



Shandong Xinhua Pharmaceutical Company Limited

Stock Code: H Share 0719 A Share 000756



2008

Interim Report



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Important:

The board of directors ("Board") and the directors ("Directors") of Shandong Xinhua Pharmaceutical Company Limited ("Company") hereby confirm that there are no false representations, material omissions or misleading statements contained in this interim report ("Report") and they, jointly and severally, accept full 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 "Group") for the six months ended 30 June 2008 has not been audited.

The chairman (Ms. Guo Qin), financial controller (Mr. Zhao Songguo) and the chief of financial department (Mr. Wang Jianxin) of the Company hereby pledge that the financial report of the Company for the six months ended 30 June 2008 is true, accurate and complete.

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

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 (the “Company”)
Legal Representative	:	Ms. Guo Qin
Company Secretaries	:	Mr. Cao Changqiu, Ms. Guo Lei
Telephone Number	:	86-533-2166666
Facsimile Number	:	86-533-2287508
E-mail Address of Company Secretaries	:	cqcao@xhzy.com, guolei@xhzy.com
Registered Address and Office Address	:	Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, the People’s Republic of China (the “PRC”)
Postal Code	:	255005
Website of the Company	:	http://www.xhzy.com
E-mail Address of the Company	:	xhzy@xhzy.com
PRC newspaper for information disclosure	:	Securities Times
Website designated by the China Securities Regulatory Commission (the “CSRC”)	:	http://www.cninfo.com.cn
Listing Information		
H Shares		
Stock Exchange	:	The Stock Exchange of Hong Kong Limited (the “SEHK”)
Abbreviated Name	:	Shandong Xinhua
Stock Code	:	0719
A Shares		
Stock Exchange	:	Shenzhen Stock Exchange (the “SZSE”)
Abbreviated Name	:	Xinhua Pharm
Stock Code	:	000756

1. FINANCIAL SUMMARY PREPARED IN CONFORMITY WITH PRC ACCOUNTING STANDARDS (RMB'000)

Item	As at 30 June 2008 <i>(Unaudited)</i>	As at 31 December 2007 <i>(Audited)</i>	Change as compared to the end of last year (%)
Total assets	2,131,310	2,270,715	(6.14)
Total equity attributable to holders of Company	1,492,679	1,665,961	(10.40)
Net assets per share (RMB)	3.26	3.64	(10.44)
	Six months ended 30 June 2008 <i>(Unaudited)</i>	Six months ended 30 June 2007 <i>(Unaudited)</i>	Change as compared to the last year (%)
Operating profit	31,529	26,030	21.13
Profit before taxation	30,568	29,823	2.50
Profit attributable to the equity shareholders of Company	20,457	18,936	8.04
Profit attributable to the equity shareholders of Company after extraordinary items	19,386	14,092	37.57
Basic earnings per share (RMB)	0.04	0.04	0.00
Diluted earnings per share (RMB)	0.04	0.04	0.00
Return on equity (%)	1.37	1.33	0.04
Net cash flow from operating activities	43,980	78,785	(44.18)
Net cash flow from operating activities per share (RMB)	0.10	0.17	(41.18)

Note:

Extraordinary items include:

Item	RMB'000
Profit or loss from disposal of non-current assets	455
Change in fair value of held-for-trading financial assets	(13,635)
Profit or loss from disposal of held-for-trading financial assets	14,232
Income invested from available-for-sale financial assets	651
Write back of provision for accounts receivable	1,234
Non-operating income or cost except items above	(1,416)
Income tax	(492)
Net non-routine profit or loss attributable to the minority shareholders	42
Total	1,071

SUMMARY OF FINANCIAL AND OPERATING RESULTS

2. FINANCIAL SUMMARY PREPARED IN CONFORMITY WITH HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (HKGAAP) (RMB'000)

Condensed Consolidated Income Statement

	Six months ended 30 June 2008 (Unaudited)	Six months ended 30 June 2007 (Unaudited)
Turnover	1,151,004	977,688
Profit before taxation	25,881	30,121
Income tax expense	(7,995)	(7,783)
Profit for the period	17,886	22,338
Include:		
Profit attributable to shareholders	16,471	19,144
Minority interests	1,415	3,194

Condensed Consolidated Balance Sheet

	As at 30 June 2008 (Unaudited)	As at 31 December 2007 (Audited)
Total assets	2,096,236	2,260,100
Total liabilities	(560,525)	(526,061)
Minority interests	(29,733)	(50,793)
Net assets	1,505,978	1,683,246

3. RECONCILIATIONS OF ACCOUNTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND HKGAAP (RMB'000)

Item	Net assets at 30 June 2008 (Unaudited)	Profit attributable to shareholders for the six months ended 30 June 2008 (Unaudited)
Prepared under PRC accounting standards	1,492,679	20,457
HKGAAP adjustments:		
Deferred taxation	(2,334)	702
Depreciation charges due to revaluation in previous years	(19,663)	(204)
Provision for education fund	13,916	509
Provision for welfare expenses	—	(4,993)
Surplus from revaluation for listing of H Shares	21,300	—
Others	80	—
Prepared under HKGAAP	<u>1,505,978</u>	<u>16,471</u>

1. Share Capital structure

Unite: Share

Class of shares	30 Jun 2008		Class of shares	1 Jan 2008	
	Number of shares (Share)	% of the total share capital		Number of shares (Share)	% of the total share capital
1. Total number of conditional tradable shares	187,809,202	41.07%	1. Total number of conditional tradable shares	187,816,881	41.07%
Stated-owned shares	163,258,735	35.70%	Stated-owned shares	163,258,735	35.70%
Domestic legal person shares	0	0	Domestic legal person shares	0	0
Conditional tradable senior management A Shares	22,867	0.01%	Conditional tradable senior management A Shares	30,546	0.01%
Others	24,527,600	5.36%	Others	24,527,600	5.36%
2. Total number of unconditional tradable shares	269,503,628	58.93%	2. Total number of unconditional tradable shares	269,495,949	58.93%
Renminbi ordinary shares (A Shares)	119,503,628	26.13%	Renminbi ordinary shares (A Shares)	119,495,949	26.13%
Overseas listed foreign shares (H shares)	150,000,000	32.80%	Overseas listed foreign shares (H Shares)	150,000,000	32.80%
3. Total number of shares	457,312,830	100.00%	3. Total number of shares	457,312,830	100.00%

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Tradable Schedule of Conditional Listed Tradable Shares is as follows:

Name of shareholders	Number of shares subject to conditions of trading as at 1 January 2008	Number of unconditional tradable shares in the first half of 2008	Increase in shares subject to conditions of trading	Number of shares subject to conditions of trading as at 30 June 2008	Conditions	Date of removing the conditions
Shandong Xinhua Pharmaceutical Group Company Limited	163,258,735	0	0	163,258,735	Special undertaking	6 June 2009
Qingdao Haowei Investment Development Company Limited	15,000,000	0	0	15,000,000	Compliance with the special undertaking of SXPGC	6 June 2009
Zibo High-Tech Venture Capital Company Limited	7,632,600	0	0	7,632,600	Compliance with the special undertaking of SXPGC	6 June 2009
Huludao Bajiazi Mining Industry Company Limited	1,550,000	0	0	1,550,000	Compliance with the special undertaking of SXPGC	6 June 2009
Shangrao Daihu Industrial Company Limited	345,000	0	0	345,000	Compliance with the special undertaking of SXPGC	6 June 2009

Note: SXPGC has undertaken that between the 36th month and 48th month since the listing of the non-tradable shares of the Company (6 June 2006), it shall not sell more than 5% of the total capital of the Company on the SZSE and it shall not sell any of the A shares of the Company on the SZSE at a price less than RMB4.8 per share, (such price will be on an exrights basis if there is any declaration of dividends, bonus issues or capitalisation of capital reserve during the period between the day of implementation of the revised share reform of the Company and sale of the shares by SXPGC) being 150% of the average of the closing prices of the listed A Shares as quoted on the SZSE in the thirty (30) trading days prior to the issuance date of the relevant notice of the shareholders' meeting. Should SXPGC breach any of the provisions of this undertaking in the sale of its shares, the proceeds resulting from such sale shall be owned by the Company.

- As at 30 June 2008, the Company had on record a total of 49,203 shareholders, including 56 holders of H Shares and 49,147 holders of A Shares.

