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）

2020 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the "**Board**") and directors ("**Directors**") of Shandong Xinhua Pharmaceutical Company Limited (the "**Company**") hereby announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2020 (the "**Reporting Period**"). The following financial information has been prepared in accordance with China Accounting Standards for Business Enterprises ("**CASBE**" as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")).

This 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

PRC Website for the publication of the interim report: http://www.cninfo.com.cn

Listing Information:

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

Stock Short Name: Shandong Xinhua

Stock Code: 00719

A Shares: Shenzhen Stock Exchange

Stock Short Name: Xinhua Pharm

Stock Code: 000756

II. SUMMARY OF PRINCIPAL FINANCIAL DATA (PREPARED IN ACCORDANCE WITH CASBE)

Unit: Renminbi Yuan ("RMB")

Item	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)		Change as compared to the same period last year
		before adjustment	after adjustment	after adjustment
Operating income	3,285,772,716.57	3,099,899,621.95	3,122,647,157.46	5.22%
Total profits	231,016,986.90	196,820,708.40	200,812,483.61	15.04%
Income tax expense	42,980,002.53	36,048,980.47	37,349,250.63	15.08%
Net profits	188,036,984.37	160,771,727.93	163,463,232.98	15.03%
Minority interest income	15,725,122.80	13,297,712.76	14,350,931.59	9.58%
Net profits attributable to shareholders of listed company	172,311,861.57	147,474,015.17	149,112,301.39	15.56%
Net profits attributable to shareholders of listed company after deduction of non-recurring profit and loss	154,280,634.28	135,785,046.70	137,468,287.98	12.23%
Net cash flow from operating activities	200,601,673.34	151,855,922.52	156,539,749.26	28.15%
Basic earnings per share	0.28	0.24	0.24	16.67%
Diluted earnings per share	0.28	0.24	0.24	16.67%
Return on equity	5.68%	5.31%	5.34%	Increased by 0.34 percentage points

Item	As at 30 June 2020 (unaudited)	As at 31 December 2019 (the "End of Last Year") (audited)		Change as compared to the End of Last Year
		before adjustment	after adjustment	after adjustment
Total assets	6,795,793,778.14	6,436,024,609.48	6,436,024,609.48	5.59%
Total liabilities	3,642,977,155.99	3,325,495,154.66	3,325,495,154.66	9.55%
Minority shareholders' equity	129,310,870.27	141,501,384.01	141,501,384.01	(8.62%)
Total net assets attributable to the shareholders of listed company	3,023,505,751.88	2,969,028,070.81	2,969,028,070.81	1.83%

Notes: The Company has made retrospective adjustments to the previous financial year's data due to the merger of enterprises under common control in October 2019.

III. CHANGES IN SHARE CAPITAL STRUCTURE AND INFORMATION ON SHAREHOLDERS

1. Share capital structure

Unit: share

Item	30 June 2020		1 January 2020	
Class of shares	**Number of shares**	**Percentage of the total share capital(%)**	**Number of shares**	**Percentage of the total share capital(%)**
1. Total number of conditional tradable shares	**27,364,370**	**4.400**	**27,364,370**	**4.400**
State-owned shares	-	-	-	-
Shares owned by domestic legal persons	27,352,768	4.398	27,352,768	4.398
Conditional tradable shares owned by senior management (A shares)	11,602	0.002	11,602	0.002
Others	-	-	-	-
2. Total number of unconditional tradable shares	**594,495,077**	**95.600**	**594,495,077**	**95.600**
Renminbi-denominated ordinary shares (A shares)	399,495,077	64.242	399,495,077	64.242
Overseas listed foreign shares (H shares)	195,000,000	31.358	195,000,000	31.358
3. Total number of shares	**621,859,447**	**100.00**	**621,859,447**	**100.00**

2. Shareholders' information

(1) As at 30 June 2020， the Company had on record a total of 40,224 shareholders (the "**Shareholders**"), including 48 holders of H Shares and 40,176 holders of A Shares.

(2) As at 30 June 2020, details of the ten largest Shareholders that held the Company's shares were as follows:

Unit: share

Name of Shareholders	Nature of Shareholders	% of the total share capital	Number of shares held as at the end of the Reporting Period
華魯控股集團有限公司 (Hualu Holdings Group Co. Ltd.*) [i] ("**HHC**")	State-owned	32.94	204,864,092

香港中央結算（代理人）有限公司 HKSCC Nominees Limited	Others	31.04	193,050,427
巨能資本管理有限公司－山東聚贏産業基金合夥企業（有限合夥） Ju Neng Capital Management Company Limited – Shandong JuYing Industrial Fund Partnership (Limited Partnership)	Others	3.75	23,310,176
香港中央結算有限公司 HKSCC Limited	Others	0.96	5,956,862
華魯投資發展有限公司 Hualu Investment Development Co., Ltd (“**Hualu Investment**”)	State-owned	0.67	4,143,168
山東新華製藥股份有限公司－第一期員工持股計劃 Shandong Xinhua Pharmaceutical Company Limited– Phase I of Employee Stock Ownership Scheme	Others	0.65	4,042,592
交通銀行股份有限公司－長信量化先鋒混合型證券投資基金 Bank of Communications Co., LTD. – Chang Xin Quantitative Pioneer Hybrid Securities Investment Fund	Others	0.38	2,389,567
黃佩玲 Huang Peiling	Others	0.34	2,108,217
中國建設銀行股份有限公司－華安生態優先混合型證券投資基金 China Construction Bank Co., LTD. – Hua An Ecological Priority Hybrid Securities Investment Fund	Others	0.24	1,518,932
林穗賢 Lin Suixian	Others	0.23	1,417,344

(3) As at 30 June 2020, the ten largest Shareholders of the unconditional tradable shares of the Company were as follows:

Unit: share

Name of Shareholders	Number of unconditional listed shares as at the end of the Reporting Period	Class of shares
華魯控股集團有限公司 HHC (i)	204,864,092	RMB-denominated ordinary shares
香港中央結算（代理人）有限公司 HKSCC Nominees Limited	193,050,427	Overseas listed foreign shares
香港中央結算有限公司 HKSCC Limited	5,956,862	RMB-denominated ordinary shares
華魯投資發展有限公司 Hualu Investment	4,143,168	RMB-denominated ordinary shares
交通銀行股份有限公司－長信量化先鋒混合型證券投資基金 Bank of Communications Co., LTD. - Chang Xin Quantitative Pioneer Hybrid Securities Investment Fund	2,389,567	RMB-denominated ordinary shares
黄佩玲 Huang Peiling	2,108,217	RMB-denominated ordinary shares
中國建設銀行股份有限公司－華安生態優先混合型證券投資基金 China Construction Bank Co., LTD. - Hua An Ecological Priority Hybrid Securities Investment Fund	1,518,932	RMB-denominated ordinary shares
林穗賢 Lin Suixian	1,417,344	RMB-denominated ordinary shares
楊大宇 Yang Dayu	1,100,000	RMB-denominated ordinary shares
交通銀行－華安創新證券投資基金 Bank of Communications - Hua An	958,000	RMB-denominated ordinary shares

