山東新華製藥股份有限公司

Shandong Xinhua Pharmaceutical Company Limited

(H Share Stock Code: 00719)

(A Share Stock Code: 000756)

2026

Interim Report

CONTENTS

Important

The board of directors ("Board"), the directors ("Directors") and the senior management ("Senior Management") of Shandong Xinhua Pharmaceutical Company Limited (the "Company") hereby confirm that there are no false representations, misleading statements or material omissions contained in this interim report ("Report") and they, jointly and severally, accept the responsibility for the truthfulness, accuracy and completeness of the contents of this Report.

The financial report of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2026 (the "Reporting Period") has not been audited.

The Company plans not to distribute cash dividends, issue bonus shares, or convert public reserves into share capital.

The company representative (Mr. He Tongqing), principal in charge of accounting (Mr. Hou Ning) and the head of the accounting department (Mr. He Xiaohong) of the Company hereby declare that the financial report of the Company for the Reporting Period is true, accurate and complete.

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

Company Information

Chinese Name of the Company	:	山東新華製藥股份有限公司
English Name of the Company	:	SHANDONG XINHUA PHARMACEUTICAL COMPANY LIMITED
Legal Representative	:	Mr. He Tongqing
Secretary to the Board	:	Mr. Cao Changqiu
Telephone Number	:	86-533-2196024
Facsimile Number	:	86-533-2287508
E-mail Address of the Secretary to the Board	:	cqcao@xhzy.com
Registered Address	:	No. 1 Lutai Ave., 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**"or the "**Hong Kong Stock Exchange**")
Stock Short Name	:	Shandong Xinhua
Stock Code	:	00719
A Shares	:	Shenzhen Stock Exchange
Stock Short Name	:	Xinhua Pharm
Stock Code	:	000756

Key Financial Data and Financial Indicators prepared in accordance with CASBE

Unit: Renminbi Yuan ("RMB")

Item	Six months ended 30 June 2026 (unaudited)	Six months ended 30 June 2025 (unaudited)	Change as compared to the same period last year
Operating revenue	**4,357,548,611.17**	4,638,804,042.98	(6.06%)
Total profits	**164,942,512.39**	263,527,198.08	(37.41%)
Income tax expense	**16,987,719.37**	32,358,726.29	(47.50%)
Net profits	**147,954,793.02**	231,168,471.79	(36.00%)
Minority interest income	**(1,172,733.79)**	7,411,941.36	(115.82%)
Net profits attributable to shareholders of listed company	**149,127,526.81**	223,756,530.43	(33.35%)
Net profits attributable to shareholders of listed company after deduction of non-recurring profit and loss	**147,309,628.75**	210,859,939.48	(30.14%)
Net cash flow from operating activities	**160,615,805.00**	234,132,352.73	(31.40%)
Basic earnings per share	**0.21**	0.32	(34.38%)
Diluted earnings per share	**0.21**	0.32	(34.38%)
Return on equity	**2.81%**	4.33%	Decreased by 1.52 percent points

Item	As at 30 June 2026 (unaudited)	As at 31 December 2025 (the "End of Last Year") (audited)	Change as compared to the End of Last Year
Total assets	**9,091,421,318.23**	9,185,695,768.16	(1.03%)
Total liabilities	**3,574,912,200.83**	3,729,969,264.92	(4.16%)
Minority shareholders' equity	**245,254,737.85**	246,973,258.72	(0.70%)
Total net assets attributable to the shareholders of listed company	**5,271,254,379.55**	5,208,753,244.52	1.20%

After deduction of non-recurring profit and loss items and amounts

Unit: RMB Yuan

Non-recurring profit and loss items	Amount	Note (if applicable)
Profit or loss from disposal of non-current assets (including written-off of provisions for assets impairment)	(1,379,538.45)	Disposal of fixed assets
Government subsidies recognized in the current period's profit and loss, (excluding government subsidies that are closely related to the normal operation of the company, comply with national policies and regulations, enjoyed in accordance with established standards, and have a continuous impact on the company's profit and loss)	11,761,437.90	Received and amortized as government subsidies recognized into the current period
Non-operating income and expenditure other than the above items	(9,244,703.45)	
Less: Income tax effect	(800,946.74)	
Minority interests (after tax)	120,244.68	
Total	1,817,898.06	

Items measured at fair value

Unit: RMB Yuan

Items	Amount as at 1 January 2026	Profit or loss from change in fair value	Cumulative Change of fair value recorded in equity	Provision impairment	Amount as at 30 June 2026
Financial assets:					
1. Investment in other equity instruments	280,078,103.48	–	131,161,511.51	–	**205,532,978.60**
2. Accounts receivable financing	319,240,231.72	–	–	–	**311,869,233.92**
Subtotal of financial assets	599,318,335.20	–	131,161,511.51	–	**517,402,212.52**

Other comprehensive income items

Unit: RMB Yuan

Items	**Six months ended 30 June 2026**	Six months ended 30 June 2025
1. Change in fair value of investment in other equity instruments	**(74,545,124.88)**	17,611,494.54
Less: Income tax impact arising from investment in other equity instruments	**(11,181,768.73)**	2,641,724.18
Net profit or loss carried from amounts previously recognized in other comprehensive income	**–**	–
Subtotal	**(63,363,356.15)**	14,969,770.36
2. Conversion difference of financial statements in foreign currency	**(2,607,855.23)**	(431,027.38)
Less: net profit or loss carried from amounts incurred by disposal of foreign operation	**–**	–
Subtotal	**(2,607,855.23)**	(431,027.38)
Total	**(65,971,211.38)**	14,538,742.98

1. SHARE CAPITAL STRUCTURE

Unit: share

Class of shares	**30 June 2026** Number of shares	**30 June 2026** Percentage of the total share capital (%)	1 January 2026 Number of shares	1 January 2026 Percentage of the total share capital (%)
1. Total number of conditional tradable shares	**2,810,524**	**0.40**	2,251,999	0.33
State-owned shares	**–**	**–**	–	–
Shares owned by domestic legal persons	**–**	**–**	–	–
Conditional tradable shares owned by senior management (A shares)	**2,810,524**	**0.40**	2,251,999	0.33
Others	**–**	**–**	–	–
2. Total number of unconditional tradable shares	**693,872,911**	**99.60**	687,524,536	99.67
Renminbi-denominated ordinary shares (A shares)	**498,872,911**	**71.61**	492,524,536	71.40
Overseas listed foreign shares (H shares)	**195,000,000**	**27.99**	195,000,000	28.27
3. Total number of shares	**696,683,435**	**100.00**	689,776,535	100.00

Note: Share options exercisable under the third exercise period of the initial grant of the Company's 2021 A-share stock option incentive plan resulted in the issuance of 6,906,900 shares on 14 January 2026.

2. SHAREHOLDERS INFORMATION

(1) As at 30 June 2026，the Company had on record a total of 79,885 shareholders (the "Shareholders"), including 37 holders of H Shares and 79,848 holders of A Shares.

(2) As at 30 June 2026, the ten largest Shareholders were as follows:

Unit: share

Name of Shareholders	Nature of Shareholders	% of the total share capital *(%)*	Number of shares held as at the end of the Reporting Period	Class of shares
華魯控股集團有限公司("華魯控股")[(1)] (Hualu Holdings Group Co. Ltd.) (i) ("HHC")	State-owned	29.41	204,864,092	RMB-denominated ordinary shares
香港中央結算(代理人)有限公司 HKSCC Nominees Limited	H Shares	27.81	193,715,637	Overseas listed foreign shares
華魯投資發展有限公司("華魯投資") Hualu Investment Development Co., Ltd ("Hualu Investment")	State-owned	5.32	37,091,988	RMB-denominated ordinary shares
香港中央結算有限公司 HKSCC Limited	Overseas Legal Person	0.39	2,684,351	RMB-denominated ordinary shares
馬強 Ma Qiang	Natural person in the territory	0.20	1,368,300	RMB-denominated ordinary shares
曹仁均 Cao Renjun	Natural person in the territory	0.12	825,130	RMB-denominated ordinary shares
張思蕊 Zhang Sirui	Natural person in the territory	0.10	721,400	RMB-denominated ordinary shares
倪波 Ni Bo	Natural person in the territory	0.10	710,000	RMB-denominated ordinary shares
劉明剛 Liu Minggang	Natural person in the territory	0.10	669,900	RMB-denominated ordinary shares
王輝 Wang Hui	Natural person in the territory	0.09	597,700	RMB-denominated ordinary shares

(3) As at 30 June 2026 the ten largest Shareholders of the unconditional tradable shares of the Company were as follows:

Unit: share

Name of Shareholders	**Nature of Shareholders**	**% of the total share capital** *(%)*	**Number of unconditional listed shares as at the end of the Reporting Period**	**Class of shares**
華魯控股("HHC") (i)	State-owned	29.41	204,864,092	RMB-denominated ordinary shares
香港中央結算(代理人)有限公司 HKSCC Nominees Limited	H Shares	27.81	193,715,637	Overseas listed foreign shares
華魯投資 ("Hualu Investment")	State-owned	5.32	37,091,988	RMB-denominated ordinary shares
香港中央結算有限公司 HKSCC Limited	Overseas Legal Person	0.39	2,684,351	RMB-denominated ordinary shares
馬強 Ma Qiang	Natural person in the territory	0.20	1,368,300	RMB-denominated ordinary shares
曹仁均 Cao Renjun	Natural person in the territory	0.12	825,130	RMB-denominated ordinary shares
張思蕊 Zhang Sirui	Natural person in the territory	0.10	721,400	RMB-denominated ordinary shares
倪波 Ni Bo	Natural person in the territory	0.10	710,000	RMB-denominated ordinary shares
劉明剛 Liu Minggang	Natural person in the territory	0.10	669,900	RMB-denominated ordinary shares
王輝 Wang Hui	Natural person in the territory	0.09	597,700	RMB-denominated ordinary shares

Notes:

i. Such figure excludes the following shareholding interests held by corporations controlled by HHC as at 30 June 2026: (i) 37,091,988 A shares (representing approximately 5.32% of the total issued share capital of the Company) held by Hualu Investment, a direct wholly owned subsidiary of HHC; and (ii) 20,827,800 H shares (being overseas listed foreign shares) (representing approximately 2.99% of the total issued share capital of the Company) held by Well Bring Limited ("Well Bring"), an indirect wholly-owned subsidiary of HHC. Well Bring is directly wholly-owned by China Shandong Group Limited (華魯集團有限公司) which is in turn held as to 99.75% by HHC. Well Bring owns H Shares of the Company, the legal title of which are deposited into the clearing system of the SEHK and held by HKSCC Nominees Limited.

ii. The following is a description of any association relationship and party acting in concert in relation to the above Shareholders under applicable PRC laws and regulations: Except for Hualu Investment which is a subsidiary of HHC, to the best of their knowledge, the Directors are not aware as to whether there is any association relationship (as defined in the Rules Governing Listing of Stocks On Shenzhen Stock Exchange) amongst the remaining of the above mentioned 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. Except for Hualu Investment which is a subsidiary of HHC, to the best of their knowledge, 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 and so far as the Company is aware, no other domestic shareholder directly held more than 5% of the total issued shares of the Company.

iv. Changes in the shares of the top 10 shareholders participating in margin trading: Ni Bo holds a total of 710,000 shares of the Company's stock, of which 710,000 shares are held through a credit securities account (with 600,000 shares at the beginning of the period); Wang Hui holds a total of 597,700 shares of the Company's stock, of which 310,000 shares are held through a credit securities account (with 0 shares at the beginning of the period).

v. Save as disclosed above and so far as the Directors are aware, as at 30 June 2026, no other person (other than the Directors of the Company, chief executive (if applicable) or members of Senior Management had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "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 Stock Exchange of Hong Kong Limited (the "Listing Rules") of the Company.

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

There was no change in the Controlling Shareholder (as the term is defined in the Listing Rules) and actual controller of the Company during the Reporting Period.

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

Name	Position	Number of Shares as at 30 June 2026	Approximate percentage of shareholding in total issued A Shares as at 30 June 2026 (%)	Approximate percentage of shareholding in total issued Shares as at 30 June 2026 (%)	Number of Shares as at 1 January 2026
Directors:					
Mr. He Tongqing	Chairman	**503,150**	**0.1003**	**0.0722**	397,550
Mr. Xu Wenhui	Executive Director, General Manager	**453,200**	**0.0903**	**0.0651**	347,600
Mr. Zhang Chengyong	Non-executive Director	**Nil**	**–**	**–**	Nil
Mr. Hou Ning	Executive Director, Financial Controller	**540,000**	**0.1076**	**0.0775**	434,400
Mr. Pan Guangcheng	Independent non-executive Director	**Nil**	**–**	**–**	Nil
Mr. Zhu Jianwei	Independent non-executive Director	**Nil**	**–**	**–**	Nil
Mr. Ling Peixue	Independent non-executive Director	**Nil**	**–**	**–**	Nil
Ms. Cheung Ching Ching, Daisy	Independent non-executive Director	**Nil**	**–**	**–**	Nil
Mr. Xu Lie	Former Non-executive Director (Resigned on 31 March 2026)	**503,150**	**0.1003**	**0.0722**	397,550
Other Senior Management:					
Mr. Wei Changsheng	Deputy General Manager	**453,200**	**0.0903**	**0.0651**	347,600
Mr. Liu Xuesong	Deputy General Manager	**223,100**	**0.0445**	**0.0320**	157,100
Mr. Kou Zuxing	Deputy General Manager	**173,100**	**0.0345**	**0.0248**	123,600
Mr. Cao Changqiu	Secretary to the Board	**333,200**	**0.0664**	**0.0478**	267,200
Total		**3,182,100**	**0.6343**	**0.4567**	2,472,600

Notes:

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

ii. The increase in shareholding of the Shares held by Directors and Senior Management resulted from the exercise of share options under the third exercise period of the initial grant of the 2021 A-share stock option incentive plan.

iii. So far as the Directors and the Senior Management are aware, save as disclosed above, as at 30 June 2026, no Director and Senior Management 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 C3 to the Listing Rules.

CHANGE OF DIRECTORS AND OTHER SENIOR MANAGEMENT

Name	Position	Change Type	Date	Reason
Xu Lie	Former Non-executive Director	Resigned	31 March 2026	Retirement due to age

POSITION HELD IN THE HOLDING COMPANY

Name	Name of the shareholding company	Position	Beginning date	Termination date	Remuneration received from shareholder
Mr. Zhang Chengyong	HHC	Director of capital operation	23 May 2016	–	No
Mr. Zhang Chengyong	Hualu Investment	Executive director	1 June 2021	–	Yes

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making process for remuneration of Directors and Senior Management	The Directors' and the Supervisors' remuneration are subject to the approval in the general meetings of the Company, whereas the remuneration of the Senior Management is subject to the approval of the Board.
Basis for determining the remuneration of Directors and Senior Management	The remuneration of Directors, Supervisors and other Senior Management is determined with reference to state policies, the Company's financial standing, personal performance and the general remuneration standard of society.
Payment of remuneration to Directors and Senior Management	RMB1,362,718.00 was paid during this Reporting Period, the exercised share options amount to RMB5,026,807.50.

Staff and remuneration information (As of 30 June 2026)

Staff remuneration of the Group (the Company and its subsidiaries) was determined with reference to state policies, the Company's operation condition during the relevant period and the general remuneration level of society.

As at 30 June 2026, the number of staff employed by the Group was 7,015, and the total amount of their salaries and wages for the half year was RMB357,286,000.

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

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

The Company's 2018 A Share Option Incentive Plan has been implemented in May 2023.

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

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

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

On 23 December, 2022, the Company held the fourth extraordinary meeting of the 10th Board of Directors in 2022 and the first extraordinary meeting of the 10th Board of Supervisors in 2022 respectively, deliberating and passing the motion on granting reserved stock options to incentive objects. In accordance with the approval and authorization of the 2021 first extraordinary general meeting, the 2021 second class meeting of the shareholders of A shares and the 2021 second class meeting of the shareholders of H shares of the Company, the Board of Directors determined that the grant date of this stock option reservation grant shall be 26 December 2022, and 1.75 million reserved stock options will be granted to 35 eligible grantees.

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

As at 31 December 2023, the first vesting period for the Company's 2021 A-Share Stock Option Incentive Plan to grant share options to the grantees has expired. One of the grantees of the plan resigned due to a change of jobs and another grantee of the plan left due to personal reasons. According to the provisions of the plan, such persons are no longer an eligible grantee, and a total of 430,000 share options granted but not yet exercised has been canceled. Accordingly, in January 2024, the total number of grantees under the Company's 2021 A Share Option Incentive Plan has been adjusted from 196 to 194 and the number of options granted has been adjusted from 23,150,000 to 22,720,000 due to the cancellation of 430,000 share options.

The Company issued ordinary A shares in the issued share capital of the Company to eligible grantees in January 2024. During the first exercise period of share options, there were 194 eligible grantees in total and the number of exercised share options amounted to 7,724,800, with an adjusted exercise price of RMB7.61 per share option.

As at 31 December 2024, the second vesting period of the 2021 A Share Option Incentive Plan and the first vesting period in connection with the reserved shares option granted has expired respectively. One of the grantees of 2021 A Share Option Incentive Plan resigned due to position adjustment, one of the grantees left due to personal reasons and one of the grantees of the plan retired due to reaching retirement age. According to the provisions of the plan, such persons are no longer an eligible grantee, and a total of 257,400 share options granted but not yet exercised has been canceled. Accordingly, in December 2024, the total number of grantees under the Company's 2021 A Share Stock Option Incentive Plan has been adjusted from 194 to 190 and the number of options granted has been adjusted from 14,995,200 to 14,737,800 due to the cancellation of 257,400 share options.

The Company issued ordinary A shares in the issued share capital of the Company to eligible grantees in January 2025. During the second exercise period of share options, there were 190 eligible grantees in total and the number of exercised share options amounted to 7,368,900, with an adjusted exercise price of RMB7.335 per share option.

As at 31 December 2025, the third vesting period in connection with the 2021 A Share Option Incentive Plan and the second vesting period in connection with the reserved shares option granted has expired respectively. One of the grantees of 2021 A Share Option Incentive Plan resigned due to position adjustment, two of the grantees were terminated from employment and four of the grantees of the plan retired. According to the provisions of the plan, such persons are no longer an eligible grantee, and a total of 462,000 share options granted but not yet exercised has been canceled. Accordingly, in December 2025, the total number of grantees under the Company's 2021 A Share Option Incentive Plan has been adjusted from 190 to 183 and the number of options granted has been adjusted from 7,368,900 to 6,906,900 due to the cancellation of 462,000 share options.

As the first exercise period of the Company's 2021 A Share Incentive Plan in connection with the reserved shares option granted had expired on 26 December 2025, 35 incentive recipients failed to exercise their rights within the exercise period. According to the provisions of the 2021 Incentive Plan, the total of 595,000 reserved share options held by these 35 recipients granted but not yet exercised were cancelled.

The Company issued ordinary A shares in the issued share capital of the Company to eligible grantees in January 2026. During the third exercise period of share options, there were 183 eligible grantees in total and the number of exercised share options amounted to 6,906,900, with an adjusted exercise price of RMB7.085 per share option.

Summary of the movements of share options of the Company during the six months ended 30 June 2026 in relation to the 2021 A Share Option Incentive Plan:

Grantees	Position	Date of grant of options	Outstanding share options as at beginning of Reporting Period *(Note 1 and 2)* Number	Vesting period *(Note 3)*	Exercise period *(Note 4)*	No. of share options granted during the Reporting Period *(Note 2)*	No. of share options vested during Reporting Period *(Note 4 and 5)*	No. of share options exercised during Reporting Period *(Note 4 and 5)*	No. of share options cancelled or lapsed during Reporting Period *(Note 6 and 7)*	No. of unvested share options at end of Reporting Period	Outstanding share options as at the end of Reporting Period *(Note 1 and 2)*
He Tongqing	Chairman	31 December 2021	105,600	31/12/23 – 31/12/25	01/01/24 – 31/12/26	0	105,600	105,600	0	0	0
Xu Wenhui	Executive Director & General Manager	31 December 2021	105,600	31/12/23 – 31/12/25	01/01/24 – 31/12/26	0	105,600	105,600	0	0	0
Hou Ning	Executive Director & Financial Controller	31 December 2021	105,600	31/12/23 – 31/12/25	01/01/24 – 31/12/26	0	105,600	105,600	0	0	0
Wei Changsheng	Deputy General Manager	31 December 2021	105,600	31/12/23 – 31/12/25	01/01/24 – 31/12/26	0	105,600	105,600	0	0	0
Liu Xuesong	Deputy General Manager	31 December 2021	66,000	31/12/23 – 31/12/25	01/01/24 – 31/12/26	0	66,000	66,000	0	0	0
Kou Zuxing	Deputy General Manager	31 December 2021	49,500	31/12/23 – 31/12/25	01/01/24 – 31/12/26	0	49,500	49,500	0	0	0
Cao Changqiu	Secretary to the Board	31 December 2021	66,000	31/12/23 – 31/12/25	01/01/24 – 31/12/26	0	66,000	66,000	0	0	0
Xu Lie	Former Non-executive Director	31 December 2021	105,600	31/12/23 – 31/12/25	01/01/24 – 31/12/26	0	105,600	105,600	0	0	0
Subtotal			709,500				709,500	709,500	0	0	0
Other staff members		31 December 2021	6,659,400	31/12/23 – 31/12/25	01/01/24 – 31/12/26	0	6,659,400	6,197,400	462,000	0	0
		26 December 2022	1,750,000	26/12/24 – 26/12/26	27/12/24 – 26/12/27	0	0	0	595,000	577,500	1,155,000
Total			9,118,900			0	7,368,900	6,906,900	1,057,000	577,500	1,155,000

Notes:

1. 23.15 million share options were granted under the 2021 A Share Option Incentive Plan on 31 December 2021 to certain employee participants with an exercise price of RMB7.96 per A share. The Company selected the Black-Scholes Model to calculate the fair value of share options under the first grant, the specific calculating methods and results of fair value of each share option are as follows:

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

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

Note (b): When there is a dividend payment, the exercise price will be adjusted pursuant to the 2021 A Share Option Incentive Plan. According to the parameter requirements of the Black-Scholes model, the dividend rate will be 0% when the exercise price is adjusted.

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

Unit: RMB10'000

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

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

The closing price of A share of the Company on the Shenzhen Stock Exchange on the last trading day (i.e. 30 December 2021) before the first grant of the share options was RMB11.69 per A share. The exercise of share options is subject to various conditions, including but not limited to the meeting or ascertaining of certain performance targets, details of which are set out in the circular of the Company dated 15 December 2021.

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

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

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

Note (b): When there is a dividend payment, the exercise price will be adjusted pursuant to the 2021 A Share Option Incentive Plan. According to the parameter requirements of the Black-Scholes model, the dividend rate will be 0% when the exercise price is adjusted.

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

Unit: RMB10'000

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

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

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

3. All of the share options under the 2021 A Share Option Incentive Plan have vesting periods of 24 months, 36 months and 48 months from the date of grant respectively.

4. The share options under the 2021 A Share Option Incentive Plan are exercisable in three tranches from expiry of 24 months from the date of the grant:

   34% of the options granted may be exercised during the first exercise period, commencing from the first trading day after the expiry of the 24th month from the date of grant, and ending on the last trading day of the 36th month from the date of grant.

   33% of the options granted may be exercised during the second exercise period, commencing from the first trading day after the expiry of the 36th month from the date of grant, and ending on the last trading day of the 48th month from the date of grant; and

   33% of the options granted may be exercised during the third exercise period, commencing from the first trading day after the expiry of the 48th month from the date of grant, and ending on the last trading day of the 60th month from the date of grant.

5. There was no individual participant with options granted or to be granted in excess of 1% of the total issued share capital of the Company and there was no related entity participant or service provider with options granted or to be granted in any 12-month period exceeding 0.1% of the issued share capital of the Company. The weighted average closing price of A share of the Company on the Shenzhen Stock Exchange immediately before the date of the share options were exercised were RMB16.87 (13 January 2026) per A share. The share options were exercised at a price of RMB7.085 per share option.

6. The exercise price for the first grant of 462,000 options and reserved grant of 595,000 options that have been cancelled during the Reporting Period are 7.085 per share and 37.055 per share, respectively.

7. No share options under the 2021 A Share Option Incentive Plan had lapsed during the Reporting Period.

As of both the beginning and the end of the Reporting Period, all share options have been granted and there are no further options available for grant pursuant to 2021 A Share Option Incentive Plan.

The number of shares that may be issued during the Reporting Period (i.e. 577,500 A shares) in respect of options granted under all schemes of the Company (i.e. 577,500 reserved share options under the 2021 Share Option Incentive Plan) (i) divided by the weighted average number of shares of the A shares in issue for the Reporting Period (i.e. 501,683,435 A shares) and (ii) divided by the weighted average number of shares of the Shares in issue for the period (i.e. 696,683,435 A Shares) is approximately 0.12% and 0.08%, respectively.

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

For further details of the Share Option Incentive Plan of the Company, please refer to the section headed "REPORT OF THE BOARD OF DIRECTORS – 3. Others – 2021 A Share Option Incentive Plan" in the 2025 Annual Report of the Company.

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

Area of Work	Number of Staff
Production	3,958
Engineering & Technical	645
Administration	234
Finance	93
Product R&D	540
Procurement	55
Sales	877
Quality inspection	613
Total	7,015

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

Education level by category	Number of Staff
Universities or above	2,130
Tertiary institutions other than universities	2,431
Intermediate institutions and technical schools	2,038
Senior high schools or below	416
Total	7,015

The Company formulated and implemented staff education and training plan in 2026. In the first half of 2026, 40 company-level training programs were carried out, with over 14,200 employees attended the training, including Xinhua Lecture Hall series training courses, youth workers safety skills and knowledge improvement training, training of professional environmental protection knowledge, training of professional quality knowledge, production equipment and special facilities training, AI Empowered Application Special Training and other aspects. In addition, specialized training on new product skills was conducted in collaboration with personnel from various marketing departments. The Company actively enriched the content of its training and innovated the forms of training to further enhance the results of training.

To all Shareholders:

We hereby report to the Shareholders on the operational results of Shandong Xinhua Pharmaceutical Company Limited (the "Company") for the first half of the year 2026.

In the first half of the year 2026, the operating revenue of the Company and its subsidiaries (collectively referred to as the "Group") prepared under the CASBE was RMB4,357,549,000, representing a decrease of 6.06% as compared to the same period last year. The Group recorded net profits attributable to the Shareholders of RMB149,128,000, representing a decrease of 33.35% as compared to the same period last year.

The Board recommends not to distribute dividends for the first half of 2026, not to issue bonus shares, and not to implement capitalization of public capital reserves.

BUSINESS REVIEW

In the first half of 2026, the Group proactively responded to persistent weak market demand and intensifying competition, among other adverse factors, by accelerating its comprehensive transformation and upgrading across all operations and making every effort to cultivate its core competitiveness. During this period, all key priorities of the Group were advanced steadily.

1. The Group deepened the reform of its marketing mechanism and achieved stabilization and a rebound in preparations industry sales. During the first half of the year, the Group continued to advance reforms to the marketing model of its preparation products, resulting in a stabilization and improvement in sales within the preparations industrial division. The Company successfully won bids for 38 products comprising 58 specifications under the latest follow-up procurement for drugs included in batches 1 to 8 under the national centralized procurement programs, and achieved relatively rapid growth in sales revenue from its strategic preparation products and new products.

2. The Group anchored in an efficiency-oriented approach, and the costs of its key products continued to decline. In the first half of the year, the Company held a thematic meeting on cost reduction, efficiency improvement, and innovation breakthroughs, identifying 42 key measures for innovation and breakthroughs. Meanwhile, the Group implemented multiple measures to reduce costs and enhance efficiency, continuously lowering raw material and energy consumption while steadily optimizing and improving the technical and economic performance indicators of key products.

3. The Group accelerated the transformation to new growth drivers, and achieved notable results in new product cultivation. In the first half of the year, the Group launched 12 new products, including Valsartan Capsules and Entacapone Tablets. Its new preparation products generated sales revenue of RMB182 million, representing a growth of 92.58% year-on-year. Its new API products achieved a multiple-fold increase in sales volume in the domestic market. Its high-purity fish oil EPA made critical breakthroughs in high-end international markets, including the United States and Canada. The main structure of the plant for the High-end API Industrial Innovation Center project was completed, with equipment installation currently underway, and multiple oral liquid products successfully achieved commercial production.

4. The Group remained committed to innovation-driven development and has delivered remarkable research achievements. In the first half of the year, the Company obtained a total of 15 approvals for new products and 2 approvals for Consistency Evaluation. The Class 1 innovative drug LXH-2103 was granted clinical trial approval, the Phase I clinical trial for LXH-1211 was officially initiated, and the research and development work for OAB-14 and LXH-2301 was advanced steadily. During the Reporting Period, the Company was granted eight patents and participated in the drafting of one national standard. One project was approved under the National Science and Technology Major Project for Innovative Drug Development (2026), while another was included in the Shandong Provincial Key R&D Plan (Major Scientific and Technological Innovation Project). The Company's National Enterprise Technology Center successfully passed the accreditation review organized by the National Development and Reform Commission (NDRC), and the Company was selected as a National Intellectual Property Demonstration Enterprise (Cultivation Unit). In addition, two experts were awarded the State Council Special Government Allowance, four employees successfully passed the final evaluation for the Taishan Industry Leading Talent Program, and the Company was approved to establish one of the first batch of Engineer Workstations in Zibo.

5. The Group continuously strengthened fundamental management and risk control. During the first half of the year, the Company's Lifeline Project (生命線工程) remained stable, with no general or more serious safety, environmental protection, or quality incidents. The Company successfully passed global quality audits conducted by several multinational corporations, including Bayer and Merck. It completed carbon emissions inventories for four production sites and prepared carbon footprint reports for 29 products. Significant progress was also made in digital and intelligent transformation. The Company maintained stringent control over the occupation of the "Two Funds", strengthened compliance and risk management, and safeguarded the security and sustainability of its development.

PROSPECTS

The current international pharmaceutical market environment is complex and volatile, with Western countries vigorously promoting the reshoring of manufacturing, leading to significantly increased external operational uncertainties. Domestically, market competition is intensifying, and the growth rate of demand has slowed, resulting in substantial operational pressure for the Group in the second half of the year due to multiple converging factors. Meanwhile, favorable policies in the domestic pharmaceutical industry continue to be implemented and to yield benefits. The Group has a solid industrial foundation and is continuously building new momentum, with an overall development outlook that remains stable and positive.

In the second half of the year, the Group will seize opportunities, address challenges head-on, closely adhere to the objectives and tasks set at the beginning of the year, and prioritize the following key initiatives:

1. The Group will proactively plan and strive for new breakthroughs in preparation sales.

The Group will seize opportunities to ensure continued procurement, and launch the dedicated campaign titled "Key Product Director Accountability Initiative". Focusing on 20 strategic products, the Group will strengthen product knowledge training across the organization, cascade performance targets at all levels, conduct monthly product-specific performance reviews, enhance marketing incentive mechanisms, and coordinate targeted marketing efforts to accelerate sales growth of 38 bid-winning categories under the centralized procurement program.

The "one product, one strategy" mechanism will be further implemented to accelerate distribution channel penetration, strengthen terminal network development, and intensify academic promotion. The Group will speed up the development of strategic preparation products, accelerate the launch and commercialization of newly approved products, so as to rapidly build up sales volume, and cultivate new growth drivers.

Meanwhile, the Group will further deepen the reform of the marketing system and mechanism for preparations, optimize the sales force and distributor structure, and reinforce terminal control and brand-driven academic promotion.

2. The Group will drive cost reduction and efficiency enhancement to broaden its competitive moat.

The Group will launch a group-wide cost-reduction and efficiency-enhancement campaign. The Group will expedite key innovative breakthrough measures, continuously optimize manufacturing processes for flagship APIs, and deepen lean management. Through these efforts, the Group will steadily reduce product costs and sharpen its market competitiveness.

To that end, the Group will stay firmly focused on its annual cost reduction targets, closely track raw material price trends, expand the scope of centralized and strategic procurement, accelerate the domestic substitution of imported materials, and ensure sustained cost reductions for benchmarked product varieties.

Cost control measures will be refined in line with its business model to identify specific leverage points for cost reduction and efficiency enhancement. In this way, the Group will achieve optimal cost performance.

3. The Group will accelerate the cultivation of new growth drivers and create new growth poles.

The Group will push forward with the construction of key projects such as the High-end API Industrial Innovation Center, expedite the ramp-up and performance delivery of existing international cooperation projects, and accelerate the development of its narcotic and psychotropic drug base. Through these efforts, the Group will achieve a leap from small to large scale and from basic to best-in-class capability, creating a vital new growth pole.

The Group will accelerate international expansion by actively engaging with leading multinational pharmaceutical companies to secure new cooperation projects. It will deepen its international strategic partnerships, accelerate the global market development of its own brands, and deepen integration with the global industrial chain.

The Group will also accelerate business expansion in the broader health and wellness sector. The Company will rapidly expand into health supplements, pet food, aesthetic medical products, medical devices, functional beverages, and other areas, opening up new business growth trajectories.

4. The Group will enhance its strength in scientific and technological innovation and build up corporate development potential.

The Group will accelerate R&D progress for new product pipelines, forge ahead with clinical studies of innovative drugs including OAB14, LXH1211 and LXH2103, strive to secure five marketing approvals for preparations, and complete registration filings for seven APIs. The Group will speed up the strategic transition from generic drug to innovative drug, and rapidly build a dual-track R&D system underpinned by "innovation as the priority and generics as the complement". Leveraging AI, high-caliber R&D teams and platform development as key breakthrough vectors, the Group will gradually cultivate competitive strengths in synthetic biology, psychotropic anaesthetic pharmaceuticals, marine drugs, neurodegenerative diseases, as well as cardiovascular and cerebrovascular therapeutic areas.

The Group will integrate its technological advancement resources, focus on technical requirements from frontline production operations, drive the development and practical deployment of new technologies, new processes and new equipment, speed up breakthroughs in key technologies, and bolster core competitiveness.

The Group will press ahead with reforms to the science and technology management system. It will establish an appraisal mechanism that links R&D outcomes, new product growth and product cost reduction. The Group will achieve deep integration of R&D, production and marketing throughout the full lifecycle covering market research, project initiation, implementation, capacity ramp up and performance delivery, and market cultivation. Through early-stage engagement and close collaboration, the Group will foster a community with shared interests and shared risks.

5. The Group will uphold the "Three Effect" (三效原則) Principles to boost resolve and dynamism.

The Group will further advance the Lifeline Project, conduct comprehensive hazard screening exercises, pursue optimization of work safety standardization and the dual-prevention mechanism, formulate and implement a carbon emission reduction action plan to ensure stable emissions compliance. The Group will strengthen quality system development to continuously enhance physical product quality.

The Group will accelerate digital and intelligent transformation. It will press ahead with the deployment of the ERP system and the adoption of cutting-edge technologies including AI and RPA to achieve full-link digital governance over core business operations.

The Group will strengthen integrated risk management, refine the internal control system and enforce stringent risk controls. It will exercise rigorous oversight over the "Two Funds" (兩金), optimise inventory structure and mitigate operational risks.

Chairman
He Tongqing
25 August 2026

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

ANALYSIS OF FINANCIAL SITUATION AND OPERATING RESULT IN ACCORDANCE WITH CASBE

1. Analysis of Assets and Liabilities

Assets and Liabilities constituting changes

Unit: RMB Yuan

	As at 30 June 2026 (unaudited)		As at 31 December 2025 (the "End of Last Year") (audited)			
Item	**Amounts**	**Proportion of total assets**	Amounts	Proportion of total assets	**Percentage increase or decrease**	**Description of changes Amounts**
Monetary funds	**1,510,925,609.32**	**16.62%**	1,396,482,926.22	15.20%	1.42%	–
Accounts receivable	**968,217,189.86**	**10.65%**	862,388,584.20	9.39%	1.26%	–
Contract assets	**213,738.99**	**0.002%**	427,899.59	0.005%	(0.003%)	–
Inventories	**1,296,025,718.61**	**14.26%**	1,318,099,539.03	14.35%	(0.09%)	–
Investment real estate	**28,077,624.31**	**0.31%**	29,714,671.93	0.32%	(0.01%)	–
Long-term equity investment	**58,529,175.90**	**0.64%**	58,191,097.56	0.63%	0.01%	–
Fixed assets	**3,590,192,749.38**	**39.49%**	3,783,252,309.59	41.19%	(1.70%)	–
Projects under construction	**378,692,025.19**	**4.17%**	366,170,853.13	3.99%	0.18%	–
Right-of-use assets	**3,318,418.06**	**0.04%**	2,364,683.50	0.03%	0.01%	–
Short-term borrowing	**451,078,643.36**	**4.96%**	433,638,538.34	4.72%	0.24%	–
Contract liability	**70,443,537.16**	**0.77%**	149,301,833.29	1.63%	(0.86%)	–
Long-term borrowings	**626,000,000.00**	**6.89%**	695,319,527.08	7.57%	(0.68%)	–
Lease liabilities	**1,635,561.71**	**0.02%**	744,839.50	0.01%	0.01%	–

Analysis of major changes of items

Unit: RMB Yuan

Items	As at 30 June 2026 (unaudited)	As at 31 December 2025 (the"End of Last Year") (audited)	Change as compared to the End of Last Year	Description of changes (Note ref.)
Notes receivable	**13,906,383.36**	26,847,465.76	(48.20%)	(1)
Other current liabilities	**15,004,466.98**	38,586,676.11	(61.11%)	
Other receivables	**18,259,573.19**	7,978,709.35	128.85%	(2)
Contract assets	**213,738.99**	427,899.59	(50.05%)	(3)
Right-of-use assets	**3,318,418.06**	2,364,683.50	40.33%	(4)
Lease liabilities	**1,635,561.71**	744,839.50	119.59%	
Development cost	**18,325,534.01**	9,764,150.95	87.68%	(5)
Contract liabilities	**70,443,537.16**	149,301,833.29	(52.82%)	(6)
Employee benefits payable	**24,091,759.97**	64,892,697.34	(62.87%)	(7)
Taxes payable	**39,520,825.03**	24,120,526.47	63.85%	(8)
Other comprehensive income	**130,508,413.08**	195,957,428.58	(33.40%)	(9)
Special reserve	**17,286,072.97**	12,163,037.82	42.12%	(10)

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

(1) The decrease in the amount of notes receivable and other current liabilities as compared with the end of last year was mainly due to the reduction in bank acceptance bills not derecognized during the Reporting Period.

(2) The increase in other receivables as compared with the end of last year was mainly attributable to dividend receivables of equity instrument investments that had not been received by the End of the Reporting Period.

(3) The main reason for the decrease in contract assets compared with the End of Last Year is the completion of most contracts during the Reporting Period.

(4) The main reason for the increase in right-of-use assets and lease liabilities compared with the End of Last Year was the expansion of the leased office area for Shandong Xinhua Health Technology Co., Ltd. during the Reporting Period, which led to an increase in right-of-use assets and lease payments.

(5) The increase in development cost compared with the End of Last Year was mainly due to the higher investment in capitalized R&D projects during the Reporting Period.

(6) The main reason for the decrease in contract liabilities compared with the End of Last Year is that the Company fulfilled contractual obligations under relevant contracts during the Reporting Period, leading to a reduction in advance payments from customers.

(7) The decrease in employee benefits payable compared with the End of Last Year was mainly due to a decrease in the amount of unpaid employee benefits by the end of the Reporting Period.

(8) The main reason for the increase in taxes payable compared with the End of Last Year is that the amount of payable value-added tax increased during the Reporting Period.

(9) The main reason for the increase in other comprehensive income compared with the End of Last Year is the decrease in income due to the fair value changes of other equity instruments during the Reporting Period.

(10) The main reason for the increase in special reserve compared with the End of Last Year is the rise in accrued but unused safety production fees during the Reporting Period.

