December 2018.

Sale and Purchase of Assets

Save as disclosed under the "Liquidity and analysis of financial resources and capital structure" section, the Group did not have any material acquisitions or disposal of assets or mergers during the Reporting Period.

Amendments to the Articles

The resolutions to amend the articles of association were considered and approved by the annual general meeting of 2017 on 29 June 2018. The amendments to the articles of association of the Company conform to the articles of association of the Company, the provisions of the laws, rules and regulations of the PRC and the Listing Rules.

Audit Committee

Pursuant to Rule 3.21 of the Listing Rules, the Company has set up an audit committee (the "**Audit Committee**").

The Audit Committee has, in tandem with the management of the Company, reviewed the accounting principles, accounting standards and methods adopted by the Group and the auditing, internal control and financial reporting matters of the Group. The Audit Committee has convened four meetings to review the audited financial statements for 2017, the unaudited first quarter financial statements for 2018, the unaudited interim statements for 2018 and the unaudited third quarter financial statements for 2018 respectively.

The Audit Committee convened a meeting on 22 March 2019 to review the audited accounts for the financial year 2018 and this announcement.

Changes in Accounting Policies

Content and reason of accounting policy change	**Approval procedure**	**Note**
"Accounting Standards for Business Enterprises ("**ASBE**") No.22 –Recognition and Measurement of Financial Instruments", "ASBE No.23 – Transfer of Financial Assets", "ASBE No.24 –Hedging Accounting" (the above-mentioned standards referred are collectively referred to as "**New Financial Instrument Standards**", which were released by the Ministry of Finance of PRC on 31 March 2017 in Cai Kuai【2017】No.7, No.8 and No.9; "ASBE No.37 –Presentation of Financial Instruments ", which was released by the Ministry of Finance of PRC on 2 May 2017, have come into force since 1 January 2018. In preparing the financial statements for 2018, the Group implemented relevant accounting standards and handled them in accordance with the relevant interface requirements.	The relevant accounting policy changes were approved by the third meeting of the ninth Board of Directors of the Company on 19 April 2018.	Note 1)
"ASBE No.14 –Revenue"(hereinafter referred to as "**New Revenue Standard**"),which was released by the Ministry of Finance of PRC on 5 July 2017 in Cai Kuai【2017】No.22, has come into force since 1 January 2018. In preparing the financial statements for 2018, the Group implemented relevant accounting standards and handled them in accordance with the relevant interface requirements.	The relevant accounting policy changes were approved by the third meeting of the ninth Board of Directors of the Company on 19 April 2018.	Note 2)
"Notice of the Ministry of Finance on Revising and Issuing the Format of Financial Statements of General Enterprises for 2018" (Cai Kuai (2018) No.15) (hereinafter referred to as" **New Financial Statement Format**"), which was released by the Ministry of Finance of PRC on 15 June 2018, revised the format of general financial statements of enterprises. The Group implemented the relevant accounting standard and handled in accordance with the relevant interface requirements when preparing the 2018 financial statements.	Implemented according to regulations.	Note 3)

1) Implementation of the New Financial Instrument Standards

The Group makes interface adjustments in accordance with the requirements of the New Financial Instrument Standards: the Group does not make adjustments where the data of the previous comparative financial statements involved are not consistent with the requirements of the financial instrument standards. The difference between the original book value of financial instrument and new book value of the implementation of the New Financial Instrument Standards are recorded in retained earnings or other comprehensive incomes of 1 January 2018.

Consolidated financial statements

Report item	Book value as at December 31 2017 according to original financial instrument standards	Impact of the implementation of New Financial Instrument Standards	Implementation of New Financial Instrument Standards		Book value as at 1 January 2018 according to New Financial Instrument Standards
			Reclassification: Voluntary classification through the transfer of financial assets measured at fair value and whose changes are considered in calculating other comprehensive income.*	Remeasurement: provisions for expected credit losses **	
Available-for-sale financial assets	258,141,232.00	(258,141,232.00)	(258,141,232.00)		
Other equity instrument investments		258,141,232.00	258,141,232.00		258,141,232.00
Notes receivable and accounts receivable	435,871,810.21	(626,592.95)		(626,592.95)	435,245,217.26
Other receivables	45,017,383.05	(472,304.02)		(472,304.02)	44,545,079.03
Deferred income tax assets	21,059,785.05	243,612.90		243,612.90	21,303,397.95
Deferred income tax liabilities	17,089,244.98	(18,666.80)		(18,666.80)	17,070,578.18
Surplus reserve	235,509,229.07	(10,577.86)		(10,577.86)	235,498,651.21
Undistributed profit	838,325,395.51	(811,655.15)		(811,655.15)	837,513,740.36
Minority shareholders' equities	99,429,604.22	(14,384.26)		(14,384.26)	99,415,219.96