3. As at 30 June 2008, the ten largest shareholders of the Company were as follows:

Name of Shareholder	Types of shareholders	Number of shares held (Share)	% of the total share capital	Number of conditional tradable shares held (Share)	Number of shares being charged or freezed (Share)
SXPGC	State-owned shareholder	163,258,735	35.70	163,258,735	30,500,000
HKSCC (Nominees) Limited	H shares shareholder	148,767,998	32.53	—	—
Qingdao Haowei Investment Development Company Limited	Others	15,000,000	3.28	15,000,000	—
Zibo High-Tech Venture Capital Company Limited	Others	7,632,600	1.67	7,632,600	948,689
Huludao Bajiazi Mining Industry Company Limited	Others	1,550,000	0.34	1,550,000	—
Wei Xiaohua	Domestic person	1,456,973	0.32	—	—
Chen Zhengxu	Domestic person	636,301	0.14	—	—
Shandong Dacheng Pesticide Company Limited	Legal person	499,500	0.11	—	—
Lou Qiankun	Domestic person	453,190	0.10	—	—
Yin Zhong	Domestic person	445,000	0.10	—	—

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

4. As at 30 June 2008, the ten largest shareholders of the unconditional tradable shares of the Company were as follows:

Name of Shareholder	Number of unconditional listed shares (Share)	Class of shares
HKSCC (Nominees) Limited	148,767,998	H Shares
Wei Xiaohua	1,456,973	A Shares
Chen Zhengxu	636,301	A Shares
Shandong Dacheng Pesticide Company Limited	499,500	A Shares
Lou Qiankun	453,190	A Shares
Yin Zhong	445,000	A Shares
KAY AND COMPANY LTD	400,000	H Shares
Du Lijun	398,700	A Shares
Ren Junqiu	371,055	A Shares
Bo Lifang	351,300	A Shares

Note:

1. *The Directors are not aware as to whether there is any association amongst the ten largest shareholders of the Company, nor the persons acting in concert as defined in the "Rules for the information Disclosure of Changes in the Shareholding of Listed Companies" issued by the China Securities Regulatory Commission (the "CSRC"). In addition, the Directors do not know whether there is any association amongst the shareholders of H Shares of the Company or persons acting in concert as referred to above.*

The Directors do not know whether there is any association amongst the ten largest shareholders of unconditional tradable shares of the Company, any association between the ten largest shareholders of the Company and the ten largest shareholders of the Company or the persons acting in concert as defined in the Rules for the information Disclosure of Changes in the Shareholding of Listed Companies issued by the CSRC.

2. *The only domestic shareholder with more than 5% of the total issued shares of the Company is SXPGC.*
3. *There was no change of controlling shareholder of the Company during this reporting period.*
4. *Save as disclosed above and so far as the Directors are aware, as at 30 June 2008, no other person (other than the Directors, Supervisors, chief executives or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of 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 Listing Rules) of the Company.*

As at 30 June 2008, the number of shares held by the Directors, supervisors of the Company (“Supervisors”) and senior officers of the Company (“Senior Officers”) were as follows:

Name	Position	As at 1 January 2008 Number of Shares	Change Number of Shares	As at 30 June 2008 Number of Shares
Directors:				
Ms. Guo Qin	Chairman	12,639	Nil	12,639
Mr. Liu Zhenwen	Non-executive Director	Nil	Nil	Nil
Mr. Ren Fulong	Executive Director, General Manager	Nil	Nil	Nil
Mr. Zhao Songguo	Executive Director, Deputy general manager & Financial Controller	Nil	Nil	Nil
Mr. Li Tianzhong	Non-executive Director (appointed on 26 June 2008)	Nil	Nil	Nil
Mr. Dai Qingjun	Independent non-executive Director	Nil	Nil	Nil
Mr. Mok Chung Kwan, Stephen	Independent non-executive Director (resigned on 16 April 2008)	Nil	Nil	Nil
Mr. Xu Guojun	Independent non-executive Director	Nil	Nil	Nil
Mr. Sun Minggao	Independent non-executive Director	Nil	Nil	Nil
Supervisors:				
Mr. Yu Gongfu	Chairman of Supervisory Committee	6,075	Nil	6,075
Mr. Gao Qinggang	Supervisor	4,370	Nil	4,370
Mr. Liu Qiang	Supervisor	4,370	Nil	4,370
Mr. Zhang Yueshun	Independent Supervisor	Nil	Nil	Nil
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil	Nil
Senior Officers:				
Mr. Zhang Daiming	Deputy General Manager	Nil	Nil	Nil
Mr. Fu Hengqian	Deputy General Manager	Nil	Nil	Nil
Mr. Gao Xiangyou	Deputy General Manager (resigned on 19 May 2008)	Nil	Nil	Nil
Mr. Cao Changqiu	Company Secretary	3,038	-760	2,278
Ms. Guo Lei	Company Secretary	Nil	Nil	Nil
Total		30,492	-760	29,732

All shares held by the Directors, Supervisors and Senior Officers are A Shares.

So far as the Directors, Senior Officers and Supervisors are aware, save as disclosed above, as at 30 June 2008, no Director, Senior Officer or Supervisor of the Company 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“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 Officer or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”).

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

Mr. Mok Chung Kwan, Stephen resigned as an independent non-executive director of the Company with effect from 16 April 2008 due to the fact that the internal policy of his law firm does not allow a partner to be a director of a listed company.

Mr. Gao Xiangyou resigned as a deputy general manager of the Company with effect from 19 May 2008 due to change of job.

Mr. Li Tianzhong was appointed as a non-executive director of the Company in the annual general meeting held on 26 June 2008.

Dear shareholders,

I am pleased to report the operating results of the Company for the six months ended 30 June 2008.

For the six months ended 30 June 2008, pursuant to the PRC accounting standards, the operating income of the Company and its subsidiaries (collectively referred to as "the Group") was RMB1,140,653,000 and profit attributable to the equity shareholders of the parent company was RMB20,457,000, representing an increase of 17.73% and an increase of 8.04% respectively, as compared to that of the same period last year.

The Group had a turnover of RMB1,151,004,000 and the profit attributable to shareholders of RMB16,471,000 for the six months ended 30 June 2008 under HKGAAP, representing an increase of 17.73% and a decrease of 13.96% respectively, as compared with that of the same period last year.

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2008.

REVIEW OF OPERATION

During the first half of 2008, the Group faced negative factors such as price rises of energy, appreciation of the RMB, reduction in the rate of export tax rebates, growing pressure for environmental protection, in particular, the sharp increase in the prices of chemical raw materials and raw materials for preparation. The Group achieved its target of the first half of 2008 by: carefully analysing the current situation, formulating a reasonable price policy, developing new markets and expanding sales; adhering to innovation and energy-saving; paying close attention to project quality and construction progress; and improving cost awareness. The following is an overall review of the main businesses of the Group in the first half of 2008:

1. Seizing opportunities, developing new markets and expanding sales

During the first half of 2008, the Group seized good opportunities in the sale of leading products, developed domestic and international markets, and expanded the scale of operations. The sales of preparation products represented an increase of 22.09% as compared to that of the same period last year. There are good results in relation to getting more customers who are end users of the products. The sales of bulk pharmaceuticals represented an increase of 13.85% as compared to that of the same period last year. The Group's export value was US\$76,989,000, representing an increase of 24.00% as compared to that of the same period last year.

2. Adhering to innovation, paying close attention to technological progress and promoting energy-saving

During the first half of 2008, the Group paid close attention to products process improvement, adhered to technological innovation and improved efficiency in the use of materials, thus achieving the saving of raw materials worth RMB1,620,000 as compared to that of the same period last year.

During the first half of 2008, the Group achieved energy consumption of RMB10,000, representing a decrease of 11.5% as compared to that of the same period last year and energy conservation worth RMB6,130,000 by developing energy-saving activities, enhancing the full awareness of energy-saving and being cost-conscious.

The Group achieved the normal development of production and operation by intensifying environmental protection investment, enhancing environmental awareness by all personnel and relying on scientific and technological progress and improved environmental management.

The Group attached great importance to product quality work. During the first half of 2008, three raw material product lines and a tablet production line passed the State Food and Drug Administration GMP certification. The Group completed 29 quality audits of domestic and foreign manufacturers.