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

Unit: RMB Yuan

Items	**Six months ended 30 June 2026 (unaudited)**	Six months ended 30 June 2025 (unaudited)	**Change as compared to the same period last year**	**Description of changes**
Operating revenue	**4,357,548,611.17**	4,638,804,042.98	(6.06%)	–
Operating costs	**3,522,514,897.69**	3,709,265,385.35	(5.03%)	–
Income tax expense	**16,987,719.37**	32,358,726.29	(47.50%)	(1)
Selling expenses	**167,749,175.94**	172,609,904.66	(2.82%)	–
Administration expenses	**206,930,932.69**	215,097,968.70	(3.80%)	–
Financial expenses	**30,495,168.68**	9,877,946.58	208.72%	(2)
Credit impairment loss	**(6,248,825.30)**	(9,135,931.30)	(31.60%)	(3)
Gain from disposal of assets	**93,383.69**	1,711,209.17	(94.54%)	(4)
Operating profit	**175,660,137.98**	264,247,207.11	(33.52%)	(5)
Total profit	**164,942,512.39**	263,527,198.08	(37.41%)	
Net profit	**147,954,793.02**	231,168,471.79	(36.00%)	
Non-operating income	**1,789,050.85**	2,897,371.44	(38.25%)	(6)
Non-operating expenses	**12,506,676.44**	3,617,380.47	245.74%	(7)
Research and Development input	**192,323,395.30**	202,782,438.85	(5.16%)	–

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

(1) The main reason for the decrease in income tax expense compared with the same period last year is the reduction in total profit for the Reporting Period.

(2) The increase in financial expenses compared with the same period last year was the impact of exchange rate fluctuations on higher foreign exchange losses during the Reporting Period.

(3) The decrease in credit impairment loss compared with the same period last year was the reduction in bad debt provisions for receivables during the Reporting Period.

(4) The decrease in gains from disposal of assets compared with the same period last year was mainly attributable to a decrease in gains from the disposal of fixed assets, during the Reporting Period.

(5) The decrease in operating profit, total profit, and net profit compared with the same period last year was the fierce competition in the international and domestic markets during the Reporting Period. In order to consolidate and enhance the market share of the products, the prices of some products have decreased.

(6) The decrease in non-operating income compared with the same period last year was the reduction in the write-offs of certain long-term unpaid liabilities during the Reporting Period.

(7) The increase in non-operating expenses compared with the same period last year was the increase in asset scrapping losses and late fees during the Reporting Period.

3. Analysis of significant changes in cash flow statement items

Unit: RMB Yuan

Items	**Six months ended 30 June 2026 (unaudited)**	Six months ended 30 June 2025 (unaudited)	**Change as compared to the same period last year**	**Description of changes (Note ref.)**
Net cash flow generated from operating activities	**160,615,805.00**	234,132,352.73	(31.40%)	(1)
Net cash flow generated from investing activities	**(38,718,636.47)**	(76,239,459.99)	49.21%	(2)
Net cash flow generated from financing activities	**(7,870,431.61)**	(136,716,259.62)	94.24%	(3)
Net increase in cash and cash equivalents	**107,152,952.34**	26,955,253.96	297.52%	(4)

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

(1) The main reasons for the decrease in net cash flow from operating activities compared with the same period of last year are: firstly, during the Reporting Period, in order to reasonably control the scale of liabilities and optimize the liability structure, the amount of payable bank acceptance bills redeemed increased year-on-year; secondly, the net profit for the Reporting Period has decreased compared to the same period last year.

(2) The main reason for the decrease in net cash flow from investing activities compared with the same period of last year is the decrease in cash paid for the purchase of fixed assets and other expenses during the Reporting Period.

(3) The main reason for the increase in the net cash flow generated from financing activities compared with the same period last year is that, during the Reporting Period, the Company conducted reasonable capital raising activities which optimized its debt structure.

(4) The key reasons for the year-over-year net increase in cash and cash equivalents are as set forth under (1), (2) and (3) above.

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

Items	Operating revenue	Operating costs	Gross profit rate	Change in operating revenue as compared to the same period last year	Change in operating costs as compared to the same period last year	Change in gross profit rate as compared to the same period last year
By industry						
Chemical bulk drugs	1,244,863,331.72	794,597,639.01	36.17%	(16.42%)	(15.24%)	Decreased by 0.89 percent points
Preparations	1,961,851,337.94	1,601,954,970.33	18.34%	(4.67%)	(4.47%)	Decreased by 0.17 percent points
Medical intermediates and other products	1,150,833,941.51	1,125,962,288.35	2.16%	5.43%	2.84%	Increased by 2.47 percent points
Total	4,357,548,611.17	3,522,514,897.69	19.16%	(6.06%)	(5.03%)	Decreased by 0.88 percent points
By product						
Antipyretic and analgesic active pharmaceutical ingredients	1,244,863,331.72	794,597,639.01	36.17%	(16.42%)	(15.24%)	Decreased by 0.89 percent points
Preparations such as tablets, injections, capsules etc.	1,961,851,337.94	1,601,954,970.33	18.34%	(4.67%)	(4.47%)	Decreased by 0.17 percent points
Medical intermediates and others	1,150,833,941.51	1,125,962,288.35	2.16%	5.43%	2.84%	Increased by 2.47 percent points
Total	4,357,548,611.17	3,522,514,897.69	19.16%	(6.06%)	(5.03%)	Decreased by 0.88 percent points
By geographical location						
PRC (including Hong Kong)	3,403,695,318.04	2,743,960,391.67	19.38%	(4.14%)	(2.90%)	Decreased by 1.04 percent points
Americas	282,631,521.28	223,536,811.42	20.91%	(35.14%)	(39.08%)	Increased by 5.12 percent points
Europe	431,224,456.88	348,756,238.85	19.12%	7.42%	22.40%	Decreased by 9.91 percent points
Others	239,997,314.97	206,261,455.75	14.06%	(4.30%)	(10.90%)	Increased by 6.37 percent points
Total	4,357,548,611.17	3,522,514,897.69	19.16%	(6.06%)	(5.03%)	Decreased by 0.88 percent points
By sales model						
Direct selling	1,554,858,911.90	1,164,017,784.22	25.14%	6.14%	(6.45%)	Increased by 10.08 percent points
Distribution selling	2,802,689,699.27	2,358,497,113.47	15.85%	(11.69%)	(4.32%)	Decreased by 6.48 percent points
Total	4,357,548,611.17	3,522,514,897.69	19.16%	(6.06%)	(5.03%)	Decreased by 0.88 percent points

Analysis of profit composition as compared to six months ended 30 June 2025 is as follows:

Items	Amount *(RMB Yuan)* Six months ended 30 June 2026	Six months ended 30 June	Percentage of the total profit *(%)* Six months ended 30 June 2026	Six months ended 30 June
Operating profits	**175,660,137.98**	264,247,207.11	**106.50**	100.27
Net non-operating revenue	**(10,717,625.59)**	(720,009.03)	**(6.50)**	(0.27)
Total profits	**164,942,512.39**	263,527,198.08	**100.00**	100.00

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

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

As at 30 June 2026, the Group's (i) current ratio was 153.72%; (ii) quick ratio was 106.57%; and (iii) turnover rate of accounts receivable (calculated as annualized operating revenue/average net accounts receivable × 100%) and the rate of inventory turnover (calculated as annualized operating costs/average net inventories × 100%) were 952.15% and 539.00% respectively.

The Group's current ratio and quick ratio increased compared with the end of last year, mainly due to the improvement of our operational management level, strengthening of the efficiency of sales receipts and fund recovery, and the increase in current assets during the Reporting Period. At the same time, we have optimized our liability structure, effectively reducing liquidity risk, and the Group's capital demand did not have obvious seasonal patterns.

The Group's main sources of funds were loans and operating profits. As at 30 June 2026, the Group's total borrowing amounted to RMB1,409,880,000. As at 30 June 2026, the Group's monetary funds amounted to RMB1,510,926,000. The Group is in good credit condition and has sufficient bank credit line available to meet the demand for working capital. Particulars of loans and debts of the Group as at 30 June 2026 are set out in items 23, 30, 32 and 33 in the endnote V to the Financial Statements in this report.

The repayment of the Group's borrowings at maturity during the Reporting Period is set out in the consolidated cash flow statement in the financial reports of the Group for the Reporting Period. The Group has established a sound financial management system to ensure the stability of funding while fully supporting production, operation and project construction to improve the efficiency of the use of funds.

As of 30 June 2026, the Company and its subsidiaries have allocated RMB95,909,000 and RMB16,617,000 respectively as bank acceptance bill margin deposits. The subsidiaries have also utilized RMB8,038,000 in restricted funds such as time deposits. The Group's receivable notes amount to RMB9,115,000 and accounts receivable total RMB800,000, both remaining unconfirmed. Apart from these, the Group holds no other collateral assets.

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

The breakdown of the Group's results is set out in the section headed "Analysis of Financial Situation and Operating Result in accordance with CASBE".

As at 30 June 2026, the number of the Group's employees was 7,015. Total employee salaries in the first half of 2026 amounted to RMB357,286,000.

As at 30 June 2026, the Group's asset-liability ratio (i.e., total liabilities/total assets × 100%) was 39.32%.

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

As at 30 June 2026, the Group had a gross gearing ratio (i.e., gross liabilities divided by adjusted capital) of 26.75%, and a net gearing ratio (i.e., net liabilities divided by adjusted capital) of (1.92%). 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 RMB. In the first half of 2026, the Group recorded export revenue in the amount of USD129,844,000, 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 will adequately consider the impact of exchange rate fluctuations when signing sales contracts for export business, and set settlement price reasonably; (2) the Group will promote cross-border RMB settlement and increase the proportion of RMB settlement in its export business; and (3) the Group will pay close attention to changes in exchange rates, settle foreign exchange in a timely manner, and properly control the scale of foreign currency assets and liabilities.

DIVIDEND DISTRIBUTION PLAN DURING THE REPORTING PERIOD

The Board of directors of the Company recommends not to distribute dividends for the first half of 2026 (2025 interim dividend: 0), not to issue bonus shares, and not to convert public reserves into share capital.

PRINCIPAL RISKS FACED BY THE COMPANY AND RESPONSE MEASURES

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

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

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

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

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

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

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

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

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

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

SAVE AS DISCLOSED HEREIN:

1. The Company has generally complied with PRC regulatory documents concerning corporate governance applicable to listed companies.

2. The Plan for Profit Distribution for Year 2025 has been approved at the annual general meeting of the Company for the year 2025.

3. The Board recommends not to distribute dividends for the first half of 2026, not to issue bonus shares, and not to implement capitalization of public capital reserves.

   During the six months ended 30 June 2025, the Board did not recommend any interim dividends or interim conversion of capital reserves 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 Under The Listing Rules Published By The SEHK", the Group did not have any material acquisitions or disposals of assets or mergers during the Reporting Period.

6. Material related party transactions:

   Related Party transactions conducted during the Reporting Period are set out in Note XII Related Parties and Related Parties transactions to the Financial Statements of this Report compiled in accordance with CASBE.

7. During the Reporting Period, the Group did not have nor entered into any trust, escrow or contracting arrangements concerning the assets of the Group or that of other companies. During the Reporting Period, the Group leased assets with a value of RMB3,318,000 from other companies; and other companies leased assets in the amount of RMB28,078,000 from the Group. For details, please refer to items 15 and 12 in notes V of the financial statements.

8. The independent opinion and directions of the independent non-executive Directors in respect of the use of funds from related parties and status of external guarantees 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 any guarantee in favor of the Controlling Shareholder, non-legal entities or individuals, and the interests of the Company and its Shareholders (in particular the minority Shareholders) were not prejudiced. As of 30 June 2026, the Company did not provide any external guarantee in connection with overdue debt and the Company did not have any liability arising from any guarantee as a result of the default of a guaranteed party.

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

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
Undertaking made on initial public offering or refinancing	HHC	Other	1. Within six months before the price determination date for the non-public issuance of A Shares of the Company (the announcement date of the resolution of the second extraordinary meeting of the 10th session of the Board of Directors of the Company in 2021), HHC and its concert parties shall not reduce their shareholding in the Company. 2. HHC does not have any plan for the reduction of its shareholding in the Company within six months after the completion of the non-public issuance of A Shares from the price determination date for the non-public issuance of A Shares. 3. HHC undertakes to strictly comply with the laws and regulations including the Securities Law of the People's Republic of China, Management Measures on Takeover of Listed Companies and the relevant regulations of the stock exchanges of the places where the shares of HHC are listed in connection with any reduction in its shareholding and to perform relevant information disclosure obligations concerning any changes in rights and interests. 4. If HHC violates the above-mentioned commitment and reduced its shareholding, HHC undertakes that all the proceeds from the reduction shall be owned by the Company and HHC shall bear all legal liabilities and consequences arising therefrom.	9 August 2021	Long-term	In progress
	HHC	Horizontal competition	1. There shall be no business competition between HHC and other enterprises controlled by HHC and the Company. 2. At all times when HHC is the Controlling Shareholder of the Company, HHC shall take necessary and possible measures in accordance with the law to avoid business or activities that are in competition or in conflict with the interest of the principal business of the Company, and shall procure other enterprises controlled by HHC to avoid business or activities that are in competition and conflict of interest with the principal business of the Company. 3. When HHC and other enterprises controlled by HHC intend to carry out new business, investment and research that may compete with the principal business of the Company, HHC shall promptly notify the Company, and the Company will have priority to develop and participate in the project. HHC shall use best endeavors to ensure that the terms of relevant transactions are fair and reasonable and on normal commercial terms with independent third parties. HHC has the ability to fulfill the above commitments. The letter of commitment took effect from the time it was signed by HHC and shall remain valid during the period when HHC has control over the Company.	9 August 2021	Long-term	In progress

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
	HHC	Other	1. HHC undertakes not to act beyond its powers to interfere with the Company's operating and management activities or misappropriate the Company's interests. 2. From the date of issuance of the undertaking to the completion of the Company's non-public issuance of A Shares, if the State and securities regulatory authorities make other new regulatory requirements on measures for listed companies to compensate the diluted current returns, and the undertaking cannot meet the requirements of the State and securities regulations, HHC promises to issue an undertaking in accordance with the latest regulations of the State and securities regulatory authorities. 3. HHC undertakes to take relevant measures to compensate for the diluted current returns formulated by the Company and fulfill this undertaking. If any loss is caused to the Company or investors due to the breach of this undertaking or the refusal to fulfill this undertaking, HHC is willing to assume the corresponding liability and compensate the losses in accordance with the law.	14 April 2021	Long-term	In progress
	HHC	Commitment on industry competition, related transactions and capital occupation	1. HHC shall not use the voting rights attached to its shares in the Company to manipulate the general meeting of shareholders of the Company; nor instruct the Company or its directors, supervisors or senior management personnel to cause the Company to provide or accept funds, commodities, services or other assets on unfair terms; nor engage in any conduct prejudicial to the interests of the Company and shareholders holding less than 5% of the Company's shares. 2. HHC and other companies, enterprises and entities controlled by HHC shall follow the principles of equality, altruism, fair value and fair compensation when conducting transactions with the Company and its controlled subsidiaries, ensure the fairness of transactions, and safeguard the legitimate rights and interests of the Company. The Company shall perform deliberation procedures and make timely disclosure in accordance with laws, administrative regulations, relevant provisions of China Securities Regulatory Commission and domestic stock exchanges, and the Company's articles of association in effect at that time.	25 June 2021	Long-term	In progress

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
	The Company	Other	1. From 1 January 2018 to the date of issuance of the undertaking: except for the "Jinding Huajun" developed by Xinhua (Zibo) Real Estate Co., Ltd.* (hereinafter referred to as "Xinhua Real Estate"), neither the Company nor any of its subsidiaries within the scope of its consolidated statements had engaged in real estate development and operation. 2. Subject to the government's land supply and other issues, in 2019, the Party Committee of the Company resolved to reserve no more than 80 houses of the "Jinding Huajun" developed by Xinhua Real Estate as apartments for its experts and talents. Xinhua Real Estate canceled its qualification certificate as a real estate development enterprise on 29 June 2021, and its business scope changed on 5 July 2021 which no longer included real estate development and operation business. On 1 August 2021, the executive directors of Xinhua Real Estate resolved to approve the remaining units of the completed properties to be used as apartments for its experts and talents in accordance with the preliminary planning, and no longer be sold to external parties. On 16 December 2021, the general manager office of the Company resolved to approve the specific use plan. The Company and its subsidiaries will not use the commodity housing pre-sale permit to engage in the pre-sale and sale of properties and other related businesses. 3. Upon completion of the above clearance work, the Company and the enterprises controlled by the Company will no longer apply for the relevant business qualifications for real estate development and operation, and will no longer engage in real estate development and operation business in the future. 4. Upon implementation of subsequent procedural matters, Xinhua Real Estate will focus on the management of self-owned real estate properties, or initiate liquidation and cancellation procedures to ensure that it will no longer engage in real estate development and operation business. 5. The Company shall use the proceeds from the issuance in strict compliance with laws and regulations and the requirements of regulatory authorities, and will not use the proceeds from the issuance for real estate development and operation. 6. If relevant laws and regulations or regulatory authorities have other requirements for the Company to clean up the real estate development and operation business, the Company will strictly comply with relevant regulations and requirements. 7. The Company will strictly comply with the above undertakings and agree to bear the legal responsibility for breach of the undertakings.	20 December 2021	Long-term	In progress

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
	The Company	Other	1. The Company will urge Xinhua Real Estate to proceed with the building ownership registration of the "Jinding Huajun" to ensure that Xinhua Real Estate will assist and cooperate with the purchaser to complete the building ownership registration in strict accordance with the provisions of the commodity housing sale and purchase contract. 2. In the event that the sold-out houses of the "Jinding Huajun" items are returned, Xinhua Real Estate will change such houses into self-owning in accordance with the preliminary planning and internal resolution, which will be included in the Company's expert and talent apartment plan and will not be sold to external parties. The Company will make supplemental arrangements for the properties in accordance with the specific implementation plan of the talent apartment plan. 3. In the event of future controversies or disputes in relation to the "Jinding Huajun" items, the Company will urge Xinhua Real Estate to properly handle the disputes in accordance with the provisions of relevant laws and regulations and the agreement of the commodity housing sale and purchase contract, and assist Xinhua Real Estate in implementing the relevant risk response mechanism.	24 December 2021	Long-term	In progress
	Xinhua (Zibo) Real Estate Co., Ltd.	Other	1. Xinhua Real Estate shall actively promote the building ownership registration of the "Jinding Huajun" items, without illegal impediment and to obtain the building ownership certificate. Xinhua Real Estate will strictly comply with the provisions of the commodity housing sale and purchase contract, assist and cooperate with the purchaser in the registration of the transfer of building ownership. 2. In the event that the sold-out houses of the "Jinding Huajun" items are returned, Xinhua Real Estate will transfer such houses to being self-owned according to the preliminary planning and internal resolution, which will be included in the Xinhua Real Estate's expert and talent apartment plan and will not be sold to external parties. 3. In the event of future controversies or disputes in relation to the "Jinding Huajun" items, Xinhua Real Estate will properly handle the disputes in accordance with the provisions of relevant laws and regulations and the agreement of the commodity housing sale and purchase contract. Xinhua Real Estate has formulated relevant risk response mechanism, including but not limited to setting up internal risk control specialists, and promptly reporting controversies or disputes to take specific countermeasures when they occur or may occur, and if necessary, Xinhua Real Estate will engage professional external agencies to assist in the handling.	24 December 2021	Long-term	In progress

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term for undertaking	Particulars on the performance
	Zhang Daiming; Du Deping; Xu Lie; He Tongqing; Cong Kechun; Pan Guangcheng; Zhu Jianwei; Lo Wah Wai; Wang Xiaolong; Du Deqing; Hou Ning; Zheng Zhouhui; Wei Changsheng; Xu Wenhui; Cao Changqiu	Other	1. Undertake not to transfer benefits received to other entities or individuals at nil consideration or on unfair terms, nor otherwise damage the interests of the Company. 2. Undertake to restrain his/her consumption and expenditures in discharge of duties. 3. Undertake not to use the assets of the Company for investment and consumption activities unrelated to the performance of his/her duties. 4. Undertake that the remuneration system formulated by the Board or the Remuneration Committee will be linked to the implementation of the Company's remedial measures for diluted current returns. 5. If the Company implements equity incentives in the future, undertake that the exercise conditions of the equity incentives will be linked to the implementation of the Company's remedial measures for returns. 6. (From the date of this undertaking to the completion of the non-public issuance of A Shares of the Company, if the State and securities regulatory authorities impose other new regulatory requirements on the remedial measures for the dilution of immediate returns by listed companies, and this undertaking fails to meet such requirements of the State and securities regulatory authorities) undertake to make specific commitments in accordance with the latest requirements of the State and securities regulatory authorities at that time. 7. As one of the responsible parties for the remedial measures, if violate or refuse to perform the undertakings, agree that the State or securities regulatory authorities shall impose relevant penalties or take relevant regulatory measures on me in accordance with the relevant regulations and rules formulated or issued by them.	14 July 2021	Long-term	In progress

* *Xinhua (Zibo) Real Estate Co., Ltd. had been renamed Ronghua (Zibo) Property Services Co., Ltd. and absorbed and merged by Xinhua Pharmaceutical.*

10. Purchase, Sale and Redemption of shares:

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

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

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

Stock Code	Stock short name	Initial investment amount	Proportion of equity interest in investee	Book value at the end of the Reporting Period	Profit/loss over the Reporting Period	Change in shareholder's equity over the Reporting Period
601328	BANKCOMM	14,225,318.00	0.01%	52,849,456.00	1,384,113.28	(5,728,782.40)
601601	China Pacific Insurance	7,000,000.00	0.05%	142,600,000.00	5,750,000.00	(56,907,500.00)
Total		21,225,318.00		195,449,456.00	7,134,113.28	(62,636,282.40)

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

14. Performance of other social responsibilities

Number of enterprises included in the list of legally disclosed environmental information companies		6
No.	**Enterprise Name**	**Index for querying environmental information disclosure reports in accordance with the law**
1	Shandong Xinhua Pharmaceutical Company Limited	Legal Disclosure System for Enterprise Environmental Information(Shandong) http://221.214.62.226:8090/EnvironmentDisclosure/enterpriseRoster/openEnterpriseDetails?comDetailFrom=1&id=913703001641037270
2	Xinhua-Perrigo Pharmaceutical Company Limited	Legal Disclosure System for Enterprise Environmental Information(Shandong) http://221.214.62.226:8090/EnvironmentDisclosure/enterpriseRoster/openEnterpriseDetails?comDetailFrom=0&id=91370300746569703E
3	Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Legal Disclosure System for Enterprise Environmental Information(Shandong) http://221.214.62.226:8090/EnvironmentDisclosure/enterpriseRoster/openEnterpriseDetails?comDetailFrom=1&id=91370783793907875J
4	Xinhua Wanbo Chemical Industry Co., Ltd.	Legal Disclosure System for Enterprise Environmental Information(Shandong) http://221.214.62.226:8090/EnvironmentDisclosure/enterpriseRoster/openEnterpriseDetails?comDetailFrom=1&id=913703007207052952
5	Shandong Tongxin Pharmaceutical Co., Ltd.	Legal Disclosure System for Enterprise Environmental Information(Shandong) http://221.214.62.226:8090/EnvironmentDisclosure/enterpriseRoster/openEnterpriseDetails?comDetailFrom=1&id=91370783MA3WMB4P1H
6	Xinhua Pharmaceutical (Gaomi) Co., Ltd.	Legal Disclosure System for Enterprise Environmental Information(Shandong) http://221.214.62.226:8090/EnvironmentDisclosure/enterpriseRoster/openEnterpriseDetails?comDetailFrom=1&id=913707857262322817

15. Please refer to the Company's announcements dated 9 May 2026 and 15 May 2026 on the website (www.cninfo.com.cn) for the details of Investor Relations management Information of Xinhua Pharmaceutical.

16. The Group had no material contingent liabilities as at 30 June 2026.

17. On 14 January 2026, 6.9069 million stock options that have been exercised during the third exercise period of the initial grant of the Company's A share stock option incentive plan in 2021 have been registered and listed for circulation respectively. For details, please refer to the overseas regulatory announcement of the Company dated 9 January 2026, and announcements on the website (www.cninfo.com.cn) on and before 12 January 2026.

18. During the Reporting Period, there was no forfeited contribution (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) under the defined contribution plans of the Group which may be used by the Group to reduce the existing level of contributions.

19. There are no previous period adjustments due to correction of material errors in relation to the financial results of the Group during the Reporting Period.

20. For details of the accounting policy changes reviewed by the Group during this reporting period, please refer to the Announcement on Accounting Policy Changes numbered 2026-15 on March 30, 2026 on the website of Juchao Information.

21. In December 2024, the Company signed a letter of intent to acquire up to 75% equity in NovoSana (Taicang) Co., Ltd. with NovoSana (Europe) B. V. This strategic move aims to enhance the Group's industrial and supply chain, promoting high-quality development in the comprehensive health sector. For details, please refer to the Company's announcement dated 9 December 2024.

    Based on the lack of consensus between the two parties, in accordance with the termination clause of the agreement, the intention agreement is terminated. For details, please refer to the Company's announcement dated 7 February 2026.

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

22. The Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the six months ended 30 June 2026.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 Part 2 of Appendix C1 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, accounting treatments, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting; the audit committee has reviewed the unaudited interim accounts and results for the six months ended 30 June 2026.

The audit committee agreed to the accounting standards, accounting treatments, principles and methods adopted by the Group for the unaudited interim accounts and results for the six months ended 30 June 2026 and that sufficient disclosures have been made.

REMUNERATION COMMITTEE

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of a sufficient number of independent non-executive Directors and at least one independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed four independent non-executive Directors including one female member with financial management expertise, of whom the biographical details were set out in the 2025 Annual Report of the Company.

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

During the Reporting Period, the Company has maintained 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, the Company confirms that during the Reporting Period, all Directors have complied with the required standard set out in the Model Code in relation to securities transactions and there were no instances of non-compliance with the Model Code.

Consolidated and Company Balance Sheets

As at June 30, 2026
(prepared in accordance with CASBE (Unaudited))
Prepared by: Shandong Xinhua Pharmaceutical Co., Ltd.
Expressed in RMB

		As at June 30, 2026		As at December 31, 2025	
Item	*Note*	**Consolidated**	**Company**	Consolidated	Company
Current assets:					
Cash and bank balances	V.1	**1,510,925,609.32**	**1,078,021,211.59**	1,396,482,926.22	1,007,481,140.98
Notes receivable	V.2	**13,906,383.36**	**522,485.37**	26,847,465.76	2,425,342.44
Accounts receivable	V.3 XVII.1	**968,217,189.86**	**1,032,531,143.57**	862,388,584.20	856,390,393.60
Receivable financing	V.4	**311,869,233.92**	**99,874,881.88**	319,240,231.72	115,749,053.32
Prepayments	V.5	**50,482,280.72**	**26,444,632.72**	45,125,129.87	31,107,070.31
Other receivables	V.6 XVII.2	**18,259,573.19**	**355,026,852.47**	7,978,709.35	337,337,225.71
Including: Interest receivables	V.6 XVII.2				
Dividend receivables	V.6 XVII.2	**7,134,113.28**	**7,134,113.28**		
Inventories	V.7	**1,296,025,718.61**	**683,450,953.74**	1,318,099,539.03	735,604,516.50
Contract assets	V.8	**213,738.99**		427,899.59	
Other current assets	V.9	**55,558,167.25**	**1,963.29**	56,882,119.72	16,587,086.89
Total current assets		**4,225,457,895.22**	**3,275,874,124.63**	4,033,472,605.46	3,102,681,829.75
Non-current assets:					
Long-term equity investments	V.10 XVII.3	**58,529,175.90**	**793,181,531.89**	58,191,097.56	792,843,453.55
Other equity instruments investment	V.11	**205,532,978.60**	**205,532,978.60**	280,078,103.48	280,078,103.48
Investment properties	V.12	**28,077,624.31**	**95,399,669.04**	29,714,671.93	99,153,350.34
Fixed assets	V.13	**3,590,192,749.38**	**2,585,970,546.50**	3,783,252,309.59	2,758,722,707.09
Construction in progress	V.14	**378,692,025.19**	**91,738,803.97**	366,170,853.13	69,633,939.91
Right-of-use assets	V.15	**3,318,418.06**	**2,991,619.55**	2,364,683.50	1,505,050.62
Intangible assets	V.16	**541,718,285.59**	**378,172,900.06**	577,399,466.60	410,063,435.98
Development cost	V.17	**18,325,534.01**	**18,325,534.01**	9,764,150.95	9,764,150.95
Goodwill	V.18				
Long-term deferred expenses	V.19	**4,957,548.10**	**3,844,751.36**	5,995,928.71	4,699,140.56
Deferred tax assets	V.20	**19,558,997.17**		21,190,510.55	
Other non-current assets	V.21	**17,060,086.70**	**16,164,454.41**	18,101,386.70	17,141,854.41
Total non-current assets		**4,865,963,423.01**	**4,191,322,789.39**	5,152,223,162.70	4,443,605,186.89
TOTAL ASSETS		**9,091,421,318.23**	**7,467,196,914.02**	9,185,695,768.16	7,546,287,016.64

Consolidated and Company Balance Sheets (Continued)

As at June 30, 2026
(prepared in accordance with CASBE (Unaudited))
Prepared by: Shandong Xinhua Pharmaceutical Co., Ltd.
Expressed in RMB

Item	Note	As at June 30, 2026 Consolidated	As at June 30, 2026 Company	As at December 31, 2025 Consolidated	As at December 31, 2025 Company
Current Liabilities:					
Short-term loans	V.23	**451,078,643.36**	**370,216,861.11**	433,638,538.34	372,831,269.45
Notes payable	V.24	**536,999,778.84**	**510,948,943.28**	525,783,642.79	501,874,811.15
Accounts payable	V.25	**784,633,699.48**	**467,149,180.90**	785,335,090.07	487,840,707.64
Contract liabilities	V.26	**70,443,537.16**	**24,585,255.66**	149,301,833.29	30,828,877.90
Employee benefits payable	V.27	**24,091,759.97**	**9,358,688.22**	64,892,697.34	46,292,212.28
Taxes payable	V.28	**39,520,825.03**	**19,911,801.21**	24,120,526.47	5,863,367.51
Other payables	V.29	**495,048,860.87**	**427,173,486.36**	437,385,479.24	368,898,257.93
Including: Interest payables	V.29				
Dividends payable	V.29	**109,813,114.78**	**109,813,114.78**	5,310,599.53	5,310,599.53
Non-current liabilities due within one year	V.30	**332,044,588.08**	**329,231,152.64**	352,157,956.11	349,819,485.52
Other current liabilities	V.31	**15,004,466.98**	**803,878.84**	38,586,676.11	3,080,150.40
Total current liabilities		**2,748,866,159.77**	**2,159,379,248.22**	2,811,202,439.76	2,167,329,139.78
Non-current liabilities:					
Long-term loans	V.32	**626,000,000.00**	**591,500,000.00**	695,319,527.08	668,319,527.08
Lease liabilities	V.33	**1,635,561.71**	**1,720,822.99**	744,839.50	982,744.29
Long-term payables	V.34	**24,500,000.00**	**24,500,000.00**	24,500,000.00	24,500,000.00
Deferred income	V.35	**60,667,090.68**	**59,331,572.66**	68,970,978.58	67,472,474.22
Deferred tax liabilities	V.20	**109,681,888.67**	**95,872,500.03**	125,669,980.00	111,696,204.19
Other non-current liabilities	V.36	**3,561,500.00**	**3,561,500.00**	3,561,500.00	3,561,500.00
Total non-current liabilities		**826,046,041.06**	**776,486,395.68**	918,766,825.16	876,532,449.78
TOTAL LIABILITIES		**3,574,912,200.83**	**2,935,865,643.90**	3,729,969,264.92	3,043,861,589.56
Shareholders' equity:					
Share capital	V.37	**696,683,435.00**	**696,683,435.00**	689,776,535.00	689,776,535.00
Capital reserve	V.38	**1,275,945,530.93**	**1,332,287,810.11**	1,204,650,327.11	1,260,992,606.29
Other comprehensive income	V.39	**130,508,413.08**	**131,161,511.51**	195,957,428.58	194,524,867.66
Specific reserve	V.40	**17,286,072.97**	**8,659,873.99**	12,163,037.82	6,065,477.38
Surplus reserve	V.41	**459,449,822.02**	**453,195,834.95**	459,449,822.02	453,195,834.95
Undistributed profits	V.42	**2,691,381,105.55**	**1,909,342,804.56**	2,646,756,093.99	1,897,870,105.80
Total shareholders' equity attributable to the parent		**5,271,254,379.55**		5,208,753,244.52	
Minority interests		**245,254,737.85**		246,973,258.72	
TOTAL SHAREHOLDERS' EQUITY		**5,516,509,117.40**	**4,531,331,270.12**	5,455,726,503.24	4,502,425,427.08
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**9,091,421,318.23**	**7,467,196,914.02**	9,185,695,768.16	7,546,287,016.64

Consolidated and Company Income Statements

For the period ended June 30, 2026
(prepared in accordance with CASBE (Unaudited))
Prepared by: Shandong Xinhua Pharmaceutical Co., Ltd.
Expressed in RMB

Item	Note	Six months ended 30 June2026 Consolidated	Six months ended 30 June2026 Company	Six months ended 30 June 2025 Consolidated	Six months ended 30 June 2025 Company
I. Revenue from operations	V.43 XVII.4	**4,357,548,611.17**	**1,835,560,264.39**	4,638,804,042.98	2,001,007,409.48
Less: Cost of operations	V.43 XVII.4	**3,522,514,897.69**	**1,351,159,842.42**	3,709,265,385.35	1,441,284,341.76
Taxes and surcharges	V.44	**39,139,782.42**	**25,732,798.45**	34,201,506.79	23,951,590.84
Selling expenses	V.45	**167,749,175.94**	**17,012,108.35**	172,609,904.66	16,424,712.08
Administrative expenses	V.46	**206,930,932.69**	**145,311,582.84**	215,097,968.70	149,162,798.13
Research and development expenses	V.47	**192,694,792.28**	**139,677,745.63**	202,425,169.04	153,989,120.79
Financial expense	V.48	**30,495,168.68**	**26,594,222.99**	9,877,946.58	6,969,666.36
Including: Interest expenses	V.48	**17,264,463.43**	**14,712,507.73**	21,449,091.61	18,469,117.79
Interest income	V.48	**2,621,550.54**	**2,377,614.00**	4,546,837.79	4,337,966.81
Add: Other income	V.49	**16,853,626.80**	**13,891,036.38**	20,754,218.59	15,787,186.35
Investment income ("-" for loss)	V.50 XVII.5	**7,363,123.47**	**7,836,166.70**	5,879,082.58	5,879,082.58
Including: Gains from investments in associates and joint ventures	V.50 XVII.5	**338,078.34**	**338,078.34**	-1,140,099.82	-1,140,099.82
Credit impairment loss ("-" for loss)	V.51	**-6,248,825.30**	**-2,510,622.42**	-9,135,931.30	-3,900,049.82
Assets impairment loss ("-" for loss)	V.52	**-40,425,032.15**	**-25,600,067.71**	-50,287,533.79	-30,097,181.82
Gain from disposal of assets("-" for loss)	V.53	**93,383.69**	**95,805.45**	1,711,209.17	1,590,407.39
II. Operating profit("-" for loss)		**175,660,137.98**	**123,784,282.11**	264,247,207.11	198,484,624.20
Add: Non-operating income	V.54	**1,789,050.85**	**600,048.63**	2,897,371.44	563,522.83
Less: Non-operating expenses	V.55	**12,506,676.44**	**2,360,795.73**	3,617,380.47	1,484,823.75
III. Total profit("-" for loss)		**164,942,512.39**	**122,023,535.01**	263,527,198.08	197,563,323.28
Less: Income tax expenses	V.56	**16,987,719.37**	**6,048,321.00**	32,358,726.29	9,501,299.11
IV. Net profit("-" for net loss)		**147,954,793.02**	**115,975,214.01**	231,168,471.79	188,062,024.17
(I) Classified by continuity of operations:					
Including: Net profit from continuing operations ("-" for net loss)		**147,954,793.02**	**115,975,214.01**	231,168,471.79	188,062,024.17

Consolidated and Company Income Statements (Continued)

For the period ended June 30, 2026
(prepared in accordance with CASBE (Unaudited))
Prepared by: Shandong Xinhua Pharmaceutical Co., Ltd.
Expressed in RMB

Item	*Note*	**Six months ended 30 June2026**		Six months ended 30 June 2025	
		Consolidated	**Company**	Consolidated	Company
(II) Classified by attribution to ownership:					
Including: Net profit attributable to shareholders of the parent ("-" for net loss)		**149,127,526.81**		223,756,530.43	
Net profit attributable to minority interests ("-" for net loss)		**-1,172,733.79**		7,411,941.36	
V. Other comprehensive income – after tax		**-65,971,211.38**	**-63,363,356.15**	14,538,742.98	14,969,770.36
Other comprehensive income – after tax attributable to shareholders of the parent		**-65,449,015.50**		14,653,075.21	
(I) Other comprehensive income not reclassified into profit or loss subsequently		**-63,363,356.15**	**-63,363,356.15**	14,969,770.36	14,969,770.36
Changes in fair value of other equity instruments investment		**-63,363,356.15**	**-63,363,356.15**	14,969,770.36	14,969,770.36
(II) Other comprehensive income that will be reclassified into profit or loss subsequently		**-2,085,659.35**		-316,695.15	
Translation of foreign currency financial statements		**-2,085,659.35**		-316,695.15	
Other comprehensive income – after tax attributable to minority interests		**-522,195.88**		-114,332.23	
VI. Total comprehensive income		**81,983,581.64**	**52,611,857.86**	245,707,214.77	203,031,794.53
Total comprehensive income attributable to shareholders of the parent		**83,678,511.31**		238,409,605.64	
Total comprehensive income attributable to minority interests		**-1,694,929.67**		7,297,609.13	
VII. Earnings per share					
(I) Basic earnings per share		**0.21**		0.32	
(II) Diluted earnings per share		**0.21**		0.32	

Consolidated and Company Cash Flows Statements

For the period ended June 30, 2026
(prepared in accordance with CASBE (Unaudited))
Prepared by: Shandong Xinhua Pharmaceutical Co., Ltd.
Expressed in RMB

Item	Note	Six months ended 30 June 2026 Consolidated	Six months ended 30 June 2026 Company	Six months ended 30 June 2025 Consolidated	Six months ended 30 June 2025 Company
I. Cash flows from operating activities:					
Cash received from sales of goods or rendering of services		**3,596,498,240.08**	**1,453,842,381.42**	3,806,443,339.79	1,451,105,392.37
Tax refund received		**35,598,073.47**	**22,950,017.00**	34,313,637.83	23,828,020.30
Other cash received relating to operating activities	V.57	**16,456,280.38**	**20,084,297.18**	36,470,462.71	40,205,350.39
Sub-total of cash inflows		**3,648,552,593.93**	**1,496,876,695.60**	3,877,227,440.33	1,515,138,763.06
Cash paid for goods and services		**2,652,766,111.37**	**933,497,987.29**	2,782,539,243.67	865,717,987.39
Cash paid to and on behalf of employees		**500,099,699.85**	**294,761,854.51**	534,879,287.39	320,756,105.73
Payments of all types of taxes		**129,459,774.22**	**52,008,760.79**	105,157,989.92	32,772,321.10
Other cash paid relating to operating activities	V.57	**205,611,203.49**	**91,312,502.47**	220,518,566.62	128,471,119.90
Sub-total of cash outflows		**3,487,936,788.93**	**1,371,581,105.06**	3,643,095,087.60	1,347,717,534.12
Net cash flows from operating activities		**160,615,805.00**	**125,295,590.54**	234,132,352.73	167,421,228.94
II. Cash flows from investing activities:					
Cash received from returns on investments			**442,844.72**	3,115,076.80	3,115,076.80
Net increase in disposal of financial assets at fair value through profit and loss		**740,290.00**	**765,300.00**	439,943.89	375,000.00
Cash received from disposal of subsidiaries and other business units					
Other cash received relating to investing activities	V.57	**217,900.00**	**704,205.55**	13,440.00	
Sub-total of cash inflows		**958,190.00**	**1,912,350.27**	3,568,460.69	3,490,076.80
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**39,676,826.47**	**30,208,837.43**	76,807,920.68	63,021,128.83
Cash paid to acquire investments					10,000,000.00
Other cash paid relating to investing activities	V.57			3,000,000.00	3,000,000.00
Sub-total of cash outflows		**39,676,826.47**	**30,208,837.43**	79,807,920.68	76,021,128.83
Net cash flows from investing activities		**-38,718,636.47**	**-28,296,487.16**	-76,239,459.99	-72,531,052.03