Innovation Securities Investment Fund		

Notes:

i. Such figure excludes the 4,143,168 A shares held by Hualu Investment, a direct wholly owned subsidiary of HHC. As of 30 June 2020, Hualu Investment and Well Bring Limited ("**Well Bring**") are a direct wholly owned subsidiary and an indirect wholly owned subsidiary of HHC, respectively. Well Bring owns 18,991,800 H shares of the Company (being overseas listed foreign shares), representing approximately 3.05% of the issued share capital of the Company. Hualu Investment owns 4,143,168 A shares of the Company, representing approximately 0.67% of the issued share capital of the Company.

ii. The following is a description of any association relationship or concerted actions of the above Shareholders under applicable PRC laws and regulations: Except for Hualu investment which is a subsidiary of HHC, to the best of their knowledge, the Directors are not aware as to whether there is any Association Relationship (as defined in the Rules Governing Listing of Stocks On Shenzhen Stock Exchange) amongst the remaining of the abovementioned Shareholders, nor if any of them is a person acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies ("**Administration Measures for Takeover**") issued by the China Securities Regulatory Commission (the "**CSRC**"). In addition, the Directors are not aware of whether there is any association amongst the Shareholders of H Shares of the Company or if any of them is a person acting in concert as defined in the Administration Measures for Takeover. The Directors are not aware of whether there is any association amongst the other above-mentioned Shareholders of unconditional tradable shares of the Company, or any association between the other Shareholders of unconditional tradable shares and the other Shareholders, or if any of them is a person acting in concert as defined in the Administration Measures for Takeover.

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

iv. Save as disclosed above and so far as the Directors are aware, as at 30 June 2020, no other person (other than the Directors, supervisors of the Company (the "**Supervisors**"), chief executive (if applicable) or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**") and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial Shareholder (as defined in the Listing Rules) of the Company.

3. Change of controlling Shareholder (as defined under the Listing Rules) of the Company during the Reporting Period.

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

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

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

Unit: share

Name	Position	Number of Shares as at 30 June 2020	Number of Shares as at 1 January 2020
Directors:			
Mr. Zhang Daiming	Chairman	15,470 (note 2)	15,470
		174,888 (note 3)	174,888
Mr. Ren Fulong	Non-executive Director	58,296 (note 3)	58,296
Mr. Du Deping	Executive Director,		
	General Manager	151,568 (note 3)	151,568
Mr. Xu Lie	Non-executive Director	81,614 (note 3)	81,614
Mr. Du Guanhua	Independent non-executive Director	Nil	Nil
Mr. Li Wenming	Independent non-executive Director	Nil	Nil
Mr. Lo Wah Wai	Independent non-executive Director	Nil	Nil
Supervisors:			
Mr. Li Tianzhong	Chairman of Supervisory Committee	93,272 (note 3)	93,272
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil
Ms. Hu Yanhua	Employee Supervisor	34,977 (note 3)	34,977
Mr. Wang Jianping	Employee Supervisor	Nil	Nil
Mr. Xiao Fangyu	Independent Supervisor	Nil	Nil
Other Senior Management:			
Mr. Wang Xiaolong	Deputy General Manager	81,614 (note 3)	81,614
Mr. Du Deqing	Deputy General Manager	81,614 (note 3)	81,614
Mr. He Tongqing	Deputy General Manager	116,592 (note 3)	116,592
Mr. Hou Ning	Financial Controller	116,592 (note 3)	116,592

Mr. Zheng Zhonghui	Deputy General Manager	23,318 (note 3)	23,318
Mr. Cao Changqiu	Secretary to the Board	2,331 (note 3)	2,331
Total		**1,032,145**	**1,032,145**

Notes:

i. All interests in the securities of the Company owned by the Directors, Supervisors and Senior Management of the Company are long position in A Shares.

ii. Mr. Zhang Daiming personally holds 15,470 A Shares.

iii. The relevant shares held under the Employee Share Ownership Scheme of the Company of which the relevant person is a participant.

iv. So far as the Directors, the senior management and Supervisors are aware, save as disclosed above, as at 30 June 2020, no Director, Senior Management and Supervisor had any interest or short position in the shares, underlying shares and /or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO (Chapter 571 of the Laws of Hong Kong)) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Management or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

V. CHAIRMAN'S STATEMENT

To all Shareholders:

We hereby report to the Shareholders on the operation results of the Company for the first half of the year 2020.

In the first half of the year 2020, the operating income of the Group prepared under the CASBE was RMB3,285,773,000, representing an increase of 5.22% as compared with the same period last year. The Group recorded its net profits attributable to the Shareholders as RMB172,312,000, representing an increase of 15.56% as compared with the same period last year.

The Board did not recommend the declaration of any interim dividends for the first half of the year 2020.

Business Review

In the first half of the year, the Group overcame the impact of various factors, such as the epidemic COVID-19 and global economic downturn, seized opportunities, expanded markets, promoted innovation, developed projects and solidified the foundation to achieve steady development of the enterprise. All production and operation indicators reached a new historical high.

<u>1. Exert all efforts to seize market opportunities and achieve stable sales growth</u>

To proactively respond to the rapid changes in the global economic and foreign trading conditions, the Group realised a foreign exchange gain of USD174 million in the first half of the year, representing a year-on-year increase of 11.89% and a growth in exports contrary to the trend.

Seizing opportunities in the domestic bulk drugs market and laying good foundation for the sales of key products and featured bulk drugs, the Company actively expanded the market of veterinary drugs, and realised sales revenue of RMB393 million for domestic sales of bulk drugs in the first half of the year, representing a year-on-year increase of 11.88%.

By integrating various channel resources, strengthening online services and vigorously developing cross-border export business, the Company realised sales revenue of RMB140 million for e-commerce business in the first half of the year, representing a year-on-year increase of 90.81%.

The Company actively participated in national procurements with target quantity and local biddings to lay foundation for the advancement of preparations strategy. In the first half of the year, the sales volume of the top ten strategic preparations products reached 636 million tablets/bottles, realising sales revenue of RMB248 million, representing a year-on-year increase of 34.4% and 8.37% respectively, and the market share was further increased.

<u>2. Step up efforts in technological innovation to attain remarkable achievements in innovation</u>

The Company continuously increased its investment in research and development, in which the Company realised a year-on-year increase of 24.60% in the first half of the year. The Company's

Advanced Manufacturing Engineering Research Center for Antipyretic and Analgesic Drugs was recognized as the Shandong Engineering Research Center.

In the first half of the year, the Company was granted the qualification for Edaravone bulk drugs to be launched in the market, obtained the registration approval for Edaravone injection from the State Food and Drug Administration. Three products, namely, cephalexin capsules, ibuprofen tablets and clarithromycin tablets (with five specifications) passed the quality and efficacy consistency evaluation for generic drugs.

A number of key automatic and intelligence projects were carried out steadily. The Integrated Power Intelligence Project of No. 2 sub-factory of the Company was in the installation stage. Four key automatic control projects were implemented as scheduled. The whole life management system for equipment entered the sites for inspection and installation.

3. Accelerate the facilitation of key projects construction, and add momentum to enterprise development

Phase II of the International Cooperation Center for Modern Medicine completed system commissioning and commenced trial production of certain products; the tenders for purification and decoration and certain equipment were completed for the high-end injection project; continuation projects for key products were under civil construction and the tenders for automatic control system and certain equipment were completed; the hydroxyiminobarbituric acid project and acetyl acetone (calcium) project commenced construction, and tenders for certain equipment were completed; and the veterinary drug preparation project completed the capping of civil construction, and started purification and decoration work.