* The listed equity investments held by the Group are measured at fair value. For investment management purpose, the Group chooses to designate the equity investments as a financial asset measured at fair value and whose changes are considered in calculating other comprehensive income. Therefore, under the New

Financial Instrument Standards, such investments were reclassified as other equity instrument investments on 1 January 2018.
**The New Financial Instrument Standards replaced the "incurred losses" model of original financial instrument standard with "expected credit losses" model. The expected credit losses model requires continuous evaluation of the credit risk of financial assets. Therefore, on 1 January 2018, the Group recalculated the expected credit losses of accounts receivable and other receivables according to the New Financial Instrument Standards, and presented the book value of notes receivable, accounts receivable and other receivables according to the New Financial Instrument Standards. For the difference between the original book value of financial instruments and the new book value on the date of implementation of the standards, on 1 January 2018, the Group adjusted the retained earning of the beginning of the year by the cumulative impact amount generated from the retrospective adjustment.

2）Implementation of the New Revenue Standard

As a result of the implementation of the New Revenue Standard, the Group reassessed the aspects of material contracts such as confirmation, measurement, auditing and presentation, etc. According to stipulations of the New Revenue Standard, the Group chose to adjust only the cumulative impact amount of outstanding contracts as at 1 January 2018. Amount of the cumulative impact of first implementation was adjusted to the value of retained earnings and the amounts of other related items of the first execution period (i.e. 1 January 2018), and no adjustment to the finance statements of 2017 was made.
There is no significant impact on the consolidated and the parent company's income statements from the implementation of New Revenue Standard.
Major adjustments to the consolidated balance sheet of the implementation of the New Revenue Standard are as follows:

Consolidated balance sheet

Book value as at 31 December 2017 according to original revenue standard		**Book value as at 1 January 2018 according to New Revenue Standard**	
Payments received in advance ***	123,295,214.99	Contract liabilities	123,295,214.99

*** The Group reclassified the payments received in advance related to sale of commodities as contract liabilities according to the implementation of New Revenue Standard.

3）Adjustments in New Financial Statement Format

The New Financial Statement Format revised the format of general enterprise financial statements. The important report items and the amount impacted by the retroactive restatement due to the changes in format of financial statements of the Group on 31 December 2017 or in the year of 2017 are listed as follows:

Consolidated financial statements

Items and amount of original financial statements		**Items and amount of new financial statements**	
Notes receivable	123,254,824.94	Notes receivable and accounts receivable	435,871,810.21
Accounts receivable	312,616,985.27		

Notes payable	208,227,829.37	Notes payable and accounts payable	738,293,026.61
Accounts payable	530,065,197.24		
Interest receivable	2,238,698.12	Other payables	302,014,632.23
Dividend payable	19,661,202.16		
Other payables	280,114,731.95		
Long-term payables	47,541,721.66	Long-term payables	119,501,721.66
Special payable	71,960,000.00		
Administrative expenses	384,708,247.89	Administrative expenses	223,534,611.29
		Research and development expenses	161,173,636.60

（2） Notes on the previous comparative data subject to the retroactive adjustments during the first implementation of New Financial Instrument Standards

During the first implementation of the New Financial Instrument Standards, the Group did not make any retroactive adjustments to the previous comparative data.

X. FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH CABSE

Consolidated Balance Sheet (audited)

Unit: RMB Yuan

Assets	Notes	31 December 2018 (audited)	31 December 2017 (audited)
Current assets:			
Monetary funds		778,423,353.71	731,126,274.34
Notes receivable and Accounts receivable	*3*	478,454,671.43	435,871,810.21
Including: Notes receivable		136,220,853.40	123,254,824.94
Accounts receivable		342,233,818.03	312,616,985.27
Prepayments		31,786,512.35	22,806,947.53
Other accounts receivable	*4*	35,077,815.17	45,017,383.05

Inventories	951,723,324.21	713,210,692.52
Other current assets	73,699,758.87	61,956,321.18
Total current assets	**2,349,165,435.74**	**2,009,989,428.83**
Non-current assets:		
Financial assets available for sale	-	258,141,232.00
Long-term equity investment	19,594,473.83	-
Other equity instrument investment	189,739,168.00	-
Real estate investment	69,365,706.41	73,441,754.87
Fixed assets	2,631,152,561.89	2,152,905,567.58
Projects under construction	253,211,929.16	434,545,877.52
Intangible assets	332,703,937.68	323,563,478.78
Deferred income tax assets	22,246,103.11	21,059,785.05
Other non-current assets	48,977,003.81	-
Total non-current assets	**3,566,990,883.89**	**3,263,657,695.80**
Total assets	**5,916,156,319.63**	**5,273,647,124.63**

Consolidated Balance Sheet (audited) (continued)

Unit: RMB Yuan

Liabilities and Shareholders' Equity	**Notes**	**31 December 2018 (audited)**	**31 December 2017 (audited)**
Current liabilities:			
Short-term borrowing		235,000,000.00	151,837,507.11
Notes payable and Accounts payable	*5*	889,606,620.75	738,293,026.61
Funds received in advance		-	123,295,214.99
Contract liability		228,622,058.30	
Payroll payable	*6*	73,456,646.80	68,460,743.73

Taxes and dues payable		23,623,090.44	11,997,561.61
Other payables		285,887,587.92	302,014,632.23
Including：Interest payable		3,020,508.89	2,238,698.12
Dividends payable		5,310,599.53	19,661,202.16
Non-current liabilities due within one year		606,637,247.96	89,621,673.88
Other current liabilities		17,211,380.00	5,319,000.00
Total current liabilities		2,360,044,632.17	1,490,839,360.16
Non-current liabilities:			
Long-term borrowings		522,643,436.60	931,500,000.00
Long-term payables		74,174,473.69	119,501,721.66
Deferred income		128,295,859.52	131,701,917.02
Deferred income tax liabilities		30,883,385.57	17,089,244.98
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		759,558,655.38	1,203,354,383.66
Total liabilities		3,119,603,287.55	2,694,193,743.82
Owners' equity (or Shareholders' equity):			
Capital Stock		621,859,447.00	478,353,421.00
Capital reserve	*7*	622,815,654.30	728,450,324.94
Less: Treasury stock			
Other comprehensive income	*8*	142,645,071.04	199,385,406.07
Special reserve			
Surplus reserve		256,110,049.68	235,509,229.07
Undistributed profits	*9*	1,043,818,095.99	838,325,395.51
Total of equity assigned to the shareholders of parent company		2,687,248,318.01	2,480,023,776.59
Minority shareholders' equities		109,304,714.07	99,429,604.22
Total of shareholders' equity		2,796,553,032.08	2,579,453,380.81
Total of liabilities and shareholder's equity		5,916,156,319.63	5,273,647,124.63

Consolidated Income Statement (audited)