3. Paying close attention to project quality and construction progress; fostering a new growth area.

L-380 construction projects were completed efficiently and entered their trial production stage. The main works of the Ibuprofen technological transformation projects were completed successfully and entered the equipment installation stage. Some intermediate pharmaceutical supporting projects were in a preparatory stage. The completion of these projects will bring new economic growth areas to the Company.

During the first half of 2008, the Company strived to improve the hardware and software of the new tablet workshop and preparation production projects passed their spot checks and received good comments, laying a good foundation for expanding cooperation.

PLANS FOR THE SECOND HALF OF THE YEAR 2008

In relation to the second half of 2008, the adverse impact on the Group profits will continue and the pressure on fund and energy will increase. Therefore, the Group will firmly implement the policies in four areas, that is, restructuring, domestic and international market development, strengthening internal management, and developing employees' potential. The Group will:

1. Continue production and marketing convergence: carry out exemplary financing, research and policy implementation, ensure the supply of raw materials and power to enable the continued production of key products, adjust the product structure to reflect changes in the market and in costs, and ensure the production of effective and high-selling products.
2. Continue to intensify efforts to open up the market: rely on our own advantages, use pricing leverage, carefully analyse the market, seize opportunities, expand product sales, particularly preparation product sales, continue to implement a production and sale business strategy, control operational risks and ensure fund security.
3. Increase technology research activities and strengthen energy saving: implement measures to improve production technology and product quality by implementing the measure "one product, one policy", reduce consumption and absorb the impact of increased prices of raw materials and power, rely on scientific and technological innovation, increase energy saving measures and pay close attention to environmental protection.

25 July 2008
Zibo, Shandong, PRC

By order of the Board

Guo Qin
Chairman

The Group is mainly engaged in the development, manufacturing and sale of bulk pharmaceuticals, pharmaceutical preparations, chemical and other products. The profit of the Group is mainly attributable to these businesses.

1. LIQUIDITY AND ANALYSIS OF FINANCIAL RESOURCES AND CAPITAL STRUCTURE UNDER HKGAAP

As of 30 June 2008, the liquidity ratio of the Group was 158.35%, quick ratio was 108.82%, the turnover ratio of account receivables was 425.25% (turnover ratio of account receivables = turnover/average account receivables and net value of bills x 100%) and turnover ratio of inventory was 354.95% (inventory turnover ratio = cost of sales/average net value of inventory x 100%).

There was no significant seasonal effect on the capital demand of the Group.

The main source of funds for the Group was loans from financial institutions. As at 30 June 2008, the total amount of bank loans was approximately RMB245,144,000, in addition to an export mortgage of RMB1,185,000; other loans were unsecured. As at 30 June 2008, cash on hand and in bank amounted to approximately RMB205,851,000 (including the pledged deposits for acceptance of bills of exchange by banks and credit amounting to approximately RMB23,884,000).

The Group has stringent internal control systems for cash and fund management in order to strengthen financial management. The Group has sound liquidity and repayment ability.

During the six months ended 30 June 2008, the Company made a cash investment of RMB13,972,000 to purchase a 41.4375% equity interest of Shandong Dadi Xinhua Chemical & Industrial Company Limited (“Dadi Xinhua”). After the acquisition, Dadi Xinhua was renewed as Xinhua Pharmaceutical (Shouguang) Company Limited (“Shouguang Company”) the Company held 100% equity interest of Shouguang Company. The Company invested an additional RMB48,000,000 in Shouguang Company, and the registered capital of Shouguang Company changed to RMB80,000,000 from RMB32,000,000.

On 17 January 2008, the Company and Shandong Xinhua Industry & Trade Company Limited (“SXIT”) entered into a transfer agreement in relation to the acquisition of some of SXIT’s office and the land use rights by the Company at a total consideration of RMB9,500,000. The relevant transfer procedures are being conducted.

Apart from the above transactions, the Group did not have any significant investment, takeovers, asset acquisitions or disposals during this reporting period.

The clarification of the performance results of the Group is referred to in the section headed “Results and Financial Analysis under PRC accounting standards”.

As at 30 June 2008, the number of employees of the Group was 4,922. The total salaries for employees in the first half of 2008 amounted to RMB65,528,000.

As at 30 June 2008, in addition to the receivables RMB1,185,000 in relation to the export bill purchase, there were no other charges on the Group’s assets.

It is expected that there will be no significant investment projects in the second half of 2008.

As at 30 June 2008, the capital debt ratio of the Group was 16.28% (capital debt ratio = total loans/share capital and total reserve x 100%).

The cash and bank balances of the Company will mainly be used as working capital for production, operation and research development.

On 27 July 2007, the Company provided financial guarantees to a bank for the benefits of an independent third party in relation to bills of exchange amounting to RMB14,000,000. The bills of exchange would be issued to a subsidiary of the Company and the term was one year. The Company was only liable for the difference between the face value of the bills of exchange issued by the bank and the amount on the bills of lading if the bills of exchange were overdue. As at 30 June 2008, bills of exchange amounting to RMB24,000,000 were issued by the bank and bills of lading amounting to RMB18,500,000 were issued, among which bills of exchange amounting to RMB17,000,000 matured.

The assets and debts of the Group were denominated in Renminbi. However, the Group achieved USD76,989,000 in its export for the first half of 2008. Therefore, there was a greater impact from foreign exchange. The Group adopted the following measures to minimise the foreign exchange fluctuation risk: (1) raising the export price in order to minimise foreign exchange fluctuation risk; and (2) when the Group enters into an export contract involving large quantities of products with other parties, the Group shall seek prior consent from the other party that both parties will bear the foreign exchange fluctuation risk should the foreign exchange fluctuation exceed the contractual limit as agreed by both parties; and (3) the Group has entered into a long term settlement agreement with financial institutions to fix exchange rates in order to mitigate foreign exchange fluctuation risks.

2. RESULTS AND FINANCIAL ANALYSIS UNDER PRC ACCOUNTING STANDARDS

In the first half of 2008, the Group had achieved a turnover of RMB1,140,653,000 from its principal business, representing an increase of 17.73% as compared to the same period last year. The increase in revenue from the principal business was mainly attributable to the fact that the Group took advantage of the booming sales market and strengthened sales, thus product sales increased considerably. The decrease in net cash and cash equivalents was RMB17,865,000, while there was an increase of RMB48,756,000 in the same period last year. The main reason for the change was that more investment cash was paid during this reporting period. Operating profit amounted to RMB31,529,000, representing an increase of 21.13% as compared to the same period last year. The main reason for the increase was that the Group actively explored the products markets, increased product sales, improved technology, reduced the consumption of raw materials and power, strengthened expenditure management and decreased sales expenses.

Total assets of the Group as at 30 June 2008 amounted to RMB2,131,310,000, representing a decrease of RMB139,405,000 or 6.14% as compared to the figure of RMB2,270,715,000 as at 1 January 2008. This decrease was mainly due to a decrease in value of financial assets available for sale during this reporting period. The Group's short-term loans as at 30 June 2008 was RMB245,144,000, representing an increase of RMB38,325,000 from RMB206,819,000 at the beginning of this year. Such increase was attributable to cash borrowed by the Company from the bank to ensure supply of funds. Profit attributable to equity holders of the Company as at 30 June 2008 decreased by RMB173,282,000 or 10.40%, from RMB1,665,961,000 at the beginning of this year to RMB1,492,679,000. This decrease was mainly attributable to a decrease in the fair value of financial assets available for sale.

An analysis of the Group's turnover from principal operations is as follows:

By geographical location of customers	First half of 2008		First half of 2007	
	Total turnover RMB'000	Costs RMB'000	turnover RMB'000	Costs RMB'000
PRC (incl. Hong Kong)	633,963	536,139	516,732	436,094
Europe	147,002	129,950	139,417	114,064
Americas	171,691	155,106	150,953	126,339
Others	166,492	140,289	129,458	99,710
Total	1,119,148	961,484	936,560	776,207
By industry and By product		Income from principal operations RMB'000	Costs of sales of principal operations RMB'000	Gross profit margin (%)
Bulk pharmaceuticals		677,674	587,752	13.27
Preparations		203,768	145,742	28.48
Medical commercial logistics		231,913	224,807	3.06
Chemical products and other products		5,793	3,183	45.05
Total		1,119,148	961,484	14.09

An analysis of the constitution of profit as compared to 2007 is as follows:

Items	Amount (RMB'000)		% of total profit	
	Jan. – Jun. 2008	2007	Jan. – Jun. 2008	2007
Operating profit	31,529	35,453	103.14	76.23
Profit/Loss from non-operation activities	(961)	11,057	(3.14)	23.77
Profit before taxation	30,568	46,510	100.00	100.00

Analysis of the reasons for changes: During last year, non-operating income was large, however, during this report period, non-operating income was small, which resulted in a greater change between profit/loss from non-operation activities and profit before taxation.