4. Strengthen basic management and seize the lifeline projects

The Company steadily promoted the "Four Major Plans" for annual hidden risks investigation, emergency drills, safety technical measures as well as education and training, carried out various monthly activities for production safety, and successfully completed the replacement of production safety permits for hazardous chemical enterprises. The Company was recognised by the National Emergency Management Department as a pilot unit for the construction of a dual prevention system.

Key environmental protection measures, such as RTO devices, were carried out in an orderly manner as scheduled; the anaerobic ammonia oxidation project was in the commissioning stage; the MVR project in Workshop 207 of No. 2 sub-factory of the Company was officially put into operation; and the data digitalization work for 11 sets of VOC online surveillance was completed.

In the first half of the year, the Company successfully passed 19 official and customer audits; Phase I of the International Cooperation Center for Modern Medicine passed the FDA certification with zero defect and the inspection by German company STADA. The Company completed the work of order No. 62 to export 15 products to the EU as scheduled. Seven products passed GMP compliance confirmation, and seven DMF registrations were newly added. The Company completed the production of ANDA ibuprofen tablets for validation and registration use, completed the transfer of ibuprofen capsules production sites for the UK and Ireland markets, and completed the commercial validation for Xinhua-Perrigo products.

5. Deepen internal reform and strengthen incentive and restrictive mechanism

The Company speeded up the reform of the departmental system through functional integration and institutional streamlining.

The Company formulated the Sunshine Procurement Management Measures, and established the office for tender, aiming to optimize and improve the procurement process of the Company, further standardize the procurement management, and make the procurement process more scientific, reasonable, efficient and transparent.

The Company implemented contract management for managers, and entered into the engagement agreements on contract management with 41 managers of 11 subsidiaries.

Prospects

Currently, COVID-19 is spreading continuously, and anti-globalization such as trade protectionism and unilateralism is being intensified. Under such circumstances, companies are facing increasingly obvious uncertainties in relation to the external environment and are under great pressure in respect of pharmaceutical export. The in-depth promotion of certain national policies such as “4+7”procurement with target quantity, consistency assessment and introduction of imported generic drugs, has posed great challenges to the implementation of the Group’s preparation strategy. With the increase in rigid investments in research and development, labour costs, safety and environmental protection, the growth of the Group’s profits has been under great pressure.

In this regard, the key tasks of the Group in the second half of 2020 are as follows:

1. Cautiously normalize the epidemic prevention and control measures to ensure smooth progress of production and operation

Aiming at different scenarios of production, operation, R&D and management, the Company will accurately customize prevention and control measures, strictly implement disinfection, isolation, inspection, reporting and other measures, strengthen publicity and education, and eliminate the mindset of stolidity and laxity to ensure that no impediment shall arise in the prevention and control work while safeguarding the steady commencement of production and operation.

2. Actively respond to market changes and seize the opportunities of market development

The Company will pay close attention to market changes, especially the international market, formulate proper response plans in advance and avoid operational risks. In the meantime, the Company will seize market opportunities, continue to implement the “Three Stabilisations” strategy, i.e. stabilising key products, stabilising key markets and stabilising key customers. Taking advantage of exclusive bulk drugs and featured bulk drugs, the Company will focus on the marketing of its new products such as glimepiride. The Company will carry out the business negotiation work for the next year’s orders in advance.

In response to the new circumstances, the Company will continue to push forward the "Preparations Strategy", study specific measures, formulate plans, make full efforts in market access such as tendering, secure the production of bid-winning products and make more efforts on sales. The Company will maintain the market contribution of strategic preparations products, vigorously cultivate hundreds of millions of product types, and put more efforts to develop preparations products with economic benefits.

The Company will focus on promoting the strategic cooperation model of "Internet + Healthcare", build closed-loop Internet healthcare services, and accelerate the development of two-way cross-border e-commerce business. The Company will strengthen cooperation with more international brands, expand and strengthen international cooperation in "Big Health" sector, actively negotiate with more domestic distributors of high-quality brands, and lay a solid foundation for the subsequent rapid development of e-commerce business.

3. Push forward the "Big R&D Strategy" and accelerate scientific and technological innovation

The Company will speed up the implementation of the "Big R&D Strategy", establish a joint R&D base outside the province, expand the R&D team, and further accelerate the progress of R&D. The Company will strive to obtain other 3 to 5 consistency assessment approvals in the second half of the year.

The Company will accelerate the R&D of bulk drugs and key preparations products, and strive to submit the registration and reporting documents of 1 new preparations product and 4 new bulk drugs products.

4. Promote project construction steadily to build a foundation for large-scale development

The Company will speed up the commercialisation of internationally cooperated preparation projects, strive to expand the scale of production and sales, and give full play to the production capacity advantages of the Modern Pharmaceutical International Cooperation Center as soon as possible.

The Company will complete purification and decoration of the injection project, commence installation of equipment, and make full preparation for subsequent cooperation.

In the second half of the year, the Company will strive to complete the construction of the violuric acid project and the acetylacetone (calcium) project, with the conditions for industrialisation.

The Company will complete the purification, decoration and equipment installation for the veterinary drug preparation project, and strive to pass the GMP on-site inspection for veterinary drugs.

5. Promote the implementation of internationalization strategies and accelerate the implementation of international cooperation projects

In the second half of the year, there will still be uncertainties in respect of the epidemic factors, and adequate preparation will need to be made for production to ensure that international OEM products will meet market demand.

The Company will speed up the registration application for the commissioned processing of Roche Metopa tablets, and meet the conditions for commercialised production as soon as possible. At the same time, the Company will make every effort to introduce more international cooperation projects.

The Company will speed up the commercialisation of Xinhua-Perrigo's certified preparations products.

6. Strengthen basic management and earnestly grasp the "Lifeline Project"

The Company will solidly carry out the three-year special rectification action for safety production, continue to carry out the construction of the "Dual Preventive System", continue to strengthen the Company's basic safety management, put forward the work of 7S-CTPM, speed up the implementation of projects on safety measures, and strive to improve the intrinsic safety level of the enterprise.

The Company will speed up the implementation of annual key environmental projects, strictly operate existing environmental protection facilities, as well as ensure that the discharge of waste water and waste gas reaches standard stably, with standardized management of hazardous waste.

The Company will ensure that 2 products in Hutian Park pass the European GMP certification inspection, accelerate the registration of products abroad as planned, complete the CTD registration of 7 domestic products, and complete 6 key quality research projects.

Chairman

Zhang Daiming

21 August 2020

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 Group's profits are mainly attributable to its principal operations.

Analysis of financial conditions and operating results in accordance with CASBE

The Group's total assets as at 30 June 2020 were RMB6,795,794,000, representing an increase of 5.59% 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 2020, the Group's total liabilities were RMB3,642,977,000, representing an increase of 9.55% compared with the beginning of the year. The main reasons for the rise are that during the Reporting Period, in order to further reduce financing costs and optimize the debt structure, the Company borrowed from the controlling Shareholder RMB600 million.

As at 30 June 2020, the total equity attributable to the Shareholders of the Company was RMB3,023,506,000, increasing by 1.83% compared with the beginning of the year. The increase was mainly attributable to the operating profits generated in the Reporting Period.