For the period ended June 30, 2026
(prepared in accordance with CASBE (Unaudited))
Prepared by: Shandong Xinhua Pharmaceutical Co., Ltd.
Expressed in RMB

Item	*Note*	**Six months ended 30 June 2026** **Consolidated**	**Company**	Six months ended 30 June 2025 Consolidated	Company
III. Cash flows from financing activities:					
Cash received from capital contribution		**48,340,450.50**	**48,340,450.50**	55,577,524.50	52,577,524.50
Including: Cash received from investment by minority interests of subsidiaries					
Cash received from borrowings		**500,000,000.00**	**450,000,000.00**	459,800,000.00	399,800,000.00
Cash received relating to other financing activities	V.57	**33,000,000.00**	**33,000,000.00**	2,000,000.00	2,000,000.00
Sub-total of cash inflows		**581,340,450.50**	**531,340,450.50**	517,377,524.50	454,377,524.50
Cash repayments of amounts borrowed		**569,510,606.06**	**548,010,606.06**	622,977,569.79	565,477,569.79
Cash payments for interest expenses and distribution of dividends or profits		**18,625,104.95**	**17,370,768.80**	30,301,466.88	20,081,758.54
Including: Dividend paid to minority interests of subsidiaries				8,982,000.00	
Other cash payments relating to financing activities	V.57	**1,075,171.10**		814,747.45	
Sub-total of cash outflows		**589,210,882.11**	**565,381,374.86**	654,093,784.12	585,559,328.33
Net cash flows from financing activities		**-7,870,431.61**	**-34,040,924.36**	-136,716,259.62	-131,181,803.83
IV. Effect of foreign exchange rate changes on cash		**-6,873,784.58**	**-6,442,535.35**	5,778,620.84	5,934,436.29
V. Net increase in cash and cash equivalents		**107,152,952.34**	**56,515,643.67**	26,955,253.96	-30,357,190.63
Add: Opening balance of cash and cash equivalent		**1,283,208,913.79**	**924,617,084.00**	1,136,875,010.06	839,588,594.31
VI. Closing balance of cash and cash equivalent		**1,390,361,866.13**	**981,132,727.67**	1,163,830,264.02	809,231,403.68

Consolidated Statement of Changes in Equity

For the period ended June 30, 2026
(prepared in accordance with CASBE (Unaudited))
Prepared by: Shandong Xinhua Pharmaceutical Co., Ltd.
Expressed in RMB

	Six months ended 30 June 2026							
	Equity attributable to the shareholders of parent company							
Item	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Minority interests	Total shareholders' equity
I. Balance at end of previous year	689,776,535.00	1,204,650,327.11	195,957,428.58	12,163,037.82	459,449,822.02	2,646,756,093.99	246,973,258.72	5,455,726,503.24
II. Balance in beginning of year	689,776,535.00	1,204,650,327.11	195,957,428.58	12,163,037.82	459,449,822.02	2,646,756,093.99	246,973,258.72	5,455,726,503.24
III. Movement over the year("-" for loss)	6,906,900.00	71,295,203.82	-65,449,015.50	5,123,035.15		44,625,011.56	-1,718,520.87	60,782,614.16
(I) Total comprehensive income			-65,449,015.50			149,127,526.81	-1,694,929.67	81,983,581.64
(II) Contributions from shareholders and reduction of capital	6,906,900.00	71,295,203.82						78,202,103.82
1. Capital contribution from shareholders	6,906,900.00	42,028,486.50						48,935,386.50
2. Increase in shareholders' equity resulted from share-based payments		-3,733,282.68						-3,733,282.68
3. Others		33,000,000.00						33,000,000.00
(III) Appropriation of profits						-104,502,515.25	-238,245.28	-104,740,760.53
1. Transfer to surplus reserve								
2. Distributions to shareholders						-104,502,515.25	-238,245.28	-104,740,760.53
(IV) Specific reserve				5,123,035.15			214,654.08	5,337,689.23
1. Appropriation for the year				12,293,608.98			252,037.97	12,545,646.95
2. Used in the year("-" for loss)				-7,170,573.83			-37,383.89	-7,207,957.72
IV. Balance at end of year	696,683,435.00	1,275,945,530.93	130,508,413.08	17,286,072.97	459,449,822.02	2,691,381,105.55	245,254,737.85	5,516,509,117.40

Consolidated Statement of Changes in Equity (Continued)

For the period ended June 30, 2026
(prepared in accordance with CASBE (Unaudited))
Prepared by: Shandong Xinhua Pharmaceutical Co., Ltd.
Expressed in RMB

	Six months ended 30 June 2025							
	Equity attributable to the shareholders of parent company							
Item	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Minority interests	Total shareholders' equity
I. Balance at end of previous year	682,407,635.00	1,144,555,095.24	169,597,400.06	6,267,199.72	438,326,844.39	2,550,434,350.37	225,911,892.56	5,217,500,417.34
II. Balance in beginning of year	682,407,635.00	1,144,555,095.24	169,597,400.06	6,267,199.72	438,326,844.39	2,550,434,350.37	225,911,892.56	5,217,500,417.34
III. Movement over the year("-" for loss)	7,368,900.00	55,210,315.40	14,653,075.21	6,610,085.25		51,312,396.68	12,337,335.69	147,492,108.23
(I) Total comprehensive income			14,653,075.21			223,756,530.43	7,297,609.13	245,707,214.77
(II) Contributions from shareholders and reduction of capital	7,368,900.00	55,210,315.40					5,039,726.56	67,618,941.96
1. Capital contribution from shareholders	7,368,900.00	47,642,254.94					5,039,726.56	60,050,881.50
2. Increase in shareholders' equity resulted from share-based payments		7,568,060.46						7,568,060.46
3. Others								
(III) Appropriation of profits						-172,444,133.75		-172,444,133.75
1. Transfer to surplus reserve								
2. Distributions to shareholders						-172,444,133.75		-172,444,133.75
(IV) Specific reserve				6,610,085.25				6,610,085.25
1. Appropriation for the year				12,042,906.64				12,042,906.64
2. Used in the year("-" for loss)				-5,432,821.39				-5,432,821.39
IV. Balance at end of year	689,776,535.00	1,199,765,410.64	184,250,475.27	12,877,284.97	438,326,844.39	2,601,746,747.05	238,249,228.25	5,364,992,525.57

Company Statement of Changes in Equity

For the period ended June 30, 2026
(prepared in accordance with CASBE (Unaudited))
Prepared by: Shandong Xinhua Pharmaceutical Co., Ltd.
Expressed in RMB

	Six months ended 30 June 2026						
Item	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
I. Balance at end of previous year	689,776,535.00	1,260,992,606.29	194,524,867.66	6,065,477.38	453,195,834.95	1,897,870,105.80	4,502,425,427.08
II. Balance in beginning of year	689,776,535.00	1,260,992,606.29	194,524,867.66	6,065,477.38	453,195,834.95	1,897,870,105.80	4,502,425,427.08
III. Movement over the year("-" for loss)	6,906,900.00	71,295,203.82	-63,363,356.15	2,594,396.61		11,472,698.76	28,905,843.04
(I) Total comprehensive income			-63,363,356.15			115,975,214.01	52,611,857.86
(II) Contributions from shareholders and reduction of capital	6,906,900.00	71,295,203.82					78,202,103.82
1. Capital contribution from shareholders	6,906,900.00	42,028,486.50					48,935,386.50
2. Increase in shareholders' equity resulted from share-based payments		-3,733,282.68					-3,733,282.68
3. Others		33,000,000.00					33,000,000.00
(III) Appropriation of profits						-104,502,515.25	-104,502,515.25
1. Transfer to surplus reserve							
2. Distributions to shareholders						-104,502,515.25	-104,502,515.25
(IV) Specific reserve				2,594,396.61			2,594,396.61
1. Appropriation for the year				6,572,011.01			6,572,011.01
2. Used in the year("-" for loss)				-3,977,614.40			-3,977,614.40
(V) Others							
IV. Balance at end of year	696,683,435.00	1,332,287,810.11	131,161,511.51	8,659,873.99	453,195,834.95	1,909,342,804.56	4,531,331,270.12

Company Statement of Changes in Equity (Continued)

For the period ended June 30, 2026
(prepared in accordance with CASBE (Unaudited))
Prepared by: Shandong Xinhua Pharmaceutical Co., Ltd.
Expressed in RMB

Item	Six months ended 30 June 2025						
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
I. Balance at end of previous year	682,407,635.00	1,201,857,647.86	166,998,788.50	1,157,999.59	432,072,857.32	1,880,207,440.90	4,364,702,369.17
II. Balance in beginning of year	682,407,635.00	1,201,857,647.86	166,998,788.50	1,157,999.59	432,072,857.32	1,880,207,440.90	4,364,702,369.17
III. Movement over the year("-" for loss)	7,368,900.00	54,250,041.96	14,969,770.36	3,252,436.04		15,617,890.42	95,459,038.78
(I) Total comprehensive income			14,969,770.36			188,062,024.17	203,031,794.53
(II) Contributions from shareholders and reduction of capital	7,368,900.00	54,250,041.96					61,618,941.96
1. Capital contribution from shareholders	7,368,900.00	46,681,981.50					54,050,881.50
2. Increase in shareholders' equity resulted from share-based payments		7,568,060.46					7,568,060.46
3. Others							
(III) Appropriation of profits						-172,444,133.75	-172,444,133.75
1. Transfer to surplus reserve							
2. Distributions to shareholders						-172,444,133.75	-172,444,133.75
(IV) Specific reserve				3,252,436.04			3,252,436.04
1. Appropriation for the year				6,585,689.58			6,585,689.58
2. Used in the year("-" for loss)				-3,333,253.54			-3,333,253.54
(V) Others							
IV. Balance at end of year	689,776,535.00	1,256,107,689.82	181,968,558.86	4,410,435.63	432,072,857.32	1,895,825,331.32	4,460,161,407.95

I. COMPANY PROFILE

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

The Company was approved to issue 21,040,591 RMB A-shares to two target investors in September 2017, at an issue price of RMB11.15, resulting in an additional registered capital of RMB21,040,591.00.

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

On December 28, 2020, in accordance with the provisions of the 2018 A Share Stock Option Incentive Plan, the first waiting period for granting share options to incentive recipients expired. The Company issued A-share common shares to the incentive recipients. During the first exercise period of the share options, 184 incentive recipients exercised their options, totaling 5.508 million share options. The listing and circulation date of the exercised shares was January 19, 2021. Following the exercise, the newly added registered capital amounted to RMB5,508,000.00.

On December 28, 2021, in accordance with the provisions of the 2018 A Share Stock Option Incentive Plan, the second waiting period for granting share options to incentive recipients expired. The Company issued A-share common shares to the incentive recipients. During the second exercise period of the share options, 178 incentive recipients exercised their options, totaling 5.1678 million share options. The listing and circulation date of the exercised shares was January 13, 2022. Following the exercise, the additional registered capital amounted to RMB5,167,800.00.

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

On December 28, 2022, in accordance with the provisions of the 2018 A Share Stock Option Incentive Plan, the third waiting period for granting share options to incentive recipients expired. The Company issued A-share common shares to the incentive recipients. In the third exercise period of share options, 173 incentive recipients actually exercised, and the number of share options exercised was 5.0556 million. The incentive recipients are divided into two rounds of exercise, with the listing and circulation date of the first round of exercise of the exercise shares being on January 11, 2023. After the completion of the exercise, the newly added registered capital amounted to RMB4,260,300.00. The listing and circulation date of the second exercise of the exercise shares was May 9, 2023, and after the completion of the exercise, the newly added registered capital amounted to RMB795,300.00, bringing the total newly added registered capital to RMB5,055,600.00.

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

On December 31, 2023, in accordance with the provisions of the 2021 A Share Stock Option Incentive Plan, the first waiting period for the initial granting of share options to incentive recipients expired. The Company issued A-share common shares to the incentive recipients. In the first exercise period of share options, 194 incentive recipients exercised the share options, with a total of 7.7248 million share options exercised. The listing and circulation date of the exercised shares is January 15, 2024. After the completion of the exercise, the newly added registered capital amounts to RMB7,724,800.00.

On December 31, 2024, in accordance with the provisions of the 2021 A-Share Stock Option Incentive Plan, the second vesting period for the Initial Grant of share options to incentive recipients expired. The Company has issued A-share ordinary shares to the incentive recipients through a private placement. A total of 190 incentive recipients exercised their stock options during the second exercise period, with an aggregate of 7.3689 million stock options exercised. The listing and trading date for the shares issued upon such exercise is 14 January 2025. Upon completion of this exercise, the Company's registered capital has been increased by RMB7,368,900.00.

On December 31, 2025, in accordance with the provisions of the 2021 A-Share Stock Option Incentive Plan, the third vesting period for the Initial Grant of share options to incentive recipients expired. The Company has issued A-share ordinary shares to the incentive recipients through a private placement. A total of 183 incentive recipients exercised their stock options during the third exercise period, with an aggregate of 6.9069 million stock options exercised. The listing and trading date for the shares issued upon such exercise is 14 January 2026. Upon completion of this exercise, the Company's registered capital has been increased by RMB6,906,900.00.

As of June 30, 2026, the Company's registered capital amounted to RMB696,683,435.00. The share capital structure is as follows:

Share Class	**Number of shares**	**Proportion to total share capital** *(%)*
I. Subtotal of tradable shares with restricted sale conditions	2,810,524	0.40
Domestic legal person shareholding		
Executive shares of A share with restricted sale conditions	2,810,524	0.40
II. Subtotal of tradable shares without restricted sale conditions	693,872,911	99.60
RMB common shares (A share)	498,872,911	71.61
Overseas listed foreign shares (H share)	195,000,000	27.99
III. Total number of shares	696,683,435	100.00

The parent company of the Company is Hualu Holdings Co., Ltd (hereinafter referred to as 'Hualu Holdings'), and the ultimate holding company is the State-owned Assets Supervision and Administration Commission of Shandong Province. Both are registered in China.

The Company operates in the pharmaceutical manufacturing industry. Our primary business involves the development, manufacturing, and sales of chemical raw materials, formulations, and chemical products. Our main products include 'Xinhua Brand' antipyretic and analgesic drugs, cardiovascular and cerebrovascular drugs, anti-infective drugs, and central nervous system drugs.

The Controlling Shareholder of the Company is Hualu Holdings. The general meeting of shareholders is the Company's highest authority, entitled to exercise rights related to the Company's business policies, financing, investment, profit distribution, and other significant resolutions as per the law. The board of directors is accountable to the general meeting of shareholders and is responsible for making business decisions in accordance with the law. The managers are responsible for organizing the implementation of resolutions made by the general meeting of shareholders and the board of directors, as well as managing the Company's production and operations.

The registered address and the office address of the Company are both located at No. 1 Lutai Avenue, High-tech Industry Development Zone, Zibo City, Shandong.

This financial statement and the accompanying notes have been approved by the Company's 11th Board of Directors at its twelfth meeting on 25 August 2026.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises and the guidelines, interpretations, and other related provisions promulgated by the Ministry of Finance (collectively referred to as '**Accounting Standards for Business Enterprises**'). Additionally, the Company discloses relevant financial information in accordance with the Information Disclosure Regulations for Companies Offering Shares in Public No. 15 – General Provisions for Preparing Financial Reports (revised in 2023) issued by the China Securities Regulatory Commission, as well as the relevant disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules/GEM Listing Rules of the Hong Kong Stock Exchange.

The consolidated financial statements have been prepared on a going concern basis.

The Company adopts the accrual basis of accounting. The financial statements are prepared under the historical cost convention. In the event that impairment of assets occurs, a provision for impairment is made accordingly in accordance with the relevant regulations.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company determines the policies of depreciation of fixed assets, amortization of intangible assets, and revenue recognition according to the characteristics of its production and operation. Specific accounting policies refer to Note III. 16, 19 and 26.

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

1. Statement of compliance with the Accounting Standards for Business Enterprises

The consolidated financial statements have been prepared in compliance with the Accounting Standards for Business Enterprises to truly and completely reflect the consolidated and Company's financial positions as of June 30, 2026, and their operating results and their cash flows for the period ended June 30, 2026 and other relevant information.

2. Financial year

The financial year of the Group is from 1 January to December 31, of each calendar year.

3. Operating cycle

The Group's operating cycle is 12 months.

4. Functional currency

The functional currency of the Company and its domestic subsidiaries is denominated as Renminbi ("**RMB**"). The Company's foreign subsidiaries determine their functional currency according to the primary economic environment where they operate, and then translated to RMB when preparing the financial statements. The currency used by the Company in preparing these financial statements is RMB.

5. Determination and selection basis of materiality criteria

Item	**Materiality Criteria**
Material receivables subject to provision for bad debt individually	A single amount of more than 5 million yuan
Bad debt recovery or reversal of important receivables in the current period	A single amount of more than 5 million yuan
Material receivables write-off in the period	A single amount of more than 5 million yuan
Important capitalized R&D projects/outsourced R&D projects	A single amount of more than 50 million yuan
Material construction in progress	A single amount of more than 50 million yuan
Significant non-wholly owned subsidiaries/joint ventures	The net profit of a single subject accounts for more than 10% of the items related to the group's consolidated statements
Material investment activities	A single amount of more than 50 million yuan
Important contingencies/future events/other important matters	The amount exceeds 10% of net profit, and exceeds 50 million yuan

6. Accounting treatment of business combinations not involving enterprises under common control

(1) Business combinations involving enterprises under common control

For a business combination involving enterprises under common control, assets acquired and liabilities assumed by acquirer in the business combination are measured at their carrying amounts of the acquiree in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the consideration paid for the combination and the carrying amount of the net assets acquired is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted to undistributed profits.

Business combinations involving entities under common control are achieved in stages and involve multiple transactions.

In the consolidated financial statements, assets acquired and liabilities assumed by acquirer in a business combination are measured at their carrying amount as recorded in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets acquired and the sum of carrying amount of investment prior to combination date and carrying amount of new considerations paid for the combination at the combination date is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted against undistributed profits. The profit or loss, other comprehensive income and changes in other owner's equity recognized by the acquirer during the period from the later of initial investment date and the date that the acquirer and acquiree were both under common ultimate control to the combination date are offset against the opening undistributed profits or profit for loss for the current period in the comparative statements.

(2) Business combinations involving enterprises not under common control

For business combinations involving enterprises not under common control, the consideration costs include acquisition-date fair values of the assets transferred, liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control of the acquiree. At the acquisition date, the acquired assets, liabilities and contingent liabilities of the acquiree are measured at their fair value.

Where the combination cost exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill, and subsequently measured on the basis of its costs less accumulated impairment provisions. Where the combination cost is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is credited in profit or loss for the current period after reassessment.

Business combinations involving entities not under common control achieved in stages and involved multiple transactions

In the consolidated financial statements, the combination cost is the sum of the consideration paid at the acquisition date and the fair value of equity investment of the acquiree held prior to the acquisition date. The cost of equity investment of the acquiree held prior to the acquisition date is re-measured at the fair value at the acquisition date. The difference between the fair value and carrying value is recognized as profit or loss for the current period. Other comprehensive income and changes of other owners' equity from the equity interest held in the acquiree prior to the acquisition date are transferred to profit or loss for the current period, except for the other comprehensive income arising from changes in net liabilities or net assets of defined benefit plans remeasured by investees and other comprehensive income related to non-derivative equity instrument investments designated at fair value through other comprehensive income.

(3) Transaction costs for business combination

The overhead for the business combination, including the expenses for audit, legal services, valuation advisory, and other administrative expenses, are recorded in profit or loss for the current period when incurred. The transaction costs of equity or debt instruments issued as the considerations of business combination are included in the initial recognition amount of the equity or debt instruments.

7. Basis in determination of control and preparation of the consolidated financial statements

(1) Basis in determination of control

The scope of consolidated financial statements is determined based on control. Control means the Company has exposures or rights to variable returns from its involvement with the investee and the ability to affect those returns through power over such investee. When changes in relevant facts and circumstances lead to alterations in the elements involved in the definition of control, the Company will conduct a reassessment.

In assessing whether to include structured entities within the consolidation scope, the company integrates all facts and circumstances, including evaluating the purpose and design of the structured entity, identifying the types of variable returns, and assessing whether it bears some or all of the variability of returns by participating in its related activities, to determine if control over the structured entity exists.

(2) Basis of preparation of consolidated financial statements

The consolidated financial statements are prepared by the Company based on the financial statements of the Company and its subsidiaries and other relevant information. In preparation of consolidated financial statements, the accounting policies and accounting periods of the subsidiaries should be consistent with those established by the Company, and all significant intercompany accounts and transactions are eliminated.

Where a subsidiary or business was acquired during the reporting period, through a business combination involving enterprises under common control, the subsidiary or business is deemed to be included in the consolidated financial statements from the date they are controlled by the ultimate controlling party. Their operating results and cash flows are included in the consolidated income statement and consolidated cash flow statement respectively from the date they are controlled by the ultimate controlling party.

Where a subsidiary or business has been acquired during the reporting period, through a business combination not involving enterprises under common control, the revenue, expenses and profit of the subsidiary or business after the acquisition date are included in the consolidated income statement, the cash flows after the acquisition date are included in the consolidated cash flow statement.

The portion of a subsidiary's equity that is not attributable to the parent is treated as minority interests and presented separately in the consolidated balance sheet within shareholders' equity. The portion of net profit or loss of subsidiaries for the period attributable to minority interests is presented in the consolidated income statement below the "net profit" line item as "minority interests". When the amount of loss for the current period attributable to minority interests of the subsidiary exceeds the minority interests' share of the opening equity of the subsidiary, the excess is still allocated against the minority interests.

(3) Acquiring minority interests of subsidiary

Where the Company acquires a minority interest from a subsidiary's minority shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the transaction is treated as an equity transaction, and the book value of shareholder's equity attributed to the Company and to the minority interest is adjusted to reflect the change in the Company's interest in the subsidiaries. The difference between the proportion interests of the subsidiary's net assets being acquired or disposed and the amount of the consideration paid or received is adjusted to the capital reserve (share premium) in the consolidated balance sheet, with any excess adjusted to undistributed profits.

(4) Losing control over the subsidiary

When the Company loses control over a subsidiary because of disposing part of an equity investment or other reasons, the remaining part of the equity investment is re-measured at fair value at the date when losing control over the subsidiary. A gain or loss is recognized in profit or loss for the current period and is calculated by the aggregate of the consideration received in disposal and the fair value of the remaining part of the equity investment deducting the share of carrying value of net assets in proportion to the previous shareholding percentage in former subsidiary since the acquisition date and the goodwill.

Other comprehensive income related to equity investments in the original subsidiary should be accounted for using the same basis as the direct disposal of related assets or liabilities of the original subsidiary upon loss of control. Any equity changes related to the original subsidiary under the equity method of accounting should be transferred to the profit or loss for the current period when control ceases.

8. Joint arrangement classification and accounting treatment for joint operation

A joint arrangement is an arrangement of which two or more parties have joint control. The Company classifies joint arrangements into joint operations and joint ventures.

(1) Joint operations

A joint operation is a joint arrangement whereby the joint operators have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Company recognizes the following items in relation to its interest in a joint operation, and account for them in accordance with relevant accounting standards:

A. its solely-held assets, and its share of any liabilities incurred jointly;

B. its solely-assumed liabilities, and its share of any liabilities incurred jointly;

C. its revenue from the sale of its share of the output arising from the joint operation;

D. its share of the revenue from the sale of the output by the joint operation; and

E. its solely-incurred expenses, and its share of any expenses incurred jointly.

(2) Joint ventures

A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement.

The Company adopts equity method under long-term equity investment in accounting for its investment in joint venture.

9. Cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily drawn on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

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

(1) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the Company at the spot exchange rates on the dates of the transactions.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences between the spot exchange rate on balance sheet date and the spot exchange rate on initial recognition or on the previous balance sheet date are recognized in profit or loss. Non-monetary items that are measured at historical cost in foreign currencies are translated to Renminbi using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined. The resulting exchange differences are recognized in profit or loss for the current period or other comprehensive income according to the nature of non-monetary items.

(2) Translation of foreign currency financial statements

When translating the foreign currency financial statements of overseas subsidiaries, the assets and liabilities of the balance sheet are translated to RMB using the spot exchange rate at the balance sheet date. Items of the shareholders' equity, except for "undistributed profits", are translated to RMB at the spot exchange rate at the transaction dates.

Income and expenses in income statement are translated at the spot exchange rate on the transaction date.

Cash flow statement of foreign operation is translated to Renminbi at the spot exchange rates "the rates determined under a systematic and rational method that approximate the spot exchange rates" at the cash flow occurrence dates. Effect of foreign exchange rate changes on cash and cash equivalents is presented separately as "Effect of foreign exchange rate changes on cash and cash equivalents" in the cash flow statement.

The resulting translation differences are recognized in other comprehensive income in shareholders' equity of balance sheet.

When the control on foreign operation is lost due to disposal, exchange differences of foreign currency financial statements attributable to the foreign operation as presented under owner's equity item in the balance sheet are transferred to profit or loss for the current period entirely or partially on disposed portion.

11. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

(1) Recognition and derecognition of financial instruments

A financial asset or financial liability is recognized when the Company becomes a party to the contractual provisions of a financial instrument.

If one of the following conditions is met, the financial assets are derecognized:

① The contractual rights to the cash flows from the financial asset expire;

② The financial asset has been transferred, and is in accordance with the following conditions for derecognition.

A financial liability (or part of it) is derecognized when its contractual obligation (or part of it) is discharged or cancelled or expires. If the Company (as a debtor) makes an agreement with the creditor to replace the current financial liability with assuming a new financial liability, and contractual provisions are different in substance, the current financial liability is derecognized and a new financial liability is recognized meanwhile.

If the financial assets are traded routinely, the financial assets are recognized and derecognized at the transaction date.

(2) Classification and measurement of financial assets

Upon initial recognition, the Company classifies the financial assets according to the business model for managing the financial assets and characteristics of the contractual cash flows as follows: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss.

Financial assets are initially recognized at fair value. For financial assets at fair value through profit or loss, transaction costs are directly recognized in the profit or loss for the current period. For other categories of financial assets, transaction costs are included in the initial recognition amount. Accounts receivable arising from the sale of products or services, which do not include or consider a significant financing component, are initially recognized at the expected amount to be received.

Financial assets at amortized cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as measured at fair value through other comprehensive income:

- The Group's business model for managing such financial assets is to collect contractual cash flows;

- The contractual terms of the financial asset stipulate that cash flows generated on specific dates are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, such financial assets are measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss for the current period when the financial asset is derecognised, amortised using the effective interest method or with impairment recognised.

Financial assets measured at fair value through other comprehensive income

A financial asset is classified as measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as measured at fair value through profit or loss:

- The Group's business model for managing such financial assets is achieved both by collecting contractual cash flows and selling such financial assets;

- The contractual terms of the financial asset stipulate that cash flows generated on specific dates are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, such financial assets are subsequently measured at fair value. Interest calculated using the effective interest method, impairment losses or gains and foreign exchange gains and losses are recognised in profit or loss for the current period, and other gains or losses are recognised in other comprehensive income. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss.

Financial assets measured at fair value through profit or loss

The Company classifies the financial assets other than those measured at amortised cost and measured at fair value through other comprehensive income as financial assets measured at fair value through profit or loss. Upon initial recognition, the Company irrevocably designates certain financial assets that are required to be measured at amortised cost or at fair value through other comprehensive income as financial assets measured at fair value through profit or loss in order to eliminate or significantly reduce accounting mismatch.

Upon initial recognition, such financial assets are measured at fair value. Except for those held for hedging purposes, gains or losses (including interests and dividend income) arising from such financial assets are recognised in the profit or loss for the current period.

However, with respect to non-trading equity instrument investments, the Company may irrevocably designate them as financial assets measured at fair value through other comprehensive income at initial recognition. The designation is made on the basis of individual investment, and the relevant investment conforms to the definition of equity instruments from the issuer's point of view.

After initial recognition, financial assets are subsequently measured at fair value. Dividend income that meets the requirements is recognised in profit and loss, other gains or losses and changes in fair value are recognised in other comprehensive income. When derecognised, the accumulated gains or losses previously recognised in other comprehensive gains are transferred from other comprehensive income to retained earnings.

The business model for managing financial assets refers to how the Company manages its financial assets in order to generate cash flows. That is, the Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Company determines the business model for managing financial assets on the basis of objective facts and specific business objectives for managing financial assets determined by key management personnel.

The Company assesses the characteristics of the contractual cash flows of financial assets to determine whether the contractual cash flows generated by the relevant financial assets on a specific date are solely payments of principal and interest on the principal amount outstanding. The principal refers to the fair value of the financial assets at the initial recognition. Interest includes consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks, costs and profits. In addition, the Company evaluates the contractual terms that may result in a change in the time distribution or amount of contractual cash flows from a financial asset to determine whether it meets the requirements of the above contractual cash flow characteristics.

All affected financial assets are reclassified on the first day of the first reporting period following the change in the business model where the Company changes its business model for managing financial assets; otherwise, financial assets shall not be reclassified after initial recognition.

(3) Classification and measurement of financial liabilities

Financial liabilities of the Company are classified as financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortised cost. For financial liabilities not classified as measured at fair value through profit or loss, relevant transaction costs are included in the amount initially recognised.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss comprise held-for-trading financial liabilities and financial liabilities designated as measured at fair value through profit or loss upon initial recognition. Such financial liabilities are subsequently measured at fair value, and the gains or losses from the change in fair value and the dividend or interest expenses related to the financial liabilities are included in the profit or loss of the current period.

Financial liabilities measured at amortised cost

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, and the gains or losses arising from derecognition or amortisation are recognised in profit or loss for the current period.

Classification between financial liabilities and equity instruments

A financial liability is a liability if:

① it has a contractual obligation to pay in cash or other financial assets to other parties.

② it has a contractual obligation to exchange financial assets or financial liabilities under potential adverse condition with other parties.

③ it is a non-derivative instrument contract which will or may be settled with the entity's own equity instruments, and the entity will deliver a variable number of its own equity instruments according to such contract.

④ it is a derivative instrument contract which will or may be settled with the entity's own equity instruments, except for a derivative instrument contract that exchanges a fixed amount of cash or other financial asset with a fixed number of its own equity instruments.

Equity instruments are any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the Company cannot unconditionally avoid the performance of a contractual obligation by paying cash or delivering other financial assets, the contractual obligation meets the definition of financial liabilities.

Where a financial instrument must or may be settled with the Company's own equity instruments, the Company's own equity instruments used to settle such instrument should be considered as to whether it is as a substitute for cash or other financial assets or for the purpose of enabling the holder of the instrument to be entitled to the remaining interest in the assets of the issuer after deducting all of its liabilities. For the former, it is a financial liability of the Company; for the latter, it is the Company's own equity instruments.

(4) Derivative financial instruments and embedded derivative instruments

The Group's derivative financial instruments include forward foreign exchange contracts, currency swap agreements, interest rate swap agreements, and foreign exchange options contracts. They are initially measured at the fair value on the date the derivative contract is entered into and are subsequently measured at their fair value. Derivative financial instruments of positive fair value are recognized as assets; those of negative fair value are recognized as liabilities. Any gains or losses arising from changes in fair value which do not meet the requirements of hedge accounting are directly recognized to profit or loss for the current period.

For hybrid instrument with embedded derivative, where financial assets or liabilities not designated as fair value through profit or loss, the economic features and risks of the embedded derivative are not closely related to those of the host contract, and a similar instrument with the same terms as the embedded derivative would meet the definition of a derivative, then embedded derivative is separated from hybrid instrument and accounted for as a derivative. If embedded derivative is unable to measure separately either at acquisition or subsequently at balance sheet date, hybrid instrument as a whole is designated as financial assets or liabilities at fair value through profit or loss.

(5) Fair value of financial instruments

Determination of fair value of financial assets and financial liabilities refers to Note III.31.

(6) Impairment of financial assets

The Company makes provision for impairment based on expected credit losses (ECLs) on the following items:

- Financial assets at amortized cost;
- Receivables and debt instruments investment measured at fair value through other comprehensive income;
- Contract assets as defined in “Accounting Standards for Business Enterprises No. 14-Revenue”；
- Lease receivables;
- Financial guarantee contract (Except those measured at fair value through profit or loss, the transfer of financial assets does not meet the conditions for derecognition or continuing involvement in transferred financial assets).

Measurement of ECLs

ECLs are the weighted average of credit losses of financial instruments weighted by the risk of default. Credit losses refer to the difference between all contractual cash flows receivable according to the contract and discounted according to the original effective interest rate and all cash flows expected to be received, i.e. the present value of all cash shortages.

The Company takes into consideration of account reasonable and well-founded information such as past events, current conditions and forecasts of future economic conditions, and calculates the probability-weighted amount of the present value of the difference between the cash flows receivable from the contract and the cash flows expected to be received weighted by the risk of default.

The Company measures ECLs of financial instruments at different stages. If the credit risk of the financial instrument did not increase significantly upon initial recognition, it is at Stage 1, and the Company makes provision for impairment based on the ECLs within the next 12 months; if the credit risk of a financial instrument increased significantly upon initial recognition but has not yet incurred credit impairment, it is at Stage 2, and the Company makes provision for impairment based on the lifetime ECLs of the instrument; if the financial instrument incurred credit impairment upon initial recognition, it is at Stage 3, and the Company makes provision for impairment based on the lifetime ECLs of the instrument.

For financial instruments with low credit risk on the balance sheet date, the Company assumes that the credit risk did not increase significantly upon initial recognition, and makes provision for impairment based on the ECLs within the next 12 months.

Lifetime ECLs represent the ECLs resulting from all possible default events over the expected life of a financial instrument. The 12-month ECLs are the ECLs resulting from possible default events on a financial instrument within 12 months (or a shorter period if the expected life of the financial instrument is less than 12 months) after the balance sheet date, and is a portion of lifetime ECLs.

The maximum period to be considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk, including renewal options.

For the financial instruments at Stage 1 and Stage 2 and with low credit risks, the Company calculates the interest income based on the book balance and the effective interest rate before deducting the impairment provisions. For financial instruments at Stage 3, interest income is calculated based on the amortised cost after deducting impairment provisions made from the book balance and the effective interest rate.

For accounts receivable such as Notes receivable, trade receivables, receivables financing, other receivables, contract assets, etc., if the credit risk characteristics of a particular customer significantly differ from those of other customers in the portfolio, or if there is a significant change in the credit risk characteristics of that customer, the Company individually provides for credit loss for that receivable. Apart from individually providing for credit loss for specific receivables, the Company divides receivables into portfolios based on credit risk characteristics and calculates credit losses on a portfolio basis.

Notes receivable, accounts receivable and contract assets

For Notes receivable, accounts receivable and contract assets, regardless of whether there is a significant financing component, the Company always makes provision for impairment at an amount equal to lifetime ECLs.

The Group recognizes receivables exceeding RMB5 million as individually significant receivables. The Group conducts impairment testing separately for individually significant receivables.

For receivables, except for those that are individually significant and have experienced credit impairment, the invested entity generally measures ECLs based on a portfolio of receivables with similar credit risk characteristics. This method takes into account factors reflected in the ECLs measurement approach, referencing historical credit loss experience, and prepares a table correlating the aging of receivables with default loss rates. ECLs are then calculated based on this table. If a customer's credit risk characteristics are significantly different from those of other customers in the portfolio, or if there is a significant change in the customer's credit risk characteristics, such as severe financial difficulties, and the ECL rate for that customer's receivables is significantly higher than the expected credit loss rate for the corresponding aging or overdue period, the Group will individually assess and make provisions for the loss on receivables from that customer.

Receivables (and contract assets) are grouped based on factors such as aging, nature of the receivables, credit risk exposure, and historical payment collection. For these receivables, aging and whether the counterparty is a related party within the consolidation scope are considered the primary factors influencing credit risk. ECLs are then evaluated based on aging categories and related party groupings within the consolidation scope (with no provision for bad debts)

① Categories of Notes receivable and the basis for determination

The Group classifies Notes receivable into different portfolios based on the credit risk of the drawee as a common risk characteristic, and determines the accounting estimation policy for ECLs. The Group refers to historical credit loss experience, considers current conditions, and forecasts future economic conditions. ECLs are calculated using default risk exposure, aging, and the expected credit loss rate over the entire life of the receivables. The expected loss rate is determined with reference to the Group's accounts receivable policy, and loss provisions are recognized accordingly.

Debt investments and other debt investments

Except for financial assets measured using the simplified approach (such as receivables, other debt investments), loan commitments, and financial guarantee contracts, the Group adopts the general approach (three-stage model) to recognize ECLs. On each balance sheet date, the Group assesses whether the credit risk of the financial asset has significantly increased since initial recognition. If the credit risk has not significantly increased since initial recognition, the asset is classified in Stage 1. The Group measures the loss allowance based on ECLs over the next 12 months and recognizes interest income using the carrying amount and the effective interest rate. If the credit risk has significantly increased but no credit impairment has occurred, the asset is classified in Stage 2. The Group measures the loss allowance based on expected credit losses over the entire life of the asset and recognizes interest income using the carrying amount and the effective interest rate. If credit impairment has occurred since initial recognition, the asset is classified in Stage 3. The Group measures the loss allowance based on expected credit losses over the entire life of the asset and recognizes interest income using the amortized cost and the effective interest rate. For financial instruments with low credit risk at the balance sheet date, the Group assumes that their credit risk has not significantly increased since initial recognition.

ECLs over the entire life of a financial instrument refer to the expected credit losses resulting from all possible default events that may occur during the instrument's entire expected life. ECLs over the next 12 months refer to the expected credit losses resulting from default events that may occur within the 12 months following the balance sheet date (or the expected life of the financial instrument, if shorter). This represents a portion of the ECLs over the entire life of the instrument.

Assessment of significant increase in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly upon initial recognition, the Company compares the risk of default of the financial instrument at the balance sheet date with that at the date of initial recognition to determine the relative change in risk of default within the expected lifetime of the financial instrument.

In determining whether the credit risk has increased significantly upon initial recognition, the Company considers reasonable and well-founded information, including forward-looking information, which can be obtained without unnecessary extra costs or efforts. Information considered by the Company includes:

- The debtor's failure to make payments of principal and interest on their contractually due dates;
- An actual or expected significant deterioration in a financial instrument's external or internal credit rating (if any);
- An actual or expected significant deterioration in the operating results of the debtor;
- Existing or expected changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Company.

Depending on the nature of the financial instruments, the Company assesses whether there has been a significant increase in credit risk on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on their common credit risk characteristics, such as past due information and credit risk ratings.

If it is more than 30 days past due or if one or more of the following indicators show significant changes: The Group determines that the credit risk of the financial instrument has significantly increased if there are significant adverse changes in factors such as the debtor's operating environment, internal and external credit ratings, or actual or expected business performance.

Credit-impaired financial assets

At balance sheet date, the Company assesses whether financial assets measured at amortised cost and debt investments measured at fair value through other comprehensive income are credit-impaired. A financial asset is credit-impaired when one or more events that have an adverse effect on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract by the debtor, such as a default or delinquency in interest or principal payments;
- For economic or contractual reasons relating to the debtor's financial difficulty, the Company having granted to the debtor a concession that would not otherwise consider;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties of the issuer or debtor.

Presentation of provisions for ECLs

ECLs are remeasured at each balance sheet date to reflect changes in the financial instrument's credit risk upon initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss for the current period. For financial assets measured at amortised cost, the provision of impairment is deducted from the carrying amount of the financial assets presented in the balance sheet; for debt investments at fair value through other comprehensive income, the Company makes provisions of impairment in other comprehensive income without reducing the carrying amount of the financial asset.

Write-offs

The book balance of a financial asset is directly written off to the extent that there is no realistic prospect of recovery of the contractual cash flows of the financial asset (either partially or in full). Such write-off constitutes derecognition of such financial asset. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

If a write-off of financial assets is later recovered, the recovery is credited to profit or loss in the period in which the recovery occurs.

(7) Transfer of financial assets

Transfer of financial assets refers to the transference or deliverance of financial assets to the other party (the transferee) other than the issuer of financial assets.

The Company derecognizes a financial asset if it transfers substantially all the risks and rewards of ownership of the financial asset to the transferee. If substantially all the risks and rewards of ownership of the financial asset is retained, the financial asset is not derecognized.

The Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and the accounting treatment is shown as following: if the Company has forgone control over the financial asset, the financial assets is derecognized, and new assets and liabilities are recognized. If the Company retains control over the financial asset, the financial asset is recognized to the extent of its continuing involvement in the transferred financial asset, and an associated liability is recognized.