3. USE OF PROCEEDS

On 3 September 2001, the Company raised an amount of RMB370,517,000 from the public offer and issue of 33,000,000 A Shares (including the sale of 3,000,000 State-owned shares). As at 30 June 2008, RMB324,412,000 were used in the following projects:

Name of project	Planned investment (RMB'000)	Actual investment Jan. – Jun. 2008 (RMB'000)	Accumulated amount of investment (RMB'000)	% of the investment	Remarks
State-level technical center renovation	74,500	4,356	14,479	19.43%	—
Injection GMP renovation	80,000	—	80,226	100.28%	completed
Caffeine technical renovation	160,000	—	188,201	117.63%	completed
L-350 technical renovation	29,980	—	23,442	78.19%	completed
Analgin GMP renovation	39,800	—	46,265	116.24%	completed
Total	<u>384,280</u>	<u>4,356</u>	<u>352,613</u>		RMB28,201,000 financed by the Company

- (1) Analgin (GMP) renovation project, L-350 technical renovation project and caffeine technical renovation were completed. With the exception that the injection GMP renovation project profit forecast has yet to be realised due to the decrease in pharmaceutical prices, all projects reached their profit forecast.
- (2) The renovation project of the state-level technical center has entered the construction stage.

The remaining proceeds were deposited with banks and will be used in accordance with the Company's project commitments.

1. There is no material deviation between the actual corporate governance implemented by the Company and the rules and requirements of corporate governance required to be observed by listed companies in the PRC.
2. The Board did not recommend the payment of any interim dividend, nor any transfer from reserves to share capital, for the year 2008.
3. The Group was not involved in any material litigation or arbitration, whether pending or threatened during the reporting period.
4. There was no material purchase of assets or disposal of the Company's assets nor did any material mergers or acquisition involving the Company occur during this reporting period. Similarly, no transactions of such nature occurred during the last reporting period which has been carried over to this reporting period.
5. **Material Related Party Transactions**
The related party transactions of the Company are set out in Note 9 to the accounts of the Company ("Accounts") prepared in conformity with PRC accounting standards and Note 14 to the Accounts prepared in conformity with HKGAAP.
6. During this reporting period, there was no trust, subcontract and lease of the assets between the Company and other companies.
7. The independent non-executive directors' special explanation and independent opinions in respect of the use of funds between the Company and other related parties and security provided by the Company are as follows:

The independent non-executive directors' special explanation and independent opinions in respect of the security provided by the Company and the execution of the notice Zhengjianfa [2003] No.56 issued by the CSRC are as follows: on 27 July 2007, the Company provided financial guarantees to a bank for the benefits of an independent third party in relation to bills of exchange amounting to RMB14,000,000. The bills of exchange would be issued to a subsidiary of the Company and the term is one year. The Company only guaranteed the difference between the face value of the bills of exchange issued by the bank and the amount on the bills of lading if the bills of exchange were overdue. As at 30 June 2008, bills of exchange amounting to RMB24,000,000 were issued by the bank and bills of lading amounting to RMB18,500,000 were issued, among which bills of exchange amounting to RMB17,000,000 matured. Apart from the above guarantee, during this reporting period, there was no other material guarantee provided by the Company, nor has any new guarantee been provided by the Company.

The independent non-executive directors' special explanation and independent opinions in respect of the use of funds between the Company and other related parties are as follows: the Company implemented the notice Zhengjianfa [2003] No.56 issued by the CSRC and there were no use of the Company's funds by the controlling shareholder and other related parties non-operating.
8. The Company and its shareholders holding more than 5% of total number of issued shares of the Company have provided undertakings for information disclosure as follows:
 - (1) Within the period between the 36th to the 48th month from the listing date of the A Shares of the Company, SXPGC shall not sell any of its A shares of the Company on the SZSE at a price less than RMB4.8 per share (such price will be on an ex-rights basis if there is any declaration of dividends, bonus issues or capitalisation of capital reserve during the period between the day of implementation of the revised share reform of the Company and sale of the shares by SXPGC), being 150% of the average of the closing prices of the listed A Shares as quoted on the SZSE in the thirty (30) trading days prior to the issuance date of the notice of relevant shareholders' meeting. Should SXPGC breach any of the undertakings, the proceeds resulting from such sale shall be transferred to the account of the Company and owned by the Company.
 - (2) As at 1 January 2006, SXPGC owed the Company the sum of RMB9,507,000 for non-business reasons. SXPGC has repaid the capital by 30 June 2006 by way of cash. SXPGC guaranteed not to use any capital of the Company starting from 1 January 2006 for non-business reasons.
9. **Purchase, Sales and Redemption of the Company's listed securities**
During this reporting period, neither the Company nor its subsidiaries purchased, sold or redeemed any of its securities.
10. **Management of Funds**
During this reporting period, the Company did not appoint any person for managing the Company's funds. No such appointment was made in the preceding reporting period which has been carried over to this reporting period.

11. Information about holding other listed companies' equity (RMB'000)

Stock code	Abbreviated Name	Initially cost	Proportion of equity interest in investee	Book value of end of this period	Profit/loss of this period	Change of shareholder's equity of this period
601328	Bank of Communications	14,225	0.02%	55,891	—	(51,699)
601601	China Pacific Insurance	7,000	0.07%	96,250	—	(128,350)
Total		21,225	—	152,141	—	(180,049)

12. Important announced information index

The announcement of a “Connected Transaction” was published on the SEHK’s website, in the PRC domestic newspaper, Securities Times, and on the website: <http://www.cninfo.com.cn> on 19 January 2008.

The announcement of a “Resignation of Independent Non-executive Director” was published on the SEHK’s website, in the PRC domestic newspaper, Securities Times, and on the website: <http://www.cninfo.com.cn> on 16 April 2008.

The announcement of the “2007 Annual Results Announcement” and the announcement of the “The First Quarter Report of 2008” were published on the SEHK’s website, in the PRC domestic newspaper, Securities Times, and on the website: <http://www.cninfo.com.cn> on 21 April 2008.

The announcement of the “The Notice of Annual General Meeting for the Year 2007” was published on the SEHK’s website, in the PRC domestic newspaper, Securities Times, and on the website: <http://www.cninfo.com.cn> on 8 May 2008.

The announcement of a “Connected Transaction” or the announcement of a “Simultaneous Disclosure announcement” was published on the SEHK’s website, in the PRC domestic newspaper, Securities Times, and on the website: <http://www.cninfo.com.cn> on 14 May 2008.

The announcement of the “Announcement of 2007 Annual General Meeting Resolutions” was published on the SEHK’s website, in the PRC domestic newspaper, Securities Times, and on the website: <http://www.cninfo.com.cn> on 27 June 2008.

13. Information of reception research, communication and interview

Reception time	Reception location	Reception method	Reception objects	Main content of the discussion and the information provided
21 January 2008	Office address of the Company	Field study	Guosen Securities	Understand the production and operation of the Company
23 January 2008	Office address of the Company	Field study	Boc International (China) Limited	Understand the affect to the Company from macroeconomic policy
20 February 2008	Office address of the Company	Field study	Industrial Securities	Understand the information about pharmaceutical companies
12 March 2008	Office address of the Company	Field study	First-Trust Fund, E Fund	Understand development of the Company
18 March 2008	Office address of the Company	Field study	China Securities	Understand the production and operation of the Company
20 June 2008	Office address of the Company	Field study	Qilu Securities	Understand the development prospects of the Company

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors confirm that the Company has operated in compliance with the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Listing Rules and has not deviated from the Code during the six months ended 30 June 2008.

AUDIT COMMITTEE

The Company established the Audit Committee in compliance with Rule 3.21 of the Listing Rules.

The Audit Committee along with the management have reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting including the unaudited interim accounts for the six months ended 30 June 2008.