As at 30 June 2020, the Group's monetary funds were RMB1,114,374,000, increasing by 61.39% compared with the beginning of the year. The main reason for the increase was that the Company borrowed from the controlling Shareholder RMB600 million in order to further reduce financing costs and optimize the debt structure.

As at 30 June 2020, the Group's accounts receivable of the Group were RMB602,359,000, increasing by 94.74% compared with the beginning of the year, mainly because of the expanded scale of sales and that payments for part of the sales business had not yet been due during the Reporting Period.

As at 30 June 2020, the Group's prepayments were RMB63,056,000, increasing by 111.78% compared with the beginning of the year, mainly because of the increase in the procurement prepayments to ensure normal production and operation during the Reporting Period.

As at 30 June 2020, the Group's other accounts receivable were RMB27,222,000, increasing by 38.35% compared with the beginning of the year, mainly because of the increase in the sales and leaseback business margin and sales margin during the Reporting Period.

As at 30 June 2020, the Group's inventories were RMB788,306,000, decreasing by 30.26% compared with the beginning of the year. The main reason for the decrease was that the Company seized market opportunities and actively consumed the inventory during the Reporting Period.

As at 30 June 2020, the Group's other current assets were RMB62,663,000, representing a decrease of 39.10% over the beginning of the year. The decrease was mainly due to reduction of the prepaid income tax and value-added tax allowance at the end of the Reporting Period.

As at 30 June 2020, the Group's short-term borrowing was RMB230,000,000, representing a decrease of 57.41% compared with the beginning of the year. Non-current liabilities due within one year was RMB517,364,000, representing an increase of 48.24% compared with the beginning of the year. Long-term loans were RMB485,508,000, representing a decrease of 17.68% compared with the beginning of the year. Long-term payables were RMB660,800,000, representing a substantial increase compared with the beginning of the year. The main reason for the changes was detailed in the reasons for changes in total liabilities.

As at 30 June 2020, the Group's notes payable were RMB224,414,000, representing a decrease of 38.37% compared with the beginning of the year. The main reason for the decrease was that the bank acceptance bills were due for payment during the Reporting Period.

As at 30 June 2020, the Group's tax payable was RMB27,875,000, representing an increase of 45.34% compared with the beginning of the year. The main reason for the increase was the increase in value-added tax and income tax payable at the end of the Reporting Period.

The Group's operating profits amounted to RMB232,721,000, increasing by 14.37% compared with the same period last year. The total profits amounted to RMB231,017,000, increasing by 15.04% compared with the same period last year. The net profits attributable to Shareholders of the Company amounted to RMB172,312,000, increasing by 15.56% compared with the same period last year. The main reason for the increase was that the Company seized market opportunities and expanded the scale of sales, actively adjusted the product structure, and continued to facilitate cost reduction and efficiency enhancement during the Reporting Period.

The Group's sales expenses amounted to RMB326,650,000 for the first half of 2020, representing a decrease of 26.91% compared with the same period last year. The decrease was mainly attributable to the Company's continued strengthening of sales expenses control and the decrease in market development efforts and terminal sales costs.

The Group's administration expenses amounted to RMB155,101,000 for the first half of 2020, representing an increase of 4.49% compared with the same period last year. The increase was mainly attributable to the increase of depreciation and amortization expenses.

The Group's research and development expenses amounted to RMB157,167,000 for the first half of 2020, representing an increase of 18.51% compared with the same period last year. The main reason for the increase was that the Company has strengthened scientific and technological advancement, and continued to increase investment in research and development.

The Group's financial expenses amounted to RMB30,154,000 for the first half of 2020, representing an increase of 11.56% compared with the same period last year. The increase was mainly attributable to the increase in interest expenses due to the increase in the borrowing scale during the Reporting Period.

The Group's assets impairment losses amounted to RMB5,369,000 for the first half of 2020, representing a decrease of 39.25% as compared with the same period last year. The decrease was mainly attributable to the decrease of assets impairment losses accrued during the Reporting Period.

For the first half of 2020, the net cash inflow from the Group's operating activities was RMB200,602,000, representing an increase of RMB44,062,000 compared with the same period last year. The main reason for the increase was the expansion of the sales scale, the increase in sales revenue and the continuous strengthening of inventory management, as well as active consumption of inventory during the Reporting Period.

For the first half of 2020, the net cash outflow from the Group's investment activities was RMB106,496,000, representing a decrease of RMB110,677,000 compared with the same period last year. The main reason for the decrease was the payment for 30% equity interest of Cansheng Pharmaceutical (Zibo) Co., LTD. in the same period last year.

For the first half of 2020, the net cash inflow from the Group's financing activities was RMB294,171,000, representing a substantial increase compared with the same period last year. The reason for the increase was mainly due to the Company's obtaining of the loan RMB600,000,000 from the controlling Shareholder and the reduction in loan repayments during the Reporting Period.

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

Item	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	1,538,952,813.09	1,010,529,763.98	34.34%	10.55%	10.94%	Decreased by 0.23 percentage points
Preparations	1,344,752,815.46	993,976,942.77	26.08%	(4.23%)	3.72%	Decreased by 5.67 percentage points
Medical intermediates and other products	402,067,088.02	359,321,162.72	10.63%	23.17%	33.63%	Decreased by 6.99 percentage points
Total	3,285,772,716.57	2,363,827,869.47	28.06%	5.22%	10.56%	Decreased by 3.47 percentage points
By product						
Antipyretic and analgesic active pharmaceutical ingredients	1,538,952,813.09	1,010,529,763.98	34.34%	10.55%	10.94%	Decreased by 0.23 percentage points
Preparations such as tablets, injections, capsules etc.	1,344,752,815.46	993,976,942.77	26.08%	(4.23%)	3.72%	Decreased by 5.67 percentage points
Medical intermediates and others	402,067,088.02	359,321,162.72	10.63%	23.17%	33.63%	Decreased by 6.99 percentage points
Total	3,285,772,716.57	2,363,827,869.47	28.06%	5.22%	10.56%	Decreased by 3.47 percentage

points

By geographical location

PRC(including Hong Kong)	1,948,474,947.43	1,367,944,132.95	29.79%	(5.42%)	(1.48%)	Decreased by 2.80 percentage points
Americas	526,156,055.65	394,305,467.75	25.06%	12.13%	23.19%	Decreased by 6.73 percentage points
Europe	550,175,286.48	406,527,858.35	26.11%	173.96%	179.02%	Decreased by 1.35 percentage points
Others	260,966,427.01	195,050,410.42	25.26%	(33.52%)	(31.29%)	Decreased by 2.43 percentage points
Total	3,285,772,716.57	2,363,827,869.47	28.06%	5.22%	10.56%	Decreased by 3.47 percentage points

Analysis of profit composition as compared to 2019 is as follows:

Items	**Amount （RMB Yuan）**		**Percentage of the total profit (%)**	
	Six months ended 30 June 2020	**2019**	**Six months ended 30 June 2020**	**2019**
Operating profits	232,720,933.35	387,436,288.68	100.74	101.58
Net non-operating income	(1,703,946.45)	(6,043,667.75)	(0.74)	(1.58)
Total profits	231,016,986.90	381,392,620.93	100.00	100.00

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

Liquidity and analysis of financial resources and capital structure

As at 30 June 2020, the Group's current ratio was 122.65%; the quick ratio was 88.25%; the turnover rate of accounts receivable (annualized operating revenue/average net accounts receivable×100%) and the rate of inventory turnover (annualised operating costs/average net inventories×100%) were 1,441.66%and 492.81% respectively.