Unit: RMB Yuan

Item	Notes	For the 12 months ended 31 December 2018 (audited)	For the 12 months ended 31 December 2017 (audited)
I. Gross revenue		5,207,868,838.88	4,515,716,784.19
Including: Operating revenue	*10*	5,207,868,838.88	4,515,716,784.19
II. Total operating costs		4,902,771,929.80	4,298,618,395.23
Including: Operating costs	*10*	3,649,668,414.24	3,247,615,838.86
Taxes and surcharges	*11*	61,856,930.53	60,664,577.84
Selling expenses		654,909,174.09	509,748,602.14
Administration expenses		259,892,339.67	223,534,611.29
R&D cost		186,975,801.38	161,173,636.60
Financial expenses		34,434,832.48	79,745,027.94
Including: Interest expense		54,552,277.62	59,529,590.45
Interest income		3,653,972.03	2,904,839.15
Assets impairment loss	*12*	54,640,019.61	16,136,100.56
Credit Impairment Loss		394,417.80	-
Add: Other income		21,165,013.23	12,508,306.00
Investment income (losses to be listed with brackets)		7,120,624.26	6,026,908.54
Including: Return on investment on joint ventures and joint ventures (losses to be listed with brackets）		（34,050.25）	-
Gains from asset disposal (losses to be listed with brackets)		3,931,363.18	40,602,249.52
Including: Profit from sale of property (losses to be listed with brackets)		-	5,445,014.70
III. Operating profits (losses to be listed with brackets)		337,313,909.75	281,680,867.72
Add: non-operating income		2,657,376.13	10,920,615.95

Less: non-operating expenditure		14,895,427.71	24,427,607.67
IV. Total profits (total loss to be listed with brackets)		325,075,858.17	268,173,876.00
Less: income tax expense	*13*	50,791,868.25	46,925,124.11
V. Net profits (net loss to be listed with brackets)		274,283,989.92	221,248,751.89
（I）According to operation continuity		274,283,989.92	221,248,751.89
1. Net profit from continued operations (net losses to belisted in brackets)		274,283,989.92	221,248,751.89
2. Net profit from discontinued operations (net losses to be listed in brackets)		-	-
（II） According to ownership		274,283,989.92	221,248,751.89
1. Net profit attributable to shareholders of parent company		250,833,425.15	209,591,907.23
2. Minority interest income or loss		23,450,564.77	11,656,844.66
VI. Net amount of other comprehensive income after tax(losses to be listed with brackets)		（56,384,297.50）	59,794,367.70
Net amount of other comprehensive income after tax attributable to the shareholders of parent company		（56,740,335.03）	59,964,184.38
（I）Other comprehensive income not subject to reclassification to profit or loss		（58,141,754.40）	61,086,480.80
Changes in fair value of other equity instruments investment		（58,141,754.40）	61,086,480.80
（II）Other comprehensive income to be reclassified to profit or loss		1,401,419.37	（1,122,296.42）
Conversion difference of foreign currency statement		1,401,419.37	（1,122,296.42）
Net amount of other consolidated income after tax attributable to the minority shareholders		356,037.53	（169,816.68）
VII. Total comprehensive income		217,899,692.42	281,043,119.59
Total comprehensive income attributable to the shareholders of parent company		194,093,090.12	269,556,091.61
Total comprehensive income attributable to the minority shareholders		23,806,602.30	11,487,027.98
VIII. Earnings per share:	*14*		
(I) Basic earnings per share		0.40	0.35
(II) Diluted earnings per share		0.40	0.35

SUMMARY NOTES TO THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CASBE

NOTES:

1. Preparation basis of the financial statements

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 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 of Hong Kong Exchanges and Clearing Limited. **(HKEX)** and the Company's accounting policies and accounting estimates.

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 item or situation raising significant doubts of its ability to operate as a going concern. Accordingly, the financial statements are prepared on a going concern basis.

2. Segment information

(a) Description of segments

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

The Group's business segments are as follows:

Chemical bulk drugs :	Development, production and sales of chemical bulk drugs
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 above segments is as follows:

(b) Segment information for the year ended 31 December 2018 and the year ended 31 December 2017(audited):

<u>Year ended 31 December 2018 (audited)</u>

Unit: RMB

Item	Chemical bulk drugs	Preparations	Medical intermediate and other products	Others	Offset amount	Total
Operating revenue	2,321,497,539.99	2,576,140,177.82	1,355,785,474.10	-	(1,045,554,353.03)	5,207,868,838.88
Comprising: Revenue from external customers	2,319,416,709.05	2,213,078,367.19	675,373,762.64	-	-	5,207,868,838.88
Inter-segment transaction income	2,080,830.94	363,061,810.63	680,411,711.46	-	(1,045,554,353.03)	-
Operating cost	1,639,673,665.46	1,833,208,578.29	1,207,585,937.61	-	(1,030,799,767.12)	3,649,668,414.24
Cost offsetting amount	61,914,741.23	325,883,817.66	643,001,208.23	-	(1,030,799,767.12)	-
Expenses for the period	381,843,709.71	674,818,648.66	81,425,766.97	-	(1,875,977.72)	1,136,212,147.62
Total profit（loss）	-	-	-	370,672,225.05	(33,358,315.30)	337,313,909.75
Total assets	3,077,522,426.57	1,611,530,491.91	1,146,540,174.31	1,467,018,836.33	（1,386,455,609.49）	5,916,156,319.63
Total liability	982,219,926.13	864,380,883.48	581,145,189.75	1,483,719,431.27	（791,862,143.08）	3,119,603,287.55