The Audit Committee agreed to the accounting standards, principles and methods adopted by the Group for the unaudited interim accounts for the six months ended 30 June 2008, and it has been disclosed fully.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Group has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of independent non-executive directors and at least one independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive directors including one with financial management expertise, details of their biographies were set out in the 2007 Annual Report of the Company.

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

During this reporting period, the Company has adopted a code of conduct regarding transactions by Directors on terms no less exacting than the required standards set out in the Model Code. After having made specific enquiry in this reporting period, no Director or Supervisor has infringed upon the requirements set out in the Model Code, Appendix 10 to the Listing Rules.

FINANCIAL REPORT PREPARED IN CONFORMITY WITH PRC ACCOUNTING STANDARDS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)

Consolidated and the Parent Company's Balance Sheet

Unit: RMB

Item	Notes	2008.6.30		2007.12.31	
		Consolidated	Parent company	Consolidated	Parent company
Current assets:					
Cash	7.1	205,851,374.74	133,478,690.47	212,257,860.96	171,473,812.44
Held-for-trade financial assets	7.2	2,261,943.57	2,261,943.57	15,896,732.85	15,896,732.85
Notes receivable	7.3	69,405,359.27	45,732,522.00	71,965,993.53	54,105,664.07
Accounts receivable	7.4	291,764,188.05	312,329,698.74	221,089,889.52	215,346,436.72
Advance to suppliers	7.5	26,802,960.69	18,359,991.71	21,437,818.42	20,260,313.40
Interest receivable		—	—	—	—
Dividend receivable		—	—	—	—
Other receivable	7.6	25,163,960.96	35,412,844.80	20,581,451.30	28,127,733.96
Inventories	7.7	270,273,563.98	182,470,809.19	286,041,091.79	187,002,774.30
Non-current assets due within one year		—	—	—	—
Other current assets		—	—	—	—
Sub-total of current assets		891,523,351.26	730,046,500.48	849,270,838.37	692,213,467.74
Non-current assets:					
Available-for-sale financial assets	7.8	155,340,560.00	155,340,560.00	367,162,640.00	367,162,640.00
Held-to-maturity investment		—	—	—	—
Long-term receivable		—	—	—	—
Long-term equity investment	7.9	24,068,510.30	194,352,166.16	23,512,190.33	131,823,478.19
Investment property		—	—	—	—
Fixed assets	7.10	806,750,006.02	717,542,468.19	853,263,386.97	746,249,488.38
Construction in progress	7.11	143,207,841.78	133,737,937.06	71,180,403.06	70,537,755.07
Construction materials		—	—	—	—
Disposal of fixed assets		—	—	—	—
Biological assets		—	—	—	—
Oil and natural gas		—	—	—	—
Intangible assets	7.12	100,741,931.75	97,667,258.48	96,647,338.77	95,463,885.48
Research & Development cost		—	—	—	—
Goodwill		—	—	—	—
Long-term prepayments		—	—	—	—
Deferred tax assets	7.13	9,678,183.64	7,521,605.43	9,678,183.64	7,521,605.43
Other non-current assets		—	—	—	—
Sub-total of non-current assets		1,239,787,033.49	1,306,161,995.32	1,421,444,142.77	1,418,758,852.55
Total of Assets		2,131,310,384.75	2,036,208,495.80	2,270,714,981.14	2,110,972,320.29

Unit: RMB

Liabilities & Shareholders' equity	Notes	2008.6.30		2007.12.31	
		Consolidated	Parent company	Consolidated	Parent company
Current liabilities:					
Short-term loans	7.14	245,144,246.34	243,958,500.00	206,819,000.00	166,819,000.00
Held-for-trade financial liabilities		—	—	—	—
Notes payable	7.15	54,716,000.00	54,716,000.00	30,184,200.00	27,184,200.00
Accounts payable	7.16	177,715,305.82	117,981,315.44	154,100,269.89	112,608,591.46
Advances from customers	7.17	8,846,005.64	4,578,313.11	22,385,801.00	3,218,722.41
Employee benefits payable	7.18	31,811,136.69	31,399,751.87	39,725,806.31	38,954,024.91
Tax payable	7.19	10,598,254.44	10,637,205.46	(2,698,407.78)	(5,606,583.11)
Interest payable		—	—	—	—
Dividends payable	7.20	18,987,652.04	18,987,652.04	5,506,871.72	5,268,267.14
Other payable	7.21	37,541,899.59	32,179,607.75	40,580,775.84	31,666,915.52
Non-current liabilities due within one year		—	—	—	—
Other current liabilities		—	—	—	—
Sub-total of current liabilities		585,360,500.56	514,438,345.67	496,604,316.98	380,113,138.33
Non-current liabilities:					
Long-term borrowings		—	—	—	—
Bonds payable		—	—	—	—
Long-term payables		—	—	—	—
Specific payables		—	—	—	—
Provisions		—	—	—	—
Deferred tax liabilities	7.22	19,976,577.84	19,976,577.84	53,795,108.23	53,795,108.23
Other non-current liabilities		3,561,500.00	3,561,500.00	3,561,500.00	3,561,500.00
Sub-total of non-current liabilities		23,538,077.84	23,538,077.84	57,356,608.23	57,356,608.23
Total liabilities		608,898,578.40	537,976,423.51	553,960,925.21	437,469,746.56
Shareholders' equity:					
Share capital	7.23	457,312,830.00	457,312,830.00	457,312,830.00	457,312,830.00
Capital surplus	7.24	670,197,032.85	670,197,032.85	850,245,800.85	850,245,800.85
Less: Treasury stock		—	—	—	—
Surplus reserve	7.25	164,257,990.01	163,595,448.70	164,257,990.01	163,595,448.70
Undistributed profits	7.26	200,234,182.64	207,126,760.74	193,496,393.27	202,348,494.18
Foreign currency statements translation difference		677,229.99	—	647,937.91	—
Sub-total of shareholders' equity attributable to the parent company		1,492,679,265.49	1,498,232,072.29	1,665,960,952.04	1,673,502,573.73
Minority Interest	7.27	29,732,540.86	—	50,793,103.89	—
Total shareholders' equity		1,522,411,806.35	1,498,232,072.29	1,716,754,055.93	1,673,502,573.73
Total liabilities & shareholders' equity		2,131,310,384.75	2,036,208,495.80	2,270,714,981.14	2,110,972,320.29

Consolidated and the Parent Company's Income Statement

Unit: RMB

Item	Notes	First half of 2008		First half of 2007	
		Consolidated	Parent company	Consolidated	Parent company
1. Operating Income	7.28	1,140,652,669.14	825,436,481.98	968,877,008.99	762,998,064.26
Less: Operating Cost	7.28	982,221,701.57	716,170,595.02	807,586,439.74	635,991,628.71
Taxes and surcharges	7.29	4,878,673.38	4,281,619.43	5,173,686.24	4,876,397.95
Selling and distribution expenses		56,196,494.87	20,875,635.22	63,606,834.91	39,546,680.95
General and administrative expenses		52,666,864.44	43,796,570.31	54,374,896.95	48,296,380.09
Financial expenses	7.30	1,191,844.22	1,259,154.57	10,668,099.17	10,144,995.94
Impairment loss of assets	7.31	19,065.99	—	5,807,587.78	(7,500,000.00)
Add: Gain or Loss from changes in fair value	7.32	(13,634,789.28)	(13,634,789.28)	1,961,740.72	1,961,740.72
Investment gain or loss	7.33	1,685,831.97	1,207,112.97	2,408,608.83	2,417,892.02
Including: Investment gain or loss from joint ventures and associates		556,319.97	556,319.97	604,360.96	604,360.96
Exchange gain or loss		—	—	—	—
2. Operating profit		31,529,067.36	26,625,231.12	26,029,813.75	36,021,613.36
Add: Non-operating income	7.34	1,151,488.76	870,984.78	11,066,301.45	11,046,141.45
Less: Non-operating Cost	7.35	2,112,137.44	1,556,370.69	7,273,218.05	6,887,825.76
Including: Disposal gain or loss on non-current assets		(455,455.18)	(455,455.18)	(4,746,758.05)	(4,845,837.19)
3. Income before tax		30,568,418.68	25,939,845.21	29,822,897.15	40,179,929.05
Less: Income tax expense	7.36	8,696,030.18	7,442,193.75	7,693,740.72	5,953,583.33
4. Net profit		21,872,388.50	18,497,651.46	22,129,156.43	34,226,345.72
Attributable to: Equity holder of the parent company		20,457,174.27	18,497,651.46	18,935,549.91	34,226,345.72
Minority interests		1,415,214.23	—	3,193,606.52	—
5. Earnings per share					
(1) Basic		0.04	0.04	0.04	0.07
(2) Diluted		0.04	0.04	0.04	0.07