The current ratio and the quick ratio increased from the end of the previous year respectively, primarily because the increase of monetary funds and the optimization of debt structure reduced current liabilities during the Reporting Period. The Group's working capital need did not show significant seasonal fluctuation.

The Group's main sources of funds were loans and operating profits. As at 30 June 2020, the Group's total borrowing was RMB1,880,793,000. The Group's monetary funds amounted to RMB1,114,374,000. The Group is in good credit condition and has sufficient bank credit line available to meet the demand for working capital at any time.

As at 30 June 2020, the Company's subsidiary Xinhua (Zibo) Real Estate Co., Ltd., had a mortgage deposit of RMB702,000 and received in advance regulated payments of RMB26,703,000 for property sales. The Company and Shandong Zibo XinCat Pharmaceutical Co., Ltd., the Company's subsidiary, pledged the monetary funds of RMB101,320,000 and RMB19,709,000 respectively to the bank for arrangement of bank acceptance bills. Besides, the ownership of the Company's fixed assets of RMB100,589,000 and the right-of-use assets of RMB1,471,000 does not belong to the Group. Save as disclosed, the Group did not have other assets mortgaged.

On 20 April 2020, the Company acquired 27% equity interest of Shandong Xinhua Wanbo Chemical Industrial Co., Ltd. ("**Wanbo Chemical**") with a listing price of RMB15,906,834 and the Company's shareholding in Wanbo Chemical increased from 73% to 100%. Wanbo Chemical has become a wholly-owned subsidiary of the Company. As at 30 June 2020, the total assets of Wanbo Chemical was RMB78,233,000, and the Shareholders' equity was RMB51,692,000. From January to June 2020, the operating income was RMB60,208,000, representing an increase of 16.12% compared with the same period last year. The net profits of Wanbo Chemical was RMB3,943,000, representing a slight increase compared with that of last year. Wanbo Chemical is operating in good condition.

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

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

As at 30 June 2020, the number of the Group's employees was 6,305. The total employee salaries in the first half of 2020 amounted to RMB288,809,000.

As at 30 June 2020, the Group's asset-liability ratio was 53.61% (total liabilities / total assets ×100%).

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

As at 30 June 2020, the Group had a gross gearing ratio (ie, gross liabilities divided by adjusted capital) of 62.21%, and a net gearing ratio (ie, net liabilities divided by adjusted capital) of 25.35%. For this purpose, "gross liabilities" is defined as total borrowings and "net liabilities" is defined as total borrowings less cash and cash equivalents, and "adjusted capital" is defined as all components of equity attributable to Shareholders other than designated reserves.

The Group's assets and liabilities were recorded in Renminbi. In the first half year of 2020, the Group's export revenue was USD173,687,000, which exposed the Group to the risks associated with exchange rate fluctuations. Therefore, the Group has taken the following major measures to lower the risks of exchange rate fluctuations: (1) the Group has increased export prices to reduce the risks of exchange rate fluctuations; (2) when entering into material export contracts, the Group has made in advance arrangements with parties that the risks associated with fluctuations in exchange rates shall be borne by both parties if the fluctuations exceed the range mutually agreed.

VII. IMPORTANT MATTERS

Save as disclosed herein:

1. The Company has generally complied with the relevant PRC regulatory documents in respect of corporate governance applicable to listed companies.

2. The Plan for Profit Distribution for Year 2019 has been approved at the Annual General Meeting for year 2019.

3. During the Reporting Period and the six months ended 30 June 2019, the Board has not recommended any interim dividend or interim conversion of capital reserve into share capital.

4. The Group was not involved in any material litigation or arbitration, whether pending or threatened during the Reporting Period.

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

6. In the Reporting Period, there was no trust or subcontracting of assets between the Company and other companies. During the Reporting period, the Company leased assets of RMB1,471,000 from other companies; and the other companies leased assets of RMB52,136,000 from the Company.

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 of the Company's funds for non-operating uses by the controlling Shareholder and other related parties.

   The Company did not provide guarantee in favour of the controlling Shareholder, non-legal entities or individuals, and this was not prejudicial to the interests of the Company and its Shareholders, in particular the minority Shareholders. As of 30 June 2020, there was no overdue debt of which the Company has made external guarantee and the Company had no liability arising from any guarantee due to the default of a guaranteed party.

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

9. Purchase, sale and redemption of shares:

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

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 on the equity interest in financial institutions (RMB)

Stock Code	**Stock short name**	**Initial investment amount**	**Proportion of equity interest in investee**	**Book value at the end of the Reporting Period**	**Profit/loss over the Reporting Period**	**Change in shareholder's equity over the Reporting Period**
601601	China Pacific Insurance	7,000,000.00	0.06%	136,250,000.00	6,000,000.00	(45,007,500.00)
601328	BANKCOMM	14,225,318.00	0.01%	42,164,496.00	-	(3,493,160.00)
Total		**21,225,318.00**	**-**	178,414,496.00	6,000,000.00	(48,500,660.00)

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

13. Please refer to the Company's announcements dated 25 March 2020 on http://www.cninfo.com.cn for the details of research, communication and interview activities 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 has established an audit committee under the Board in accordance with Rule 3.21 of the Listing Rules.

The audit committee along with the management of the Company has reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting including the unaudited interim accounts for the six months ended 30 June 2020.

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 2020 and that sufficient disclosures have been made.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of a sufficient number of independent non-executive Directors and at least one independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive Directors including one with financial management expertise, of whom the biographical details were set out in the 2019 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 2020 (unaudited)	31 December 2019 (audited)
Current assets:			
Monetary funds		1,114,374,375.14	690,469,765.67
Accounts receivable	*3*	602,358,591.15	309,307,455.92
Receivables financing		152,826,381.97	145,924,204.55
Prepayments		63,055,571.01	29,773,518.97
Other accounts receivable	*4*	27,221,887.76	19,676,461.89
Including：Dividends receivable			29,660.75
Inventories		788,305,949.81	1,130,342,789.68
Other current assets		62,663,182.36	102,892,339.63
Total current assets		**2,810,805,939.20**	**2,428,386,536.31**
Non-current assets:			
Long-term equity investment		58,528,956.37	60,774,211.24
Other equity instrument investment		178,414,496.00	235,474,096.00
Investment real estate		52,136,030.61	72,811,661.10
Fixed assets		2,745,378,521.51	2,806,949,444.22
Projects under construction		505,018,924.89	392,135,611.07
Right-of-use assets		1,471,096.33	1,892,241.67
Intangible assets		412,881,629.42	411,593,975.21
Deferred income tax assets		31,158,183.81	26,006,832.66
Total non-current assets		**3,984,987,838.94**	**4,007,638,073.17**
Total assets		**6,795,793,778.14**	**6,436,024,609.48**

Consolidated Balance Sheet (Continued)