Year ended 31 December 2017 (audited)

Unit: RMB

Item	Chemical bulk drugs	Preparations	Medical intermediate and other products	Others	Offset amount	Total
Operating revenue	1,969,877,819.55	2,343,280,366.61	1,151,933,206.76	-	(949,374,608.73)	4,515,716,784.19
Comprising: revenue from external customers	1,964,518,136.35	1,982,189,474.18	569,009,173.66	-		4,515,716,784.19
Inter-segment transaction income	5,359,683.20	361,090,892.43	582,924,033.10	-	(949,374,608.73)	-
Operating cost	1,441,359,036.62	1,744,748,645.80	1,022,520,815.49	-	(961,012,659.05)	3,247,615,838.86
Cost offsetting amount	44,736,437.21	362,941,126.10	553,335,095.74	-	(961,012,659.05)	-
Expenses for the period	303,335,936.60	612,070,821.73	58,795,119.64	-	-	974,201,877.97
Total profit (loss)	-	-	-	274,280,037.36	7,400,830.36	281,680,867.72
Total assets	2,616,440,054.82	1,458,152,818.13	1,063,400,196.07	1,335,578,854.38	（1,199,924,798.77）	5,273,647,124.63
Total liability	922,370,357.92	716,136,253.74	514,040,053.38	1,265,087,374.98	（723,440,296.20）	2,694,193,743.82

3. Notes receivable and Accounts receivable

	31 December 2018	1 January 2018
	RMB Yuan	RMB Yuan
	(audited)	(audited)
Accounts receivable	136,220,853.40	123,254,824.94
Accounts receivable	400,860,741.73	370,143,508.49
Less: Provision for bad debts of accounts receivable	58,626,923.70	58,153,116.17
	478,454,671.43	**435,245,217.26**

Aging analysis of notes receivable based on transaction date is as follows:

	31 December 2018	1 January 2018
	RMB Yuan	RMB Yuan
	(audited)	(audited)
0-1 year(including 1 year)	136,220,853.40	123,254,824.94
Total	**136,220,853.40**	**123,254,824.94**

Aging analysis of accounts receivable based on transaction date is as follows:

	31 December 2018	1 January 2018
	RMB Yuan	RMB Yuan
	(audited)	(audited)
0-1 year (including 1 year)	340,660,102.81	311,405,786.98
1 to 2 years (including 2 years)	1,573,715.22	574,200.75
2 to 3 years (including 3 years)	-	10,404.59
Total	**342,233,818.03**	**311,990,392.32**

4. Other accounts receivable

	31 December 2018	1 January 2018
	RMB Yuan	RMB Yuan
	(audited)	(audited)
Other accounts receivable	55,384,638.97	64,931,292.56
Less: Provision for bad debts of other accounts receivable	20,306,823.80	20,386,213.53
	35,077,815.17	**44,545,079.03**

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

	31 December 2018	1 January 2018
	RMB Yuan	RMB Yuan
	(audited)	(audited)
0-1 year (including 1 year)	16,688,135.84	26,112,333.27
1 to 2 years (including 2 years)	8,289,955.33	10,397,004.68
2 to 3 years (including 2 years)	10,099,724.00	8,035,741.08
Total	**35,077,815.17**	**44,545,079.03**

5. Notes payable and accounts payable

	31 December 2018	1 January 2018
	RMB Yuan	RMB Yuan
	(audited)	(audited)
Notes payable	426,876,630.26	208,227,829.37
Accounts payable	462,729,990.49	530,065,197.24
	889,606,620.75	**738,293,026.61**