Consolidated and the Parent Company's Cash Flow Statement

Unit: RMB

Item	Notes	First half of 2008		First half of 2007	
		Consolidated	Parent company	Consolidated	Parent company
1. CASH FLOW FROM OPERATING ACTIVITIES:					
Cash receipts from the sale of goods or rendering of services		827,755,265.48	567,516,612.90	680,646,077.63	552,046,894.08
Receipts of taxes refunds		4,758,054.66	3,105,906.23	10,104,546.12	5,300,001.35
Other cash receipts relating to operating activities	7.37	20,822,447.93	24,861,413.22	10,069,004.07	9,645,474.09
SUB-TOTAL OF CASH INFLOW		853,335,768.07	595,483,932.35	700,819,627.82	566,992,369.52
Cash payments for goods purchased and services received		574,240,571.21	356,844,486.55	433,394,725.31	339,918,844.81
Cash paid to and on behalf of employees		97,343,512.74	86,115,790.21	79,462,826.33	74,488,288.69
Payments of all types of taxes		44,138,672.39	34,688,841.54	29,359,197.85	24,428,518.25
Other cash payments relating to operating activities	7.37	93,632,648.41	100,147,406.17	79,817,611.87	63,892,351.26
SUB-TOTAL OF CASH OUTFLOW		809,355,404.75	577,796,524.47	622,034,361.36	502,728,003.01
NET CASH FLOWS FROM OPERATING ACTIVITIES		43,980,363.32	17,687,407.88	78,785,266.46	64,264,366.51
2. CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash receipts from disposals and return of investments		8,723,619.00	—	117,000,000.00	117,000,000.00
Cash receipts from returns on investments		650,793.00	650,793.00	3,361,896.06	3,361,896.06
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		368,436.00	368,436.00	3,036,996.00	3,023,300.00
Net cash receipts from disposals of subsidiaries and other business units		—	—	—	—
Other cash receipts relating to investing activities		—	—	—	—
SUB-TOTAL OF CASH INFLOW		9,742,848.00	1,019,229.00	123,398,892.06	123,385,196.06
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		91,398,961.50	81,092,730.19	25,057,995.16	23,957,038.13
Cash payments to acquire investment		13,972,368.00	61,972,368.00	14,298,170.60	14,298,170.60
Net cash payments for acquisitions of subsidiaries and other business units		—	—	—	—
Other cash payments relating to investing activities		—	—	—	—
SUB-TOTAL OF CASH OUTFLOW		105,371,329.50	143,065,098.19	39,356,165.76	38,255,208.73
NET CASH FLOWS FROM INVESTING ACTIVITIES		(95,628,481.50)	(142,045,869.19)	84,042,726.30	85,129,987.33

Unit: RMB

Item	Notes	First half of 2008		First half of 2007	
		Consolidated	Parent company	Consolidated	Parent company
3. CASH FLOWS FROM FINANCING ACTIVITIES:					
Cash receipts from investors in making investment in the enterprise		—	—	—	—
Including: Cash receipts from subsidiaries by absorbing minorities' equity investment		—	—	—	—
Cash receipts from borrowings		135,423,370.94	120,000,000.00	29,525,100.00	29,525,100.00
Other cash receipts relating to financing activities		—	—	—	—
SUB-TOTAL OF CASH INFLOW		135,423,370.94	120,000,000.00	29,525,100.00	29,525,100.00
Cash repayments of amounts borrowed		94,112,330.60	40,000,000.00	136,990,801.70	129,525,100.00
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		4,059,349.45	4,059,349.45	6,093,895.10	5,975,596.05
Including: Cash payments by subsidiaries to minority shareholders		—	—	—	—
Other cash payments relating to financing activities		—	—	—	—
SUB-TOTAL OF CASH OUTFLOW		98,171,680.05	44,059,349.45	143,084,696.80	135,500,696.05
NET CASH FLOW FROM FINANCING ACTIVITIES		37,251,690.89	75,940,650.55	(113,559,596.80)	(105,975,596.05)
4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH		(3,468,611.40)	(3,386,851.21)	(512,470.04)	(360,569.42)
5. NET INCREASE OF CASH AND CASH EQUIVALENT		(17,865,038.69)	(51,804,661.97)	48,755,925.92	43,058,188.37
Add: Beginning balance of cash and cash equivalents		199,832,528.24	163,318,552.44	133,134,361.19	104,613,535.66
6. ENDING BALANCE OF CASH AND CASH EQUIVALENT		181,967,489.55	111,513,890.47	181,890,287.11	147,671,724.03

Consolidated Statement of Changes in Shareholder's Equity in the first half of 2008

Unit: RMB

Item	Equity attributable to holders of parent company							Minority shareholders' equity	Total shareholders' equity
	Share capital	Capital surplus	Less: treasury Share	Surplus reserve	General risk provision	Undistributed profit	Others		
1. Ending balance of last year	457,312,830.00	850,245,800.85	—	164,257,990.01	—	193,496,393.27	647,937.91	50,793,103.89	1,716,754,055.93
Add: Effects of the changes of accounting policies	—	—	—	—	—	—	—	—	—
Effects of the changes of prior accounting errors	—	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	850,245,800.85	—	164,257,990.01	—	193,496,393.27	647,937.91	50,793,103.89	1,716,754,055.93
3. Increase/decreased in the year (decrease is presented in bracket)	—	(180,048,768.00)	—	—	—	6,737,789.37	29,292.08	(21,060,563.03)	(194,342,249.58)
I Net profit	—	—	—	—	—	20,457,174.27	—	1,415,214.23	21,872,388.50
II Gain or loss directly included in shareholders' equity	—	(180,048,768.00)	—	—	—	—	29,292.08	8,799.05	(180,010,676.87)
a. Net changes in fair value of available-for-sale financial assets	—	(211,822,080.00)	—	—	—	—	—	—	(211,822,080.00)
b. Effects of the changes of other shareholders' equity of the investees under equity method	—	—	—	—	—	—	—	—	—
c. Effects of income tax related to shareholder's equity	—	31,773,312.00	—	—	—	—	—	—	31,773,312.00
d. Others	—	—	—	—	—	—	29,292.08	8,799.05	38,091.13
Sub-total of I & II	—	(180,048,768.00)	—	—	—	20,457,174.27	29,292.08	1,424,013.28	(158,138,288.37)
III Shareholder's devoted capital and decreased capital	—	—	—	—	—	—	—	(22,484,576.31)	(22,484,576.31)
a. Shareholder's devoted capital	—	—	—	—	—	—	—	—	—
b. Paid in shares included in shareholders' equity	—	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	(22,484,576.31)	(22,484,576.31)
IV Profit distribution	—	—	—	—	—	(13,719,384.90)	—	—	(13,719,384.90)
a. Withdrawal of surplus reserves	—	—	—	—	—	—	—	—	—
b. Distributions to shareholders	—	—	—	—	—	(13,719,384.90)	—	—	(13,719,384.90)
c. Withdrawal of general risk provision	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—
V Carrying forward internal shareholders' equity	—	—	—	—	—	—	—	—	—
a. Capital surplus converted to capital (Share capital)	—	—	—	—	—	—	—	—	—
b. Surplus reserves converted to capital (Share capital)	—	—	—	—	—	—	—	—	—
c. Remedying loss with surplus reserves	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	670,197,032.85	—	164,257,990.01	—	200,234,182.64	677,229.99	29,732,540.86	1,522,411,806.35

Consolidated Statement of Changes in Shareholder's Equity in the first half of 2007