Unit: RMB Yuan

Liabilities and Shareholders' Equity	*Notes*	30 June 2020 (unaudited)	31 December 2019 (audited)
Current liabilities:			
Short-term borrowing		230,000,000.00	540,000,000.00
Notes payable		224,414,431.10	364,123,575.62
Accounts payable	*5*	458,035,924.61	434,388,662.65
Contract liability		330,486,893.71	364,947,071.21
Payroll payable	*6*	73,535,280.69	79,834,732.56
Taxes and dues payable		27,874,927.17	19,178,538.68
Other payables		430,106,796.26	334,043,971.20
Including：Interest payable		8,792,482.26	4,253,876.86
Dividends payable		94,903,733.17	5,310,599.53
Non-current liabilities due within one year		517,364,183.51	348,997,921.06
Total current liabilities		**2,291,818,437.05**	**2,485,514,472.98**
Non-current liabilities:			
Long-term borrowings		485,508,474.38	589,779,008.96
Lease liabilities		459,739.33	855,959.44
Long-term payables		660,799,702.12	50,286,746.46
Deferred income		149,760,542.80	141,673,879.14
Deferred income tax liabilities		51,068,760.31	53,823,587.68
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		**1,351,158,718.94**	**839,980,681.68**
Total liabilities		**3,642,977,155.99**	**3,325,495,154.66**
Shareholders' equity:			
Capital Stock		621,859,447.00	621,859,447.00
Capital reserve	*7*	636,097,641.57	634,142,967.70
Other comprehensive income	*8*	134,047,026.85	182,008,870.59

Special reserve		5,346,705.05	1,436,261.16
Surplus reserve		278,949,576.01	278,949,576.01
Undistributed profits	*9*	1,347,205,355.40	1,250,630,948.35
Total equity attributable to the shareholders of parent company		3,023,505,751.88	2,969,028,070.81
Minority shareholders' equity		129,310,870.27	141,501,384.01
Total shareholders' equity		**3,152,816,622.15**	**3,110,529,454.82**
Total of liabilities and shareholders' equity		**6,795,793,778.14**	**6,436,024,609.48**

Consolidated Income Statement

Unit: RMB Yuan

		Six months ended 30 June	
Item	***Notes***	**2020**	**2019**
		(unaudited)	**(unaudited)**
I. Gross revenue	*10*	3,285,772,716.57	3,122,647,157.46
Including: Operating revenue		3,285,772,716.57	3,122,647,157.46
II. Total operating costs		3,065,966,315.61	2,924,331,367.91
Including: Operating costs	*10*	2,363,827,869.47	2,138,113,852.29
Taxes and surcharges	*11*	33,066,486.57	31,225,907.54
Selling expenses		326,650,283.59	446,911,864.33
Administration expenses		155,101,017.99	148,430,407.74
R&D cost		157,166,732.04	132,619,075.23
Financial expenses		30,153,925.95	27,030,260.78
Including: Interest expenses		31,476,188.17	28,097,193.31
Interest income		2,101,311.70	1,864,104.60
Add: Other income		16,171,604.82	16,083,994.50
Investment income (losses to be listed with brackets)		3,754,745.13	（694,074.12）
Including: Investment return from associated corporations and joint ventures		（2,245,254.87）	（694,074.12）

(losses to be listed with brackets）			
Income from fair value changes (losses to be listed with brackets）		-	-
Credit impairment loss (losses to be listed with brackets)		（1,431,451.78）	（1,661,768.44）
Assets impairment loss (losses to be listed with brackets)	*12*	（5,369,396.50）	（8,837,908.34）
Gains from asset disposal (losses to be listed with brackets)		（210,969.28）	276,072.47
III. Operating profits (losses to be listed with brackets)		232,720,933.35	203,482,105.62
Add: non-operating income		774,125.65	1,545,298.01
Less: non-operating expenditure		2,478,072.10	4,214,920.02
IV. Total profits (total loss to be listed with brackets)		231,016,986.90	200,812,483.61
Less: income tax expenses	*13*	42,980,002.53	37,349,250.63
V. Net profits (net loss to be listed with brackets)		188,036,984.37	163,463,232.98
（I）According to operation continuity			
1. Net profits from continued operations (net losses to be listed in brackets)		188,036,984.37	163,463,232.98
2. Net profits from discontinued operations (net losses to be listed in brackets)		-	-
（II） According to ownership			
1. Net profits attributable to shareholders of parent company		172,311,861.57	149,112,301.39
2. Minority interest income or loss		15,725,122.80	14,350,931.59
VI. Net amount of other comprehensive income after tax		（47,811,421.41）	36,712,253.53
Net amount of other comprehensive income after tax attributable to the shareholders of parent company		（47,961,843.74）	36,698,417.78

(I) Other comprehensive income not subject to reclassification into profit or loss		(48,500,660.00)	36,645,485.60
Changes in fair value of other equity instruments investment		(48,500,660.00)	36,645,485.60
(II) Other comprehensive income to be reclassified into profit or loss		538,816.26	52,932.18
Conversion difference of foreign currency statement		538,816.26	52,932.18
Net amount of other comprehensive income after tax attributable to the minority shareholders		150,422.33	13,835.75
VII. Total comprehensive income		140,225,562.96	200,175,486.51
Total comprehensive income attributable to the shareholders of parent company		124,350,017.83	185,810,719.17
Total comprehensive income attributable to the minority shareholders		15,875,545.13	14,364,767.34
VIII. Earnings per share:	*14*		
(I) Basic earnings per share		0.28	0.24
(II) Diluted earnings per share		0.28	0.24

SUMMARY NOTES TO THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CASBE

NOTES:

1. Preparation basis of the financial statements

<u>Preparation basis</u>

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

Going concern

The Group has evaluated the continuing of operation for 12 months from the end of the Reporting Period and has not found any matter 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 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 regular 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 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 abovementioned segments is as below.

(b) Segment information for six months ended 30 June 2020 and six months ended 30 June 2019 are as follows (unaudited):

<u>Six months ended 30 June 2020 (unaudited)</u>

Unit: RMB Yuan

Item	**Chemical bulk drugs**	**Preparations**	**Medical intermediate and other products**	**Unallocated**	**Offset**	**Total**
Operating income	1,546,337,290.98	1,748,653,348.89	813,936,041.31	-	（823,153,964.61）	3,285,772,716.57
Include : Revenue from external customers	1,538,952,813.09	1,344,752,815.46	402,067,088.02	-	-	3,285,772,716.57
Inter-segment transaction income	7,384,477.89	403,900,533.43	411,868,953.29	-	（823,153,964.61）	-
Operating costs	1,090,990,352.94	1,342,526,321.81	707,419,460.75	-	（777,108,266.03）	2,363,827,869.47
Cost elimination	80,460,588.96	348,549,379.04	348,098,298.03	-	（777,108,266.03）	-
Expenses for the period	262,908,856.51	347,224,563.22	58,938,539.84	-	-	669,071,959.57
Total operating profit（loss）	-	-	-	324,003,415.14	（91,282,481.79）	232,720,933.35
Total assets	3,555,043,281.39	1,753,681,581.17	1,172,047,772.04	2,140,219,149.80	（1,825,198,006.26）	6,795,793,778.14
Total liabilities	970,429,122.62	866,335,374.47	730,098,284.61	2,200,575,140.61	（1,124,460,766.32）	3,642,977,155.99