(8) Offset of financial assets and financial liabilities

If the Company owns the legitimate rights of offsetting the recognised financial assets and financial liabilities, which are enforceable currently, and the Company plans to realise the financial assets or to clear off the financial liabilities on a net amount basis or simultaneously, the net amount of financial assets and financial liabilities shall be presented in the balance sheet upon offsetting. Otherwise, financial assets and financial liabilities are presented separately in the balance sheet without offsetting.

12. Contract assets

Contract assets refer to the Group's right to receive consideration for goods transferred to customers, where the right to payment depends on factors other than the passage of time. For example, if the Group sells two clearly distinguishable goods to a customer, and the right to receive payment arises from the delivery of one good, but the receipt of payment is also contingent upon the delivery of the other good, the Group will classify this right to receive payment as a contract asset.

The method of determining expected credit losses for contract assets and the related accounting treatment are detailed in Note III. 11.

13. Inventories

(1) Classification of inventories

Inventories include raw materials, work in progress, low-value consumables, finished goods, specially approved reserve materials and issued goods.

(2) Method for calculating value of inventories

The Group values inventory at actual cost upon acquisition. For materials, finished goods, and other items used or issued, the weighted average method is applied for valuation.

(3) Basis for determining the net realizable value and method for provision

On the balance sheet date, the inventories are calculated at the lower of cost and the net realisable value. When its net realizable value is lower than its cost, a provision for inventory impairment is made.

Net realizable value is the estimated selling price of inventory minus the estimated costs to complete, estimated selling expenses, and related taxes. In determining the net realizable value of inventory, reliable evidence is used as a basis, while also considering the purpose of holding the inventory and the impact of subsequent events after the balance sheet date.

Provision for inventory impairment is made on an item-by-item basis. For inventories with large quantities and low unit prices, inventory impairment provisions are made according to the inventory category.

On the balance sheet date, if the factors that previously impaired the value of inventory have disappeared, the provision for inventory impairment is reversed within the originally provided amount.

(4) Inventory system

The Company adopts perpetual inventory system.

(5) Amortization methods of low-value consumables

The Company adopts one-time write off when low-value consumables are taken for use.

14. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries and equity investments in joint ventures and associates. An associate is an enterprise over which the Company has significant influence.

(1) Determination of initial investment cost

Long-term equity investment acquired through a business combination: For a business combination involving enterprises under common control, the initial investment cost of a long-term equity investment is the combining party's share of the carrying amount of the owners' equity of the combined party in the consolidated financial statements of the ultimate controlling party at the date of combination. For a business combination involving enterprises not under common control, the initial investment cost of a long-term equity investment is the cost of acquisition.

Long-term equity investment acquired other than through a business combination: For a long-term equity investment acquired by cash, the initial investment cost is the amount of cash paid. For a long-term equity investment acquired by issuing equity securities, the initial investment cost is the fair value of the equity securities issued.

(2) Subsequent measurement and recognition of profit or loss

Long-term equity investments in subsidiaries are accounted for using the cost method, unless the investment satisfies the conditions of held-for-sale. An investment in a joint venture or an associate is accounted for using the equity method for subsequent measurement.

For long-term equity investment which is accounted for using the cost method, investment income is recognized in profit or loss for the current period as the cash dividend or profit announced and distributed, except for those cash dividend or profit which have already been included in the actual payment or consideration of offer when the investment was made.

For long-term equity investment which is accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Company's interest in the fair values of the investee's identifiable net assets, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the Company's interest in the fair values of the investee's identifiable net assets, the difference is charged to profit or loss for the current period, and the carrying amount of the long-term equity investment is adjusted accordingly.

Under the equity method, the Company recognizes its share of the investee's net profit or losses and other comprehensive income as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. The carrying amount of the investment is reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributable to the Company. The Company's share of the investee's owners' equity changes, other than those arising from the investee's net profit or loss, other comprehensive income or profit distribution, is recognized in the capital reserve (other capital reserve), and the carrying amount of the long-term equity investment is adjusted accordingly. The Company recognizes its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Company.

When the Company becomes capable of exercising significant influence or joint control (but not sole control) over an investee due to additional investment or other reasons, the accounting is changed to the equity method and the initial investment cost on the date of change is the sum of the fair value of the previously-held equity investment and additional investment cost. If the original equity is classified as non-trading equity instrument investment measured at fair value through other comprehensive income, the relevant accumulative changes in fair value originally included in other comprehensive income will be transferred to retained earnings when changed to equity method accounting.

When the Company can no longer exercise joint control of or significant influence over an investee due to partial disposal of equity investment or other reasons, the remaining equity investment on the date of losing joint control or significant influence is accounted for in accordance with Accounting Standard for Business Enterprises No.22 – Recognition and Measurement of Financial Instruments and the difference between the fair value and the carrying amount at the date of the loss of joint control or significant influence is charged to profit or loss for the current period. When the previously-held equity investment is accounted for under the equity method, any other comprehensive income previously recognized are accounted for on the same basis as if the Company directly disposes of the related assets or liabilities for the current period upon discontinuation of the equity method. Other movement of owner's equity related to previously-held equity investment is transferred in profit or loss for the current period.

When the Company can no longer exercise control over an investee due to partial disposal of equity investment or other reasons and the remaining equity investment after disposal can exercise joint control of or significant influence over an investee, the remaining equity investment is accounted for under equity method and re-measured by equity method as if it has been acquired since date of acquisition. Where the remaining equity investment can no longer exercise joint control of or significant influence over an investee, the remaining equity investment is accounted for in accordance with Accounting Standard for Business Enterprises No.22-Recognization and Measurement of Financial Instruments and the difference between the fair value and the carrying amount at the date of the loss of control is charged to profit or loss for the current period.

When the Company can no longer exercise control over an investee due to dilution of shareholding by issuance of new shares to other investors by the investee but the Company can still exercise joint control of or significant influence on the investee, the difference between the Company's share of the increment of net assets in investee by the new shareholding percentage after new share issuance and the pro-rata portion of carrying value of long term equity investment for the decreased shareholding percentage is recognized in profit or loss in the current period. The remaining equity investment is accounted for equity method as if it was acquired since initial acquisition.

The unrealized profit or loss from internal transactions entered into between the Company and its associate or joint venture is offset according to the shareholding percentage held by the Company and the remaining portion is recognized as investment income or loss. However, the unrealized loss from internal transactions entered into between the Company and its investee is not offset if it belongs to impairment loss from assets transferred.

(3) Basis for determination of joint control or significant influence over an investee

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. In assessing whether joint control of an arrangement exists, the Company firstly assesses whether all the parties or a group of the parties control the arrangement collectively, then assesses whether decisions about the relevant activities require the unanimous consent of those parties that control the arrangement collectively. When all the parties or a group of the parties must act together unanimously in directing the relevant activities, then all the parties or a group of the parties are regarded as having joint control of an arrangement. When more than one combination of the parties can control an arrangement collectively, joint control does not exist. Protective rights of any party are not considered when determining joint control.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. When determining whether an investor can exercise significant influence over an investee, the effect of potential voting rights (for example, warrants, share options and convertible bonds) held by the investors or other parties that are currently exercisable or convertible shall be considered.

When the Company, directly or indirectly through subsidiaries, owns more than 20% (20% inclusive) but less than 50% of the voting shares of the investee, the Company has significant influence on the investee unless there is clear evidence to show that the Company cannot participate in the business and operation decisions of the investee, and accordingly cannot exercise any significant influence. When the Company owns less than 20% of the voting shares of the investee, the Company has no significant influence on the investee unless there is clear evidence to show that the Company can participate in the business and operation decisions of the investee, and accordingly can exercise a significant influence.

(4) Method of impairment testing and impairment provision

For investment of subsidiaries, associates and joint ventures, refer to Note III. 20 for the method of asset impairment.

15. Investment properties

Investment properties refer to real estate held to earn rental income, capital appreciation, or both. The Group's investment properties include leased land use rights, land use rights held for appreciation and subsequent transfer, and leased buildings.

Investment properties are initially measured at cost at the time of acquisition and are subsequently depreciated or amortized in accordance with the relevant provisions for fixed assets or intangible assets.

For investment properties measured using the cost model, refer to Note III. 20 for the method of asset impairment.

The disposal income from the sale, transfer, scrapping, or destruction of investment properties, after deducting the carrying value and related taxes, is recognized in the profit or loss for the current period.

16. Fixed assets

(1) Recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of services, for rental to others, or for administrative purposes and have useful lives more than one accounting year.

Fixed assets are only recognized when its related economic benefits are likely to flow to the Company and its cost can be reliably measured.

Fixed assets are initially measured at cost.

Subsequent expenditures related to fixed assets are included in the cost of fixed assets when the economic benefits related to them are likely to flow into the Company and their costs can be measured reliably; the daily repair expenses of fixed assets that do not meet the criteria for subsequent expenditure of fixed assets capitalization shall be included in the current profit or loss or the cost of relevant assets according to the beneficiary at the time of occurrence. The carrying amount of the replaced part shall be derecognized.

(2) Depreciation methods

The Company adopts the straight-line method to provision for depreciation. Depreciation of fixed assets begins when they reach the status of intended use, and ceases to be depreciated when they are derecognized or classified as non-current assets held for sale. Without taking into account the provision for impairment, the Company determines the annual depreciation rates of various types of fixed assets according to the type of fixed assets, estimated useful life and estimated residual value as follows:

Category	Useful life *(years)*	Residual rate *(%)*	Annual depreciation rate *(%)*
Plant & buildings	20	5	4.75
Machinery & equipment	10	5	9.50
Transportation equipment	5	5	19.00
Electronic equipment and others	5	5	19.00

Among the above, depreciation rate of impaired fixed assets are determined after deduction of the cumulative amount of impairment provision.

(3) Impairment testing and the impairment provision of fixed assets refers to Note III. 20.

(4) The Company reviews the useful life, estimated net residual value and the depreciation method of fixed assets at the end of each financial year.

Useful lives of fixed assets are adjusted if they are different with the initial estimates. Estimated net residual values are adjusted if they are different with the initial estimates.

(5) Disposal of fixed assets

When the fixed assets are disposed, or no economic benefit is expected to be generated through the use or disposal, the fixed assets shall be derecognised. The amount of the disposal income from the sale, transfer, scrapping or destruction of fixed assets after deducting its carrying value and relevant taxes is recorded into the current profit or loss.

17. Construction in progress

Construction in progress is recognized based on the actual construction cost, including all expenditures incurred for construction projects, capitalized borrowing costs for the construction in progress before it has reached the working condition for its intended use and other related expenses during the construction period.

Construction in progress is transferred to fixed assets when it has reached the working condition for its intended use.

Category	Criteria for transfer to Fixed Assets
Houses & buildings	The main construction project and supporting projects have been substantially completed, and the construction project has met the predetermined design requirements and has been accepted by relevant departments.
Production equipment and others	The relevant equipment and other supporting facilities have been installed; The equipment can maintain normal and stable operation for a period of time after debugging; Production equipment can stably produce qualified products over a period of time; The equipment has been inspected by asset management personnel and users.

Provision for impairment of construction in progress refers to Note III. 20.

18. Borrowing costs

(1) Recognition of borrowing costs capitalization

Borrowing costs are capitalized when they are directly attributable to the acquisition, construction or production of a qualifying asset and included in the cost of related assets. Other borrowing costs are recognized as expenses and recorded in profit or loss for the current period when incurred. Capitalization of such borrowing costs commenced only when all of the following conditions are satisfied:

① Expenditures for the asset are being incurred, capital expenditure includes the expenditure in the form of cash payment, transfer of non-cash assets or interest bearing liabilities for the purpose of acquiring or constructing assets eligible for capitalization;

② Borrowing costs are being incurred; and

③ Activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

(2) Borrowing costs capitalization period

Capitalization of such borrowing costs ceases when the qualifying assets being acquired, constructed or produced become ready for their intended use or sale. Borrowing cost incurred after the qualifying assets became ready for their intended use or sale is recognized as an expense when incurred and recorded in profit or loss for the current period.

Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally and when the suspension is for a continuous period of more than 3 months. Borrowing costs continues to be capitalized during the normal suspension period.

(3) Borrowing costs capitalization rate and calculation of capitalization amount

For funds borrowed for a specific purpose, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing less any bank interest earned from depositing the borrowed funds before being used into banks or any investment income on the temporary investment of those funds. For funds borrowed for general purpose, the amount of interest to be capitalized on such borrowings is calculated by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. Capitalization rate is determined as calculating weighted average interest rate of general borrowings.

In the capitalization period, exchange differences of specific borrowings in foreign currency are fully capitalized. Exchange differences of general borrowings in foreign currency are recorded in profit or loss for the current period.

19. Intangible assets

The Company's intangible assets include land use rights, software use rights, and non-patent technology.

Intangible asset is initially measured at cost and its useful life is determined on acquisition. An intangible asset with a finite useful life is amortized by a method which can reflect the expected realization of economic benefits related to the asset since the intangible asset is available for use. When the expected realization of economic benefits cannot be reliably determined, intangible asset is amortized under straight-line method. An intangible asset with an indefinite useful life is not amortized.

(1) The useful life, basis for determination, estimated conditions, and amortization method are as follows:

Land use rights are amortized on a straight-line basis over the granted term starting from the beginning of the land transfer. The Group's software usage rights and non-patented technologies are amortized on a straight-line basis over the shortest of the estimated useful life, the contractual benefit period, or the legal validity period. Specifically, land use rights are amortized over the benefit term of the land transfer, and software usage rights are amortized over an estimated benefit period of 5 years. The amortization amount is allocated to the relevant asset cost and current period profit or loss based on the benefit received. The estimated useful life and amortization method for intangible assets with finite useful lives are reviewed. If there are any changes, they are treated as changes in accounting estimates. In each accounting period, the estimated useful life of intangible assets with an uncertain useful life is reviewed. If there is evidence that the useful life of an intangible asset is finite, its useful life is estimated and amortized over that period.

The Company reviews the finite useful life of an intangible asset and the amortization method at the end of each financial year. Any change is accounted for as a change in accounting estimate.

If an intangible asset is expected no longer in generating future economic benefits to the Company at the balance sheet date, the carrying amount of the asset is charged to profit or loss for the current period.

Impairment method of intangible assets refers to Note III. 20.

(2) Research and development expenditure

The research and development (R&D) expenses of the Group consist of expenses directly related to R&D activities, including salaries of R&D personnel, direct input costs, depreciation expenses, amortization of intangible assets, outsourced research and development costs, and other expenses. Among these, the salaries of R&D personnel are allocated to R&D expenses based on project hours. Equipment, production lines, and premises shared between R&D activities and other production operations are allocated to R&D expenses based on the proportion of hours or area utilized.

Expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase is recorded in profit or loss when incurred.

Expenditure on the development phase is capitalized only when the Company can satisfy all of the following conditions: it is technical feasible that the intangible asset can be used or sold upon completion; there is intention to complete the intangible asset for use or sale; the intangible asset can generate economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there is usage for the intangible asset; there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset; the expenses attributable to the development stage of the intangible asset can be measured reliably. Expenditure on the development phase is recorded in profit or loss for the current period if the above conditions are not met.

Research and development projects of the Company will enter into the development phase when they meet the above conditions and pass the technical feasibility and economic feasibility studies and necessary approval of the project.

Capitalized expenditure on the development phase is presented as "development costs" in the balance sheet and is transferred to intangible assets when the project is completed to its intended use.

Capitalization conditions of specific research and development projects:

The Company meets the capitalization criteria upon obtaining approval for Phase III clinical trials, and subsequent development-stage expenditures are capitalized.

20. Impairment of assets

The impairment of subsidiaries, associates in the long-term equity investments, investment properties measured using the cost model for subsequent measurement, fixed assets, construction in progress, right-of-use assets, intangible assets and goodwill (excluding inventories, deferred tax assets and financial assets) are determined as follows:

At each balance sheet date, the Company determines whether there may be indication of impairment of the assets, if there is any, the Company will estimate the recoverable amount of the asset, and perform test for impairment. For goodwill arising from a business combination, intangible assets with indefinite useful life and intangible assets that have not reached the usable condition are tested for impairment annually regardless of whether such indication exists.

The recoverable amount of an asset is determined by the higher of the net amount after deducting the disposal costs from the asset's fair value and the present value of the asset's estimated future cash flow. The recoverable amount of asset is estimated on individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the asset group to which the asset belongs. The identification of the asset group is based on whether the cash flow generated from the asset group is independent of the major cash inflows from other assets or asset groups.

When the asset or asset group's recoverable amount is lower than its carrying amount, the Company reduces its carrying amount to its recoverable amount, the reduced amount is recorded in profit or loss for the current period and the provision for impairment of assets is recognized.

For tests of goodwill impairment, the carrying amount of goodwill arising from a business combination is allocated reasonably to the relevant asset group since the acquisition date. If the carrying value of goodwill is unable to be allocated to asset group, the carrying value of goodwill will be allocated to asset portfolio. Asset group or portfolio of asset group is asset group or portfolio of asset group which can be benefit from synergies of a business combination and is not greater than the reportable segment of the Company.

In impairment testing, if indication of impairment exists in asset group or portfolio of asset group containing allocated goodwill, impairment test is first conducted on asset group or portfolio of asset group that does not contain goodwill, and corresponding recoverable amount is estimated and any impairment loss is recognized. Then asset group or portfolio of asset group containing goodwill is conducted impairment test by comparing its carrying amount and its recoverable amount. If the recoverable amount is less than the carrying amount, impairment loss of goodwill is recognized.

Once an impairment loss is recognized, it is not reversed in a subsequent period.

21. Long-term deferred expenses

Long-term deferred expenses are recorded at the actual cost, and amortized evenly over the expected benefit period. For the long-term deferred expense that cannot benefit in future accounting period, their amortized value is recognized in profit or loss for the current period.

22. Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods to customers in exchange for consideration that has been received or is receivable. If, before transferring goods to the customer, the customer has paid the contract consideration or the Group has obtained the unconditional right to receive the contract consideration, the contract liability is recognized at the earlier of the actual payment date or the due payment date, based on the amount received or receivable.

23. Employee compensation

(1) Scope of employee compensation

Compensation refers to all forms of consideration or compensation given by the Company in exchange for service rendered by employees or for the termination of employment relationship. Employee compensation includes short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. Benefits provided to the employee's spouse, children, dependents, family members of deceased employees, or other beneficiaries are also employee compensation.

(2) Short-term employee compensation

In the accounting period in which employees have rendered services, the Company recognized the employee wages, bonus, social security contributions according to regulations such as medical insurance, work injury insurance and maternity insurance as well as housing funds as liability, and charged to profit or loss for the current period or cost of relevant assets.

(3) Post-employment compensation

Post-employment benefit plan includes defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which a corporate pays fixed contributions into an escrow fund and will have no further obligation. Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Defined contribution plans

Defined contribution plans include basic pension insurance and unemployment insurance.

In the accounting periods which employees rendered services, the amount of defined contribution plan is recognized as liability and charged to profit or loss for the current period or cost of relevant assets.

Defined benefit plans

For defined benefit plans, independent actuaries estimate the actuarial value at the balance sheet date to determine the cost of welfare by using the Projected Unit Credit method. The Company recognizes the following components of employee compensation cost arising from defined benefit plan:

① service cost, comprising current service cost, past service cost and any gain or loss on settlement. Current service cost is the increase in the present value of the defined benefit plan obligation resulting from employee service in the current period. Past service cost is the increase or decrease in the present value of the defined benefit plan obligation for employee service in previous periods, resulting from a plan amendment.

② net interest on the defined benefit plan net liabilities or assets, including interest income on plan assets, interest cost on the defined benefit plan obligation and interest on the effect of the asset ceiling.

③ changes as a result of remeasurement of the net defined benefit plan liabilities or assets.

Item① and item② above are recognized in profit or loss for the current period unless another Accounting Standard requires or permits the inclusion of the employee benefit costs in the cost of assets. Item③ is recognized in other comprehensive income and is not reclassified to profit or loss in subsequent period. On termination of defined benefit plans, other comprehensive income previously recognized is transferred to undistributed profits.

(4) Termination compensation

Termination compensation provided by the Company to employees are recognized as an employee compensation liability and charged to profit or loss for the current period at the earlier of the following dates: the Company cannot unilaterally withdraw the offer of termination compensation because of an employment termination plan or a curtailment proposal; and when the Company recognizes costs or expenses related to the restructuring that involves the payment of termination compensation.

For early retirement arrangement, early retirement compensation are accounted for termination compensation, in which the salaries and social security contributions to be paid to and for the early retired employees from the off-duty date to the normal retirement date are charged to the profit or loss for the current period. Compensations after the normal retirement date (such as formal endowment insurance) are accounted for as post-employment compensation.

(5) Other long-term employee compensation

Other long-term employee compensation provided by the Company to the employees satisfied the conditions for classifying as a defined contributions plan; those compensation are accounted for in accordance with the above requirements relating to defined contribution plan. When the compensation satisfied a defined compensation plan, they are accounted for in accordance with the above requirements relating to defined compensation plan, but the movement of net liabilities or assets in re-measurement of defined benefit plan is recorded in profit or loss for the current period or cost of relevant assets.

24. Estimated liabilities

A provision is recognized as a liability when an obligation related to a contingency satisfied all of the following conditions:

(1) The obligation is a present obligation of the Company;

(2) It is probable that an outflow of economic compensation will be required to settle the obligation;

(3) The amount of the obligation can be measured reliably.

Estimated liabilities are initially measured at the best estimate of the payment to settle the associated obligations and consider the relevant risk, uncertainty and time value of money. If the impact of time value of money is significant, the best estimate is determined as its present value of future cash outflow. The Company reviews the carrying amount of estimated liabilities at the balance sheet date and adjusts the carrying amount to reflect the best estimate.

If all or part of the expenses necessary for settling the estimated liabilities is expected to be compensated by a third party, the amount of compensation is separately recognized as an asset when it is basically certain to be received. The recognized compensation amount shall not exceed the carrying value of the estimated liabilities.

25. Share-based payment

(1) Types of share-based payment

The share-based payment can be distinguished into equity-settled and cash-settled share-based payment.

(2) Determination of fair value of equity instruments

If there exists an active market for options and other equity instruments granted by the Company, their fair value is determined on the price quotes in an active market. If an active market does not exist for options and other equity instruments granted by the Company, their fair value is determined by using an option pricing model. Selection of option pricing model considers the following factors: A) Exercise price of option; B) Validity period of option; C) Spot price of subject shares; D) Estimated volatility of share price; E) Estimated dividend of shares; F) Risk-free interest rate in the validity period of option.

(3) Basis for the best estimate of vested equity instruments

At each balance sheet date of the vesting period, the Company revises the number of equity instruments that will ultimately vest based on the best estimate of the latest number of eligible employees and other subsequent information. On vesting date, the number of expected vested equity instruments should be agreed with the actual number vested.

(4) Accounting treatment for implementation, modification, and termination of share-based payment

Equity-settled share-based payments are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfilment of performance conditions are measured by recognizing services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Company at each balance sheet date. No subsequent adjustment is made on the recognized relevant cost and expenses and owners' equity after the vesting date.

Cash-settled share-based payments are measured based on the value of shares or other equity instruments undertaken by the Company. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and a liability is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfilment of performance conditions are measured by recognizing services rendered during the period in relevant costs or expenses and crediting a liability accordingly at the fair value on the date of grant according to the best estimates conducted by the Company at each balance sheet date. The fair value of the liability is remeasured at each balance sheet date and at the date of settlement, with any changes in fair value recognized in profit or loss for the current period.

Where the terms of an equity-settled share-based payment are modified, if the modification increases the fair value of the equity instruments granted, the incremental fair value is recognized as additional service obtained; if the modification increases the number of equity instruments granted, the incremental fair value is recognized as additional service received. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument both estimated as at the date of modification. If the modification of terms and conditions of share-based payment arrangement reduces the total fair value of the share-based payment or is not otherwise beneficial to the employee, the Company nevertheless continue to account for the services received as if that modification had not occurred, other than the Company cancels of some or all the equity instruments granted.

If a grant of equity instruments is cancelled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Company accounts for the cancellation as an acceleration of vesting and recognizes immediately the amount that otherwise would have been recognized over the remainder of the vesting period and the capital reserve is credited accordingly. When employees or other parties are permitted to choose to fulfil non-vesting conditions but have not fulfilled during the vesting period, the Company deems the granted equity instruments are cancelled.

26. Revenue

(1) General principle

The Company recognises revenue when it satisfies a performance obligation in the contract, i.e. when the customer obtains control of the relevant goods or services.

Where a contract has two or more performance obligations, the Company allocates the transaction price to each performance obligation based on the percentage of respective unit price of goods or services guaranteed by each performance obligation, and recognises as revenue based on the transaction price that is allocated to each performance obligation.

If one of the following conditions is fulfilled, the Company performs its performance obligation within a certain period; otherwise, it performs its performance obligation at a point of time:

① when the customer simultaneously receives and consumes the benefits provided by the Company when the Company performs its obligations under the contract; or

② when the customer is able to control the goods in progress in the course of performance by the Company under the contract; or

③ when the goods produced by the Company under the contract are irreplaceable and the Company has the right to payment for performance completed to date during the whole contract term.

For performance obligations performed within a certain period, the Company recognises revenue by measuring the progress towards complete of that performance obligation within that certain period. When the progress of performance cannot be reasonably determined, if the costs incurred by the Company are expected to be compensated, the revenue shall be recognised at the amount of costs incurred until the progress of performance can be reasonably determined.

For performance obligation performed at a point of time, the Company recognises revenue at the point of time at which the customer obtains control of relevant goods or services. To determine whether a customer has obtained control of goods or services, the Company considers the following indications:

① the Company has the current right to receive payment for the goods, which is when the customer has the current payment obligations for the goods;

② the Company has transferred the legal title of the goods to the customer, which is when the client possesses the legal title of the goods;

③ the Company has transferred the physical possession of goods to the customer, which is when the customer obtains physical possession of the goods;

④ the Company has transferred all of the substantial risks and rewards of ownership of the goods to the customer, which is when the customer obtain all of the substantial risks and rewards of ownership of the goods to the customer;

⑤ the customer has accepted the goods or services;

⑥ other information indicates that the customer has obtained control of the goods.

(2) Specific revenue recognition

① Domestic sales revenue

For sales contracts of goods within China where control of the goods is transferred at a specific point in time, revenue is recognized when the Group transfers the goods to the customer or the carrier, and the Group has obtained the right to request payment and is likely to collect the consideration, which occurs when control of the related goods is transferred. The Company delivers the goods to the agreed location as per the contract, and once the customer confirms receipt, control of the goods is transferred to the customer.

② Export sales revenue

For export sales contracts, according to the sales order contract with the customer, the Company has exported the products in accordance with the contract terms, obtained the customs declaration and bill of lading (or airway bill), and has acquired the right to request payment and is likely to collect the consideration. At this point, control of the goods has been transferred to the customer.

27. Contract costs

Contract costs consist of incremental costs of obtaining a contract and Contract performance costs.

Incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission). The Company recognizes as an asset the incremental costs of obtaining a contract with a customer if those costs are expected to be recoverable. Other expenses incurred by the Company other than the incremental costs that are expected to be recovered in obtaining a contract are recognized in profit or loss for the current period when incurred.

The Company recognizes as an assets the costs incurred in fulfilling a contract with a customer if those costs are not within the scope of another Standard (for example, Inventories) and meet all of the following criteria:

① the costs relate directly to a contract or to an anticipated contract, including direct labour, direct materials, manufacturing costs (or similar costs), costs that are explicitly chargeable to the customer and other costs that are incurred only because the Company entered into the contract;

② the costs generate or enhance resources of the Company that will be used in satisfying performance obligations in the future; and

③ the costs are expected to be recovered.

Assets recognised on incremental costs of obtaining a contract and Contract performance costs (hereinafter refer as "Contract assets") are amortized on a systematic basis that is consistent to the revenue recognition of the related goods or services, and are charged to profit or loss for the current period.

If the amortization period does not exceed one year, it is recognized as an expense in the current period.

The Company recognises provision for impairment of assets when the carrying amount of contract asset is higher than the difference between the following two items:

① the remaining amount of consideration that the Company expects to receive in exchange for the goods or services to which the asset relates;

② costs anticipated to be incurred for the transfer of goods or services.

28. Government grants

Government grant is recognized when prescribed conditions are satisfied and the grant will be received.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value. If fair value cannot be reliably determined, it is measured at a nominal amount of RMB1.

A government grant related to an asset is a grant obtained by the Company for purchase, construction or formation of long-term assets. The grant not related to an asset is classified as government grant related to income.

For government grant with unspecified purpose, the amount of grant used to form a long-term asset or related to an asset is regarded as government grant related to an asset, the remaining amount of grant is regarded as government grant related to income. If it is not possible to distinguish, the amount of grant is treated as government grant related to income.

A government grant related to an asset is recognized as deferred income and amortized to profit or loss over the useful life of the related asset on a reasonable and systematic basis. For a government grant related to income, if the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the current period. If the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related expenses or losses are recognized. Government grants measured at nominal amounts are directly recognized in profit or loss for the period. The Company adopts same treatment for those transactions of similar government grants.

Government grants relating to daily activities, according to the substance of business transaction, it is recorded as other income. If it is not relating to daily activities, it is recorded as non-operating income.

Repayment of a government grant related to an asset, that initially deducted the carrying amount of the asset, is recognized by increasing the carrying amount of the asset; if there exists of the related deferred income balance, then the deferred income balance is reduced by the amount repayable, any excess is charged to profit or loss for the current period. Repayment of a government grant related to other situation, it is directly charged to profit or loss for the current period.

29. Deferred tax assets and deferred tax liabilities

Income tax comprises of current tax and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to transactions or items recognized directly in equity and goodwill arising from a business combination.

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base are recognized as deferred tax using the balance sheet liability method.

All the taxable temporary differences are recognized as deferred tax liabilities except for those incurred in the following transactions:

(1) Initial recognition of goodwill or initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) when the transaction occurs (Except for single transactions that result in temporary differences between taxable and deductible temporary differences arising from the initial recognition of assets and liabilities);

(2) The taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, and the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Company recognizes a deferred tax asset for the carry forward of deductible temporary differences, deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, deductible losses and tax credits can be utilized, except for those incurred in the following transactions:

(1) The transaction is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) when the transaction occurs (Except for single transactions that result in temporary differences between taxable and deductible temporary differences arising from the initial recognition of assets and liabilities);

(2) The deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, the corresponding deferred tax asset is recognized when both of the following conditions are satisfied: it is probable that the temporary difference will reverse in the foreseeable future and it is probable that taxable profits will be available in the future against which the temporary difference can be utilized.

At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and their tax effect is reflected.

At the balance sheet date, the Company reviews the carrying amount of a deferred tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred tax asset to be utilized, the carrying amount of the deferred tax asset is reduced. Any such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

On the balance sheet date, deferred tax assets and deferred tax liabilities are presented as the net amount after offsetting when the following conditions are met simultaneously:

(1) The tax payer within the Company has the legal right to settle current tax assets and current tax liabilities on a net basis;

(2) Deferred tax assets and deferred tax liabilities are related to income taxes levied by the same tax collection and administration authority on the same taxpayer within the Company.

30. Leases

(1) Identification of leases

At inception of a contract, the Company, as a lessee or a lessor, shall assess whether the customer under the contract has the right to obtain substantially all of the economic benefits from use of the identified asset during the period of use and has to right to direct the use of the identified asset during the period of use. The Company considers the contract to be a lease or to include a lease if one of the parties to the contract conveys the right to control the use of one or more identified assets for a certain period of time in exchange for consideration.

(2) The Company acts as the lessee

At the commencement date, the Company recognizes the right-of-use assets and lease liabilities for all leases, except for simplified short-term leases and leases of low value assets.

① *Recognition criteria for right-of-use assets*

Right-of-use assets refer to the Group's right, as a lessee, to use leased assets during the lease term.

At the commencement date of the lease term, the right-of-use asset is initially measured at cost. This cost includes: the initial measurement amount of the lease liability; lease payments made on or before the commencement date of the lease, less any lease incentives received; initial direct costs incurred by the Group as the lessee; costs expected to be incurred by the Group as the lessee for dismantling and removing the leased asset, restoring the location of the leased asset, or restoring the leased asset to the condition required by the lease terms. The Group recognizes and measures the costs related to dismantling and restoration in accordance with Accounting Standards for Business Enterprises No. 13 – Contingencies. Any adjustments to the lease liability after remeasurement are made accordingly.

② *Depreciation method for right-of-use assets*

The Group applies the straight-line method for depreciation. If the Group, as the lessee, can reasonably determine that it will obtain ownership of the leased asset at the end of the lease term, depreciation is calculated over the remaining useful life of the leased asset. If the Group cannot reasonably determine whether ownership of the leased asset will be obtained at the end of the lease term, depreciation is calculated over the shorter of the lease term or the remaining useful life of the leased asset.

③ *Impairment testing and provision for impairment of right-of-use assets are detailed in Note III. 20.*

Lease liabilities are initially measured at the present value of the outstanding lease payments at the commencement date of the lease using the interest rate implicit in the lease. If the interest rate implicit in the lease cannot be determined, the incremental borrowing rate shall be used as the discount rate. The lease payments include: fixed payments and in-substance fixed payments; if there are lease incentives, the relevant amount of lease incentives shall be deducted; variable lease payments depending on an index or a rate; the exercise price of the option provided that the lessee is reasonably certain that the option will be exercised; the amount to be paid to exercise the option to terminate the lease if the lease term reflects that the lessee will exercise the option to terminate the lease; and the amount expected to be payable based on the residual value of the security provided by the lessee. The interest expense of the lease liability in each period of the lease term shall be calculated in accordance with the fixed periodic interest rate and recorded into the profit or loss of the current period. The variable lease payment not included in the measurement of lease liabilities shall be recorded into the current profit or loss when actually incurred.

Short-term leases and leases of low-value assets

For short-term leases with a lease term of 12 months or less, and leases of low-value assets where the value of each individual leased asset is relatively low, the Group has elected not to recognize right-of-use assets and lease liabilities.

The Group recognizes lease payments for short-term leases and leases of low-value assets as an expense, using the straight-line method over the lease term, and allocates the lease payments to the relevant asset cost or the current profit or loss.

Lease modifications

A lessee shall account for a lease modification as a separate lease if both: ① the modification increases the scope of the lease by adding the right to use one or more underlying assets; and ② the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the contract.

When lease modification that is not accounted for as a separate lease, on the day of the lease modification, the Company re-allocates the consideration in the modified lease, re-determines the lease term, and re-measures the present value of lease liability according to the revised lease payments and revised discount rate.

For lease modifications that result in decrease in the lease scope or the lease term, the Company decreases the carrying amount of the right-of-use asset accordingly and recognizes in profit or loss of current period any gain or loss relating to the partial or full termination of the lease.

For all other lease modifications that result in remeasurement of lease liabilities, the Company makes a corresponding adjustment to the carrying amount of right-of-use asset.

(3) The Company acts as the lessor

When the Company acts as the lessor, the leases that substantially transfer all the risks and rewards related to the ownership of the assets are recognized as finance leases, and other leases other than finance leases are recognized as operating leases.

Finance leases

In the case of finance leases, the Company takes the net investments in the lease as the carrying amounts of finance lease receivables at the commencement date, and the net lease investments are the sum of the unguaranteed residual value and the present value of the lease payments receivable at the commencement date discounted at the implicit interest rate. The Company, as the lessor, calculates and recognizes interest income for each period of the lease term at a fixed periodic rate. The variable lease payments obtained by the Company as the lessor and not included in the measurement of the net lease investments shall be recorded into the current profit or loss when actually incurred.

The derecognition and impairment of finance lease receivable shall be accounted for in accordance with the provisions of the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments" and the "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets".

Operating lease

For the rent in the operating lease, the Company shall recognize the profit or loss of the current period in accordance with the straight-line method during each period of the lease term. The initial direct costs incurred in connection with the operating lease shall be capitalized, allocated on the same basis as the recognition of rental income during the lease term and recorded into the current profit or loss in instalments. The variable lease payments obtained in connection with the operating lease and not included in the lease payments shall be recorded into the current profit or loss when actually incurred.

Lease modifications

When an operating lease is modified, the Company treats it as a new lease for accounting treatment from the effective date of the modification, and the amount of lease payments received in advance or receivable related to the lease before the modification will be regarded as the amount of new lease payments.

The Company treats the finance lease modification as a separate lease if the following conditions are met: ① the modification increases the scope of the lease by adding the right to use one or more underlying assets; and ② the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the contract.

If the finance lease modification is not accounted for as a separate lease, the Company will deal with the modified lease under the following circumstances: ① If the modification takes effect on the commencement date of the lease, the lease will be classified as an operating lease, and the Company will treat it as a new lease from the effective date of the lease modification, and take the net investment in lease before the effective date of the lease modification as the carrying amount of the leased asset; ② If the modification takes effect on the commencement date of the lease, the lease will be classified as a finance lease, and the Company will conduct accounting treatment in accordance with the provisions of the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments" concerning the modification or renegotiation of the contract.

31. Fair value measurement

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company measures the related assets or liabilities at fair value assuming the assets or liabilities are exchanged in an orderly transaction in the principal market or, in the absence of a principal market, the most advantageous market. Principal market (or most advantageous market) is the market that the Company can normally enter into a transaction on measurement date. The Company adopts the presumptions that would be used by market participants in achieving the maximized economic value of the assets or liabilities.

For financial assets or financial liabilities in active markets, the Company uses the quoted prices in active markets as their fair value. If there is no active market, the Company uses valuation technique to determine their fair value.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs. If the observable inputs are not available or impractical, then unobservable inputs are used.

For assets and liabilities measured or disclosed at fair value in the financial statements, the level in which fair value measurement is categorized is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs for the asset or liability.

At the balance sheet date, the Company revalues assets and liabilities being measured at fair value continuously in the financial statements to determine whether to change the levels of fair value measurement.

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

32. Safety production fund and simple reproduction fee

Pursuant to the Measures for the Extraction and Use of Safety Production Expenses by Enterprises (Cai Zi [2022] No. 136), jointly issued by the Ministry of Finance and the Ministry of Emergency Management, the Group, being engaged in the production and storage of hazardous chemicals, determines the accrual basis based on the actual operating revenue of the preceding financial year. The expenses are accrued monthly on an average basis, applying a regressive excess rate method in accordance with the following standards:

Rank	Sales last year	Provision ratio
1	RMB10 million or less	4.50%
2	The portion between RMB10 million and RMB100 million (inclusive)	2.25%
3	The portion from RMB100 million to RMB1,000 million (inclusive)	0.55%
4	The portion above RMB1,000 million	0.20%

Safety production fund and simple reproduction fee are recorded to the costs of related products or recognized in the profit or loss for the current period, and credited to "special reserve".

When payment is made for safety production fund and simple reproduction fee within the specified scope, if it is an expense, it is directly deducted from special reserve. If it is related to fixed assets, the expenditures incurred are initially accounted in "Construction in progress" and transfer to fixed assets when the safety project is completed and reaches the predetermined usable status and after that, the cost of fixed assets is deducted from special reserve and the same amount is recognised in accumulated depreciation. Such fixed assets will not accrue for depreciation in subsequent periods.

33. Changes in accounting policies and accounting estimates

(1) Changes in significant accounting policies

Interpretation No. 20 of Accounting Standards for Business Enterprises

On June 4, 2026, the Ministry of Finance issued the "Interpretation No. 20 of Accounting Standards for Business Enterprises" (Cai Kuai〔2026〕No. 7) (hereinafter referred to as "**Interpretation No. 20**").

Assessment of Contractual Cash Flow Characteristics of Financial Assets

Interpretation No. 20 stipulates that for financial assets with a non-recourse feature, when an enterprise determines whether such assets satisfy the characteristic that their contractual cash flows are solely payments of principal and interest on the principal amount outstanding, it shall assess the linkage between the specified underlying assets or their cash flows and the contractual cash flows of the financial assets, and consider how such linkage is affected by other contractual arrangements such as subordinated debts or equity instruments issued by the debtor. With respect to contract-linked instruments, holders of each tranche shall apply the classification requirements for contract-linked instruments, instead of those for financial assets with a non-recourse feature. One of the conditions for a contract-linked instrument to meet the contractual cash flow characteristic of principal plus interest is that its underlying assets must comprise one or more instruments that satisfy such contractual cash flow characteristic.