Aging analysis of notes payable based on transaction date is as follows:

	31 December 2018	1 January 2018
	RMB Yuan	RMB Yuan
	(audited)	(audited)
0-1 year (including 1 year)	426,876,630.26	208,227,829.37
Total	**426,876,630.26**	**208,227,829.37**

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

	31 December 2018	1 January 2018
	RMB Yuan	RMB Yuan
	(audited)	(audited)
0-1 year (including 1 year)	446,818,566.36	507,439,905.53
1-2 years (including 2 years)	9,746,960.70	15,463,021.70
2-3 years (including 3 years)	1,828,043.43	2,206,933.89
Over 3 years	4,336,420.00	4,955,336.12
Total	**462,729,990.49**	**530,065,197.24**

6. Payroll payable

(1) Classification of payroll payable

	1 January 2018	Increase during the year	Decrease during the year	31 December 2018
	RMB Yuan	RMB	RMB	RMB Yuan
	(audited)			(audited)
Short-term wages	68,460,743.73	636,167,349.41	631,171,446.34	73,456,646.80
Post-employment welfare - defined contribution plan	-	67,330,477.70	67,330,477.70	-
Dismissal welfare	-	190,878.00	190,878.00	-
Total	68,460,743.73	703,688,705.11	698,692,802.04	73,456,646.80

(2) Short-term wages

	1 January 2018	Increase during the year	Decrease during the year	31 December 2018
	RMB Yuan (audited)	RMB	RMB	RMB Yuan (audited)
Salary, bonus, allowance and subsidy	63,856,096.87	499,855,907.89	493,367,235.01	70,344,769.75
Employee welfare expenses	-	29,191,781.69	29,191,781.69	-
Social insurance charges	-	31,090,542.25	31,090,542.25	-
Comprising: Medical insurance premiums	-	24,555,383.73	24,555,383.73	-
Work injury insurance premiums	-	3,053,692.54	3,053,692.54	-
Maternity insurance premium	-	3,481,465.98	3,481,465.98	-
Housing provident fund	-	23,410,537.82	23,410,537.82	-
Labour union expenditure & personnel education fund	4,604,646.86	8,704,144.00	10,196,913.81	3,111,877.05
Labour costs	-	43,914,435.76	43,914,435.76	-
Total	**68,460,743.73**	**636,167,349.41**	**631,171,446.34**	**73,456,646.80**

(3) Defined contribution plan

	1 January 2018	Increase during the year	Decrease during the year	31 December 2018
	RMB Yuan (audited)	RMB	RMB	RMB Yuan (audited)
Basic retirement insurance	-	64,901,205.61	64,901,205.61	-
Unemployment insurance premium	-	2,429,272.09	2,429,272.09	-
Total	**-**	**67,330,477.70**	**67,330,477.70**	**-**

7. Capital surplus

	1 January 2018	Increase during the year	Decrease during the year	31 December 2018
	RMB Yuan (audited)	RMB	RMB	RMB Yuan (audited)
Capital stock premium	626,442,192.76	-	170,394,376.37	456,047,816.39
Other capital reserves	102,008,132.18	64,759,705.73	-	166,767,837.91
Total	**728,450,324.94**	**64,759,705.73**	**170,394,376.37**	**622,815,654.30**

8. Other comprehensive income

	1 January 2018	Amount incurred this year: Income tax incurred this year	Less: Amount recorded into other comprehensive income in previous year transferred to profit or loss this year	Less: income tax expense	Attributable to the parent company after tax	Attributable to minority shareholders after tax	31 December 2018
	RMB Yuan	RMB	RMB	RMB	RMB	RMB	RMB Yuan
I. Other comprehensive income unable to be reclassified into profit or loss in future	201,378,526.90	(68,402,064.00)	-	(10,260,309.60)	(58,141,754.40)	-	143,236,772.50
Fair value variation of other equity instrument investments	201,378,526.90	(68,402,064.00)	-	(10,260,309.60)	(58,141,754.40)	-	143,236,772.50
II. Other comprehensive income to be reclassified into profit or loss in future	(1,993,120.83)	1,757,456.90	-	-	1,401,419.37	356,037.53	(591,701.46)
Conversion difference of financial statement in foreign currency	(1,993,120.83)	1,757,456.90	-	-	1,401,419.37	356,037.53	(591,701.46)