__Six months ended 30 June 2019 (unaudited)__

Unit: RMB Yuan

Item	**Chemical bulk drugs**	**Preparations**	**Medical intermediate and other products**	**Unallocated**	**Offset**	**Total**
Operating income	1,397,106,920.39	1,694,090,841.77	693,253,005.52	-	（661,803,610.22）	3,122,647,157.46
Include: Revenue from external customers	1,392,041,059.08	1,404,184,796.94	326,421,301.44	-	-	3,122,647,157.46
Inter-segment transaction income	5,065,861.31	289,906,044.83	366,831,704.08	-	（661,803,610.22）	-
Operating costs	915,828,582.45	1,234,990,827.49	590,451,067.81	-	（603,156,625.46）	2,138,113,852.29
Cost elimination	4,919,412.07	276,676,813.39	321,560,400.00	-	（603,156,625.46）	-
Expenses for the period	233,925,170.61	472,022,102.10	49,044,335.37	-	-	754,991,608.08
Total operating profit（loss）	-	-	-	264,518,208.40	（61,036,102.78）	203,482,105.62
Total assets	3,593,763,209.81	1,721,714,549.56	1,314,874,799.17	1,386,650,548.27	（1,580,978,497.33）	6,436,024,609.48
Total liabilities	1,051,366,014.88	965,364,634.23	647,413,957.22	1,596,991,919.29	（935,641,370.96）	3,325,495,154.66

3. Accounts receivable

Item	**30 June 2020**	**31 December 2019**
	RMB Yuan	**RMB Yuan**
	(unaudited)	**(audited)**
Accounts receivable	662,548,005.25	367,788,176.75
Less: provision for bad debts for accounts receivable	60,189,414.10	58,480,720.83
Total	**602,358,591.15**	**309,307,455.92**

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

Account age	30 June 2020	31 December 2019
	RMB Yuan	RMB Yuan
	(unaudited)	(audited)
0-1 year (including 1 year)	600,958,716.50	307,376,759.68
Over 1 year to 2 years (including 2 years)	1,399,874.65	1,930,696.24
Total	**602,358,591.15**	**309,307,455.92**

4. Other accounts receivable

Item	30 June 2020	31 December 2019
	RMB Yuan	RMB Yuan
	(unaudited)	(audited)
Other accounts receivable	42,803,080.51	35,534,896.13
Less: provision for bad debts of other accounts receivable	15,581,192.75	15,858,434.24
Total	**27,221,887.76**	**19,676,461.89**

Aging analysis of other receivables based on transaction date is as follows:

Account age	30 June 2020	31 December 2019
	RMB Yuan	RMB Yuan
	(unaudited)	(audited)
0-1 year (including 1 year)	16,790,355.07	9,195,696.10
Over 1 year to 2 years (including 2 years)	396,168.69	10,432,241.79
Over 2 years to 3 years (including 3 years)	10,035,364.00	48,524.00
Total	**27,221,887.76**	**19,676,461.89**

5. Accounts payable

Item	30 June 2020	31 December 2019
	RMB Yuan	RMB Yuan
	(unaudited)	(audited)
Accounts payable	458,035,924.61	434,388,662.65
Total	**458,035,924.61**	**434,388,662.65**

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

Account age	30 June 2020	31 December 2019
	RMB Yuan	RMB Yuan
	(unaudited)	(audited)
0-1 year (including 1 year)	443,648,097.64	421,318,881.87
Over 1 year to 2 years (including 2 years)	6,330,911.99	5,644,612.66
Over 2 years to 3 years (including 3 years)	1,428,721.45	1,705,476.96
Over 3 years	6,628,193.53	5,719,691.16
Total	**458,035,924.61**	**434,388,662.65**

6. Payroll payable

(1) Classification of payroll payable

Item	31 December 2019	Increase during the first half of 2020	Decrease during the first half of 2020	30 June 2020
	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan
	(audited)	(unaudited)	(unaudited)	(unaudited)
Short-term remuneration	79,834,732.56	341,203,114.99	347,502,566.86	73,535,280.69
Post-employment welfare - Defined contribution plan	-	18,360,912.52	18,360,912.52	-
Dismissal welfare	-	-	-	-
Total	**79,834,732.56**	**359,564,027.51**	**365,863,479.38**	**73,535,280.69**

(2) Short-term remuneration

Item	31 December 2019	Increase during the first half of 2020	Decrease during the first half of 2020	30 June 2020
	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan
	(audited)	(unaudited)	(unaudited)	(unaudited)
Salaries, bonuses, allowances and subsidies	75,526,091.94	282,828,665.78	288,809,422.72	69,545,335.00
Employee welfare expenses	-	11,306,983.76	11,306,983.76	-
Social insurance premiums	-	14,149,644.88	14,149,644.88	-
Including: Medical insurance premiums	-	13,160,163.26	13,160,163.26	-
Work-related injury insurance premiums	-	989,481.62	989,481.62	-
Housing provident fund	-	20,300,132.82	20,300,132.82	-
Labour union expenditure & personnel education fund	4,196,640.62	5,391,481.75	5,737,376.68	3,850,745.69
Labour costs	112,000.00	7,226,206.00	7,199,006.00	139,200.00
Total	**79,834,732.56**	**341,203,114.99**	**347,502,566.86**	**73,535,280.69**

(3) Defined contribution plan

Item	31 December 2019	Increase during the first half of 2020	Decrease during the first half of 2020	30 June 2020
	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan
	(audited)	(unaudited)	(unaudited)	(unaudited)
Basic endowment insurance	-	17,593,512.87	17,593,512.87	-
Unemployment insurance premium	-	767,399.65	767,399.65	-
Total	**-**	**18,360,912.52**	**18,360,912.52**	**-**

7. Capital reserve

Item	31 December 2019	Increase during the first half of 2020	Decrease during the first half of 2020	30 June 2020
	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan
	(audited)	(unaudited)	(unaudited)	(unaudited)
Capital stock premium	451,740,429.79	-	2,227,674.13	449,512,755.66
Other capital reserves	182,402,537.91	4,182,348.00	-	186,584,885.91
Total	**634,142,967.70**	**4,182,348.00**	**2,227,674.13**	**636,097,641.57**

8. Other comprehensive income

Item		Other comprehensive income under income statement for the six months ended 30 June 2020 (unaudited)					
	31 December 2019	Incurred income tax amount for the current period	Less: Amount Included in other comprehensive income in previous period and carried over into profit and loss in current period	Less: income tax expenses	After-tax amount attributable to the parent company	After-tax amount attributable to minority shareholders	30 June 2020
	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan
	(audited)						(unaudited)
(1) Other comprehensive incomes that cannot be reclassified into loss or profit	182,111,461.30	(57,059,600.00)	-	(8,558,940.00)	(48,500,660.00)	-	133,610,801.30
Including: Changes in the fair value of other equity instruments investment	182,111,461.30	(57,059,600.00)	-	(8,558,940.00)	(48,500,660.00)	-	133,610,801.30

(2) Other comprehensive income to be reclassified into profit or loss	(102,590.71)	689,238.59	-	-	538,816.26	150,422.33	436,225.55
Including: Translation difference of foreign currency financial statement	(102,590.71)	689,238.59	-	-	538,816.26	150,422.33	436,225.55
Total of other comprehensive income	**182,008,870.59**	**(56,370,361.41)**	**-**	**(8,558,940.00)**	**(47,961,843.74)**	**150,422.33**	**134,047,026.85**