Unit: RMB

Item	Equity attributable to holders of parent company							Minority shareholders' equity	Total shareholders' equity
	Share capital	Capital surplus	Less: treasury Share	Surplus reserve	General risk provision	Undistributed profit	Others		
1. Ending balance of last year	457,312,830.00	558,919,077.15	—	162,285,764.68	—	171,891,840.60	708,115.79	3,280,950.06	1,354,398,578.28
Add: Effects of the changes of accounting policies	—	—	—	—	—	—	—	—	—
Effects of the changes of prior accounting errors	—	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	558,919,077.15	—	162,285,764.68	—	171,891,840.60	708,115.79	3,280,950.06	1,354,398,578.28
3. Increase/decreased in the year (decrease is presented in bracket)									
I Net profit	—	—	—	—	—	18,935,549.91	—	3,193,606.52	22,129,156.43
II Gain or loss directly included in shareholders' equity	—	67,891,962.00	—	—	—	—	(11,014.40)	—	67,880,947.60
a. Net changes in fair value of available-for-sale financial assets	—	67,891,962.00	—	—	—	—	—	—	67,891,962.00
b. Effects of the changes of other shareholders' equity of the investees under equity method	—	—	—	—	—	—	—	—	—
c. Effects of income tax related to shareholder's equity	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	(11,014.40)	—	(11,014.40)
Sub-total of I & II	—	67,891,962.00	—	—	—	18,935,549.91	(11,014.40)	3,193,606.52	90,010,104.03
III Shareholder's devoted capital and decreased capital	—	—	—	—	—	—	—	18,980,771.78	18,980,771.78
a. Shareholder's devoted capital	—	—	—	—	—	—	—	18,980,771.78	18,980,771.78
b. Paid in shares included in shareholders' equity	—	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—	—
IV Profit distribution	—	—	—	—	—	(9,146,256.60)	—	—	(9,146,256.60)
a. Withdrawal of surplus reserves	—	—	—	—	—	—	—	—	—
b. Distributions to shareholders	—	—	—	—	—	(9,146,256.60)	—	—	(9,146,256.60)
c. Withdrawal of general risk provision	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—
V Carrying forward internal shareholders' equity	—	—	—	—	—	—	—	—	—
a. Capital surplus converted to capital (Share capital)	—	—	—	—	—	—	—	—	—
b. Surplus reserves converted to capital (Share capital)	—	—	—	—	—	—	—	—	—
c. Remedying loss with surplus reserves	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	626,811,039.15	—	162,285,764.68	—	181,681,133.91	697,101.39	25,455,328.36	1,454,243,197.49

The Parent Company's Statement of Changes in Shareholder's Equity in the first half of 2008

Unit: RMB

Item	Share capital	Capital surplus	Less: treasury stock	Surplus reserves	General risk provision	Undistributed profit	Others	Total shareholders' equity
1. Ending balance of last year	457,312,830.00	850,245,800.85	—	163,595,448.70	—	202,348,494.18	—	1,673,502,573.73
Add: Effects of the changes of accounting policies	—	—	—	—	—	—	—	—
Effects of the changes of prior accounting errors	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	850,245,800.85	—	163,595,448.70	—	202,348,494.18	—	1,673,502,573.73
3. Increase/decreased in the year (decrease is presented in bracket)								
I Net profit	—	—	—	—	—	18,497,651.46	—	18,497,651.46
II Gain or loss directly included in shareholders' equity	—	(180,048,768.00)	—	—	—	—	—	(180,048,768.00)
a. Net changes in fair value of available-for-sale financial assets	—	(211,822,080.00)	—	—	—	—	—	(211,822,080.00)
b. Effects of the changes of other shareholders' equity of the investees under equity method	—	—	—	—	—	—	—	—
c. Effects of income tax related to shareholder's equity	—	31,773,312.00	—	—	—	—	—	31,773,312.00
d. Others	—	—	—	—	—	—	—	—
Sub-total of I & II	—	(180,048,768.00)	—	—	—	18,497,651.46	—	(161,551,116.54)
III Shareholder's devoted capital and decreased capital	—	—	—	—	—	—	—	—
a. Shareholder's devoted capital	—	—	—	—	—	—	—	—
b. Paid in shares included in shareholders' equity	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—
IV Profit distribution	—	—	—	—	—	(13,719,384.90)	—	(13,719,384.90)
a. Withdrawal of surplus reserves	—	—	—	—	—	—	—	—
b. Distributions to shareholders	—	—	—	—	—	(13,719,384.90)	—	(13,719,384.90)
c. Withdrawal of general risk provision	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—
V Carrying forward internal shareholder' equity	—	—	—	—	—	—	—	—
a. Capital surplus conversed to capital (Share capital)	—	—	—	—	—	—	—	—
b. Surplus reserves conversed to capital (Share capital)	—	—	—	—	—	—	—	—
c. Remedying loss with surplus reserves	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	670,197,032.85	—	163,595,448.70	—	207,126,760.74	—	1,498,232,072.29

The Parent Company's Statement of Changes in Shareholder's Equity in the first half of 2007

Unit: RMB

Item	Share capital	Capital surplus	Less: treasury stock	Surplus reserves	General risk provision	Undistributed profit	Others	Total shareholders' equity
1. Ending balance of last year	457,312,830.00	558,919,077.15	—	162,011,233.56	—	183,838,213.37	—	1,362,081,354.08
Add: Effects of the changes of accounting policies	—	—	—	—	—	—	—	—
Effects of the changes of prior accounting errors	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	558,919,077.15	—	162,011,233.56	—	183,838,213.37	—	1,362,081,354.08
3. Increase/decreased in the year (decrease is presented in bracket)								
I Net profit	—	67,891,962.00	—	—	—	25,080,089.12	—	92,972,051.12
II Gain or loss directly included in shareholders' equity	—	67,891,962.00	—	—	—	—	—	67,891,962.00
a. Net changes in fair value of available-for-sale financial assets	—	67,891,962.00	—	—	—	—	—	67,891,962.00
b. Effects of the changes of other shareholders' equity of the investees under equity method	—	—	—	—	—	—	—	—
c. Effects of income tax related to shareholder's equity	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—
Sub-total of I & II	—	67,891,962.00	—	—	—	34,226,345.72	—	102,118,307.72
III Shareholder's devoted capital and decreased capital	—	—	—	—	—	—	—	—
a. Shareholder's devoted capital	—	—	—	—	—	—	—	—
b. Paid in shares included in shareholders' equity	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—
IV Profit distribution	—	—	—	—	—	(9,146,256.60)	—	(9,146,256.60)
a. Withdrawal of surplus reserves	—	—	—	—	—	—	—	—
b. Distributions to shareholders	—	—	—	—	—	(9,146,256.60)	—	(9,146,256.60)
c. Withdrawal of general risk provision	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—
V Carrying forward internal shareholders' equity	—	—	—	—	—	—	—	—
a. Capital surplus converted to capital (Share capital)	—	—	—	—	—	—	—	—
b. Surplus reserves converted to capital (Share capital)	—	—	—	—	—	—	—	—
c. Remedying loss with surplus reserves	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	626,811,039.15	—	162,011,233.56	—	208,918,302.49	—	1,455,053,405.20

NOTES TO THE ACCOUNTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS (UNLESS OTHERWISE INDICATED, ALL FIGURES ARE STATED IN RMB'000)

1. BACKGROUND OF THE COMPANY

Shandong Xinhua Pharmaceutical Company Limited (hereinafter referred to as the “Company”) was established in 1993 as the result of the reorganisation of Shandong Xinhua Pharmaceutical Factory. The Company issued its H Shares at Hong Kong Stock Exchange in December 1996 and listed its A Shares at Shenzhen Stock Exchange in July 1997. The Company became a foreign invested joint stock company in November 1998 upon approval by the Ministry of Foreign Trade and Economic Cooperation of the People’s Republic of China. The Company issued an additional 30 million ordinary A shares as approved and decreased 3 million state-held shares in September 2001.

The registered capital of the Company as of 30 June 2008 is RMB457.313 million and its share capital as of 30 June 2008 consists of the following:

	Shares	Amount	Ratio
State-held shares	163,259	163,259	35.70%
Legal-person shares	24,527	24,527	5.36%
Senior management-held shares	23	23	0.01%
Publicly-held H shares	150,000	150,000	32.80%
Publicly-held A shares	119,504	119,504	26.13%
Total	<u>457,313</u>	<u>457,313</u>	<u>100.00%</u>

The Company is mainly engaged in developing, manufacturing and selling bulk pharmaceuticals, preparations and chemical products.

According to the Circular “Lu Ke Gao Zi (2007) No. 143” issued by Shandong Provincial Bureau of Science & Technology, the Company has been recognised as a new and high-tech company.