Accounting Treatment and Relevant Disclosures in the Event of Currency Non-convertibility

Interpretation No. 20 provides that one currency is convertible into another if the enterprise is able to exchange the former for the latter within a certain period of time through a market or exchange mechanism that creates enforceable rights and obligations in the exchange transaction. An enterprise shall assess the convertibility of a currency and reasonably estimate the spot exchange rate at the measurement date when the currency lacks convertibility.

Transition between Old and New Requirements

Upon the initial adoption of this Interpretation, enterprises shall make retrospective adjustments in accordance with the Accounting Standard for Business Enterprises No. 28 – Changes in Accounting Policies, Accounting Estimates and Corrections of Errors and other relevant provisions. The cumulative effect shall be adjusted against retained earnings and other relevant financial statement items as at 1 January 2026, and no restatement of comparative financial statement data for previous periods is required.

The implementation of Interpretation No. 20 has no material impact on the financial position and operating results of the Group.

(2) Changes in significant accounting estimates

None.

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

IV. TAXATION

1. Major taxes and their tax rates

Taxes	Tax basis	Statutory tax rate
Value-added tax	Taxable value-added amount (the taxable amount is calculated by multiplying the taxable sales amount by the applicable tax rate minus the deductible input tax for the current period)	13%, 9%, 6%
Urban maintenance and construction tax	Actual turnover tax paid	7%
Education surcharge	Actual turnover tax paid	3%
Local education surcharge	Actual turnover tax paid	2%
Enterprise income tax	Subject to taxable profit	25%, 15%
U. S. Corporate Income Tax	Subject to taxable profit	Federal tax 21%, State tax 8.84%
Dutch corporate income tax	Subject to taxable profit	25.8%/19%
Profits Tax in Hong Kong, China	Subject to taxable profit	8.25%

Explanation of tax payers with different corporate income tax rates:

Entity	Income tax rate
The Company	15%
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	15%
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	15%
Shandong Xinhua Design Engineering Co., Ltd.	15%
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	15%
Shandong Xinhua Wanbo Chemical Co., Ltd.	15%
Shandong Xinhua Pharmaceutical (Europe) B. V.	25.8%/19%
Shandong Xinhua Pharmaceutical (USA) Inc.	Federal tax 21%, state tax 8.84%
Shandong Xinhua Mechanical and Electrical Engineering Co., Ltd.	5%
Xinhua Health Technology (Hong Kong) Co., Ltd.	8.25%
Other subsidiary companies	25%

2. Tax incentives and approval documents

(1) Income tax

The Company and its subsidiary, Shandong Zibo Xincat Pharmaceutical Co., Ltd. (hereinafter referred to as "Xincat Pharmaceutical"), obtained the High-tech Enterprise Certificate issued by the Shandong Provincial Department of Science and Technology, Shandong Provincial Department of Finance, and the State Taxation Administration of Shandong Province on December 7, 2023. The certificate numbers are GR202337005178 and GR202337005744, respectively, with a validity period of 3 years. According to the Enterprise Income Tax Law of the People's Republic of China, the Company and Xincat Pharmaceutical are entitled to enjoy a tax preferential policy with a corporate income tax rate of 15%. In the first half of 2026, the qualifications of the Company and Xincat Pharmaceutical as high-tech enterprises are being re recognized, and the Company and Xincat Pharmaceutical's income tax has been temporarily prepaid at a rate of 15%.

The Company's subsidiary, Xinhua Pharmaceutical (Shouguang) Co., Ltd. (hereinafter referred to as "Shouguang Company"), obtained the High-tech Enterprise Certificate issued by the Shandong Provincial Department of Science and Technology, Shandong Provincial Department of Finance, and the State Taxation Administration of Shandong Province on December 7, 2024. The certificate number is GR202437002139, valid for 3 years. According to the Enterprise Income Tax Law of the People's Republic of China, Shouguang Company is entitled to a preferential tax rate of 15% on corporate income tax. Shouguang Company will be in the tax preferential period for the first half of 2026, with a corporate income tax rate of 15%.

The Company's subsidiary, Shandong Xinhua Design Engineering Co., Ltd. (hereinafter referred to as the "Design Engineering Company"), obtained a High-Tech Enterprise Certificate on December 8, 2025, jointly issued by the Shandong Provincial Department of Science and Technology, the Shandong Provincial Department of Finance, and the State Taxation Administration Shandong Provincial Taxation Bureau. The certificate number is GR202537002212, with a validity period of three years. In accordance with the provisions of the Enterprise Income Tax Law of the People's Republic of China, the Design & Engineering Company is entitled to a preferential tax policy whereby enterprise income tax is levied at a reduced rate of 15%. As the Design Engineering Company was within the preferential tax period for the first half of 2026, the applicable enterprise income tax rate for the year was 15%.

The Company's subsidiary, Xinhua Pharmaceutical (Gaomi) Co., Ltd. (hereinafter referred to as "Gaomi Company") and Shandong Xinhua Wanbo Chemical Co., Ltd. (hereinafter referred to as "Wanbo Chemical"), obtained the High-tech Enterprise Certificate issued by the Shandong Provincial Department of Science and Technology, Shandong Provincial Department of Finance, and the State Taxation Administration of Shandong Province on November 29, 2023. The certificate numbers are GR202337001341 and GR202337001830, respectively, with a validity period of 3 years. According to the Enterprise Income Tax Law of the People's Republic of China, Gaomi Company and Wanbo Chemical are entitled to a preferential tax rate of 15% on corporate income tax. In the first half of 2026, the qualifications of Gaomi Company and Wanbo Chemical as high-tech enterprises are being re-recognized, and Gaomi Company and Wanbo Chemical's income tax has been temporarily prepaid at a rate of 15%.

The Company's subsidiary, Shandong Xinhua Electromechanical Engineering Co., Ltd. (hereinafter referred to as "Xinhua Electromechanical Company"), meets the conditions for small and micro-enterprises as specified in the Announcement on the Implementation of Preferential Income Tax Policies for Small and Micro Enterprises and Individual Industrial and Commercial Households (Announcement No. 6 of 2023 issued by the Ministry of Finance and the State Administration of Taxation). According to Article 1 of the announcement, for taxable income of small and micro-enterprises not exceeding 1 million yuan, a reduced tax rate of 20% is applicable, and only 25% of the taxable income is subject to income tax. This policy will continue to be in effect until December 31, 2027, in accordance with Article 3 of the Announcement on Further Supporting Small and Micro Enterprises and Individual Industrial and Commercial Households' Development and Taxation Policy (Announcement No. 12 of 2023 issued by the Ministry of Finance and the State Administration of Taxation).

(2) Value-added tax

The Group's exported goods enjoy a VAT exemption and refund policy.

According to the Announcement on the VAT Additional Deduction Policy for Advanced Manufacturing Enterprises (Ministry of Finance and State Taxation Administration Announcement No. 43 of 2023), Article 1 states: From January 1, 2023, to December 31, 2027, qualified advanced manufacturing enterprises are allowed to deduct an additional 5% of the current deductible input VAT from the VAT payable.

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

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

The following disclosed data of the financial statements, unless specifically noted, "Opening balance" refers to December 31, 2025 "Closing Balance" refers to June 30, 2026; "Current Period" refers to the year from January 1, 2026 to June 30, 2026; "Previous Period" refers to the year from January 1, 2025 to June 30, 2025. The monetary unit is RMB.

1. Cash and bank balances

Item	Closing balance	Opening balance
Cash on hand	**38,595.30**	24,960.17
Cash at bank	**1,397,134,170.83**	1,290,807,069.28
Other monetary funds	**113,752,843.19**	105,650,896.77
Total	**1,510,925,609.32**	1,396,482,926.22
Including: Total amount of money deposited abroad	**58,168,988.54**	48,554,321.62

The Group's restricted amount of monetary funds at the end of the period are listed as follows:

Item	Closing balance	Opening balance
Bank acceptance bill deposit	**112,526,052.10**	103,439,351.41
Fixed deposits, migrant workers' security deposits, Housing loan deposit, etc.	**8,037,691.09**	9,834,661.02
Total	**120,563,743.19**	113,274,012.43

2. Notes receivable

	Closing balance			Opening balance		
Types of bills	Book balance	Provision for bad debts	Carrying amount	Book balance	Provision for bad debts	Carrying amount
Bank acceptance bills	**13,976,867.69**	**70,484.33**	**13,906,383.36**	26,990,344.02	142,878.26	26,847,465.76

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

(1) The notes receivable pledged by the Company at period-end:

None.

(2) Closing balance of notes receivable that have been endorsed or factored and not yet matured at period-end

Category	Amount derecognized at year end	Amount not derecognized at year end
Bank acceptance bills		**9,115,002.87**

(3) At period-end, the notes receivable that were transferred to accounts receivable due to the issuer's failure to perform:

None.

(4) Disclosure by method of provision for bad debts

	Closing balance				
	Book balance		Provision for bad debts		
Category	Amount	Ratio (%)	Amount	Expected credit loss rate (%)	Carrying amount
Bad debt provision is made on a single basis					
Provision for bad debts on a portfolio basis	13,976,867.69	100.00	70,484.33	0.50	13,906,383.36
Including:					
Bank acceptance bills	13,976,867.69	100.00	70,484.33	0.50	13,906,383.36
Total	13,976,867.69	100.00	70,484.33	0.50	13,906,383.36

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

Continued:

	Opening balance				
	Book balance		Provision for bad debts		
Category	Amount	Ratio (%)	Amount	Expected credit loss rate (%)	Carrying amount
Bad debt provision is made on a single basis					
Provision for bad debts on a portfolio basis	26,990,344.02	100.00	142,878.26	0.53	26,847,465.76
Including:					
Bank acceptance bills	26,990,344.02	100.00	142,878.26	0.53	26,847,465.76
Total	26,990,344.02	100.00	142,878.26	0.53	26,847,465.76

Provision for bad debts of notes receivable on a portfolio basis

Provision for bad debts on portfolio basis: Bank acceptance bills

	Closing balance			Opening balance		
Category	**Notes receivable**	**Provision for bad debts**	**Expected credit loss rate (%)**	Notes receivable	Provision for bad debts	Expected credit loss rate (%)
Within one year	**13,976,867.69**	**70,484.33**	**0.50**	26,990,344.02	142,878.26	0.53

(5) *Accrual, recovery or reversal of bad debt provision during the period*

	Amount of provision for bad debts
Opening balance	**142,878.26**
Provision for the period	**-72,393.93**
Closing balance	**70,484.33**

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

(6) The notes receivable actually written off during the period:

None.

(7) The aging of notes receivable at period-end:

The aging of the above-mentioned notes receivable of the Group is less than one year.

3. Accounts receivable

(1) Disclosure by ageing

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

Ageing	**Closing balance**	Opening balance
Within one year	**960,347,749.16**	862,607,199.12
1 to 2 years	**29,701,550.06**	18,279,918.88
2 to 3 years	**7,713,017.58**	5,798,910.66
Over 3 years	**22,870,824.53**	22,014,926.71
Including: 3 to 4 years	**3,000,800.40**	4,407,983.52
4 to 5 years	**4,679,339.80**	4,851,301.17
Over 5 years	**15,190,684.33**	12,755,642.02
Subtotal	**1,020,633,141.33**	908,700,955.37
Less: Provision for bad debts	**52,415,951.47**	46,312,371.17
Total	**968,217,189.86**	862,388,584.20

A portion of the Group's sales are made on a prepayment basis, while the remaining sales are granted a certain credit period.

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

(2) Disclosure by method of provision for bad debts

	Closing balance				
	Book balance		Provision for bad debts		
Category	**Amount**	**Ratio** *(%)*	**Amount**	**Expected credit loss rate** *(%)*	**Carrying amount**
Bad debt provision is made on a single basis					
Provision for bad debts on a portfolio basis	**1,020,633,141.33**	**100.00**	**52,415,951.47**	**5.14**	**968,217,189.86**
Including:					
Ageing group	**1,020,633,141.33**	**100.00**	**52,415,951.47**	**5.14**	**968,217,189.86**
Total	**1,020,633,141.33**	**100.00**	**52,415,951.47**	**5.14**	**968,217,189.86**

Continued:

	Opening balance				
	Book balance		Provision for bad debts		
Category	Amount	Ratio *(%)*	Amount	Expected credit loss rate *(%)*	Carrying amount
Bad debt provision is made on a single basis					
Provision for bad debts on a portfolio basis	908,700,955.37	100.00	46,312,371.17	5.10	862,388,584.20
Including:					
Ageing group	908,700,955.37	100.00	46,312,371.17	5.10	862,388,584.20
Total	908,700,955.37	100.00	46,312,371.17	5.10	862,388,584.20

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

Accounts receivable for which provision for bad debts is made based on aging categories

Ageing	Closing balance Book balance	 Provision for bad debts	 Expected credit loss rate (%)	Opening balance Book balance	 Provision for bad debts	 Expected credit loss rate (%)
Within one year	**960,347,749.16**	**11,530,159.09**	**1.20**	862,607,199.12	10,451,632.79	1.21
1 to 2 years	**29,701,550.06**	**10,980,763.91**	**36.97**	18,279,918.88	8,355,603.31	45.71
2 to 3 years	**7,713,017.58**	**7,034,203.94**	**91.20**	5,798,910.66	5,490,208.36	94.68
3 to 4 years	**3,000,800.40**	**3,000,800.40**	**100.00**	4,407,983.52	4,407,983.52	100.00
4 to 5 years	**4,679,339.80**	**4,679,339.80**	**100.00**	4,851,301.17	4,851,301.17	100.00
Over 5 years	**15,190,684.33**	**15,190,684.33**	**100.00**	12,755,642.02	12,755,642.02	100.00
Total	**1,020,633,141.33**	**52,415,951.47**	**5.14**	908,700,955.37	46,312,371.17	5.10

(3) Accrual, recovery or reversal of bad debt provision during the period

Item	Amount of provision for bad debts
Opening balance	**46,312,371.17**
Provision for the period	**6,103,580.30**
Closing balance	**52,415,951.47**

(4) Accounts receivable written-off during the period:

None

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

(5) Accounts receivable and contract assets due from the top five debtors

Name of entity	Accounts receivable Closing balance	Closing balance of contract assets	Closing balance of accounts receivable and contract assets	% of the total closing balance of accounts receivable and contract assets *(%)*	Closing balance of provision for bad debts of accounts receivable and provision for impairment of contract assets
Zibo Central Hospital	66,930,006.45		66,930,006.45	6.56	1,027,015.34
Beijing Jingdong Hongjian Health Co., Ltd.	49,822,732.25		49,822,732.25	4.88	249,113.66
Perrigo Company	30,528,245.95		30,528,245.95	2.99	393,376.55
Zibo High-Tech Industrial Development Zone Science and Technology Development Center	27,966,049.93		27,966,049.93	2.74	23,539,962.25
Merck Pharmaceuticals (Jiangsu) Co., Ltd.	20,132,927.05		20,132,927.05	1.97	402,658.54
Total	195,379,961.63		195,379,961.63	19.14	25,612,126.34

4. Receivables financing

Item	**Closing balance**	Opening balance
Notes receivable	**311,869,233.92**	319,240,231.72
Accounts receivable		
Subtotal	**311,869,233.92**	319,240,231.72
Less: Other comprehensive income – changes in fair value		
Fair value at the end of the period	**311,869,233.92**	319,240,231.72

The Group discounts and endorses part of the bank acceptance bills based on their daily capital management needs. Therefore, the bank acceptance bills are classified as financial assets measured at fair value through other comprehensive income.

At the end of the period, the Group believes that the carrying amount of the bank acceptance bills held is close to its fair value due to the short remaining maturity. Given the extremely low credit risk and the absence of significant credit risk, no impairment provision has been made.

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

(1) Notes receivable pledged by the Company at period-end:

None.

(2) Closing balance of notes receivable that have been endorsed or factored and not yet matured.

Category	Amount derecognized at period end	Amount not derecognized at period end
Bank acceptance bills	**779,223,342.35**	

The bank acceptance bills used for discounting are accepted by banks with high credit ratings, meaning the credit risk and payment delay risk are minimal. Additionally, the interest rate risk related to the bills has been transferred to the bank. It can be concluded that the primary risks and rewards of ownership of the bills have been transferred, thus they are derecognized.

At the end of the period, all receivables financing consists of bank acceptance bills, which have a short remaining term, and the book balance is considered an appropriate estimate of their fair value.

5. Prepayments

(1) Prepayments by ageing

	Closing balance		Opening balance	
Ageing	**Amount**	**Ratio** *(%)*	Amount	Ratio *(%)*
Within one year	**49,565,219.82**	**98.18**	45,121,686.67	99.99
1 to 2 years	**917,060.90**	**1.82**	3,443.20	0.01
Subtotal	**50,482,280.72**	**100.00**	45,125,129.87	100.00
Less: Provision for bad debts				
Total	**50,482,280.72**	**100.00**	45,125,129.87	100.00

(2) Prepayments due from the top five debtors

The closing balance of prepayments for the top five debtors was totaling RMB14,504,134.01, which accounted for 28.73% of total prepayments.

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

6. Other receivables

Item	Closing balance	Opening balance
Interest receivable		
Dividends receivable	**7,134,113.28**	
Other receivables	**11,125,459.91**	7,978,709.35
Total	**18,259,573.19**	7,978,709.35

(1) Interest receivable

None.

(2) Dividends receivable

Investee	Closing balance	Opening balance
Bank of Communications Co., Ltd.	**1,384,113.28**	
China Pacific Insurance (Group) Co., Ltd	**5,750,000.00**	
Less: Provision for bad debts		
Total	**7,134,113.28**	

(3) Other receivables

① Disclosure by ageing

Ageing	Closing balance	Opening balance
Within one year	**10,404,361.07**	6,630,963.16
1 to 2 years	**1,803,304.77**	2,194,179.78
2 to 3 years	**927,671.29**	1,100,904.62
Over 3 years	**7,127,693.95**	6,972,594.03
Including: 3 to 4 years	**420,647.36**	345,442.64
4 to 5 years	**171,635.20**	159,240.00
Over 5 years	**6,535,411.39**	6,467,911.39
Subtotal	**20,263,031.08**	16,898,641.59
Less: Provision for bad debts	**9,137,571.17**	8,919,932.24
Total	**11,125,459.91**	7,978,709.35

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

② *Disclosure by nature*

	Closing balance			Opening balance		
Item	Book balance	Provision for bad debts	Carrying amount	Book balance	Provision for bad debts	Carrying amount
Security deposits and other deposits	**8,647,214.81**	**3,251,678.63**	**5,395,536.18**	7,833,791.04	3,028,767.56	4,805,023.48
Petty cash	**203,688.30**	**157,821.20**	**45,867.10**	413,084.23	237,287.94	175,796.29
Others	**11,412,127.97**	**5,728,071.34**	**5,684,056.63**	8,651,766.32	5,653,876.74	2,997,889.58
Total	**20,263,031.08**	**9,137,571.17**	**11,125,459.91**	16,898,641.59	8,919,932.24	7,978,709.35

③ *Information of provision for bad debts*

	Closing balance				
	Book balance		Provision for bad debts		
Category	Amount	Ratio (%)	Amount	Expected credit loss rate (%)	Carrying amount
Provision for bad debts on a portfolio basis	**20,263,031.08**	**100.00**	**9,137,571.17**	**45.09**	**11,125,459.91**
Including: Ageing group	**20,263,031.08**	**100.00**	**9,137,571.17**	**45.09**	**11,125,459.91**
Total	**20,263,031.08**	**100.00**	**9,137,571.17**	**45.09**	**11,125,459.91**

Continued:

	Opening balance				
	Book balance		Provision for bad debts		
Category	Amount	Ratio (%)	Amount	Expected credit loss rate (%)	Carrying amount
Provision for bad debts on a portfolio basis	16,898,641.59	100.00	8,919,932.24	52.78	7,978,709.35
Including: Ageing group	16,898,641.59	100.00	8,919,932.24	52.78	7,978,709.35
Total	16,898,641.59	100.00	8,919,932.24	52.78	7,978,709.35

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

1) Provision for bad debts is made for other receivables on an individual basis:

None.

2) Provision for bad debts of other receivables is made based on aging categories

		Closing balance	
Ageing	**Book balance**	**Provision for bad debts**	**Provision ratio** *(%)*
Within one year	**10,404,361.07**	**729,443.47**	**7.01**
1 to 2 years	**1,803,304.77**	**515,812.60**	**28.60**
2 to 3 years	**927,671.29**	**764,621.15**	**82.42**
3 to 4 years	**420,647.36**	**420,647.36**	**100.00**
4 to 5 years	**171,635.20**	**171,635.20**	**100.00**
Over 5 years	**6,535,411.39**	**6,535,411.39**	**100.00**
Total	**20,263,031.08**	**9,137,571.17**	**45.09**

Continued:

		Opening balance	
Ageing	Book balance	Provision for bad debts	Provision ratio (%)
Within one year	6,630,963.16	377,464.28	5.69
1 to 2 years	2,194,179.78	712,889.31	32.49
2 to 3 years	1,100,904.62	856,984.62	77.84
3 to 4 years	345,442.64	345,442.64	100.00
4 to 5 years	159,240.00	159,240.00	100.00
Over 5 years	6,467,911.39	6,467,911.39	100.00
Total	16,898,641.59	8,919,932.24	52.78

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

④ *Accrual, recovery or reversal of bad debt provision during the period*

Provision for bad debts	Stage 1 Expected credit losses in the next 12 months	Stage 2 Expected credit losses throughout the lifetime (no credit impairment occurs)	Stage 3 Expected credit losses throughout the lifetime (credit impairment has occurred)	Total
Opening balance	1,947,338.21		6,972,594.03	8,919,932.24
Beginning balance in this period				
– Transition to Stage 2				
– Transition to Stage 3				
– Reverse to Stage 2				
– Reverse to Stage 1				
Provision for the period	62,539.01		155,099.92	217,638.93
Reversal in the period				
Transfer in the period				
Write-off in the period				
Other movement				
Closing balance	**2,009,877.22**		**7,127,693.95**	**9,137,571.17**

The classification basis for each stage is as follows: Other receivables with aging within 3 years are classified as Stage 2 for individual provision; Other receivables with aging over 3 years are classified as Stage 3; Other receivables with other aging periods are classified as Stage 1.

⑤ *Actual written-off of other receivables in the period:*

None.

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

⑥ *Other receivables due from the top five debtors*

Name of entity	Nature	Other receivables Closing balance	Ageing	Proportion of total closing balance of other receivables (%)	Provision for bad debts Closing balance
Chen Weisen	Intercompany Items	**1,900,409.00**	Over 5 years	9.38	1,900,409.00
Gaoqing County People's Hospital	Security deposits	**1,000,000.00**	Within one year	4.94	200,000.00
Hayao Group Shiyitang Baichuan Pharmaceutical Trading Co., Ltd. (now renamed Shuzhong Baichuan Pharmaceutical (Henan) Co., Ltd.	Intercompany Items	**794,917.61**	Over 5 years	3.92	794,917.61
ALIPAY FINANCIAL SERVICES (HK) LIMITED	Security Deposit &Intercompany Items	**750,000.00**	Within one year, 2-3 years	3.70	93,000.00
Wuhan Xingtu New Vision Technology Co., Ltd.	Security deposits	**582,465.00**	Within one year	2.87	17,473.95
Total		**5,027,791.61**		24.81	3,005,800.56

⑦ *Centralized cash management*

The Group has no amounts reported under other receivables due to centralized cash management.

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

7. Inventories

(1) Inventories by category

Item	Closing balance Book balance	Closing balance Provision for decline in value	Closing balance Carrying amount	Opening balance Book balance	Opening balance Provision for decline in value	Opening balance Carrying amount
Raw materials	**180,589,565.60**	**6,891,616.08**	**173,697,949.52**	150,628,862.54	10,708,993.17	139,919,869.37
Work-in-progress	**207,229,757.84**	**10,582,745.63**	**196,647,012.21**	227,202,389.98	7,137,819.55	220,064,570.43
Finished goods	**856,142,514.30**	**32,506,384.92**	**823,636,129.38**	821,315,868.09	33,470,049.53	787,845,818.56
Low-value consumables	**26,061,348.88**	**404,590.99**	**25,656,757.89**	26,680,863.42	404,590.99	26,276,272.43
Specially approved reserve materials	**1,735,878.19**		**1,735,878.19**	1,735,878.19		1,735,878.19
Issuing goods	**75,220,144.90**	**568,153.48**	**74,651,991.42**	144,816,911.50	2,559,781.45	142,257,130.05
Total	**1,346,979,209.71**	**50,953,491.10**	**1,296,025,718.61**	1,372,380,773.72	54,281,234.69	1,318,099,539.03

(2) Provision for decline in value of inventories and provision for impairment of contract performance cost

Item	Opening balance	Increase Provision	Increase Others	Decrease Reversal or written-off	Decrease Others	Closing balance
Raw materials	10,708,993.17	5,217,178.15		9,034,555.24		**6,891,616.08**
Work-in-progress	7,137,819.55	9,887,017.44		6,442,091.36		**10,582,745.63**
Finished goods	33,470,049.53	24,753,759.26		25,717,423.87		**32,506,384.92**
Low-value consumables	404,590.99					**404,590.99**
Issuing goods	2,559,781.45	568,153.48		2,559,781.45		**568,153.48**
Total	54,281,234.69	40,426,108.33		43,753,851.92		**50,953,491.10**

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

Item	Basis in determination of net recoverable amount/residual value and cost to be incurred	Reason for the reversal or write-off of inventory impairment provision in Current Period
Raw materials	The estimated selling price of inventory less the estimated costs, sales expenses and related taxes to be incurred until completion	Produced and sold
Work-in-progress	The estimated selling price of inventory less the estimated costs, sales expenses and related taxes to be incurred until completion	Completed sales
Finished goods	The estimated selling price of inventory less selling expenses and related taxes	Sold
Low-value consumables	The estimated selling price of inventory less selling expenses and related taxes	Produced and sold
Issuing goods	The estimated selling price of inventory less selling expenses and related taxes	Sold

8. Contract assets

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Contract assets	214,813.06	1,074.07	213,738.99	430,049.84	2,150.25	427,899.59
Less: Contract assets listed in other non-current assets						
Total	214,813.06	1,074.07	213,738.99	430,049.84	2,150.25	427,899.59

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

(1) Information of impairment of contract assets

	Closing balance					Opening balance				
	Book balance		Provision for impairment			Book balance		Provision for impairment		
Category	Amount	Ratio (%)	Amount	Expected credit loss rate (%)	Carrying amount	Amount	Ratio (%)	Amount	Expected credit loss rate (%)	Carrying amount
Bad debt provision is made on a single basis										
Provision for bad debts on a portfolio basis	214,813.06	100.00	1,074.07	0.50	213,738.99	430,049.84	100.00	2,150.25	0.50	427,899.59
Including:										
Ageing group	214,813.06	100.00	1,074.07	0.50	213,738.99	430,049.84	100.00	2,150.25	0.50	427,899.59
Total	214,813.06	100.00	1,074.07	0.50	213,738.99	430,049.84	100.00	2,150.25	0.50	427,899.59

Provision for impairment on portfolio basis:

	Closing balance			Opening balance		
Ageing	Contract assets	Provision for impairment	Expected credit loss rate (%)	Contract assets	Provision for impairment	Expected credit loss rate (%)
Within one year	214,813.06	1,074.07	0.50	430,049.84	2,150.25	0.50
Total	214,813.06	1,074.07	0.50	430,049.84	2,150.25	0.50

(2) Additions, recoveries or reversals of provision for impairment of contract assets

Item	Provision for the period	Reversal in the period	Written-off in the period	Reason
Contract assets	-1,076.18			Provision based on model

(3) The contract assets actually written off during the period:

None.

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

9. Other current assets

Item	Closing balance	Opening balance
Input tax to be deducted	**53,150,046.35**	48,978,295.96
Prepaid income tax	**2,408,120.90**	7,903,823.76
Total	**55,558,167.25**	56,882,119.72

10. Long-term equity investment

			Movement in the period									
Investee	Balance at the end of the Previous Period (book value)	Balance of impairment provision at the end of the Previous Period	Additions in investment	Decrease in investment	Equity method Confirmed Investment gains and losses	Other comprehensive Revenue Adjustment	Changes of other equity	Announced distribution of cash dividend or profit	Provision for impairment	Others	Closing balance (book value)	Closing balance of impairment provision
Associates												
Centrient Pharmaceuticals (Zibo) Co., Ltd.	58,191,097.56				338,078.34						58,529,175.90	
Total	58,191,097.56				338,078.34						58,529,175.90	

At the end of the term, there are no indicators of impairment for the Group's long-term equity investments, so no asset impairment test was conducted.

11. Other equity instruments investment

Item	Closing balance	Opening balance
Bank of Communications Co., Ltd.	**52,849,456.00**	59,589,200.00
China Pacific Insurance (Group) Co., Ltd.	**142,600,000.00**	209,550,000.00
Northern Health Medical Big Data Technology Co., Ltd.	**10,083,522.60**	10,938,903.48
Total	**205,532,978.60**	280,078,103.48

Due to the Company's strategic intent to hold investments for the long term, the Company designates them as financial assets measured at fair value through other comprehensive income.

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

Item	Gains and losses in the current period included in other comprehensive income	Gains and losses accumulated at the end of the period included in other comprehensive income	Dividend income recognised in the period	Accumulated gains and losses transferred to retained earnings due to derecognition	Reason of derecognition
Bank of Communications Co., Ltd.	-5,728,782.40	32,830,517.30	1,384,113.28		
China Pacific Insurance (Group) Co., Ltd.	-56,907,500.00	115,260,000.00	5,750,000.00		
Northern Health Medical Big Data Technology Co., Ltd.	-727,073.75	-16,929,005.79			
Total	-63,363,356.15	131,161,511.51	7,134,113.28		

12. Investment properties

Item	Housing and buildings
I. Book value	
1. Opening balance	80,969,425.24
2. Increase in the period	
3. Decrease in the period	
4. Closing balance	**80,969,425.24**
II. Accumulated depreciation and amortisation	
1. Opening balance	51,254,753.31
2. Increase in the period	1,637,047.62
(1) Amortisation for the period	1,637,047.62
3. Decrease in the period	
4. Closing balance	**52,891,800.93**
III. Provision for impairment	
IV. Carrying amount	
1. Carrying amount at the end of the period	**28,077,624.31**
2. Carrying amount at the end of the Previous Period	29,714,671.93

The depreciation and amortization amount for investment properties recognized in profit or loss for the current period is RMB1,637,047.62 (Previous Period: RMB1,583,111.97).

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

(1) The Group's investment properties are all located within China and are in the mid-term (10-50 years) stage.

(2) Impairment testing of investment properties measured using the cost model

At the end of the period, there are no indicators of impairment for the Group's investment properties, so no asset impairment test was conducted.

(3) Investment properties with incomplete certificate of title

At the end of the period, there were no cases of incomplete property ownership certificates.

13. Fixed assets

Item	Closing balance	Opening balance
Fixed assets	**3,590,192,749.38**	3,783,252,309.59
Fixed assets for disposal		
Total	**3,590,192,749.38**	3,783,252,309.59

(1) Fixed assets

① *Details of fixed assets*

Item	Housing and buildings	Machinery and equipment	Motor vehicles	Electronic equipment and others	Total
I. Cost:					
1. Opening balance	2,643,624,053.89	5,323,093,977.01	34,735,489.35	300,007,736.82	8,301,461,257.07
2. Increase in the period	23,599,263.36	35,527,866.16	158,407.08	14,449,694.53	73,735,231.13
(1) Purchase	1,254,618.00	11,570,173.81	158,407.08	3,165,889.66	16,149,088.55
(2) Transferring projects under construction	22,344,645.36	23,957,692.35		11,283,804.87	57,586,142.58
3. Decrease in the period		28,596,068.93	457,461.02	916,635.69	29,970,165.64
(1) Disposal or scrapping		28,596,068.93	457,461.02	915,388.98	29,968,918.93
(2) Other decrease				1,246.71	1,246.71
4. Closing balance	**2,667,223,317.25**	**5,330,025,774.24**	**34,436,435.41**	**313,540,795.66**	**8,345,226,322.56**
II. Accumulated depreciation					
1. Opening balance	1,253,287,142.27	3,012,109,047.29	30,144,042.22	210,433,887.61	4,505,974,119.39
2. Increase in the period	60,645,134.43	187,321,997.12	814,743.71	16,508,280.05	265,290,155.31
(1) Provision	60,645,134.43	187,321,997.12	814,743.71	16,508,280.05	265,290,155.31
3. Decrease in the period		27,078,307.68	435,587.97	872,437.64	28,386,333.29
(1) Disposal or scrapping		27,078,307.68	435,587.97	872,437.64	28,386,333.29
4. Closing balance	**1,313,932,276.70**	**3,172,352,736.73**	**30,523,197.96**	**226,069,730.02**	**4,742,877,941.41**

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

Item	Housing and buildings	Machinery and equipment	Motor vehicles	Electronic equipment and others	Total
III. Provision for impairment					
1. Opening balance	1,127,440.20	11,082,193.79		25,194.10	12,234,828.09
2. Increase in the period					
3. Decrease in the period		79,196.32			79,196.32
(1) Disposal or scrapping		79,196.32			79,196.32
4. Closing balance	**1,127,440.20**	**11,002,997.47**		**25,194.10**	**12,155,631.77**
IV. Carrying amount					
1. Carrying amount at the end of the period	**1,352,163,600.35**	**2,146,670,040.04**	**3,913,237.45**	**87,445,871.54**	**3,590,192,749.38**
2. Carrying amount at the end of the Previous Year	1,389,209,471.42	2,299,902,735.93	4,591,447.13	89,548,655.11	3,783,252,309.59

* Other decrease amount is due to the translation of the original cost and accumulated depreciation of fixed assets in the foreign subsidiary's financial statements using the spot exchange rate on the balance sheet date.

The depreciation amount for fixed assets recognized in profit or loss for the current period is RMB265,290,155.31 (amount recognized in profit or loss for the previous period: RMB248,464,162.57).

② *The Group's housing and buildings are all located within China and are in the mid-term (10-50 years) stage.*

③ *Temporarily idle fixed assets:*

Item	Book value	Accumulated depreciation	Provision for impairment	Carrying amount	Note
Machinery and equipment	3,329,788.81	1,853,549.25	131,368.94	1,344,870.62	
Electronic equipment	513,931.28	496,746.06	6,039.13	11,146.09	
Others	472,112.20	457,948.92	6,036.28	8,127.00	
Total	**4,315,832.29**	**2,808,244.23**	**143,444.35**	**1,364,143.71**	

④ *Fixed assets leased out through operating leases: None.*

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

⑤ *Fixed assets without property certificate*

At the end of the period, the fixed assets include properties with a carrying amount of RMB250,655,253.49 (Previous Year: RMB339,049,676.69), for which the property certificates are still being processed. Given that these properties are being handled in accordance with relevant legal procedures, the Company's Board of Directors is confident that there are no substantial legal obstacles to the transfer of ownership, and that this will not affect the Group's normal use of these properties or have a significant impact on the Group's normal operations. Therefore, no impairment provision for fixed assets is necessary.

Item	**Carrying amount**	**Reasons for pending title certificate**
First Branch factory park property	45,322,768.82	Processing in progress
Second Branch factory park property	128,784,685.26	Processing in progress
Headquarters factory park property	40,963,283.03	Processing in progress
Shouguang factory park property	21,744,718.33	Processing in progress
Gaomi factory park property	13,839,798.05	Processing in progress
Total	250,655,253.49	

⑥ *Impairment testing of fixed assets*

There are no indicators of impairment for other fixed assets of the Group.

(2) Fixed assets for disposal

None.

14. Construction in progress

Item	**Closing balance**	Opening balance
Construction in progress	**378,692,025.19**	366,170,853.13
Construction materials		
Total	**378,692,025.19**	366,170,853.13

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

(1) Construction in progress

① *Information of construction in progress*

	Closing balance			Opening balance		
Item	Book balance	Provision for impairment	Net book value	Book balance	Provision for impairment	Net book value
Item Methyl dopa and its series products production project	**75,888,744.65**		**75,888,744.65**	71,400,490.64		71,400,490.64
Item High-end steroid series API construction project	**64,946,885.07**		**64,946,885.07**	67,610,216.95		67,610,216.95
Item 17-Hydroxy progesterone acetate, cortisone acetate steroid hormone series product project	**45,173,831.18**		**45,173,831.18**	38,841,237.15		38,841,237.15
Item Specialty Pharmaceutical Intermediate Project	**37,985,279.13**		**37,985,279.13**	37,172,752.62		37,172,752.62
Item South District Public Engineering Supporting Project	**28,460,121.22**		**28,460,121.22**	24,767,794.81		24,767,794.81
Item Workshop 104 Levodopa Expansion and Renovation Project	**25,524,660.53**		**25,524,660.53**	23,131,338.73		23,131,338.73
High end API Industry Innovation Center Project	**26,314,702.61**		**26,314,702.61**	2,981,566.44		2,981,566.44
Item New Warehouse Project for Pharmaceutical Preparations				22,883,488.40		22,883,488.40
Others	**74,397,800.80**		**74,397,800.80**	77,381,967.39		77,381,967.39
Total	**378,692,025.19**		**378,692,025.19**	366,170,853.13		366,170,853.13

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

② *Changes in significant construction in progress*

Project item	Opening balance	Increase	Transfer to fixed assets	Other decrease	Cumulative amount of interest capitalization	Including: interest capitalized in the period	Interest capitalization rate in the period %	Closing balance
Item Methyl dopa and its series products production project	71,400,490.64	4,488,254.01						75,888,744.65
Item High-end steroid series API construction project	67,610,216.95			2,663,331.88				64,946,885.07
Item 17-Hydroxy progesterone acetate, cortisone acetate steroid hormone series product project	38,841,237.15	6,332,594.03						45,173,831.18
Item Specialty Pharmaceutical Intermediate Project	37,172,752.62	812,526.51						37,985,279.13
Item South District Public Engineering Supporting Project	24,767,794.81	3,692,326.41						28,460,121.22
Item Workshop 104 Levodopa Expansion and Renovation Project	23,131,338.73	2,393,321.80						25,524,660.53
High end API Industry Innovation Center Project	2,981,566.44	23,333,136.17						26,314,702.61
Item New Warehouse Project for Pharmaceutical Preparations	22,883,488.40	2,700,973.76	25,584,462.16					
Total	288,788,885.74	43,753,132.69	25,584,462.16	2,663,331.88				304,294,224.39

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

Continued:

Project item	Budget	Estimated production capacity	Construction period *(month)*	Total project investment as a percentage of budget	Project progress *(%)*	Source of fund
Item Methyldopa and its series products production project	73,850,000.00	200 tons/year	24	103	99	Self-funding
Item High-end steroid series API construction project	152,060,000.00	500 tons/year	19	119	99	Self-funding
Item 17-Hydroxy progesterone acetate, cortisone acetate steroid hormone series product project	42,000,000.00	200 tons/year	12	108	95	Self-funding
Item Specialty Pharmaceutical Intermediate Project	38,500,000.00	2,200 tons/year	12	99	97	Self-funding
Item South District Public Engineering Supporting Project	29,800,000.00	Not applicable	18	96	99	Self-funding
Item Workshop 104 Levodopa Expansion and Renovation Project	30,000,000.00	300 tons/year	11	85	95	Self-funding
High end API Industry Innovation Center Project	80,860,000.00	500 tons/year	14	33	50	Self-funding
Item New Warehouse Project for Pharmaceutical Preparations	26,500,000.00	Not applicable	12	97	100	Self-funding
Total	473,570,000.00					

③ *Provision for impairment of construction in progress*

At the end of the period, there are no indicators of impairment for the Group's construction in progress, so no asset impairment test was conducted and no impairment provision was made.

(2) Construction materials

None.