9. Undistributed profits

Item	**Six months ended 30 June 2020**	**Six months ended 30 June 2019**
	RMB Yuan	**RMB Yuan**
	(unaudited)	**(unaudited)**
Ending balance of previous year	**1,250,630,948.35**	**1,035,690,153.67**
Add: Beginning adjustment for undistributed profits	-	-
Including: Change of consolidation scope under common control	-	-
Beginning balance of the current period	**1,250,630,948.35**	**1,035,690,153.67**
Add: Net profits attributable to the parent company's shareholders in the current period	172,311,861.57	149,112,301.39
Less: Appropriation of statutory surplus reserve	-	-
Appropriation of discretionary surplus reserve	-	-
Appropriation of provision for general risks	-	-
Common stock dividends payable	74,623,133.64	62,185,944.70
Others	1,114,320.88	
Ending balance of current period	**1,347,205,355.40**	**1,122,616,510.36**

10. Operating income and costs

(1) Operating revenue and costs

Item	Six months ended 30 June 2020 RMB Yuan (unaudited)		Six months ended 30 June 2019 RMB Yuan (unaudited)	
	Revenue	Cost	Revenue	Cost
Main operation	3,259,378,950.67	2,315,358,600.32	3,088,313,085.72	2,096,322,418.11
Other operation	26,393,765.90	48,469,269.15	34,334,071.74	41,791,434.18
Total	**3,285,772,716.57**	**2,363,827,869.47**	**3,122,647,157.46**	**2,138,113,852.29**

(2) Revenue from contracts

Unit: RMB Yuan

Classification of contract	Chemical bulk drugs	Preparations	Medical Intermediates and other products	Total
Commodity type				
Among：				
Chemical bulk drugs	1,538,952,813.09	-	-	1,538,952,813.09
Preparations		1,344,752,815.46	-	1,344,752,815.46
Medical intermediates and other products	-	-	402,067,088.02	402,067,088.02
Total	**1,538,952,813.09**	**1,344,752,815.46**	**402,067,088.02**	**3,285,772,716.57**
Classification by operating regions				
Where：				
China (including Hong Kong)	386,300,267.47	1,297,078,869.18	265,095,810.78	1,948,474,947.43
Americas	482,145,629.38		44,010,426.27	526,156,055.65
Europe	420,888,313.19	47,673,946.28	81,613,027.01	550,175,286.48
Others	249,618,603.05	-	11,347,823.96	260,966,427.01

Classification of contract	Chemical bulk drugs	Preparations	Medical Intermediates and other products	Total
Total	**1,538,952,813.09**	**1,344,752,815.46**	**402,067,088.02**	**3,285,772,716.57**
Classification by contract performance obligation				
Among :				
Recognition of revenue at a certain point in time	1,538,952,813.09	1,344,752,815.46	402,067,088.02	3,285,772,716.57
Recognition of revenue within a certain period	-	-	-	-
Total	**1,538,952,813.09**	**1,344,752,815.46**	**402,067,088.02**	**3,285,772,716.57**

(3) Information related to performance of contractual obligations

According to the stipulations in contracts, 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 the Reporting Period, the amount of revenue where contracts were signed but unfulfilled or with uncompleted performance obligation was RMB 303,928,854.89, and of this amount RMB 292,114,851.22 is expected to be recognized from July 2020 to June 2021; RMB 11,814,003.67 is expected to be recognized from July 2021 to June 2022.

(5) The income amount including the book value of the contract liabilities recognized by the Group from January to June 2020 is RMB140,737,606.43.

11. Taxes and surcharges

Item	Six months ended 30 June 2020	Six months ended 30 June 2019
	RMB Yuan	RMB Yuan
	(unaudited)	(unaudited)
City maintenance and construction tax	9,570,399.08	10,566,243.47
Land use tax	7,493,337.04	4,507,745.44
Property tax	7,916,671.97	7,317,081.37
Educational surcharges	6,785,994.38	7,547,316.74
Stamp duty	584,953.36	495,191.10
Local water conservancy fund	678,599.38	753,821.66
Vehicle and vessel use tax	36,531.36	38,507.76
Total	**33,066,486.57**	**31,225,907.54**

12. Assets impairment loss

Item	Six months ended 30 June 2020	Six months ended 30 June 2019
	RMB Yuan	RMB Yuan
	(unaudited)	(unaudited)
Inventory impairment loss	（5,369,396.50）	（8,837,908.34）
Total	**（5,369,396.50）**	**（8,837,908.34）**

13. Income tax expenses

(1) Income tax expenses

Item	Six months ended 30 June 2020	Six months ended 30 June 2019
	RMB Yuan	**RMB Yuan**
	(unaudited)	**(unaudited)**
The current income tax calculated in accordance with the tax law and related regulations	42,006,507.14	42,684,671.04
-PRC enterprise income tax	40,874,511.91	42,560,486.32
-Hong Kong profits tax return	-	-
-USA federal and state tax	28,835.47	124,184.72
-Dutch corporation tax	1,103,159.76	-
-Deferred income tax expenses	652,761.48	（5,726,352.06）
Lesser (Excess) amount in prior years	320,733.91	390,931.65
Total	**42,980,002.53**	**37,349,250.63**

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

Item	Six months ended 30 June 2020
	RMB
	(unaudited)
Total consolidated profits for the current period	231,016,986.90
Income tax expenses calculated in accordance with statutory /applicable tax rate	34,558,700.29
Effect of different tax rate applicable to subsidiaries	8,663,780.11
Effect of adjustments to previous years' income tax	320,733.91
Effect of non-assessable income	(563,211.78)
Income tax expenses	**42,980,002.53**

14. Earnings per share

The basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the parent company, RMB 172,311,861.57 (2019: RMB 149,112,301.39), by the weighted average of outstanding ordinary shares issued by the Company, 621,859,447 shares (2019: 621,859,447 shares).

Item	**Six months ended 30 June 2020**	**Six months ended 30 June 2019**
	RMB Yuan	**RMB Yuan**
	(unaudited)	**(unaudited)**
Net profits attributable to shareholders of the parent company	172,311,861.57	149,112,301.39
Weighted average of outstanding ordinary shares issued by the Company	621,859,447.00	621,859,447.00
Basic earnings per share	0.28	0.24

Basic earnings per share and diluted earnings per share are the same as there were no events that would have a possible dilutive impact during the six months ended 30 June 2019 and six months ended 30 June 2020.

15. Dividends

The Board of the Company did not recommend payment of an interim dividend for the six months ended 30 June 2020 (2019: nil).

Item	**2020**	**2019**
Dividends recognised as distribution in the current financial statements during the year:		
2018 final dividend: RMB 0.10 per share	-	62,185,944.70
2019 final dividend: RMB 0.12 per share	74,623,133.64	-
Total	**74,623,133.64**	**62,185,944.70**

X. DOCUMENTS AVAILABLE FOR INSPECTION AND PLACE FOR INSPECTION

(1) DOCUMENTS AVAILABLE FOR INSPECTION

i. The Company's 2020 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 manager of the finance 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

21 August 2020, 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. Lo Wah Wai

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