Total	199,385,406.07	(66,644,607.10)	-	(10,260,309.60)	(56,740,335.03)	356,037.53	142,645,071.04

9. Undistributed profits

	31 December 2018	1 January 2018
	RMB Yuan	RMB Yuan
	(audited)	(audited)
Ending balance of previous year	**838,325,395.51**	**657,375,780.62**
Add: Beginning adjustment for undistributed profit	(811,655.15)	-
Including: Change of accounting policies	(811,655.15)	-
Beginning balance of the current period	**837,513,740.36**	**657,375,780.62**
Add: Net profits attributable to the parent company's shareholders in the current period	250,833,425.15	209,591,907.23
Others	187,652.06	-
Less: appropriation of legal surplus reserve	20,799,050.53	14,291,689.71
Common stock dividends payable	23,917,671.05	14,350,602.63
Ending balance of current period	**1,043,818,095.99**	**838,325,395.51**

10. Operating revenue and cost

(1) Operating revenues and costs

Item	12 months as of 31 December 2018 (Audited)		12 months as of 31 December 2017 (Audited)	
	Revenue	**Cost**	**Revenue**	**Cost**
Main operation	5,129,699,209.85	3,560,028,756.12	4,462,383,633.71	3,172,291,355.66
Other operation	78,169,629.03	89,639,658.12	53,333,150.48	75,324,483.20
Total	**5,207,868,838.88**	**3,649,668,414.24**	**4,515,716,784.19**	**3,247,615,838.86**

(2) Revenues from contracts

Classification of contract	Chemical bulk drugs	Preparations	Chemicals and other products	Total
Commodity type				
Among：				
Chemical bulk drugs	2,319,416,709.05	-	-	2,319,416,709.05
Reagents	-	2,213,078,367.19	-	2,213,078,367.19
Chemicals and other products	-	-	675,373,762.64	675,373,762.64
Total	**2,319,416,709.05**	**2,213,078,367.19**	**675,373,762.64**	**5,207,868,838.88**
Classification by regions of the income source				
Where：				
China (including Hong Kong)	760,908,428.34	2,175,790,809.64	494,659,827.41	3,431,359,065.39
Americas	739,943,026.30	-	95,606,974.55	835,550,000.85
Europe	257,359,054.02	37,287,557.55	64,548,543.27	359,195,154.84
Others	561,206,200.39	-	20,558,417.41	581,764,617.80
Total	**2,319,416,709.05**	**2,213,078,367.19**	**675,373,762.64**	**5,207,868,838.88**
Classification by contract performance obligation				
Among ：				
Recognition of revenue at a certain point in time	2,319,416,709.05	2,213,078,367.19	675,373,762.64	5,207,868,838.88
Recognition of revenue within	-	-	-	-

Classification of contract	Chemical bulk drugs	Preparations	Chemicals and other products	Total
a certain period				
Total	**2,319,416,709.05**	**2,213,078,367.19**	**675,373,762.64**	**5,207,868,838.88**

(3) Information related to compliance obligations

According to the contract, the Group, being the main responsible person, fulfills its supply obligations in accordance with the categories and standards required by the customers. For sales contracts in China, 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 overseas sales contract in China, 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 payment terms of different customers and products are different. Some sales of the Group are carried out in the form of advance receipts, while the rest of the sales are granted a credit period of a certain duration.

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

At the end of current year, the amount of revenue with signed contracts but unfulfilled or uncompleted performance obligation is 202,583,711.68 yuan which is expected to be recognized in the period between 2019 and 2020.