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

15. Right-of-use assets

Item	Housing and buildings	Land use rights	Total
I. Cost:			
1. Opening balance	3,243,933.36	96,027.08	3,339,960.44
2. Increase in the period	2,115,219.95		2,115,219.95
(1) Additions by lease in	2,115,219.95		2,115,219.95
3. Decrease in the period	496,007.25		496,007.25
(1) Disposal and transfer	496,007.25		496,007.25
4. Closing balance	**4,863,146.06**	**96,027.08**	**4,959,173.14**
II. Accumulated depreciation			
1. Opening balance	904,782.50	70,494.44	975,276.94
2. Increase in the period	777,674.64	9,574.80	787,249.44
(1) Provision for the period	777,674.64	9,574.80	787,249.44
3. Decrease in the period	121,771.30		121,771.30
(1) Disposal and transfer	121,771.30		121,771.30
4. Closing balance	**1,560,685.84**	**80,069.24**	**1,640,755.08**
III. Provision for impairment			
IV. Carrying amount			
1. Carrying amount at the end of the period	**3,302,460.22**	**15,957.84**	**3,318,418.06**
2. Carrying amount at the end of the Previous Period	2,339,150.86	25,532.64	2,364,683.50

The depreciation amount for right-of-use assets recognized in profit or loss for the current period is RMB787,249.44 (Previous Period: RMB780,827.47).

The Group's right-of-use assets mainly consist of leased premises used for daily operations and office purposes by Shandong Xinhua Health Technology Co., Ltd.

At the end of the period, there are no indicators of impairment for the Group's right-of-use assets, so no asset impairment test was conducted.

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

16. Intangible assets

(1) Details of intangible assets

Item	Land use rights	Software Use Rights	Non-patented technology	Others*	Total
I. Book value					
1. Beginning balance	549,925,707.52	33,181,718.95	325,464,461.80	2,614,923.24	911,186,811.51
2. Increase in the period		75,655.37	3,093,758.42	110,680.00	3,280,093.79
(1) Purchase		75,655.37	3,093,758.42	110,680.00	3,280,093.79
3. Decrease in the period	754,906.43				754,906.43
(1) Disposal	754,906.43				754,906.43
4. Closing balance	**549,170,801.09**	**33,257,374.32**	**328,558,220.22**	**2,725,603.24**	**913,711,998.87**
II. Accumulated amortisation					
1. Beginning balance	162,758,006.53	24,027,958.06	144,386,457.08	2,614,923.24	333,787,344.91
2. Increase in the period	5,796,214.88	1,725,597.59	30,670,755.55	110,680.00	38,303,248.02
(1) Provision	5,796,214.88	1,725,597.59	30,670,755.55	110,680.00	38,303,248.02
3. Decrease in the period	96,879.65				96,879.65
(1) Disposal	96,879.65				96,879.65
4. Closing balance	**168,457,341.76**	**25,753,555.65**	**175,057,212.63**	**2,725,603.24**	**371,993,713.28**
III. Provision for impairment					
IV. Carrying amount					
1. Book value at the end of the year	**380,713,459.33**	**7,503,818.67**	**153,501,007.59**		**541,718,285.59**
2. Book value at the beginning of the year	387,167,700.99	9,153,760.89	181,078,004.72		577,399,466.60

* The amount of RMB2,613,680.00 under "Others" represents customer resources purchased by the Company's subsidiary, Shandong Xinhua Pharmaceutical (USA) LLC, from Midwest LLC, which has been fully amortized.

The amortization amount for intangible assets recognized in profit or loss for the current period is RMB38,247,541.62, and the amortization amount for intangible assets capitalized is RMB55,706.40 (the amortization amount for intangible assets recognized in profit or loss in the previous period was RMB31,067,568.57, and the amortization amount for intangible assets capitalized in the previous period was RMB55,706.40).

(2) The Group's land use rights are all located within China and are in the mid-term (10-50 years) stage.

(3) Land use rights pending for ownership certificates

At the end of the period, the intangible assets include land use rights with a carrying amount of RMB5,974,008.71 (Previous Year: RMB6,085,478.51), for which the property certificates are still being processed. Given that these land use rights are being handled in accordance with relevant legal procedures, the Company's Board of Directors is confident that there are no substantial legal obstacles to the transfer of ownership, and that this will not affect the Group's normal use of these land use rights or have a significant impact on the Group's normal operations. Therefore, no impairment provision for intangible assets is necessary.

Item	Carrying amount	Reasons for pending title certificate
Headquarters Park Land	5,974,008.71	Processing in progress

(4) Impairment test of intangible assets

At the end of the period, there are no indicators of impairment for the Group's intangible assets, so no asset impairment test was conducted.

17. Development expenditure

Item	Opening balance	Increase	Decrease	Closing balance
Development expenditure	9,764,150.95	8,561,383.06		18,325,534.01

For detailed information, please refer to Note VI– Research and Development Expenses.

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

18. Goodwill

(1) Book value of goodwill

Name of invested entity	Opening balance	Increase	Decrease	Closing balance
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	2,715,585.22			**2,715,585.22**

(2) Provision for impairment of goodwill

Name of invested entity	Opening balance	Increase	Decrease	Closing balance
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	2,715,585.22			**2,715,585.22**

The impairment testing method for goodwill and the method for recognizing impairment provisions are detailed in Note III. Significant accounting policies and accounting estimates, 20. Asset Impairment. The Group's goodwill has been fully impaired and provisioned since 2014.

19. Long-term deferred expenses

Item	Opening balance	Increase	Decrease: Amortization	Decrease: Other decrease	Closing balance
Item Gene and Cell Engineering Research Center Project	4,699,140.56		854,389.20		**3,844,751.36**
Decoration costs for the new functional comprehensive building of Shandong Xinhua Health Technology Co., Ltd	624,872.53		107,377.08		**517,495.45**
Others	671,915.62	103,328.00	179,942.33		**595,301.29**
Total	5,995,928.71	103,328.00	1,141,708.61		**4,957,548.10**

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

20. Deferred tax assets and deferred tax liabilities

(1) Deferred tax assets and deferred tax liabilities before offsetting

Item	Closing balance Deductible or taxable timing differences	Closing balance Deferred tax assets or liabilities	Opening balance Deductible or taxable timing differences	Opening balance Deferred tax assets or liabilities
Deferred tax assets:				
Provision for impairment of fixed assets	**12,234,177.62**	**1,902,884.63**	12,234,177.62	1,902,884.63
Losses available for offset	**2,086,519.08**	**521,629.77**	131,608,393.31	19,842,895.92
Provision for bad debts	**55,110,700.12**	**10,492,373.75**	55,110,700.12	10,492,373.75
Inventory impairment provision	**56,131,094.05**	**8,710,000.50**	53,152,019.50	8,263,139.32
Unpaid wages and salaries	**9,074,776.28**	**1,361,216.44**	9,074,776.28	1,361,216.44
Deferred income	**7,069,969.80**	**1,060,495.47**	2,216,999.84	332,549.98
Unrealized internal profits from purchases and sales with subsidiaries	**47,448,487.34**	**7,031,975.21**	66,681,821.01	9,500,016.76
Share-based payments	**7,014,098.40**	**1,052,114.76**	63,625,417.13	9,544,563.49
Lease liabilities	**2,766,892.38**	**678,904.29**	1,689,270.81	407,197.91
Changes in fair value of other equity instrument investments	**19,916,477.40**	**2,987,471.61**	19,061,096.52	2,859,164.48
Demolition compensation	**94,018,752.87**	**14,102,812.93**	94,018,752.87	14,102,812.93
Others	**70,372,078.19**	**10,791,829.89**	70,417,405.11	10,798,628.96
Subtotal	**383,244,023.53**	**60,693,709.25**	578,890,830.12	89,407,444.57
Deferred tax liabilities:				
Changes in fair value of other equity instrument investments	**174,224,138.00**	**26,133,620.70**	247,913,882.00	37,187,082.30
Accelerated depreciation of fixed assets	**794,985,689.00**	**123,869,105.82**	1,007,017,512.98	156,124,254.58
Right-of-use assets	**3,318,418.06**	**813,874.23**	2,364,683.50	575,577.14
Subtotal	**972,528,245.06**	**150,816,600.75**	1,257,296,078.48	193,886,914.02

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

(2) Net amount of deferred tax assets and deferred tax liabilities after offsetting

Item	Amount of deferred tax assets and liabilities offset at the end of the period	Closing balance of deferred income tax assets or liabilities after offsetting	Amount of deferred income tax assets and liabilities offset at the end of the Previous Period	Balance of deferred income tax assets or liabilities at the end of the Previous Period after offset
Deferred tax assets	**41,134,712.08**	**19,558,997.17**	68,216,934.02	21,190,510.55
Deferred tax liabilities	**41,134,712.08**	**109,681,888.67**	68,216,934.02	125,669,980.00

The deferred tax assets and liabilities of individual companies are presented under the deferred tax liabilities item at their net amount after offsetting.

(3) Deductible temporary differences and deductible tax losses of unrecognized deferred tax assets

Item	Closing balance	Opening balance
Deductible temporary differences	**9,144,349.75**	1,396,497.46
Deductible tax loss	**56,782,157.59**	49,637,902.77
Total	**65,926,507.34**	51,034,400.23

(4) Deductible tax loss of unrecognized deferred income tax assets will expire in the following year

Year	Closing balance	Opening balance	Note
2030	**4,504,893.69**	4,504,893.69	
2031	**18,818,393.49**	10,165,660.89	
2032	**13,707,980.35**	13,707,980.35	
2033	**7,484,368.92**	7,484,368.92	
2034	**8,030,604.86**	8,030,604.86	
2035	**4,235,916.28**	5,744,394.06	
Total	**56,782,157.59**	49,637,902.77	

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

21. Other non-current assets

Item	Closing balance Book balance	Closing balance Provision for impairment	Closing balance Carrying amount	Opening balance Book balance	Opening balance Provision for impairment	Opening balance Carrying amount
Prepayment for purchased patent technology	**8,580,000.00**		**8,580,000.00**	9,780,000.00		9,780,000.00
House demolition	**6,162,663.99**		**6,162,663.99**	6,162,663.99		6,162,663.99
Prepaid software development	**1,697,082.71**		**1,697,082.71**	1,697,082.71		1,697,082.71
Prepaid equipment fee	**620,340.00**		**620,340.00**	461,640.00		461,640.00
Total	**17,060,086.70**		**17,060,086.70**	18,101,386.70		18,101,386.70

22. Ownership or using rights of assets subject to restriction

Item	Closing balance Book balance	Closing balance Carrying amount	Closing balance Restricted Type	Closing balance Restrictions
Cash and bank balances	**120,563,743.19**	**120,563,743.19**	**Guaranteed**	**Bill security deposits, etc**
Notes receivable	**9,115,002.87**	**9,069,427.86**	**Endorsed**	**Not derecognized**
Accounts receivable	**800,000.00**	**480,000.00**	**Factored**	**Not derecognized**
Total	**130,478,746.06**	**130,113,171.05**		

Continued:

Item	Opening balance Book balance	Opening balance Carrying amount	Opening balance Restricted Type	Opening balance Restrictions
Cash and bank balances	113,274,012.43	113,274,012.43	Guaranteed	Bill security deposits, etc
Notes receivable	21,427,841.46	21,315,331.46	Endorsed	Not derecognized
Accounts receivable	800,000.00	480,000.00	Factored	Not derecognized
Total	135,501,853.89	135,069,343.89		

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

23. Short-term loans

(1) Short-term loans by category

Item	Closing balance	Opening balance
Unsecured loans	**451,078,643.36**	433,638,538.34
Total	**451,078,643.36**	433,638,538.34

At the end of the period, the unsecured loans include principal of RMB450,793,360.00 and accrued interest payable of RMB285,283.36.

(2) Loan overdue and unpaid

At the end of the period, there are no short-term loans that are overdue and unpaid.

(3) As of June 30, 2026, the interest rate for short-term borrowings ranges from 2.11% to 2.40%.

24. Notes payable

Category	Closing balance	Opening balance
Commercial acceptance bills		20,000,000.00
Bank acceptance bills	**536,999,778.84**	505,783,642.79
Total	**536,999,778.84**	525,783,642.79

At the end of the period, all of the Group's notes payable are within 180 days, and there are no notes payable that are overdue and unpaid.

25. Accounts payable

(1) Accounts payable disclosed by nature

Item	Closing balance	Opening balance
Purchase of goods	**784,633,699.48**	785,335,090.07

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

(2) Significant accounts payable aging over 1 year

At the end of the period, the Group has no significant accounts payable with an aging of more than 1 year or overdue.

(3) Accounts payable presented by aging categories

The aging analysis of accounts payable (including accounts payable to related parties) based on the transaction date is as follows:

Item	Closing balance	Opening balance
Within one year	**748,445,255.64**	756,808,203.62
1-2 years	**26,580,595.03**	20,178,109.36
2-3 years	**3,344,961.61**	1,710,342.38
Over 3 years	**6,262,887.20**	6,638,434.71
Total	**784,633,699.48**	785,335,090.07

26. Contract liabilities

Item	Closing balance	Opening balance
Pre-sales payment	**70,443,537.16**	149,301,833.29
Less: Contract liabilities recorded as other non-current liabilities		
Total	**70,443,537.16**	149,301,833.29

(1) Significant contract liabilities with an aging of more than 1 year

None.

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

Item	Change amount	Reason for change
Pre-sales payment	**-78,858,296.13**	Revenue from sales received in advance recognized in this period

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

27. Employee benefits payables

Item	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	64,892,697.34	404,235,967.52	445,036,904.89	**24,091,759.97**
Post-employment benefits – defined contribution plan		54,892,002.04	54,892,002.04	
Termination benefits		170,792.92	170,792.92	
Total	64,892,697.34	459,298,762.48	500,099,699.85	**24,091,759.97**

(1) Short-term employee benefits

Item	Opening balance	Increase	Decrease	Closing balance
Salaries, bonus and allowances	60,847,026.51	315,965,364.74	357,285,809.50	**19,526,581.75**
Staff welfare		15,062,911.72	15,062,911.72	
Social insurances		28,959,025.40	28,959,025.40	
Including: 1. Medical insurance premium		26,541,711.40	26,541,711.40	
2. Work injury insurance		2,417,314.00	2,417,314.00	
Housing funds		30,960,579.00	30,960,579.00	
Union funds and employee education funds	4,045,670.83	6,998,474.16	6,478,966.77	**4,565,178.22**
Other short-term compensation		6,289,612.50	6,289,612.50	
Total	64,892,697.34	404,235,967.52	445,036,904.89	**24,091,759.97**

(2) Defined contribution plans

The Group participates in social insurance plans established by government agencies in accordance with regulations. Under these plans, the Group contributes fees to these plans based on local government regulations. Apart from the aforementioned contribution fees, the Group has no further payment obligations. The corresponding expenses are recognized in the current period's profit or loss or included in the cost of related assets as incurred.

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

For the current period, the Group is required to contribute the following amounts to the pension insurance and unemployment insurance plans:

Item	Opening balance	**Increase**	**Decrease**	**Closing balance**
Post-employment benefits				
Including: Basic pension insurance		52,594,416.10	52,594,416.10	
Unemployment insurance		2,297,585.94	2,297,585.94	
Total		54,892,002.04	54,892,002.04	

For the current period, the Group is required to contribute a total of RMB54,892,002.04 to the defined contribution plans (Previous Period: RMB57,911,248.27). The pension and unemployment insurance contributions due for payment by the Group as of June 30, 2026, have all been fully paid.

For the two periods ending on December 31, 2025, and June 30, 2026, the Group has no forfeited contributions under the defined contribution plans (contributions made by the employer on behalf of employees who leave the plan before the contributions fully vest) available to reduce the current contribution levels.

28. Taxes payable

Item	**Closing balance**	Opening balance
Value-added tax	**10,807,829.79**	3,240,390.89
Urban maintenance and construction tax	**1,587,117.65**	401,549.18
Education surcharge	**1,132,889.96**	285,981.41
Enterprise income tax	**16,014,986.23**	11,551,733.96
Individual income Tax	**1,378,979.12**	685,219.24
Property tax	**5,760,007.54**	5,801,337.85
Land use tax	**1,440,067.96**	613,711.00
Stamp duty	**1,398,946.78**	1,540,602.94
Total	**39,520,825.03**	24,120,526.47

At the end of the period, the Group's taxes payable include Hong Kong profits tax of RMB58,621.06 and U.S. income tax of RMB1,047,824.69.

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

29. Other payables

Item	Closing balance	Opening balance
Interest payable		
Dividends payable	**109,813,114.78**	5,310,599.53
Other payables	**385,235,746.09**	432,074,879.71
Total	**495,048,860.87**	437,385,479.24

(1) *Interest payable*

None.

(2) *Dividends payable*

Item	Closing balance	Opening balance
Common shares dividend	**109,813,114.78**	5,310,599.53

The balance of dividends payable at the end of the period includes RMB5,310,599.53, which represents ordinary dividends that have not been paid for over one year.

(3) *Other payables (Disclosure by nature)*

Item	Closing balance	Opening balance
Payables for engineering and equipment	**233,369,972.09**	305,056,610.24
Security deposit, deposit	**40,918,767.88**	39,455,677.17
Others	**110,947,006.12**	87,562,592.30
Total	**385,235,746.09**	432,074,879.71
Including: Over 1 year	**115,220,555.86**	116,276,054.19

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

30. Non-current liabilities due within one year

Item	Closing balance	Opening balance
Long-term loans due within one year	**330,913,257.41**	351,213,524.80
Lease liabilities due within one year	**1,131,330.67**	944,431.31
Total	**332,044,588.08**	352,157,956.11

Long-term loans due within one year

Item	Closing balance	Opening balance
Unsecured loans	**330,913,257.41**	351,213,524.80
Total	**330,913,257.41**	351,213,524.80

The long-term loans due within one year include a principal amount of RMB330,319,527.08 and accrued interest payable of RMB593,730.33.

The lease liabilities due within one year include lease payments of RMB1,210,519.46 and unrecognized financing costs of RMB79,188.79.

31. Other current liabilities

Item	Closing balance	Opening balance
Notes receivable not derecognized	**9,115,002.87**	21,427,841.46
Output VAT pending for transfer	**5,889,464.11**	17,158,834.65
Total	**15,004,466.98**	38,586,676.11

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

32. Long term loans

(1) *Classifications of long-term loans*

Item	Closing balance	Opening balance
Unsecured loans	**626,000,000.00**	695,319,527.08
Total	**626,000,000.00**	695,319,527.08

As of June 30, 2026, the interest rate range for long-term loans is 2.00% to 2.50%.

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

Borrowing Type	Closing balance	Opening balance
Unsecured loans	**956,913,257.41**	1,046,533,051.88
Total	**956,913,257.41**	1,046,533,051.88
The carrying amount of the above loans shall be repaid during the following periods:		
Within one year	**330,913,257.41**	351,213,524.80
More than one year but not more than two years after the balance sheet date	**181,000,000.00**	314,319,527.08
More than two years but not more than five years after the balance sheet date	**445,000,000.00**	381,000,000.00
Less: Amounts due within one year shown under current liabilities	**330,913,257.41**	351,213,524.80
Amounts shown under non-current liabilities	**626,000,000.00**	695,319,527.08

33. Lease liabilities

Item	Closing balance	Opening balance
Lease liabilities	**2,766,892.38**	1,689,270.81
Subtotal	**2,766,892.38**	1,689,270.81
Less: Lease liabilities due within one year	**1,131,330.67**	944,431.31
Total	**1,635,561.71**	744,839.50

The interest expense on lease liabilities accrued in half year of 2026 amounts to RMB47,899.16, which is fully recognized under financial expenses – interest expenses.

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

Analysis of the lease liabilities' maturity dates

Category	Closing balance	Opening balance
House rental payment	**2,766,892.38**	1,689,270.81
Total	**2,766,892.38**	1,689,270.81
The carrying amount of the above lease liabilities is repayable in the following periods:		
Within one year	**1,131,330.67**	944,431.31
More than one year but not more than two years after the balance sheet date	**1,056,631.38**	671,447.68
More than two years but not more than five years after the balance sheet date	**578,930.33**	73,391.82
Less: Lease liabilities due within one year shown under current liabilities	**1,131,330.67**	944,431.31
Lease liabilities shown under non-current liabilities	**1,635,561.71**	744,839.50

34. Long-term payables

Item	Closing balance	Opening balance
Long-term payables		
Specific payables	**24,500,000.00**	24,500,000.00
Total	**24,500,000.00**	24,500,000.00

Specific payables

Item	Opening balance	Increase	Decrease	Closing balance
Item New continuous synthesis technology industrialization Project	24,500,000.00			**24,500,000.00**
High-End and Independent API Project-Ibuprofen API Key Raw Material Isobutylbenzene Project		33,000,000.00	33,000,000.00	
Total	24,500,000.00	33,000,000.00	33,000,000.00	**24,500,000.00**

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

35. Deferred income

Item	Opening balance	Increase	Decrease	Closing balance
Government grants	68,970,978.58	530,000.00	8,833,887.90	**60,667,090.68**

Government grants recorded as deferred income refer to Note IX. Government grants.

36. Other non-current liabilities

Item	Closing balance	Opening balance
Special Reserve Fund	**3,561,500.00**	3,561,500.00
Total	**3,561,500.00**	3,561,500.00

37. Share capital

		Movement in the period					
Item	Opening balance	Issue of new shares	Bonus shares	Conversion from capital reserve	Others	Subtotal	Closing balance
Total number of shares	689,776,535.00	6,906,900.00				6,906,900.00	**696,683,435.00**

As of December 31, 2025, the third vesting period for the share options granted to the incentive recipients under the "2021 A-share Stock Option Incentive Plan" has expired. The Company issued A-share common stock to the incentive recipients, and a total of 183 incentive recipients exercised share options during the third exercise period, with 6.9069 million share options being exercised. The listing and trading date for the exercised stocks was January 14, 2026. After the issuance of shares pursuant to exercise of the share option, the total share capital of the Company increased from 689,776,535 shares to 696,683,435 shares.

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

38. Capital reserve

Item	Opening balance	Increase	Decrease	Closing balance
Capital premium	933,932,727.58	80,914,333.50		**1,014,847,061.08**
Other capital reserves	270,717,599.53	34,162,038.30	43,781,167.98	**261,098,469.85**
Total	1,204,650,327.11	115,076,371.80	43,781,167.98	**1,275,945,530.93**

Note: The capital stock premium increased by RMB80,914,333.50 in this period, of which the increase of RMB42,028,486.50 was due to the exercise of 6.9069 million stock options under the third exercise period of the initial grant of the 2021 A-share stock option incentive plan, the increase of RMB38,885,847.00 is due to the premium of other capital reserves converted into capital stock premium after the exercise of stock options.

The other capital reserves increased by RMB34,162,038.30 in the current period, of which the increase of RMB1,162,038.30 was attributable to the expense of accrual of the equity instrument in accordance with the Company's 2021 A-share stock option incentive plan, the increase of RMB33,000,000.00 was due to the transfer of funds from the central government budget. The other capital reserves decreased by RMB43,781,167.98 in the current period, of which the decrease of RMB38,885,847.00 was attributable to the result of other capital reserves converted into capital stock premium following the exercise of stock options, of which the decrease of RMB4,895,320.98 was due to the deduction of the remaining deferred tax assets corresponding to capital reserves after all share options under the 2021 equity incentive plan were exercised, allowed for pre-tax deduction.

39. Other comprehensive income.

Other comprehensive income attributable to the parent company in the balance sheet:

		Current Period		
Item	Opening balance (1)	**Amount attributable to parent company after tax (2)**	**Less: Other comprehensive income in the previous period transferred to retained earnings in the Current Period (3)**	**Closing balance (4)=(1) +(2) -(3)**
I. Other comprehensive income that cannot be reclassified to profit or loss	194,524,867.66	-63,363,356.15		**131,161,511.51**
Including: Changes in fair value of other equity instrument investments	194,524,867.66	-63,363,356.15		**131,161,511.51**
II. Other comprehensive income that will be reclassified to profit or loss	1,432,560.92	-2,085,659.35		**-653,098.43**
Including: Translation difference of foreign currency financial statements	1,432,560.92	-2,085,659.35		**-653,098.43**
Total other comprehensive income	195,957,428.58	-65,449,015.50		**130,508,413.08**

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

Other comprehensive income attributable to the parent company in income statement:

Item	Current Period				
	Amount before tax (1)	Less: transferred to profit or loss in Current Period (2)	Less: Income tax expenses (3)	Less: Attributable to minority shareholders after tax (4)	**Amount attributable to parent company after tax (5) =(1) -(2) -(3) -(4)**
I. Other comprehensive income that cannot be reclassified to profit or loss	-74,545,124.88		-11,181,768.73		**-63,363,356.15**
Including: Changes in fair value of other equity instrument investments	-74,545,124.88		-11,181,768.73		**-63,363,356.15**
II. Other comprehensive income that will be reclassified to profit or loss	-2,607,855.23			-522,195.88	**-2,085,659.35**
Including: Translation difference of foreign currency financial statements	-2,607,855.23			-522,195.88	**-2,085,659.35**
Total other comprehensive income	-77,152,980.11		-11,181,768.73	-522,195.88	**-65,449,015.50**

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

40. Special reserve

Item	Opening balance	Increase	Decrease	Closing balance
Safety production fee	12,163,037.82	12,293,608.98	7,170,573.83	**17,286,072.97**

41. Surplus reserve

Item	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	394,653,948.28			**394,653,948.28**
Discretionary surplus reserve	64,795,873.74			**64,795,873.74**
Total	459,449,822.02			**459,449,822.02**

42. Undistributed profits

Item	Current Period	Previous Period	Allocation ratio
Undistributed profit at the end of the Previous Period before adjustment	**2,646,756,093.99**	2,550,434,350.37	
Adjust the total amount of retained earnings at the beginning of the period (increase +, decrease -)			
Adjusted retained earnings at the beginning of the period	**2,646,756,093.99**	2,550,434,350.37	
Add: Net profit attributable to shareholders of the parent company for the period	**149,127,526.81**	223,756,530.43	
Less: Appropriation of statutory surplus reserve			10%
Dividends payable on common stock	**104,502,515.25**	172,444,133.75	
Undistributed profit at the end of the period	**2,691,381,105.55**	2,601,746,747.05	

The details of dividends declared, paid, and proposed during the past performance record period are as follows:

(1) For the period ending June 30, 2026

According to the resolution passed at the Annual General Meeting held on June 26, 2026, the Company declared a final dividend for the year 2025 of RMB0.15 per share (inclusive of tax), based on a total of 696,683,435 shares. No bonus shares would be issued, and no capital reserve would be converted into capital. If, before the implementation of the Company's 2025 profit distribution plan, the total share capital of the Company changes due to factors such as share options exercises or the listing of new shares from refinancing, the distribution plan will be adjusted accordingly while maintaining the same per-share distribution ratio.

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

According to the resolution of the board meeting held on August 25, 2026, the board of directors of the Company recommends not to distribute cash dividends for the first half of 2026, not to give bonus shares, and not to convert public reserves into share capital.

(2) For the period ending June 30, 2025

According to the resolution passed at the Annual General Meeting held on June 13, 2025, the Company declared a final dividend for the year 2024 of RMB0.25 per share (inclusive of tax), based on a total of 689,776,535 shares. No bonus shares would be issued, and no capital reserve would be converted into capital. If, before the implementation of the Company's 2024 profit distribution plan, the total share capital of the Company changes due to factors such as share options exercises or the listing of new shares from refinancing, the distribution plan will be adjusted accordingly while maintaining the same per-share distribution ratio.

According to the resolution of the board meeting held on August 26, 2025, the board of directors of the Company recommends not to distribute cash dividends for the first half of 2025, not to give bonus shares, and not to convert public reserves into share capital.

43. Operating income and operating cost

(1) Operating income and operating cost

	Current Period		Previous Period	
Item	**Revenue**	**Cost**	Revenue	Cost
Primary operations	**4,291,180,493.99**	**3,456,698,232.44**	4,578,726,106.58	3,628,713,872.16
Other operations	**66,368,117.18**	**65,816,665.25**	60,077,936.40	80,551,513.19
Total	**4,357,548,611.17**	**3,522,514,897.69**	4,638,804,042.98	3,709,265,385.35

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

(2) Disaggregated information of operating income and operating cost

	Current Period		Previous Period	
Types	Revenue	Cost	Revenue	Cost
Business Type:				
Including: Chemical raw materials	**1,244,863,331.72**	**794,597,639.01**	1,489,371,455.93	937,447,707.60
Preparation	**1,961,851,337.94**	**1,601,954,970.33**	2,057,915,530.85	1,676,918,880.50
Pharmaceutical intermediates and other products	**1,150,833,941.51**	**1,125,962,288.35**	1,091,517,056.20	1,094,898,797.25
Classification by operating area:				
Including: China (including Hong Kong)	**3,403,695,318.04**	**2,743,960,391.67**	3,550,830,971.11	2,825,903,096.05
America	**282,631,521.28**	**223,536,811.42**	435,746,784.80	366,944,898.84
Europe	**431,224,456.88**	**348,756,238.85**	401,448,595.07	284,925,176.13
Others	**239,997,314.97**	**206,261,455.75**	250,777,692.00	231,492,214.33
Classification by time of transfer of goods				
Including: Transfer at a point in time	**4,301,010,336.10**	**3,479,296,651.40**	4,599,027,893.04	3,683,130,329.40
Transfer within a certain period of time	**52,667,646.69**	**43,098,395.49**	35,854,049.10	25,015,853.98
Rental income	**3,870,628.38**	**119,850.80**	3,922,100.84	1,119,201.97
Classification by sales channels				
Including: Direct marketing model	**1,554,858,911.90**	**1,164,017,784.22**	1,464,957,469.41	1,244,296,053.85
Distribution model	**2,802,689,699.27**	**2,358,497,113.47**	3,173,846,573.57	2,464,969,331.50
Total	**4,357,548,611.17**	**3,522,514,897.69**	4,638,804,042.98	3,709,265,385.35

(3) Explanation of performance obligations

The Group, as the primary responsible party, fulfils its supply obligations in accordance with customer requirements for product categories and standards in a timely manner. For sales contracts within China, the control of the goods is transferred to the customer when the goods are delivered to the agreed location and the customer confirms receipt of the goods. For sales contracts outside China, the customer obtains control of the relevant goods when the products are customs-exported, and the Group obtains the customs declaration and bill of lading (or airway bill).

The payment terms vary for different customers and products. A portion of the sales is conducted on a prepayment basis, while the remaining sales are granted a certain credit period.

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

(4) Information relating to remaining performance obligations

The amount of revenue corresponding to performance obligations under contracts that have been signed but not yet fulfilled, or not fully fulfilled, as of the end of the period is RMB70,443,537.16. Of this, RMB59,150,191.96 is expected to be recognized as revenue in the next year.

(5) The revenue recognized this period includes an amount of RMB134,679,927.72 that was previously included in contract liabilities at the end of last year.

(6) Significant contract modifications or significant price adjustments

None.

44. Taxes and surcharges

Item	**Current Period**	Previous Period
Property tax	**11,259,809.01**	11,146,442.92
Urban maintenance and construction tax	**11,493,697.62**	9,908,264.94
Education surcharge	**8,209,490.59**	7,074,124.31
Land use tax	**4,960,773.52**	2,383,350.59
Stamp duty and others	**3,216,011.68**	3,689,324.03
Total	**39,139,782.42**	34,201,506.79

45. Selling expenses

Item	**Current Period**	Previous Period
Market development and terminal sales expenses	**81,743,681.39**	82,994,945.20
Employee's salary	**56,280,745.22**	62,589,737.46
Travel expenses	**11,180,187.31**	11,162,946.58
Advertising fee	**510,377.35**	1,797,885.20
Depreciation and amortization expense	**1,200,991.55**	1,033,730.51
Conference Fees	**1,168,556.36**	612,404.51
Office expenses	**255,365.64**	290,399.95
Others	**15,409,271.12**	12,127,855.25
Total	**167,749,175.94**	172,609,904.66

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

46. Administrative expenses

Item	Current Period	Previous Period
Employee's salary	**74,981,991.20**	82,355,457.57
Depreciation	**32,418,962.44**	38,884,491.36
Amortization of intangible assets	**37,574,488.32**	30,576,993.29
Share-based payments	**1,162,038.30**	7,568,060.46
Warehouse expenses	**18,962,732.29**	13,720,185.22
Trademark royalties	**6,805,656.65**	4,727,028.14
Business entertainment expenses	**2,334,237.54**	2,548,085.41
Travel expenses	**2,351,738.58**	2,225,177.00
Water, electricity and gas charges	**2,326,245.47**	2,845,419.87
Annual listing fees, audit fees, board fees	**1,427,074.84**	2,269,144.44
Repair fee	**3,543,561.30**	2,051,192.98
Office expenses	**1,098,719.60**	1,253,602.25
Party building funds	**146,922.30**	341,792.94
Others	**21,796,563.86**	23,731,337.77
Total	**206,930,932.69**	215,097,968.70

47. Research and development expenses

Item	Current Period	Previous Period
Labor cost	**62,523,342.74**	64,185,986.53
Material and power costs	**43,657,710.90**	43,136,582.24
Outsourced research and development expenses	**44,663,900.16**	33,591,009.43
Clinical trial costs	**8,561,777.29**	25,010,575.46
Analyse testing costs	**11,203,264.51**	11,562,415.26
Depreciation and amortization expenses	**13,419,617.19**	9,174,380.74
Other expenses	**8,665,179.49**	15,764,219.38
Total	**192,694,792.28**	202,425,169.04

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

48. Financial expenses

Item	Current Period	Previous Period
Interest expense	**17,264,463.43**	21,449,091.61
Less: Interest income	**2,621,550.54**	4,546,837.79
Exchange gain or loss	**14,769,492.67**	-8,055,712.08
Fees and others	**1,082,763.12**	1,031,404.84
Total	**30,495,168.68**	9,877,946.58

49. Other income

Item	Current Period	Previous Period
Government grants	**11,761,437.90**	13,993,377.89
Input VAT deduction	**4,661,833.18**	6,289,481.48
Others	**430,355.72**	471,359.22
Total	**16,853,626.80**	20,754,218.59

For specific information on Government Grants, please refer to Note IX. Government grants.

50. Investment income

Item	Current Period	Previous Period
Long-term equity investment income accounted for using the equity method	**338,078.34**	-1,140,099.82
Dividend income from other equity instrument investments	**7,134,113.28**	7,019,182.40
Discounted interest on notes receivable that have been terminated for confirmation	**-109,068.15**	
Total	**7,363,123.47**	5,879,082.58

51. Credit impairment loss (“-“for loss)

Item	Current Period	Previous Period
Bad debt loss on notes receivable	**72,393.93**	-8,773.49
Bad debt loss on accounts receivable	**-6,103,580.30**	-8,406,920.74
Bad debt losses on other receivables	**-217,638.93**	-720,237.07
Total	**-6,248,825.30**	-9,135,931.30

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

52. Assets impairment loss ("-"for loss)

Item	Current Period	Previous Period
Impairment losses on contract assets	**1,076.18**	193,664.40
Decline in value of inventories	**-40,426,108.33**	-50,481,198.19
Total	**-40,425,032.15**	-50,287,533.79

53. Gains from disposal of assets ("-" for Loss)

Item	Current Period	Previous Period
Gains from disposal of fixed assets (losses are indicated by "-")	**23,948.75**	1,702,983.63
Gains from disposal of Intangible assets (losses are indicated by "-")	**80,773.22**	
Gains from disposal of right-of-use assets (losses are indicated by "-")	**-11,338.28**	8,225.54
Total	**93,383.69**	1,711,209.17

54. Non-operating income

Item	Current Period	Previous Period	Amount included in non-recurring gains and losses
No payment required	**737,233.69**	2,130,050.96	737,233.69
Others	**1,051,817.16**	767,320.48	1,051,817.16
Total	**1,789,050.85**	2,897,371.44	1,789,050.85

55. Non-operating expenses

Item	Current Period	Previous Period	Amount included in non-recurring gains and losses
Loss on retirement of non-current assets	**1,472,922.14**	239,614.27	1,472,922.14
Technical school expenses	**936,848.45**	1,158,836.51	936,848.45
Late charges and fines	**10,040,408.18**	2,065,812.73	10,040,408.18
Others	**56,497.67**	153,116.96	56,497.67
Total	**12,506,676.44**	3,617,380.47	12,506,676.44

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

56. Income tax expenses

(1) Details of income tax expenses

Item	Current Period	Previous Period
Current income tax	**11,401,620.45**	17,068,653.22
– Mainland China Enterprise Income Tax	**11,393,568.91**	17,058,890.57
– Profits Tax in Hong Kong, China	**8,051.54**	9,762.65
Deferred income tax expense	**-3,174,809.21**	5,365,550.90
Previous Period Income Tax Adjustments	**8,760,908.13**	9,924,522.17
Total	**16,987,719.37**	32,358,726.29

(2) Reconciliation between income tax expenses and accounting profits

Item	Current Period	Previous Period
Profit before tax	**164,942,512.39**	263,527,198.08
Income tax expense calculated at the applicable tax rate (total profit*15%)	**24,741,376.86**	39,529,079.71
The impact of different tax rates applicable to certain subsidiaries	**1,491,076.71**	4,758,272.81
Adjustment for income tax in Previous Period	**8,760,908.13**	9,924,522.17
Non-taxable income (fill in with "-")	**-1,120,828.74**	-881,862.38
Non-deductible costs, expenses and losses		
Tax impact of using unrecognized deductible losses and deductible temporary differences in Previous Periods (fill in with "-")	**-6,141,556.61**	-3,742,859.09
Tax impact of unrecognized deductible losses and deductible temporary differences	**2,233,208.18**	370,882.61
Impact of super-deduction of research and development expenses (fill in with "-")	**-12,976,465.16**	-17,599,309.54
Income tax expenses	**16,987,719.37**	32,358,726.29

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

57. Notes to cash flows statement

(1) Other cash received relating to operating activities

Item	Current Period	Previous Period
Interest income	**2,621,550.54**	4,546,837.79
Government subsidy income	**3,457,550.00**	8,503,425.55
Bank acceptance deposit, etc.		2,377,215.80
Others	**10,377,179.84**	21,042,983.57
Total	**16,456,280.38**	36,470,462.71

(2) Other cash paid relating to operating activities

Item	Current Period	Previous Period
Market development and terminal sales expenses	**83,375,573.68**	86,956,922.04
Research and development expenses	**61,511,336.73**	77,764,399.18
Travel expenses	**14,054,461.10**	13,464,865.25
Bank acceptance deposit, etc.	**21,983,270.70**	8,964,036.49
Business entertainment expenses	**2,334,237.54**	2,584,330.21
Trademark royalties	**7,195,000.00**	5,000,000.00
Annual listing fees, audit fees, board fees	**1,468,497.25**	2,306,044.66
Office expenses	**1,541,621.78**	1,670,175.71
Current account and others	**12,147,204.71**	21,807,793.08
Total	**205,611,203.49**	220,518,566.62

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

(3) Other cash received relating to investing activities

Item	Current Period	Previous Period
Fixed deposits	217,900.00	13,440.00

(4) Other cash paid relating to investing activities

Item	Current Period	Previous Period
Intentional Fund for Equity Investment		3,000,000.00

(5) Other cash received relating to financing activities

Item	Current Period	Previous Period
Specific payables	33,000,000.00	2,000,000.00

(6) Other cash paid relating to financing activities

Item	Current Period	Previous Period
Amounts paid to settle lease liabilities	1,075,171.10	814,747.45

(7) Changes in various liabilities arising from financing activities

		Increase		Decrease		
Item	Opening balance	Changes in cash	Non-cash changes	Changes in cash	Non-cash changes	Closing balance
Short-term loans	433,638,538.34	240,000,000.00	4,994,288.08	227,554,183.06		451,078,643.36
Non-current liabilities due within one year	352,157,956.11		343,440,862.81	361,656,699.05	1,897,531.79	332,044,588.08
Long term loans	695,319,527.08	260,000,000.00			329,319,527.08	626,000,000.00
Lease liabilities	744,839.50		4,050,324.46		3,159,602.25	1,635,561.71
Total	1,481,860,861.03	500,000,000.00	352,485,475.35	589,210,882.11	334,376,661.12	1,410,758,793.15

(8) Significant activities and financial impacts that do not involve current period cash flows, but may affect the Company' s financial position or potentially impact future cash flows

1) Significant operating activities that do not involve cash inflows or outflows

Item	Current Period	Previous Period
Endorsement payment of Notes receivable*	**1,089,072,384.75**	899,379,109.28

* The Group endorses a portion of the bank acceptance bills received from selling products to pay for material procurement and other expenses.

2) Significant investing and financing activities that do not involve cash inflows or outflows

Item	Current Period	Previous Period
Endorsement of notes receivable to purchase long-term assets*	**169,889,018.97**	231,824,614.73

* The Group endorses a portion of the bank acceptance bills received from selling products to purchase long-term assets.

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

58. Supplement to cash flows statement

(1) Supplement to cash flows statement

Supplement information	Current Period	Previous Period
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	**147,954,793.02**	231,168,471.79
Add: Assets impairment loss	**40,425,032.15**	50,287,533.79
Credit impairment loss	**6,248,825.30**	9,135,931.30
Depreciation of fixed assets and investment properties	**266,927,202.93**	250,047,274.54
Depreciation of right-of-use assets	**787,249.44**	780,827.45
Amortization of intangible assets	**38,247,541.62**	31,067,568.57
Long-term prepaid expenses amortization	**1,141,708.61**	2,348,380.85
Losses from disposal of fixed assets, intangible assets and other long-term assets (gains are listed with a "-" sign)	**-93,383.69**	-1,711,209.17
Losses from scrapping of fixed assets (income is indicated by "-")	**1,472,922.14**	236,486.07
Loss from change in fair value (gains are indicated by "-")		
Financial expenses (income is listed with a "-")	**24,138,248.01**	15,670,470.77
Investment losses (income is indicated by "-")	**-7,472,191.62**	-5,879,082.58
Decrease in deferred income tax assets (increase is indicated by "-")	**1,759,820.51**	6,856,749.64
Increase in deferred income tax liabilities (decrease is indicated by "-")	**-4,934,629.72**	-1,491,198.74
Decrease in inventory (increase is indicated by "-")	**-18,352,287.91**	-6,560,276.59
Decrease in operating receivables (increase is indicated by "-")	**-238,014,302.11**	-427,595,333.26
Increase in operating payables (decrease is indicated by "-")	**-100,782,781.98**	72,201,697.84
Others	**1,162,038.30**	7,568,060.46
Net cash flow from operating activities	**160,615,805.00**	234,132,352.73
2. Significant investing and financing activities not involving cash receipts and payments:		
Conversion of debt into capital		
Convertible bonds mature within one year		
New right-of-use assets		

Supplement information	Current Period	Previous Period
3. Net changes in cash and cash equivalents:		
Closing balance of cash	**1,390,361,866.13**	1,163,830,264.02
Less: Beginning balance of cash	**1,283,208,913.79**	1,136,875,010.06
Add: Closing balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase in cash and cash equivalents	**107,152,952.34**	26,955,253.96

"Decrease in operating receivables" and "Increase in operating payables" are filled in based on the analysis of related items such as receivables and payables in the consolidated financial statements. During the preparation process, adjustments need to be made to exclude changes in items such as "Security deposits and other changes that do not constitute Cash and Cash equivalents" (see Note V.1 Cash and bank balances), "Adjustments for Notes receivable used for long-term asset purchases that do not constitute Cash and Cash equivalents" (see Note V.57 Notes to cash flows statement (8)), and "Payments for construction equipment and dividends payable in Other payables" (see Note V.29 Other payables).

(2) Details of cash and cash equivalents

Item	Closing balance	Opening balance
I. Cash	**1,390,361,866.13**	1,283,208,913.79
Including: Cash on hand	**38,595.30**	24,960.17
Bank deposits available for payment at any time	**1,390,323,270.83**	1,281,880,781.34
Other monetary funds readily available for payment		1,303,172.28
II. Cash equivalents		
Including: bonds investment mature within 3 months		
III. Cash and cash equivalents at the end of the period	**1,390,361,866.13**	1,283,208,913.79

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

(3) Monetary funds other than cash and cash equivalents

Item	Closing balance	Opening balance	Reasons for not being cash and cash equivalents
Cash at bank	**6,810,900.00**	8,926,287.94	Fixed deposits
Other monetary funds	**113,752,843.19**	104,347,724.49	Use restricted
Total	**120,563,743.19**	113,274,012.43	

59. Items in foreign currencies

(1) Items in foreign currencies

Item	Closing balance in foreign currency	Conversion rate	Closing balance translated into RMB
Cash and bank balances			
Including: US Dollar	**9,448,444.73**	6.8109	64,352,412.21
Euro	**702,247.27**	7.7671	5,454,424.77
HK dollar	**202,483.20**	0.86855	175,866.78
Japanese Yen	**18,334,943.00**	0.042045	770,892.68
Accounts receivable			
Including: US Dollar	**38,265,932.17**	6.8109	260,625,437.42
British Pound	**1,741,431.02**	9.0145	15,698,129.93
Euro	**1,074,686.95**	7.7671	8,347,201.01
HK dollar	**34,114.65**	0.86855	29,630.28
Japanese Yen	**4,172,100.00**	0.042045	175,415.94
Other receivables			
Including: US Dollar	**61,859.89**	6.8109	421,321.52
Euro	**55,900.00**	7.7671	434,180.89
Japanese Yen	**1,980,000.00**	0.042045	83,249.10
Accounts payable			
Including: US Dollar	**1,490,389.57**	6.8109	10,150,894.32
Euro	**89,635.80**	7.7671	696,210.22
Other payables			
Including: US Dollar	**158,943.74**	6.8109	1,082,549.92

(2) Foreign operating entities

Subsidiaries	**Main operating location**	**Reporting currency**	**Basis for selection of functional currency**
Shandong Xinhua Pharmaceutical (Europe) B. V.	Reiswick, Netherlands	US Dollar	Statutory curency of the business place
Shandong Xinhua Pharmaceutical (USA) Inc	South elmont, USA	US Dollar	Statutory curency of the business place
Xinhua Health Technology (Hong Kong) Limited	China Hong Kong Special Administrative Region	RMB	Operating activities mainly use RMB

60. Leases

(1) As leasee

Item	**Current Period**
Short-term rental costs	**402,098.06**
Low value rental fees	
Variable lease payments not included in the measurement of lease liabilities	
Total	**402,098.06**

(2) As lessor

Operating leases

Rental income

Item	**Current Period**
Rental income	**3,870,628.38**
Including: Income related to variable lease payments not included in lease receipts	
Total	**3,870,628.38**

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

61. Earnings per share

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

Basic earnings per share is calculated by dividing the net profit attributable to parent company shareholders of RMB149,127,526.81 (previous period: RMB223,756,530.43) by the weighted average number of ordinary shares outstanding of the Company, which is 696,190,085 shares (previous period: 689,247,277 shares).

The basic earnings per share is calculated as follows:

Item	Current Period	Previous Period
Net profit attributable to parent company shareholders	**149,127,526.81**	223,756,530.43
Weighted average number of ordinary shares outstanding of the Company	**696,190,085.00**	689,247,277.00
Basic earnings per share *(yuan/share)*	**0.21**	0.32

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

Diluted earnings per share is calculated by dividing the net profit attributable to parent company shareholders of RMB149,127,526.81 (previous period: RMB223,756,530.43) by the adjusted weighted average number of ordinary shares outstanding of the Company, which is 696,190,085 shares (previous period: 691,262,120 shares).

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

Item	Current Period	Previous Period
Net profit attributable to parent company shareholders	**149,127,526.81**	223,756,530.43
Weighted average number of ordinary shares outstanding of the Company	**696,190,085.00**	689,247,277.00
Dilutive potential common shares		2,014,843.00
Adjusted weighted average number of ordinary shares outstanding of the Company	**696,190,085.00**	691,262,120.00
Diluted earnings per share *(yuan/share)*	**0.21**	0.32

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

VI. RESEARCH AND DEVELOPMENT COSTS

1. Research and development costs

	Current Period		Previous Period	
Item	**Amount of expense**	**Capitalized amount**	Amount of expense	Capitalized amount
Labor cost	**62,523,342.74**		64,185,986.53	
Material and power costs	**43,657,710.90**		43,136,582.24	
Outsourced research and development expenses	**44,663,900.16**		33,591,009.43	
Clinical trial costs	**8,561,777.29**	**8,561,383.06**	25,010,575.46	7,075,471.70
Analyse testing costs	**11,203,264.51**		11,562,415.26	
Depreciation and amortization expenses	**13,419,617.19**		9,174,380.74	
Other expenses	**8,665,179.49**		15,764,219.38	
Total	**192,694,792.28**	**8,561,383.06**	202,425,169.04	7,075,471.70

2. Development expenditure

		Increases		Decreases			
Item	Opening Balance	Internal R&D Expenditure	Other Increases	Recognized as Intangible Assets	Charged to Current Period Profit or Loss	Other Decreases	**Closing Balance**
Ibuprofen Injection Development	9,764,150.95	8,561,383.06					**18,325,534.01**

3. Externally purchased in-progress projects

Project name	The manner in which economic benefits are expected to be generated	Criteria for determining whether to capitalize or expense	Specific basis for capitalization or expensing
Technology transfer of innovative drug Pinocerin API and freeze-dried powder injection	Commercial operation	The project is in Phase II clinical trial	The Group meets the capitalization conditions when it obtains approval for Phase III clinical trials, and the subsequent development expenses are capitalized.
Anti-AD innovative drug OAB-14 and formulation development	Commercial operation	The project is in Phase II clinical trial	The Group meets the capitalization conditions when it obtains approval for Phase III clinical trials, and the subsequent development expenses are capitalized.

VII. CHANGES IN THE SCOPE OF CONSOLIDATION

None.

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

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Group structure

Name of subsidiary	Enterprise Nature	Registered capital (RMB ten thousand)	Main operating location	Place of registration	Business nature	Shareholding ratio% Direct	Shareholding ratio% Indirect	Acquisition method
Shandong Xinhua Pharmaceutical Trading Co., Ltd.	Limited liability company	5,595.0448	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical Chemical Sales	100.00		Establishment
Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	Limited liability company	500.00	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical Chemical Sales	100.00		Establishment
Shandong Xinhua Design Engineering Co., Ltd.	Limited liability company	661.8664	Zibo City, Shandong Province	Zibo City, Shandong Province	Design Engineering	90.65		Establishment
Shandong Xinhua Pharmaceutical (Europe) B. V.	Limited liability company(Sino-foreign joint venture)	EUR 769,000	Rijswijk, Netherlands	Rijswijk, Netherlands	Pharmaceutical Chemical Sales	65.00		Establishment
Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd.	Limited liability company(Sino-foreign joint venture)	US Dollar 20.949 million	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical Chemical Manufacturing	50.10		Establishment
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Limited liability company	23,000.00	Shouguang City, Shandong Province	Shouguang City, Shandong Province	Pharmaceutical Chemical Manufacturing	100.00		Establishment
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	Limited liability company	1,900.00	Gaomi City, Shandong Province	Gaomi City, Shandong Province	Pharmaceutical Chemical Manufacturing	100.00		Acquisitions
Shandong Xinhua Pharmaceutical (USA) Inc.	Limited liability company	US Dollar 1.50 million	South El Monte, United States	South El Monte, United States	Pharmaceutical Chemical Sales	100.00		Establishment
Shandong Xinhua Mechanical and Electrical Engineering Co., Ltd.	Limited liability company	800.00	Zibo City, Shandong Province	Zibo City, Shandong Province	Electrical Installation	100.00		Establishment
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	Limited liability company	8,493.00	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical Chemical Manufacturing	100.00		Mergers and Acquisitions
Shandong Xinhua Wanbo Chemical Co., Ltd.	Limited liability company	4,662.45	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical Chemical Manufacturing	100.00		Mergers and Acquisitions

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

Name of subsidiary	Enterprise Nature	Registered capital (RMB ten thousand)	Main operating location	Place of registration	Business nature	Shareholding ratio% Direct	Indirect	Acquisition method
Shandong Tongxin Pharmaceutical Co., Ltd.	Limited liability company	12,000.00	Weifang City, Shandong Province	Weifang City, Shandong Province	Pharmaceutical Chemical Manufacturing	60.00		Establishment
Shandong Xinhua Health Technology Co., Ltd.	Limited liability company	10,000.00	Zibo City, Shandong Province	Zibo City, Shandong Province	Technology promotion and application services	54.44		Establishment

(2) Significant non-wholly-owned subsidiaries

Name of subsidiary	Shareholding ratio of minority shareholders	Profit and loss attributable to minority shareholders for the period	Dividends declared to minority shareholders in the period	**Balance of minority interests at the end of the period**
Shandong Xinhua Pharmaceutical (Europe) B. V.	35.00%	808,952.90	238,245.28	**16,380,539.46**
Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd.	49.90%	1,072,183.31		**139,036,489.99**
Shandong Xinhua Health Technology Co., Ltd.	45.56%	195,379.62		**40,178,933.13**
Shandong Tongxin Pharmaceutical Co., Ltd.	40.00%	-3,510,820.03		**44,972,107.52**
Shandong Xinhua Design Engineering Co., Ltd.	9.35%	261,570.41		**4,686,667.75**

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

(3) Principal financial information of significant non-wholly-owned subsidiaries

Name of subsidiary	Closing balance Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Shandong Xinhua Pharmaceutical (Europe) B. V.	**96,912,235.72**	**13,707.62**	**96,925,943.34**	**49,805,493.11**		**49,805,493.11**
Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd.	**222,468,488.23**	**101,671,812.84**	**324,140,301.07**	**29,271,619.56**	**14,180,447.04**	**43,452,066.60**
Shandong Xinhua Health Technology Co., Ltd.	**384,441,184.81**	**9,778,818.08**	**394,220,002.89**	**312,876,501.88**	**1,920,483.77**	**314,796,985.65**
Shandong Tongxin Pharmaceutical Co., Ltd.	**31,476,360.40**	**228,439,283.62**	**259,915,644.02**	**106,485,175.00**	**40,934,926.27**	**147,420,101.27**
Shandong Xinhua Design Engineering Co., Ltd.	**57,073,684.92**	**24,678,162.08**	**81,751,847.00**	**31,659,121.32**		**31,659,121.32**

Continued(1)：

Name of subsidiary	Opening balance Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Shandong Xinhua Pharmaceutical (Europe) B. V.	81,692,808.04	18,492.77	81,711,300.81	34,729,066.39		34,729,066.39
Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd.	215,360,698.70	111,346,419.55	326,707,118.25	32,909,977.66	15,257,570.09	48,167,547.75
Shandong Xinhua Health Technology Co., Ltd.	417,668,580.16	9,929,055.13	427,597,635.29	347,288,499.65	1,314,958.65	348,603,458.30
Shandong Tongxin Pharmaceutical Co., Ltd.	27,914,510.90	230,097,447.28	258,011,958.18	103,339,147.61	33,936,852.95	137,276,000.56
Shandong Xinhua Design Engineering Co., Ltd.	41,236,981.28	25,629,422.66	66,866,403.94	19,572,030.85		19,572,030.85

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

Continued (2)：

	Current Period			
Name of subsidiary	**Operating income**	**Net profit**	**Total comprehensive income**	**cash flow from operating activities**
Shandong Xinhua Pharmaceutical (Europe) B. V.	**77,926,448.75**	**2,311,294.03**	**819,305.81**	**-102,266.97**
Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd.	**81,927,520.84**	**2,148,663.97**	**2,148,663.97**	**24,907,825.05**
Shandong Xinhua Health Technology Co., Ltd.	**290,379,805.19**	**428,840.25**	**428,840.25**	**-25,777,158.33**
Shandong Tongxin Pharmaceutical Co., Ltd.	**15,270,853.71**	**-8,777,050.07**	**-8,777,050.07**	**-4,984,554.17**
Shandong Xinhua Design Engineering Co., Ltd.	**54,611,475.41**	**2,798,352.59**	**2,798,352.59**	**381,487.34**

Continued (3)：

	Previous Period			
Name of subsidiary	Operating income	Net profit	Total comprehensive income	cash flow from operating activities
Shandong Xinhua Pharmaceutical (Europe) B. V.	98,567,124.32	8,240,477.81	7,913,814.30	11,667,340.98
Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd.	115,603,699.43	8,052,524.03	8,052,524.03	56,729,321.19
Shandong Xinhua Health Technology Co., Ltd.	346,421,862.81	541,720.11	541,720.11	-33,307,629.58
Shandong Tongxin Pharmaceutical Co., Ltd.	35,092,077.96	-60,380.79	-60,380.79	-9,285,899.69
Shandong Xinhua Design Engineering Co., Ltd.	41,833,661.42	2,869,092.43	2,869,092.43	111,143.64

(4) Major restrictions on using the Group's assets and settling the Group's debts

None.

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

None.

(6) Others

As of June 30, 2026, the Company's subsidiaries have not issued any equity or debt securities.

(7) Transactions where there is a change in the ownership share of the subsidiary's owners' equity, but control over the subsidiary is maintained

None.

2. Changes in the scope of consolidation due to other reasons

None.

3. Interests in joint arrangement or associates

(1) Summary financial information of other immaterial joint ventures and associates

Item	Closing balance/ amount incurred in the current period	Balance at the end of the Previous Period/Amount incurred in the previous period
Associates:		
Total book value of investments	**58,529,175.90**	58,191,097.56
Total of the following items calculated by shareholding ratio		
Net profit	**338,078.34**	-1,140,099.82
Other comprehensive income		
Total comprehensive income	**338,078.34**	-1,140,099.82

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

IX. GOVERNMENT GRANTS

1. Government grants recorded as other receivables

None.

2. Government grants recorded as deferred income

Type	Opening balance	Increase	Decrease	**Closing balance**
Government grants related to assets	68,970,978.58	530,000.00	8,833,887.90	**60,667,090.68**
Government grants related to income				
Total	68,970,978.58	530,000.00	8,833,887.90	**60,667,090.68**

Government grants recorded as deferred income and measured at gross amount method subsequently

Category	Opening balance	Additions during the period	Amount recognized in profit or loss in the period	Other change	**Closing balance**	Item presented in profit or loss in the period
Item Modern Medicine International Cooperation Center Project	23,143,850.80		3,790,557.60		**19,353,293.20**	Other income
Item Comprehensive prevention and control project of atmospheric pollution by recycling dichloromethane and other organic gases	10,386,250.00		1,780,500.00		**8,605,750.00**	Other income
(Item) Injection GMP transformation project (high-end new pharmaceutical preparation industrialization project)	12,298,700.00		970,950.00		**11,327,750.00**	Other income
Government subsidies for equipment	5,112,983.50		535,699.98		**4,577,283.52**	Other income
Item Hormone series product technology transformation project	1,406,416.57		298,238.88		**1,108,177.69**	Other income

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

Category	Opening balance	Additions during the period	Amount recognized in profit or loss in the period	Other change	**Closing balance**	Item presented in profit or loss in the period
Innovation of common key technologies of steroid drugs and construction of industrial chain system	1,983,333.45		139,999.98		**1,843,333.47**	Other income
Item Solid preparation international cooperation project	1,683,333.27		100,000.02		**1,583,333.25**	Other income
High-performance core industrial enzymes	1,600,650.00				**1,600,650.00**	
Development of medicinal grade EPA raw materials and preparations	3,480,000.00				**3,480,000.00**	
High-end Green and Low-carbon Formulation Project		530,000.00			**530,000.00**	
Others	7,875,460.99		1,217,941.44		**6,657,519.55**	Other income
Total	68,970,978.58	530,000.00	8,833,887.90		**60,667,090.68**	

3. Government grants recognized in income for the period by gross method

Category	**Recognized as income in the period**	**Recognized as income in Previous Period**	**Presented in income statement**
Talent policy subsidy funds	**2,850,000.00**	4,300,000.00	Other income
Subsidies for stabilizing and expanding employment	**4,500.00**	514,295.42	Other income
Corporate research and development subsidy funds		50,000.00	Other income
Others	**73,050.00**	209,130.13	Other income
Total	**2,927,550.00**	5,073,425.55	

X. FINANCIAL INSTRUMENT RISK MANAGEMENT

The Group's main financial instruments include cash and bank balances, notes receivable, accounts receivable, receivables financing, other receivables, other current assets, other equity instruments investment, notes payable, accounts payable, other payables, short-term loans, non-current liabilities due within one year, long-term loans, lease liabilities, and long-term payables. Detailed information on these financial instruments has been disclosed in the relevant notes. The risks associated with these financial instruments and the risk management policies adopted by the Group to mitigate these risks are outlined below. The Group's management monitors and manages these risk exposures to ensure that the risks remain within the defined scope.

1. Risk management objectives and policies

The Group's risk management objective is to strike an appropriate balance between risk and reward, minimizing the negative impact of risks on the Group's performance, and maximizing the interests of shareholders and other equity investors. Based on this objective, the Group's basic risk management strategy is to identify and analyse the various risks the Group faces, establish appropriate risk tolerance thresholds, manage the risks, and monitor various risks in a timely and reliable manner to ensure that they are kept within acceptable limits.

(1) Credit risk

Credit risk refers to the risk of financial loss to the Group due to the failure of a counterparty to fulfil its contractual obligations.

The Group manages credit risk by classifying it into different portfolios. Credit risk primarily arises from cash at bank, notes receivable, accounts receivable, other receivables, contract assets, etc.

The Group's cash at bank is mainly held in financial institutions with good reputations and high credit ratings. The Group expects that cash at bank does not involve significant credit risk.

For notes receivable, accounts receivable, and other receivables, the Group has established relevant policies to control credit risk exposure. The Group evaluates the creditworthiness of its customers based on factors such as their financial condition, credit history, and current market conditions, and sets appropriate credit terms. The Group regularly monitors customers' credit records, and for customers with poor credit histories, the Group may adopt measures such as written collection notices, shortening the credit period, or cancelling credit terms, in order to ensure that the Group's overall credit risk remains within a controllable range.

The Group's maximum credit risk exposure is the book amount of each financial asset on the balance sheet. The Group has not provided any other guarantees that could expose it to credit risk.

As of June 30, 2026, the accounts receivable from the top five customers accounted for 19.14% of the Group's total accounts receivable (At the end of last year: 23.90%). In the Group's other receivables, the amounts owed by the top five companies accounted for 24.81% of the Group's total other receivables (At the end of last year:29.97%).

As at June 30, 2026, the maximum credit risk exposure that could lead to financial loss for the Group primarily arises from the potential failure of a counterparty to fulfil its obligations, resulting in financial asset losses for the Group. Specifically, this includes:

The book amount of confirmed financial assets on the consolidated balance sheet; for financial instruments measured at fair value, the carrying amount reflects its risk exposure but is not the maximum risk exposure. The maximum risk exposure will change with future fluctuations in fair value.

To mitigate credit risk, the Group's management has assigned a team to set credit limits, approve credit, and implement other monitoring procedures to ensure that collection actions are taken for overdue debts. Additionally, the Group reviews the recoverable amounts of individual trade receivables at the reporting date to ensure adequate impairment losses are recognized for irrecoverable amounts. In this regard, the Group's management believes that the credit risk has been significantly reduced.

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

(2) Liquidity risk

Liquidity risk refers to the risk that the Group may face a shortage of funds when fulfilling obligations settled by delivering cash or other financial assets.

In managing liquidity risk, the Group maintains what the management deems to be sufficient cash and cash equivalents and monitors them to meet operational needs and reduce the impact of cash flow fluctuations. The management closely monitors the use of bank loans and ensures compliance with loan agreements. At the same time, the Group secures commitments from major financial institutions to provide sufficient standby funding to meet both short-term and long-term funding needs.

At the end of the period, the Group's financial liabilities and off-balance-sheet guarantee items are analysed according to the maturity of the remaining undiscounted contract cash flows as follows:

			Closing balance		
Item	Within a year	1 to 2 years	2 to 5 years	More than 5 years	Total
Financial liabilities:					
Short-term loans	451,078,643.36				451,078,643.36
Notes payable	536,999,778.84				536,999,778.84
Accounts payable	784,633,699.48				784,633,699.48
Other payables	495,048,860.87				495,048,860.87
Non-current liabilities due within one year	332,123,776.87				332,123,776.87
Long term loans		181,000,000.00	445,000,000.00		626,000,000.00
Lease liabilities		1,092,932.22	591,376.15		1,684,308.37

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

At the end of the Previous Year, the Group's financial liabilities and off-balance-sheet guarantee items were analysed according to the maturity of the remaining undiscounted contract cash flows as follows:

			Opening balance		
Item	Within a year	1 to 2 years	2 to 5 years	More than 5 years	Total
Financial liabilities:					
Short-term loans	433,638,538.34				433,638,538.34
Notes payable	525,783,642.79				525,783,642.79
Accounts payable	785,335,090.07				785,335,090.07
Other payables	437,385,479.24				437,385,479.24
Non-current liabilities due within one year	352,205,798.82				352,205,798.82
Long term loans		314,319,527.08	381,000,000.00		695,319,527.08
Lease liabilities		690,441.64	74,045.58		764,487.22

The amount of financial liabilities disclosed in the above table represents the undiscounted contract cash flows and may therefore differ from the carrying amount in the balance sheet.

(3) Market risk

Market risk refers to the risk that the fair value or future cash flows of financial instruments may fluctuate due to changes in market prices, including interest rate risk, exchange rate risk, and other price risks.

Interest Rate Risk

Interest rate risk refers to the risk that the fair value or future cash flows of financial instruments may fluctuate due to changes in market interest rates. Interest rate risk can arise from both confirmed interest-bearing financial instruments and unconfirmed financial instruments, such as certain loan commitments.

The Group's interest rate risk mainly arises from long-term bank borrowings and other long-term interest-bearing debts. Floating-rate financial liabilities expose the Group to cash flow interest rate risk, while fixed-rate financial liabilities expose the Group to fair value interest rate risk. The Group determines the relative ratio between fixed-rate and floating-rate contracts based on the prevailing market environment and maintains an appropriate mix of fixed and floating rate instruments through periodic reviews and monitoring.

The Group closely monitors the impact of interest rate changes on its interest rate risk. The Group currently does not adopt any interest rate hedging policies. However, management is responsible for monitoring interest rate risk and will consider hedging significant interest rate risks when necessary. An increase in interest rates would raise the cost of new interest-bearing debt and increase interest expenses on floating-rate debt that has not yet been settled, which could have a significant adverse impact on the Group's financial performance. Management will make adjustments based on the latest market conditions, which may include entering into interest rate swap arrangements to reduce interest rate risk.

As of June 30, 2026, the Group's interest-bearing debts primarily consist of floating-rate borrowing contracts denominated in RMB, with a total amount of RMB1,136.3195 million (as of December 31, 2025, the amount was RMB1,225.8301 million), and fixed-rate borrowing contracts denominated in RMB, with an amount of RMB270.7934 million (as of December 31, 2025, the amount was RMB250.7789 million).

At the end of the period, if the floating interest rate on borrowings increases or decreases by 100 basis points, while all other factors remain unchanged, the Group's net profit and shareholders' equity will decrease or increase by approximately RMB5.631 million (previous period: RMB5.086 million).

For financial instruments held as of the balance sheet date that expose the Group to fair value interest rate risk, the impact on net profit and shareholders' equity in the above sensitivity analysis assumes changes in the interest rate as of the balance sheet date, and the remeasurement of these financial instruments based on the new interest rate. For floating-rate non-derivative instruments held as of the balance sheet date that expose the Group to cash flow interest rate risk, the impact on net profit and shareholders' equity in the above sensitivity analysis reflects the effect of these interest rate changes on estimated annual interest expenses or income. The analysis for the Previous Period was based on the same assumptions and methods.

Foreign exchange rate risk

Foreign exchange risk refers to the risk of fluctuations in the fair value or future cash flows of financial instruments due to exchange rate differences. Exchange rate risk can arise from financial instruments denominated in foreign currencies other than the reporting currency.

The Group is exposed to foreign exchange risk primarily related to the US Dollar, British Pound, and Euro. Aside from a few subsidiaries of the Group that engage in procurement and sales in US Dollars, the Group's other major business activities are settled in RMB. As of June 30, 2026, aside from the US Dollar, Euro, British Pound balances as shown in the table below, and small balances in Hong Kong Dollar (HKD) and Japanese Yen (JPY), the Group's assets and liabilities are all denominated in RMB. The foreign currency balances in assets and liabilities create exchange rate risk, which could impact the Group's financial performance.

At the end of the period, the Group's foreign currency financial assets and liabilities, when converted into RMB, are as follows:

	Foreign currency assets		**Foreign currency liabilities**	
Item	**Closing balance**	Opening balance	**Closing balance**	Opening balance
US Dollar	**325,399,171.15**	300,837,534.71	**11,233,444.24**	48,564,978.60
Euro	**14,235,806.67**	7,904,827.62	**696,210.22**	461,220.94
HK dollar	**205,497.06**	161,018.05		
Japanese Yen	**1,029,557.72**	4,292,840.36		
British Pound	**15,698,129.93**	16,537,713.63		
Total	**356,568,162.53**	329,733,934.37	**11,929,654.46**	49,026,199.54

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

The Group closely monitors the impact of exchange rate differences on its foreign exchange risk. Currently, the Group has not adopted any measures to hedge against exchange rate risk. However, the management is responsible for monitoring the exchange rate risk and will consider hedging significant exchange rate risks when necessary.

The foreign exchange risk sensitivity analysis assumptions are as follows: all foreign operations net investment hedging and cash flow hedging are highly effective.

Based on the above assumptions, assuming all other variables remain unchanged, the reasonable changes in exchange rates could have the following after-tax impact on profit and equity for the current period:

		Period ended June 30, 2026		Period ended June 30, 2025	
Item	**Exchange difference**	**Impact on Net Profit**	**Impact on owners' equity**	Impact on Net Profit	Impact on owners' equity
All foreign currencies	Appreciation of RMB by 5%	**14,865,942.74**	**15,841,290.59**	16,325,426.20	17,143,185.05
All foreign currencies	Devaluation of RMB by 5%	**-14,865,942.74**	**-15,841,290.59**	-16,325,426.20	-17,143,185.05

2. Capital management

The Group's capital management policy aims to ensure the Group's ability to continue as a going concern, provide returns to shareholders, benefit other stakeholders, and maintain an optimal capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the Group may adjust its financing methods, modify the dividend amount paid to shareholders, return capital to shareholders, issue new shares and other equity instruments, or sell assets to reduce debt.

The Group monitors its capital structure based on the assets to liabilities ratio (i.e., total liabilities divided by total assets). As of the end of the period, the Group's assets to liabilities ratio was 39.32% (compared to 40.61% at the end of the Previous Year).

3. Transfer of financial assets

(1) Classified by transfer method

Transfer method	Nature of transferred financial assets	Amount of financial assets transferred	Situation of derecognition	Basis for determining situation of derecognition
Bill endorsement	Notes receivable	9,115,002.87	Not derecognized	Retains substantially all of its risks and rewards, including default risk associated therewith
Bill endorsement	Receivables financing	779,223,342.35	Derecognized	Has transferred substantially all of its risks and rewards
Factoring	Accounts receivable	35,312,570.66	Derecognized	Retains substantially all of its risks and rewards, including default risk associated therewith
Factoring	Accounts receivable	800,000.00	Not derecognized	Retains substantially all of its risks and rewards, including default risk associated therewith
Total		824,450,915.88		

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

(2) Financial assets derecognised due to transfer

Item	Transfer method	Amount derecognized	Gains or losses related to derecognition
Receivables financing	Bill endorsement	779,223,342.35	
Accounts receivable	Factoring	35,312,570.66	-1,061,822.20

A. At the end of the period, the Group engaged in non-recourse accounts receivable factoring, with a factoring amount of RMB35,312,570.66. The corresponding accounts receivable book balance of RMB35,312,570.66 was derecognized, and the aging of the receivables is within one year.

B. As of June 30, 2026, the Group endorsed bank acceptance bills to suppliers for settling accounts payable, with a book balance of RMB779,223,342.35 (issued by banks with lower credit risk). The Group believes it has transferred substantially all of its risks and rewards, including default risk associated with these bills, and therefore derecognizes the related settled accounts payable. After endorsement, the Group no longer retains the right to use these bills, including the right to sell, transfer, or pledge them to other third parties.

(3) The amount of assets and liabilities formed from the transfer of financial assets with continuing involvement

Item	Asset transfer method	Amount of assets formed by continued involvement	Amount of liabilities arising from continued involvement
Accounts receivable	Factoring	800,000.00	793,360.00
Notes receivable	Bill endorsement	9,115,002.87	9,115,002.87

In its daily operations, the Group enters into accounts receivable factoring agreements with several banks, transferring certain accounts receivable to the banks ("Accounts Receivable Factoring"). Under some of these accounts receivable factoring agreements, the Group may be required to bear some of the default risks of the debtors after the transfer of accounts receivable. If the debtor defaults beyond a certain period, the Group may need to bear some of the interest on the overdue repayment to the bank. The Group neither transferred nor retained almost all of the risks and rewards of ownership of the accounts receivable. Therefore, the related assets and liabilities are recognized based on the extent of the Group's continuing involvement in the transferred accounts receivable.

XI. FAIR VALUE

The level in which fair value measurement is categorized is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels are defined as follows:

Level 1: unadjusted quoted prices in active market for identical assets or liabilities.

Level 2: inputs other than Level 1 inputs that are either directly (i.e. price) or indirectly (i.e. derived from the price) observable for underlying assets or liabilities.

Level 3: inputs that are unobservable for underlying assets or liabilities.

(1) Item and amount measured at fair value

At the end of the period, the assets and liabilities measured at fair value are classified according to the three levels as follows:

Item	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
I. Ongoing fair value measurement				
(I) Receivables financing			311,869,233.92	311,869,233.92
(II) Other equity instruments investment	195,449,456.00		10,083,522.60	205,532,978.60
Total assets measured at fair value on a recurring basis	195,449,456.00		321,952,756.52	517,402,212.52

This period, there have been no transfers between Level 1 and Level 2 fair value measurements, nor any transfers into or out of Level 3.

For financial instruments traded in active markets, the Group determines their fair value based on their quoted market prices. The financial instruments included in the Level 1 fair value measurement are the stocks of Bank of Communications and Pacific Insurance held by the Group. The fair value at period-end is determined based on their closing price on the last trading day of June 2026.

(2) Quantitative information of important unobservable input values used in level 3 of fair value measurement

The financial instruments included in the Level 3 fair value measurement by the Group are the bank acceptance bills (Receivables financing) held by the Group, which are measured at fair value with changes recognized in other comprehensive income. The bank acceptance bills primarily come from large commercial banks with high credit ratings. Due to their short remaining maturity and very low credit risk, the carrying amount and fair value of the bank acceptance bills are close as of the balance sheet date.

The financial instruments included in the Level 3 fair value measurement mainly consist of unlisted equity investments held by the Group. Since the investees are in asset-light industries and in the research and development phase, the fair value is determined based on net book assets.

Content	Fair value at the end of the period	Valuation techniques	Unobservable inputs
Unlisted equity investments	10,083,522.60	Net book assets	1. Counterparty credit risk 2. Own credit risk
Receivables financing	311,869,233.92	Discounted Cash Flow Method	1. Prepayment rate 2. Probability of Default 3. Default rate

(3) Continuous Level 3 fair value measurement project, adjustment information between the beginning and the end of the year for the book value, and sensitivity analysis of unobservable parameters

The Group's ongoing Level 3 fair value measurement project, the adjustment information between the beginning of the year and the book value at the end of the year mainly consists of valuation changes, sales, and settlements. There are no changes in unobservable parameters that would lead to significant changes in fair value.

The Group uses the discounted cash flow method to determine the fair value of receivables financing, discounting it to the balance sheet date based on its expected recoverable amount and the effective interest rate, or by discounting its contract maturity value at the credit risk-adjusted effective interest rate to the balance sheet date. The Group's receivables financing has a term of no more than one year, and the time value of money has a negligible impact on its fair value. Therefore, it is approximated that the fair value of receivables financing at the end of the period equals its face value, meaning that its fair value is essentially equal to the amortized cost, and the factors influencing its fair value changes do not have a significant impact on its year-end measurement.

(4) Items not measured at fair value but for which fair value is disclosed, along with their amounts

The financial assets and financial liabilities of the Group measured at amortized cost mainly include: Cash and bank balances, Notes receivable, Accounts receivable, Other receivables, Short-term loans, Notes payable, Accounts payable, Other payables, Long-term loans due within one year, Long-term payables, and Long-term loans. As of June 30, 2026, there is no significant difference between the carrying amount and the fair value of the financial assets and financial liabilities measured at amortized cost.

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS

1. Information of the parent company of the Company

Name of parent company	Place of registration	Business nature	*Registered capital*	The parent company's shareholding ratio in the company	The parent company's voting rights ratio in the company
			(RMB ten thousand)	*(%)*	*(%)*
Hualu Holding Group Co., Ltd.	Jinan City, Shandong Province	Invest in chemical, medical and environmental protection industries; asset management and consulting	310,300.00	29.41	29.41

Changes in parent company's paid-in capital during the reporting period

Opening balance	Increase	Decrease	**Closing balance**
3,103,000,000.00			**3,103,000,000.00**

Shares or equity held by the controlling shareholder and their changes

Name of controlling shareholder	**Amount of shareholding**		**Shareholding ratio**	
	Closing balance	Opening balance	**Proportion of the Current Period**	Proportion of the Previous Year
			(%)	*(%)*
Hualu Holding Group Co., Ltd.	204,864,092.00	204,864,092.00	29.41	29.70

The ultimate controlling party of the Company is the Shandong Provincial State-owned Assets Supervision and Administration Commission.

2. Information about the subsidiaries of the Company

Details of subsidiaries refer to Note VIII. 1.

3. Information about joint ventures and associates of the Company

Information of other joint ventures or associates that had related party transactions with the Company in the current period, or had balances with the Company in the previous period is as follows:

Name of the joint venture or associate enterprise	Relationship with the Company
Centrient Pharmaceuticals (Zibo) Co., Ltd.	The Company's associated companies

4. Information on other related parties

Name of related party	Relationship with the Company
Hualu Holding Group Co., Ltd. Shandong Xinhua Pharmaceutical Branch	Branch of controlling shareholder
Shandong Hualu Hengsheng Chemical Co., Ltd.	Under the control of the same controlling shareholder
Shandong Lukang Pharmaceutical Co., Ltd.	Under the control of the same controlling shareholder
Qinghai Lukang Dadi Pharmaceutical Co., Ltd.	Under the control of the same controlling shareholder
Shandong Lukang Pharmaceutical Group Saite Co., Ltd.	Under the control of the same controlling shareholder
Shandong Lukang Shelile Pharmaceutical Co., Ltd.	Under the control of the same controlling shareholder
Shandong Lukang Biological Pesticide Co., Ltd.	Under the control of the same controlling shareholder
Shandong Hualu International Business Center Co., Ltd.	Under the control of the same controlling shareholder
Shandong Environmental Protection Science Research and Design Institute Co., Ltd.	Under the control of the same controlling shareholder
Shandong Hualu International Advertising Co., Ltd	Under the control of the same controlling shareholder
Shandong Huatong Chemical Co., Ltd.	Under the control of the same controlling shareholder
Shandong LuKang Zerun Pharmaceutical Co., Ltd	Under the control of the same controlling shareholder
Hualu Group Co., Ltd.	Under the control of the same controlling shareholder
Perrigo Company	Subsidiary shareholders
Hubei Gotobiopharm Co., Ltd.	Controlled by the subsidiary's shareholders

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

5. Related party transactions

(1) Purchase or sale with related parties

① *Purchase of goods/receiving of services*

Related party	Nature of transaction	Current Period	Approved transaction amount	Whether the transaction amount is exceeded	Previous Period
Centrient Pharmaceuticals (Zibo) Co., Ltd.*	Purchase of raw materials	**1,962,168.15**	19,000,000.00	No	3,662,389.38
Shandong Hualu Hengsheng Chemical Co., Ltd.*	Purchase of raw materials	**41,764,797.88**	120,000,000.00	No	43,152,997.22
Shandong Lukang Pharmaceutical Co., Ltd.*	Purchase of preparations, raw materials and other items	**2,293,209.50**	13,000,000.00	No	2,100,016.28
Shandong Lukang Shelile Pharmaceutical Co., Ltd.*	Purchase of raw materials	**1,304,734.51**			
Shandong Environmental Protection Science Research and Design Institute Co., Ltd.	Purchase of f labor services	**28,301.89**			
Hualu Group Co., Ltd.*	Purchase of preparations	**3,868,834.70**	16,000,000.00	No	3,943,853.90
Shandong Huatong Chemical Co., Ltd.*	Purchase of l raw materials	**48,214,110.40**	119,000,000.00	No	33,559,592.60
Hubei Gotobiopharm Co., Ltd.	Purchase of raw materials	**14,546,460.18**			6,059,292.05
Total		**113,982,617.21**	287,000,000.00		92,478,141.43

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

② *Sales of goods/rendering of services*

Related party	Nature of transaction	Current Period	Approved transaction amount	Whether the transaction amount is exceeded	Previous Period
Centrient Pharmaceuticals (Zibo) Co., Ltd.*	Sales Motivation	**2,790,699.94**	10,000,000.00	No	2,791,725.46
Perrigo Company*	Sales of preparations, raw materials, etc	**128,392,101.65**	655,000,000.00	No	194,155,226.45
Hualu Holding Group Co., Ltd. Shandong Xinhua Pharmaceutical Branch	Sales Motivation	**9,593.18**			7,658.29
Qinghai Lukang Dadi Pharmaceutical Co., Ltd.*	Sales of APIs	**122,123.89**			248,230.08
Shandong LuKang Zerun Pharmaceutical Co., Ltd.*	Sales of APIs	**6,902.65**			13,007,787.60
Shandong Lukang Pharmaceutical Co., Ltd.*	Sales of APIs, etc.	**241,514.24**			389,991.98
Shandong Lukang Shelile Pharmaceutical Co., Ltd.*	Sales of APIs, etc.	**2,286,504.43**	42,000,000.00	No	
Shandong Lukang Pharmaceutical Group Saite Co., Ltd.*	Sales of APIs	**119,469.03**			3,468,672.58
Shandong Lukang Biological Pesticide Co., Ltd.*	Procurement of labor services				83,962.26
Hubei Gotobiopharm Co., Ltd.	Sales of APIs	**7,566,371.68**			2,751,106.20
Shandong Hualu International Business Center Co., Ltd.	Sales of preparation products	**955.76**			
Total		**141,536,236.45**	707,000,000.00		216,904,360.90

The prices of goods (including services) sold to related parties and goods (including services) purchased from related parties by the Group are based on market prices as the pricing basis.