11. Taxes and surcharges

Item	12 months as of 31 December 2018 (Audited)	12 months as of 31 December 2017 (Audited)
City maintenance and construction tax	17,456,741.52	16,276,618.60
Land use tax	15,634,596.64	16,361,907.64
House property tax	12,711,074.16	12,276,639.19
Educational surcharges	12,469,100.99	11,626,155.82
Stamp duty	2,283,935.45	2,329,233.84
Local Water Conservancy Fund	1,242,770.39	1,735,819.84
Vehicle usage tax	58,711.38	58,202.91
Total	**61,856,930.53**	**60,664,577.84**

12. Assets impairment loss

Item	12 months as of 31 December 2018 (Audited)	12 months as of 31 December 2017 (Audited)
Bad debt losses	-	(4,480,944.31)
Inventory impairment loss	39,939,054.18	18,008,351.05
Loss from fixed assets impairment	14,700,965.43	2,608,693.82
Total	**54,640,019.61**	**16,136,100.56**

13. Income tax expenses

（1）Income tax expenses

Item	12 months as of 31 December 2018 (Audited)	12 months as of 31 December 2017 (Audited)
The current income tax calculated in accordance with the tax law and related regulations	25,633,976.09	32,077,945.65
-PRC enterprise income tax	24,084,134.51	31,403,119.36
-Hong Kong profits tax return	-	-
-USA federal and state tax	913,185.81	674,826.29
-Dutch corporation tax	636,655.77	-
-Deferred income tax expense	23,130,411.83	9,685,580.92
Previous years more than one (less)	2,027,480.33	5,161,597.54
Total	**50,791,868.25**	**46,925,124.11**

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

Item	12 months as of 31 December 2018 (Audited)
Annual total profit from amalgamation	325,075,858.17
Income tax expense calculated in accordance with legal/applicable tax rate	48,761,378.73
Effect of different tax rate applicable to subsidiaries	10,878,904.99
Effect of adjustments to previous years income tax	2,027,480.33
Effect of non-assessable income	(996,467.17)
Effect of cost, expense and loss nondeductible	2,276,851.62
Effect of deductible loss of the unrecognized deferred income tax assets before usage	(458,820.69)
Deductible temporary difference or effect of deductible loss of unrecognized deferred income assets in the current year	92,332.51
Additional deductions	(11,695,774.96)
Others	(94,017.11)
Income tax expenses	**50,791,868.25**

14. 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 RMB250,833,425.15 (2017: RMB 209,591,907.23) and based on the weighted average of 621,859,447 shares in issue (2017: 460,819,595 shares) during the period.

	Year 2018	Year 2017
	RMB yuan	RMB yuan
Consolidated net profit attributable to ordinary shares of the listed company	250,833,425.15	209,591,907.23
Weighted average number of the Company's issued outstanding ordinary shares	621,859,447	460,819,595
Basic earnings per share (yuan/share)	0.40	0.35

Basic earnings per share and diluted earnings per share for the year ended 31 December 2017 and 31 December 2018 are the same as there were no dilutive events during both periods.

15. Dividends

	Year 2018	Year 2017
	RMB yuan	RMB yuan
Dividends recognised as distribution in the financial statements of the relevant the year:		
2016 final dividend: not to be distributed	-	-
2017 special dividend: RMB 0.03 per share	-	14,350,602.63
2017 final dividend: RMB 0.05 per share	23,917,671.05	-
	23,917,671.05	**14,350,602.63**

The Board proposes the profit distribution plan for year 2018 as follows: based on the total issued shares of the Company of 621,859,447 shares (of which 426,859,447 shares were A shares and 195,000,000 shares were H shares) as at 31 December 2018, it is proposed a dividend of RMB0.01 (tax inclusive) for every share of the Company be paid to shareholders. The aforementioned amounts are not included in the 2018 annual financial statement. Please refer to the section "IV. DIVIDENDS" of this announcement.

XI.DOCUMENTS FOR INSPECTION AND PLACE OF INSPECTION

(1) Documents for inspection

1. The original copy of the Company's 2018 annual results announcement signed by the Chairman of the Board.

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

(2) Place of inspection

Office of the Secretary to the Board of the Company.

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

22 March 2019, Zibo, PRC

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

Executive Directors:

Mr. Zhang Daiming (Chairman)

Mr. Du Deping

Non-executive Directors:

Mr. Ren Fulong

Mr. Xu Lie

Independent Non-executive Directors:

Mr. Li Wenming

Mr. Du Guanhua

Mr. Lo Wah Wai

*for identification purpose only