(2) Rental with related party

① *The Company as lessor*

None.

② *The Company as lessee*

None.

(3) Guarantee with related parties

① *The Company as guarantor*

None.

② *The Company as the party being guaranteed*

None.

(4) Loans and borrowings with related party

None.

(5) Remuneration of key management personnel

Refer to Note XII. 8

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

(6) Other related party transactions

Related party	Nature of transaction	Current Period	Previous Period
Hualu Holding Group Co., Ltd. Shandong Xinhua Pharmaceutical Branch*	Trademark royalties	**6,787,735.84**	4,716,981.14

The Company and the Xinhua branch signed a trademark license agreement on October 24, 2025, in Zibo City, Shandong Province. The agreement is valid from January 1, 2026 to December 31, 2028. According to the supplementary agreement, the annual fee for the use of the 'Xinhua' trademark by the Company has been changed from RMB10 million (tax inclusive) to RMB14.39 million (tax inclusive), and the other terms of the trademark license agreement remain unchanged.

* Note: These related party transactions constitute connected transactions and continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

6. Receivables and payables with related party

(1) Receivables from related parties

		Closing balance		Opening balance	
Project name	**Related party**	**Book balance**	**Provision for bad debts**	Book balance	Provision for bad debts
Accounts receivable	Centrient Pharmaceuticals (Zibo) Co., Ltd.	**20,400.00**	**102.00**	301,871.30	5,748.62
Accounts receivable	Perrigo Company	**30,528,245.95**	**393,376.55**	49,900,230.37	516,810.30
Accounts receivable	Shandong Lukang Pharmaceutical Co., Ltd	**19,500.00**	**97.50**	212,040.00	1,060.20
Accounts receivable	Shandong Hualu International Business Center Co., Ltd.	**1,080.00**	**16.20**		
Receivables financing	Centrient Pharmaceuticals (Zibo) Co., Ltd.	**1,854,177.94**		1,043,054.24	
Prepayments	Shandong Hualu Hengsheng Chemical Co., Ltd.	**1,099,011.08**		934,712.62	

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

(2) Payables to related party

Project name	Related party	Closing balance	Opening balance
Accounts payable	Hubei Gotobiopharm Co., Ltd.	**19,633,500.00**	28,065,400.00
Accounts payable	Shandong Lukang Pharmaceutical Co., Ltd.	**1,230,583.09**	1,651,644.09
Accounts payable	Centrient Pharmaceuticals (Zibo) Co., Ltd.	**1,095,000.00**	760,000.00
Accounts payable	Shandong Huatong Chemical Co., Ltd	**23,441,994.76**	14,486,761.83
Accounts payable	Hualu Group Co., Ltd.	**5,614,557.61**	5,977,116.41
Contract liabilities	Centrient Pharmaceuticals (Zibo) Co., Ltd.	**683,090.66**	21,226.42
Contract liabilities	Qinghai Lukang Dadi Pharmaceutical Co., Ltd.		2,017.70
Contract liabilities	Hubei Gotobiopharm Co., Ltd.	**674,960.00**	

7. Commitments with related party

When the Company implemented the plan of non-public offering of a shares in 2021, the controlling shareholder Hualu Holdings issued the letter of commitment as follows:

On April 14, 2021, Hualu Holdings promised: (1) not to interfere with the operation and management activities of Xinhua Pharmaceutical beyond its authority and not to encroach on the interests of Xinhua Pharmaceutical; (2) from the date of issuance of this commitment to the completion of this non-public offering of shares by Xinhua Pharmaceutical, if the state and securities regulatory authorities make other new regulatory provisions on the measures for listed companies to fill in the diluted immediate return, and this commitment cannot meet these provisions of the state and securities regulatory authorities, to issue a commitment in accordance with the latest provisions of the state and securities regulatory authorities; (3) We promise to earnestly fulfil the measures for filling the diluted immediate return formulated by Xinhua Pharmaceutical and this commitment. If Hualu Holdings violate this commitment or refuse to fulfil this commitment and cause losses to Xinhua Pharmaceutical or investors, Hualu Holdings is willing to bear the corresponding compensation liability according to law.

On June 25, 2021, Hualu Holdings promised: (1) HHC shall not use the voting rights attached to its shares in the Company to manipulate the general meeting of shareholders of the Company; nor instruct the Company or its directors, supervisors or senior management personnel to cause the Company to provide or accept funds, commodities, services or other assets on unfair terms; nor engage in any conduct prejudicial to the interests of the Company and shareholders holding less than 5% of the Company's shares. (2) HHC and other companies, enterprises and entities controlled by HHC shall follow the principles of equality, altruism, fair value and fair compensation when conducting transactions with the Company and its controlled subsidiaries, ensure the fairness of transactions, and safeguard the legitimate rights and interests of the Company. The Company shall perform deliberation procedures and make timely disclosure in accordance with laws, administrative regulations, relevant provisions of China Securities Regulatory Commission and domestic stock exchanges, and the Company's articles of association in effect at that time.

On August 9, 2021, Hualu Holdings promised: (1) there was no horizontal competition between Hualu Holdings and its affiliated enterprises and Xinhua Pharmaceutical; (2) during the period when Hualu Holdings is the controlling shareholder of Xinhua Pharmaceutical, it shall take necessary and possible measures according to law to avoid business or activities with horizontal competition and conflict of interest with the main business of Xinhua Pharmaceutical, and urge other enterprises controlled by Hualu holding to avoid business or activities with horizontal competition and conflict of interest with the main business of Xinhua Pharmaceutical; (3) when Hualu Holdings and other enterprises under its control plan to conduct new business, investment and research that may produce horizontal competition with the main business of Xinhua Pharmaceutical, Hualu Holdings shall timely notify Xinhua Pharmaceutical that Xinhua Pharmaceutical will have the priority of development and project participation, Hualu holdings will try its best to make the price of relevant transactions on the basis of fair and reasonable and normal commercial transactions with independent third parties. Hualu Holdings has the ability to fulfil the above commitments. This letter of commitment will take effect immediately after it is signed by Hualu Holdings and will continue to be effective during the period when Hualu holding has control over Xinhua Pharmaceutical.

On August 9, 2021, Hualu Holdings promised that: (1) within six months before the benchmark date for the pricing of the non-public offering of shares of Xinhua Pharmaceutical (the announcement date of the resolution of the second interim meeting of the 10th board of directors of Xinhua Pharmaceutical in 2021), Hualu Holdings and the persons acting in concert of Hualu Holdings did not reduce their shares of Xinhua Pharmaceutical; (2) It has no plans to and shall not reduce its shares in Xinhua Pharmaceutical within six months from the pricing benchmark date of this non-public offering to the completion of this non-public offering; (3) Hualu Holdings to reduce its holdings in strict accordance with the securities law of the people's Republic of China, the Measures for the Administration of the Acquisition of Listed Companies and other laws and regulations, and the relevant provisions of the stock exchange where the Company's shares are listed, and fulfil the obligation of information disclosure related to equity changes; (4) in case of reduction due to violation of the above commitments, Hualu Holdings promises that all the proceeds from the reduction will belong to Xinhua Pharmaceutical, and will bear all legal liabilities and consequences arising therefrom.

8. Principal management remunerations

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

Item	Current Period	Previous Period
Salary and allowances	**988,588.00**	1,702,260.00
Social security, housing funds and related pension costs	**374,130.00**	553,674.00
Bonus		
Share-based payment		
Total	**1,362,718.00**	2,255,934.00

Director Changes in the Reporting Period: On March 31, 2026, Mr. Xu Lie resigned from his position as director of the Company due to age-related reasons.

Senior Management Changes in the Reporting Period: None.

9. Loans receivable from directors and affiliated companies of directors

The Group has no loan receivables from directors or affiliated companies of directors during this period.

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

XIII. SHARE-BASED PAYMENTS

1. Information about share-based payments

Category of grant recipients	Granted in the period Quantity	Granted in the period Amount	Exercise in the period Quantity	Exercise in the period Amount	Unlocked in the period Quantity	Unlocked in the period Amount	Lapsed in the period Quantity	Lapsed in the period Amount
Directors and Senior Management			709,500.00	5,026,807.50				
Middle management and core staff			6,197,400.00	43,908,579.00				
Total			6,906,900.00	48,935,386.50				

Share options or other equity instruments outstanding at period end

Category of grant recipients	Share options outstanding at year end: Range of exercise prices	Share options outstanding at year end: Remaining term of the contract	Other equity instruments outstanding at the end of the period: Range of exercise prices	Other equity instruments outstanding at the end of the period: Remaining term of the contract
Directors, supervisors, senior managers, middle managers and key personnel	The Company's outstanding share options at the end of the period are Xinhua JLC2, option code 037203, exercise price 7.085 yuan/share	The remaining term of the contract is 0.5 years.	Nil	Nil
Middle management and core staff	The Company's outstanding share options at the end of the period are Xinhua JLC3, option code 037322, exercise price 36.805 yuan/share	The remaining term of the contract is 1.5 years.	Nil	Nil

(1) JLC2 share options

According to the Company's "2021 A-share Share Option Incentive Plan," the share options granted to the incentive recipients will be exercised in three phases, starting from the grant date (December 31, 2021), with a 24-month vesting period. The exercise ratio for each phase is 34%, 33%, and 33%, respectively. Specifically, the first exercise period is from the first trading day after 24 months from the grant date to the last trading day within 36 months of the grant date, during which 34% of the total share options granted can be exercised.

On December 31, 2021, at the 7th extraordinary meeting of the 10th director board and the 7th extraordinary meeting of the 10th supervisor board, the proposal for the first grant of A-share share options to the incentive recipients was reviewed and approved. Based on the authorization from the Company's 2021 First Extraordinary Shareholders' Meeting and the 2021 Second A-share category shareholders' meeting, the grant date of the share options was set as December 31, 2021, and 23.15 million share options were granted to 196 eligible incentive recipients.

On January 2, 2024, at the 1st extraordinary meeting of the 11th director board and the 1st extraordinary meeting of the 11th supervisor board, the proposal to adjust the exercise price, the list of incentive recipients, and the granted share option quantity, and to cancel part of the options, was reviewed and approved. Based on the authorization from the Company's 2021 First Extraordinary Shareholders' Meeting, 2021 Second A-share category shareholders' meeting, and 2021 Second H-share category shareholders' meeting, the director board approved an adjustment in the number of incentive recipients from 196 to 194, reducing the granted but unexercised share options from 23.15 million to 22.72 million. The exercise price was adjusted from 7.96 yuan per option to 7.61 yuan per option. According to the relevant provisions of the "2021 A-share Share Option Incentive Plan," the exercise conditions for the first exercise period were met. The 194 incentive recipients could exercise a total of 7.7248 million share options during the first exercise period. The options were exercised in January 2024, and the listed circulation date for the exercised shares was January 15, 2024.

On December 31, 2024, at the 3rd extraordinary meeting of the 11th director board and the 3rd extraordinary meeting of the 11th supervisor board, the proposal to adjust the exercise price, the list of incentive recipients, and the granted share option quantity, and to cancel part of the options, was reviewed and approved. The number of incentive recipients for the 2021 A-share share option incentive plan was adjusted from 194 to 190, and the granted but unexercised share options were adjusted from 14.9952 million to 14.7378 million. The initial exercise price was adjusted from 7.61 yuan per option to 7.335 yuan per option. According to the relevant provisions of the "2021 A-share Share Option Incentive Plan," the exercise conditions for the second exercise period were met. The 190 incentive recipients could exercise a total of 7.3689 million share options during the second exercise period. The options were exercised in January 2025, and the listed circulation date for the exercised shares was January 14, 2025.

On December 31, 2025, at the 2nd extraordinary meeting of the 11th director board, the proposal to adjust the exercise price, the list of incentive recipients, and the granted share option quantity, and to cancel part of the options, was reviewed and approved. The number of incentive recipients for the 2021 A-share share option incentive plan was adjusted from 190 to 183, and the granted but unexercised share options were adjusted from 7.3689 million to 6.9069 million. The initial exercise price was adjusted from 7.335 yuan per option to 7.085 yuan per option. According to the relevant provisions of the "2021 A-share Share Option Incentive Plan," the exercise conditions for the third exercise period were met. The 183 incentive recipients could exercise a total of 6.9069 million share options during the third exercise period. The options were exercised in January 2026, and the listed circulation date for the exercised shares was January 14, 2026.

(2) JLC3 share options

On December 26, 2022, with the approval and authorization from the Company's 2021 First Extraordinary Shareholders' Meeting, 2021 Second A-share category shareholders' meeting, and 2021 Second H-share category shareholders' meeting, the 10th Board of Directors' 4th extraordinary meeting and the 10th Supervisory Board's 1st extraordinary meeting reviewed and approved the proposal to grant reserved stock options to the incentive recipients. It was agreed to set December 26, 2022, as the reserved grant date, with 1.75 million shares being granted to 35 middle-level management and core personnel.

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

On December 31, 2024, at the 3rd extraordinary meeting in 2024 of the 11th Board of Directors and the 3rd extraordinary meeting of the 11th Supervisory Board, the proposal to adjust the exercise price of the reserved stock options under the 2021 A-share stock option incentive plan and the proposal that the exercise conditions for the first exercise period of the reserved stock options were met were reviewed and approved. The Company adjusted the exercise price of the reserved stock options from 37.53 yuan per option to 37.055 yuan per option. According to the relevant provisions of the 2021 A-share Stock Option Incentive Plan, the exercise conditions for the first exercise period of the reserved grant of stock options have been met, and the number of stock options that can be exercised by the 35 incentive objects in the first exercise period is 595,000 share options.

On December 31, 2025, at the 2nd extraordinary meeting in 2025 of the 11th Board of Directors, the proposal to adjust the exercise price of the reserved stock options and Cancellation of Partial Options under the 2021 A-share stock option incentive plan and the proposal that the exercise conditions for the second exercise period of the reserved stock options were met were reviewed and approved. The Company cancelled 595,000 share options that had expired but were not exercised, and adjusted the exercise price of the reserved stock options from 37.055 yuan per option to 36.805 yuan per option. According to the relevant provisions of the 2021 A-share Stock Option Incentive Plan, the exercise conditions for the second exercise period of the reserved grant of stock options have been met, and the number of stock options that can be exercised by the 35 incentive objects in the second exercise period is 577,500 share options.

2. Equity-settled share-based payments

Item	Current Period
Method in determining the fair value of equity instruments at the date of grant	Black-Scholes Option Pricing Model
Important parameters of fair value of equity instruments on the grant date	Stock price, risk-free rate of return, historical volatility
Basis for determining the number of exercisable equity instruments	On each balance sheet date during the vesting period, the best estimate is made based on the company-level performance evaluation and individual-level performance evaluation combined with the latest subsequent information such as the change in the number of employees who can exercise the rights, and the estimated number of equity instruments that can be exercised is revised.
Reason for significant difference of estimation between Current Period and Previous Period	None
Cumulative amount of equity-settled share-based payments included in capital reserve	150,264,577.65

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

3. Share-based payments expenses in the period

Category of grant recipients	Equity-settled share-based payment expenses	Cash-settled share-based payment charges
Middle management and core staff	1,162,038.30	
Total	1,162,038.30	

4. Information on modification and termination of share-based payment

Changes to share-based payments	None
Termination of share-based payment	None

XIV. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

(1) The large contracts that have been signed and are either in progress or about to be executed

Project name	Contract Amount	Outstanding amount
Innovative drug and formulation development	100,000,000.00	87,000,000.00
Development of innovative drug APIs and their preparations	100,000,000.00	99,000,000.00
Total	200,000,000.00	186,000,000.00

(2) Except for the above-mentioned commitments, as of June 30, 2026, the Group has no other significant commitments.

2. Contingencies

As of June 30, 2026, the Group has no pending litigations, external guarantees, or other contingencies that need to be disclosed.

XV. EVENT AFTER BALANCE SHEET DATE

As of June 30, 2026, the Group has no matters after the balance sheet date that should be disclosed.

XVI. OTHER SIGNIFICANT MATTERS

1. Correction of previous errors

None.

2. Significant debt restructuring

None.

3. Non-monetary asset exchange

None.

4. Significant asset transfer and sale

None.

5. Segment information

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

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

(1) Segment profit or loss, assets, and liabilities

Current period or end of current period	Chemical raw materials	Preparations	Pharmaceutical intermediates and other products	Unassigned Projects	Offset	Total
Operating income	1,248,499,115.08	2,499,553,350.42	1,622,428,169.13		-1,012,932,023.46	4,357,548,611.17
Including: External revenue	1,244,863,331.72	1,961,851,337.94	1,150,833,941.51			4,357,548,611.17
Inter-segment sales	3,635,783.36	537,702,012.48	471,594,227.62		-1,012,932,023.46	
Operating cost	882,866,908.84	2,136,920,935.84	1,518,302,646.00		-1,015,575,592.99	3,522,514,897.69
Including: External transaction costs	794,597,639.01	1,601,954,970.33	1,125,962,288.35			3,522,514,897.69
Inter-segment transaction costs	88,269,269.83	534,965,965.51	392,340,357.65		-1,015,575,592.99	
Period cost	172,557,738.16	237,864,994.58	51,934,168.46	135,828,403.26	-315,234.87	597,870,069.59
Operating profit	236,618,268.38	94,977,859.47	-46,073,447.95	-111,168,808.27	1,306,266.35	175,660,137.98
Total assets	3,434,940,216.58	3,832,198,760.12	1,825,146,878.46	2,394,928,397.27	-2,395,792,934.20	9,091,421,318.23
Total liabilities	1,069,143,819.77	1,925,410,016.77	672,710,388.61	1,520,575,189.54	-1,612,927,213.86	3,574,912,200.83

Continued:

Previous period or end of previous period	Chemical raw materials	Preparations	Pharmaceutical intermediates and other products	Unassigned Projects	Offset	Total
Operating income	1,494,428,514.78	2,554,579,769.29	1,651,990,017.75		-1,062,194,258.84	4,638,804,042.98
Including: External revenue	1,489,371,455.93	2,057,915,530.85	1,091,517,056.20			4,638,804,042.98
Inter-segment sales	5,057,058.85	496,664,238.44	560,472,961.55		-1,062,194,258.84	
Operating cost	1,034,911,989.50	2,192,907,493.09	1,558,509,595.63		-1,077,063,692.87	3,709,265,385.35
Including: External transaction costs	937,447,707.60	1,676,918,880.50	1,094,898,797.25			3,709,265,385.35
Inter-segment transaction costs	97,464,281.90	515,988,612.59	463,610,798.38		-1,077,063,692.87	
Period cost	187,229,752.22	251,438,857.97	45,290,680.15	116,482,632.31	-430,933.67	600,010,988.98
Operating profit	320,510,416.62	102,684,616.64	-70,159,791.08	-89,849,331.14	1,061,296.07	264,247,207.11
Total assets	3,388,985,059.36	3,752,602,271.26	1,817,935,208.71	2,412,659,288.47	-2,186,486,059.64	9,185,695,768.16
Total liabilities	1,200,940,459.65	1,794,777,454.64	618,413,583.44	1,516,903,683.11	-1,401,065,915.92	3,729,969,264.92

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

(2) Non-current assets classified by location of assets

The total non-current assets of the Group, excluding financial assets and deferred tax assets, located in domestic and other countries and regions are as follows:

Total non-current assets	Closing balance	Opening balance
China (including Hong Kong)	**4,640,841,915.04**	4,850,902,604.79
America	**15,824.58**	33,451.11
Europe	**13,707.62**	18,492.77
Total	**4,640,871,447.24**	4,850,954,548.67

XVII. NOTES TO SIGNIFICANT ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

1. Accounts receivable

(1) Disclosure by ageing

The ageing analysis of accounts receivable (including accounts receivable from related parties) based on the transaction date is as follows:

Ageing	Closing balance	Opening balance
Within one year	**1,012,734,049.45**	839,090,450.37
1 to 2 years	**18,908,917.41**	19,158,053.07
2 to 3 years	**18,224,975.91**	13,657,125.08
Over 3 years	**13,844,744.56**	13,032,636.48
Including: 3 to 4 years	**2,937,486.82**	4,407,983.52
4 to 5 years	**4,679,339.80**	4,679,339.80
Over 5 years	**6,227,917.94**	3,945,313.16
Subtotal	**1,063,712,687.33**	884,938,265.00
Less: Provision for bad debts	**31,181,543.76**	28,547,871.40
Total	**1,032,531,143.57**	856,390,393.60

Notes : A portion of the Company's sales in mainland China is conducted on a prepayment basis, while the remaining sales are paid via letters of credit or bank acceptance bills, or a certain credit period is granted to the customers.

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

(2) Disclosure by method of provision for bad debts

	Closing balance				
	Book balance		Provision for bad debts		
Category	Amount	Ratio (%)	Amount	Expected credit loss rate (%)	Carrying amount
Bad debt provision is made on a single basis					
Provision for bad debts on a portfolio basis	**1,063,712,687.33**	**100.00**	**31,181,543.76**	**2.93**	**1,032,531,143.57**
Including: Ageing group	**347,066,688.40**	**32.63**	**31,181,543.76**	**8.98**	**315,885,144.64**
Combination of trading partners within the scope of consolidation	**716,645,998.93**	**67.37**			**716,645,998.93**
Total	**1,063,712,687.33**	**100.00**	**31,181,543.76**	**2.93**	**1,032,531,143.57**

Continued:

	Opening balance				
	Book balance		Provision for bad debts		
Category	Amount	Ratio (%)	Amount	Expected credit loss rate (%)	Carrying amount
Bad debt provision is made on a single basis					
Provision for bad debts on a portfolio basis	884,938,265.00	100.00	28,547,871.40	3.23	856,390,393.60
Including: Ageing group	320,913,109.34	36.26	28,547,871.40	8.90	292,365,237.94
Combination of trading partners within the scope of consolidation	564,025,155.66	63.74			564,025,155.66
Total	884,938,265.00	100.00	28,547,871.40	3.23	856,390,393.60

At the end of the period, the Company does not have any accounts receivable for which a bad debt provision is made on a single basis.

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

Accounts receivable with provision for bad debts on a portfolio basis

Provision for bad debts on portfolio basis: Ageing group

Ageing	Closing balance Book balance	Closing balance Provision for bad debts	Closing balance Expected credit loss rate (%)	Opening balance Book balance	Opening balance Provision for bad debts	Opening balance Expected credit loss rate (%)
Within one year	**322,331,780.25**	**6,446,635.61**	**2.00**	298,331,875.45	5,966,637.51	2.00
1 to 2 years	**4,501,792.41**	**4,501,792.41**	**100.00**	4,525,905.57	4,525,905.57	100.00
2 to 3 years	**6,388,371.18**	**6,388,371.18**	**100.00**	5,022,691.84	5,022,691.84	100.00
3 to 4 years	**2,937,486.82**	**2,937,486.82**	**100.00**	4,407,983.52	4,407,983.52	100.00
4 to 5 years	**4,679,339.80**	**4,679,339.80**	**100.00**	4,679,339.80	4,679,339.80	100.00
Over 5 years	**6,227,917.94**	**6,227,917.94**	**100.00**	3,945,313.16	3,945,313.16	100.00
Total	**347,066,688.40**	**31,181,543.76**	**8.98**	320,913,109.34	28,547,871.40	8.90

Provision for bad debts on portfolio basis: Combination of trading partners within the scope of consolidation

Item	Closing balance Book balance	Closing balance Provision for bad debts	Closing balance Expected credit loss rate (%)	Opening balance Book balance	Opening balance Provision for bad debts	Opening balance Expected credit loss rate (%)
Within one year	**690,402,269.20**			540,758,574.92		
1 to 2 years	**14,407,125.00**			14,632,147.50		
2 to 3 years	**11,836,604.73**			8,634,433.24		
Total	**716,645,998.93**			564,025,155.66		

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

(3) Accrual, recovery or reversal of bad debt provision during the period

Item	Amount of provision for bad debts
Opening balance	28,547,871.40
Provision for the period	2,633,672.36
Closing balance	**31,181,543.76**

(4) Accounts receivable and contract assets due from the top five debtors

Name of entity	Accounts receivable Closing balance	Closing balance of contract assets	Closing balance of accounts receivable and contract assets	% of the total closing balance of accounts receivable and contract assets	Closing balance of bad debt provision for accounts receivable and provision for impairment of contract assets
Shandong Xinhua Pharmaceutical Trading Co., Ltd.	623,051,526.23		623,051,526.23	58.57	
Shandong Xinhua Pharmaceutical(Europe) BV	49,103,785.63		49,103,785.63	4.62	
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	40,120,044.73		40,120,044.73	3.77	
Zibo High-tech Industrial Development Zone Management Committee	27,966,049.93		27,966,049.93	2.63	23,539,962.25
Merck Pharmaceuticals (Jiangsu) Co., Ltd.	20,132,927.05		20,132,927.05	1.89	402,658.54
Total	760,374,333.57		760,374,333.57	71.48	23,942,620.79

2. Other receivables

Item	Closing balance	Opening balance
Interest receivable		
Dividends receivable	**7,134,113.28**	
Other receivables	**347,892,739.19**	337,337,225.71
Total	**355,026,852.47**	337,337,225.71

(1) Interest receivable

None.

(2) Dividends receivable

Item	Closing balance	Opening balance
Bank of Communications Co., Ltd.	1,384,113.28	
China Pacific Insurance (Group) Co., Ltd	5,750,000.00	
Total	**7,134,113.28**	

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

(3) Other receivables

① Disclosure by ageing

Ageing	Closing balance	Opening balance
Within one year	**142,304,043.12**	126,183,987.50
1 to 2 years	**6,441,820.09**	6,601,935.82
2 to 3 years	**5,404,831.55**	5,404,831.55
Over 3 years	**194,832,970.93**	200,350,885.18
Including: 3 to 4 years	**36,397,444.73**	36,397,444.73
4 to 5 years	**28,595,070.97**	28,595,070.97
Over 5 years	**129,840,455.23**	135,358,369.48
Subtotal	**348,983,665.69**	338,541,640.05
Less: Provision for bad debts	**1,090,926.50**	1,204,414.34
Total	**347,892,739.19**	337,337,225.71

② Disclosure by nature

Item	Closing balance Book balance	Closing balance Provision for bad debts	Closing balance Carrying amount	Opening balance Book balance	Opening balance Provision for bad debts	Opening balance Carrying amount
Related party transactions within the scope of the merger	**347,479,178.19**		**347,479,178.19**	336,768,171.82		336,768,171.82
Petty cash	**152,968.50**	**132,968.50**	**20,000.00**	363,084.23	237,037.94	126,046.29
Others	**1,351,519.00**	**957,958.00**	**393,561.00**	1,410,384.00	967,376.40	443,007.60
Total	**348,983,665.69**	**1,090,926.50**	**347,892,739.19**	338,541,640.05	1,204,414.34	337,337,225.71

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

③ *Information of provision for bad debts*

	Closing balance				
	Book balance		Provision for bad debts		
Category	Amount	Ratio (%)	Amount	Expected credit loss rate (%)	Carrying amount
Provision for bad debts on a portfolio basis	**348,983,665.69**	**100.00**	**1,090,926.50**	**0.31**	**347,892,739.19**
Including: Ageing group	**1,504,487.50**	**0.43**	**1,090,926.50**	**72.51**	**413,561.00**
Related party portfolio	**347,479,178.19**	**99.57**			**347,479,178.19**
Total	**348,983,665.69**	**100.00**	**1,090,926.50**	**0.31**	**347,892,739.19**

Continued:

	Opening balance				
	Book balance		Provision for bad debts		
Category	Amount	Ratio (%)	Amount	Expected credit loss rate (%)	Carrying amount
Provision for bad debts on a portfolio basis	338,541,640.05	100.00	1,204,414.34	0.36	337,337,225.71
Including: Ageing group	1,773,468.23	0.52	1,204,414.34	67.91	569,053.89
Related party portfolio	336,768,171.82	99.48			336,768,171.82
Total	338,541,640.05	100.00	1,204,414.34	0.36	337,337,225.71

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

1) Provision for bad debts is made for other receivables on an individual basis: None

2) Provision for bad debts of other receivables is made based on aging categories

	Closing balance		
Ageing	**Book balance**	**Provision for bad debts**	**Provision ratio** *(%)*
Within one year	**468,525.00**	**74,964.00**	**16.00**
1 to 2 years	**50,000.00**	**30,000.00**	**60.00**
2 to 3 years	**90,000.00**	**90,000.00**	**100.00**
3 to 4 years	**12,968.50**	**12,968.50**	**100.00**
Over 5 years	**882,994.00**	**882,994.00**	**100.00**
Total	**1,504,487.50**	**1,090,926.50**	**72.51**

Continued:

	Opening balance		
Ageing	Book balance	Provision for bad debts	Provision ratio *(%)*
Within one year	577,390.00	92,382.40	16.00
1 to 2 years	210,115.73	126,069.44	60.00
2 to 3 years	90,000.00	90,000.00	100.00
3 to 4 years	12,968.50	12,968.50	100.00
Over 5 years	882,994.00	882,994.00	100.00
Total	1,773,468.23	1,204,414.34	67.91

④ *Accrual, recovery or reversal of bad debt provision during the period*

Provision for bad debts	Stage 1 Expected credit losses in the next 12 months	Stage 2 Expected credit losses throughout the lifetime (no credit impairment occurs)	Stage 3 Expected credit losses throughout the lifetime (credit impairment has occurred)	Total
Opening balance	308,451.84		895,962.50	1,204,414.34
Beginning balance in this period				
– Transition to Stage 2				
– Transition to Stage 3				
– Reverse to Stage 2				
– Reverse to Stage 1				
Provision for the period	-113,487.84			-113,487.84
Reversal in the period				
Transfer in the period				
Write-off in the period				
Other movement				
Closing balance	**194,964.00**		**895,962.50**	**1,090,926.50**

The classification basis for each stage is as follows: Other receivables with aging within 3 years are classified as Stage 2 for individual provision; Other receivables with aging over 3 years are classified as Stage 3; Other receivables with other aging periods are classified as Stage 1.

⑤ *Actual written-off of other receivables in the period: None.*

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

⑥ *Other receivables due from the top five debtors*

Name of entity	Nature	Closing balance of other receivables	Ageing	Proportion of total closing balance of other receivables (%)	Provision for bad debts Closing balance
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	Related party transactions	**148,700,000.00**	Within one year;1 to 5 years; Over 5 years	42.61	
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Related party transactions	**126,883,097.13**	Within one year	36.36	
Zibo Xinhua Pharmacy Chain Co., Ltd.	Related party transactions	**66,009,355.88**	Within one year; 1 to 5 years; Over 5 years	18.91	
Shandong Xinhua Mechanical and Electrical Engineering Co., Ltd.	Related party transactions	**5,886,725.18**	Within one year	1.69	
Zhou Changyin	Petty cash	**152,968.50**	1 to 5 years	0.04	132,968.50
Total		**347,632,146.69**		99.61	132,968.50

⑦ *Centralized cash management*

The Company has no amounts reported under other receivables due to centralized cash management.

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

3. Long-term equity investment

Item	Closing balance Book balance	Provision for impairment	Carrying amount	Opening balance Book balance	Provision for impairment	Carrying amount
Investment in subsidiaries	**734,652,355.99**		**734,652,355.99**	734,652,355.99		734,652,355.99
Investment in associated companies	**58,529,175.90**		**58,529,175.90**	58,191,097.56		58,191,097.56
Total	**793,181,531.89**		**793,181,531.89**	792,843,453.55		792,843,453.55

(1) Investment in subsidiaries

Investee	Balance at the end of the Previous Period (book value)	Beginning balance of impairment provision	Movement in the period: Additional investment	Decrease in investment	Provision for impairment	Others	Closing balance (book value)	Closing balance of impairment provision
Shandong Xinhua Pharmaceutical Trading Co., Ltd.	58,582,509.23						**58,582,509.23**	
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	230,712,368.00						**230,712,368.00**	
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	35,000,000.00						**35,000,000.00**	
Shandong Xinhua Design Engineering Co., Ltd.	3,037,700.00						**3,037,700.00**	
Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd.	73,803,927.44						**73,803,927.44**	
Shandong Xinhua Pharmaceutical (Europe) B. V.	4,596,798.56						**4,596,798.56**	

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

Investee	Balance at the end of the Previous Period (book value)	Beginning balance of impairment provision	Movement in the period: Additional investment	Movement in the period: Decrease in investment	Movement in the period: Provision for impairment	Movement in the period: Others	Closing balance (book value)	Closing balance of impairment provision
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	138,073,454.68						**138,073,454.68**	
Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	5,500,677.49						**5,500,677.49**	
Shandong Xinhua Pharmaceutical (USA) Inc.	9,370,650.00						**9,370,650.00**	
Shandong Xinhua Mechanical and Electrical Engineering Co., Ltd.	8,000,000.00						**8,000,000.00**	
Shandong Xinhua Wanbo Chemical Co., Ltd.	46,974,270.59						**46,974,270.59**	
Shandong Xinhua Health Technology Co., Ltd.	49,000,000.00						**49,000,000.00**	
Shandong Tongxin Pharmaceutical Co., Ltd.	72,000,000.00						**72,000,000.00**	
Total	734,652,355.99						**734,652,355.99**	

(2) Investment in associates and joint ventures

Investee	Balance at the end of the Previous Period (book value)	Beginning balance of impairment provision	Movement in the period: Additions in investment	Decrease in investment	Investment gains or losses recognized under the equity method	Adjustment of other comprehensive income	Changes of other equity	Announced distribution of cash dividend or profit	Impairment provision	Other	Closing balance (book value)	Closing balance of impairment provision
① Associates												
Centrient Pharmaceuticals (Zibo) Co., Ltd.	58,191,097.56				338,078.34						**58,529,175.90**	
Total	58,191,097.56				338,078.34						**58,529,175.90**	

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

4. Operating income and operating cost

(1) Operating income and operating cost

Item	Current Period Revenue	Current Period Cost	Previous Period Revenue	Previous Period Cost
Primary operations	**1,790,628,574.65**	**1,302,935,517.28**	1,958,907,156.84	1,383,098,482.22
Other operations	**44,931,689.74**	**48,224,325.14**	42,100,252.64	58,185,859.54
Total	**1,835,560,264.39**	**1,351,159,842.42**	2,001,007,409.48	1,441,284,341.76

(2) Disaggregated information of operating income and operating cost

Main product types	Current Period Revenue	Current Period Cost	Previous Period Revenue	Previous Period Cost
Business Type:				
Including: Chemical raw materials	**1,201,062,635.08**	**843,810,872.16**	1,417,823,485.98	980,915,629.04
Preparation	**589,565,939.57**	**459,124,645.12**	541,083,670.86	402,182,853.18
Pharmaceutical intermediates and other products	**44,931,689.74**	**48,224,325.14**	42,100,252.64	58,185,859.54
Classification by operating area:				
Including: China (including Hong Kong)	**1,099,454,292.36**	**775,325,472.82**	1,067,487,930.86	687,439,850.32
America	**190,451,204.36**	**145,017,351.07**	326,191,523.17	270,589,821.35
Europe	**334,293,614.74**	**250,407,871.31**	370,165,615.40	269,096,096.40
Others	**211,361,152.93**	**180,409,147.22**	237,162,340.05	214,158,573.69
Classification by time of transfer of goods				
Including: Transfer at a point in time	**1,822,962,892.20**	**1,342,204,671.99**	1,996,041,349.94	1,438,369,717.38
Rental income	**12,597,372.19**	**8,955,170.43**	4,966,059.54	2,914,624.38
Classification by sales channels				
Including: Direct marketing model	**653,632,043.57**	**421,812,504.61**	655,450,502.60	494,389,353.63
Distribution model	**1,181,928,220.82**	**929,347,337.81**	1,345,556,906.88	946,894,988.13
Total	**1,835,560,264.39**	**1,351,159,842.42**	2,001,007,409.48	1,441,284,341.76

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

(3) Explanation of performance obligations

According to the terms of the contract, the Company, as the primary responsible party, fulfils the supply obligations in a timely manner according to the product categories and standards required by the customer. For sales contracts within China, when the Company delivers the goods to the agreed location and the customer confirms receipt of the goods, the control of the goods transfers to the customer. For sales contracts outside of China, when the products are customs-exported and the customs declaration and bill of lading (waybill) are obtained, the customer gains control of the relevant goods.

The payment terms vary among different customers and products. Some of our sales are made in advance, while others are granted a certain credit period.

(4) Information relating to remaining performance obligations

The amount of revenue corresponding to performance obligations under contracts that have been signed but not yet fulfilled, or not fully fulfilled, as of the end of the period is RMB24,585,255.66. Of this, RMB18,650,494.17 is expected to be recognized as revenue in the next year.

(5) The revenue recognized this period includes an amount of RMB24,651,048.29 that was previously included in contract liabilities at the end of last year.

(6) Significant contract modifications or significant price adjustments

None.

5. Investment income

Item	Current Period	Previous Period
Long-term equity investment income calculated using the cost method	**442,844.72**	
Long-term equity investment income accounted for using the equity method	**338,078.34**	-1,140,099.82
Dividend income from other equity instrument investments	**7,134,113.28**	7,019,182.40
Terminate recognition of discounting interest on accounts receivable	**-78,869.64**	
Total	**7,836,166.70**	5,879,082.58

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

XVIII. SUPPLEMENT INFORMATION

1. Schedule of non-recurring gains or losses

Item	Current Period	Note
Gains and losses on disposal of non-current assets, including write-offs of impairment provisions	**-1,379,538.45**	Notes to Financial Statements V. 53 V. 55
Government grants included in the current profit and loss, except those that are closely related to the Company's normal business operations, comply with national policy regulations, are enjoyed according to determined standards, and have a lasting impact on the company's profit and loss	**11,761,437.90**	Notes to Financial Statements V. 49 V. 54
Other non-operating income and expenses other than the above	**-9,244,703.45**	Notes to Financial Statements V. 54 V. 55
Total amount of non-recurring items	**1,137,196.00**	
Less: Income tax impact of non-recurring gains and losses	**-800,946.74**	
Net non-recurring gains and losses	**1,938,142.74**	
Less: Non-recurring items attributable to the minority shareholders (after tax)	**120,244.68**	
Non-recurring items attributable to the shareholders of the Company	**1,817,898.06**	

2. Return on equity and earnings per share

		Earnings per share	
Profit in reporting period	**Weighted average return on equity** *(%)*	**Basic earnings per share**	**Diluted earnings per share**
Net profit attributable to the company's ordinary shareholders	2.81	0.21	0.21
Net profit attributable to the company's ordinary shareholders after deducting non-recurring gains and losses	2.77	0.21	0.21

(1) DOCUMENTS AVAILABLE FOR INSPECTION

1. The Company's 2026 interim report signed by the Chairman of the Board.

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

3. All original copies of the Company's announcements and Company's documents publicly disclosed in PRC newspapers in the Reporting Period.

(2) PLACE FOR INSPECTION

Office of the secretary to the Board of the Company

Shandong Xinhua Pharmaceutical Co., Ltd.
25 August 2026