The Company’s place of registration is the Chemical Area in Zibo New and High Technology Industrial Development Zone, Shandong Province.

2. BASIS OF THE PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared on the basis of the assumption that the Company’s a going concern, based on actual transactions and matters, and are prepared based on the Accounting Standards for Business Enterprises (“ASBEs”) and its application guide promulgated by the Ministry of Finance.

3. THE STATEMENT ON COMPLIANCE WITH THE ASBES

The company believes that the financial statements that have been prepared comply with the requirements of the ASBEs and present fairly, in all material respects, the financial position of the Company and the operational results and cash flow of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PRESENTATION FOR CONSOLIDATION

1. Accounting Year

The fiscal year of the Company is from 1 January to 31 December of each calendar year.

2. Reporting currency

The Company's reporting currency is Renminbi ("RMB").

3. Measurement Basis and its Changes in the Period

The financial statements have been prepared on an accrual basis.

The Company measures the accounting elements in accordance with prescribed accounting measures, without any changes during the reporting period. The accounting elements have been measured on historical cost principals with the exception of the held-for-trading financial assets and available-for-sale financial assets, which have been measured by their fair value.

4. Cash and Cash Equivalents

The cash in the Cash Flow Statement refers to the cash-on-hand and deposits that are available for payment at any time. The cash equivalents refer to short-term (due within 3 months of the date of purchase) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of value change.

5. Foreign Currency

5.1 Accounting for Foreign Currency

Foreign currency transactions shall be translated into RMB at the spot exchange rate on the first day of the month in which the transactions occurred. Foreign currency monetary items shall be translated using the spot exchange rate at the balance sheet date. Exchange differences arising from the differences between the spot exchange rate prevailing at the balance sheet date and those spot rates used on initial recognition or at the previous balance sheet date are recognised in profit or loss for the current period, except for those differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency for acquisitions, construction or production of the qualified assets, which should be capitalised as cost of the assets. Foreign currency non-momentary items measured in fair value shall be translated using the spot exchange rate at the date when the fair value was determined. Exchange differences arising from the differences of exchange rate are recognised as changes in fair value in profit or loss for the current period. Foreign currency non-monetary items measured in historic cost shall still be translated using the spot exchange rate when the transaction occurred.

5.2. Translation of Financial Statements Denominated in Foreign Currency

The Company shall translate the financial statements of a foreign operation as follows: assets and liabilities on the balance sheet will be translated at the spot rate prevailing at the balance sheet date, while the equity items except for undistributed profits on the balance sheet will be translated at the spot exchange rate when they occurred. Income and expenses on the income statement will be translated at the spot exchange rate at the date of the transactions. Differences arising from the above translations shall be presented as a separate component of shareholders' equity on the balance sheet. Exchange differences of foreign currency items, which are a substantive net investment to a foreign operation, arising from the change in the exchange rate shall be presented as a separate component of shareholders' equity on the balance sheet as well as when the Company prepares the combined financial statements. Exchange differences related to the disposed foreign operation shall be transferred to profit or loss as the proportionate share in which the disposal occurs

Cash flow dominated in foreign currency or from foreign subsidiaries shall be translated at the spot rate when it occurs. Effects arising from changes of exchange rate of cash shall be presented separately in the cash flow statement.

6. Financial Assets and Financial Liabilities

6.1 Classification of financial assets

The Company classifies the financial assets as held-for-trading financial assets, available-for-sale financial assets, receivables and held-to-maturity investments by the purpose and substance of investments.

6.2 Recognition and measurement of financial assets

The financial asset shall be originally measured at its fair value. Transaction costs arising from acquisitions of financial assets at fair value through profit or loss shall be charged to the profit or loss for the current period. For other financial assets, the transaction costs shall be included in their initial recognition amounts. The Company shall derecognise a financial asset if the contractual rights to the cash flow from the financial asset expires, or all the risks and rewards belonging to the ownership of a financial asset have been substantively transferred to the transferee.

After initial recognition, the Company shall measure the financial assets at fair value through profit or loss and available-for-sale financial assets at their fair values, while investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured shall be measured at cost. Receivables and held-to-maturity investments shall be measured at amortised cost using the effective interest method.

Gain or loss arising from changes in the fair value of financial assets at fair value through profit or loss shall be recognised in the current profit or loss. Interests or dividends achieved during the holding period shall be recognised as investment income. Differences between fair value and initial recognised amount arising from the disposal shall be recognised as investment income and presented in the current profit or loss.

Gain or loss arising from changes in the fair value of available-for-sale financial assets shall be recognised in shareholders' equity; interests calculated using the effective interest method achieved during the holding period shall be recognised as investment income; dividends on available-for-sale equity instruments shall be recognised as investment income when the investee declares the dividends. Differences between the considerations of disposal and the carrying amount of financial assets deducted with any accumulative gain or loss that had been directly recognised in shareholders' equity shall be recognised in the profit or loss.

6.3 Impairment of financial assets

The Company shall assess the carrying amount of financial assets other than those at fair value through profit or loss at the balance sheet date. If there is objective evidence that the financial asset is impaired, the Company shall determine the amount of any impairment loss. When an available-for-sale financial asset is impaired substantially or perpetually, the cumulative loss arising from decline in fair value that had been recognised directly in the owner's equity shall be removed from the owner's equity and recognised in the profit or loss. If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in the profit or loss. Impairment losses recognised for an investment in an equity instrument classified as available-for-sale shall be reversed through the owner's equity if the fair value increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised. The impairment loss on an investment in an unquoted equity instrument without a quoted price in an active market whose fair value cannot be reliably measured shall not be reversed.

6.4 Transfer of Financial Assets

The Company shall derecognise the financial assets when the Company transfers substantially all the risks and rewards of ownership of a financial asset to the transferee. If the substantial risks and rewards of ownership of a financial asset to the transferee are retained, the Company shall not derecognise the financial asset.

6.5 Financial liabilities

The Company has classified financial liabilities as financial liabilities at fair value through profit or loss and other financial liabilities are measured at amortised cost.

7. Accounting for bad debts loss

7.1 The receivables shall be recognised as bad debts if the debtor is deceased or bankrupt and the whole debt can not be paid from the legacy or bankruptcy assets; or if the debtor has not repaid his debt and clear evidence indicates that the debts cannot be recovered.

7.2 Bad debt losses shall be accounted for using the allowance method. Provisions for accounts receivables and other receivables shall be made on an aging basis at the end of the period, and reported in the income statement of the period, except the receivables from the related parties. Receivables that cannot be recovered with absolute evidence shall be written off as bad debt losses after approval at a board meeting, and reported as reductions of provisions for bad debts.

7.3 Individually significant receivables shall be assessed by the Company, where objective evidence indicates that the receivables cannot be recovered, they will be recognised as unpassed assets with the difference between the future cash flow and the book value. Individually non-significant receivables shall be included in a group with unimpaired individually significant receivables, which contain similar credit risk characteristics, and will be collectively assessed for impairment. The provision of bad debt for this year should be made on the basis of the current situation.

Provision for bad debts loss shall be made as follows:

Aging	Bad Debts Percentage
Less than 1 year	0.5%
1-2 years	20%
2-3 years	60%
Over 3 years	100%

8. Inventories

- 8.1 Inventories mainly include raw materials, work-in-process, finished products, goods in stock, low-value consumables and packaging materials.
- 8.2 Raw materials are stated at the cost of purchase price plus freight, loading and unloading charges, and insurance premiums. The cost of self-made semi-products and finished products include various expenditures actually incurred during production.
- 8.3 The valuation of raw materials, self-made semi-products and finished products is made on a weighted-average basis when they are shipped and sold.
- 8.4 Low-value consumables and packaging materials are expensed as incurred.
- 8.5 Inventories are stated at the lower of cost or market value at the end of the period. When the cost of inventories is higher than their recoverable amount because they are damaged, completely or partially obsolescent, or with a selling price lower than the cost, a provision for inventory write-down is made after a thorough examination of inventories at the end of the period. The provisions for finished goods and large-amount raw materials are made on the differences between the costs of inventory items and their lower net realisable values on an item-by-item basis. The provisions for other inventories items shall be made according to their category.
- 8.6 Net realisable value of goods-in-stock, work-in-progress or held-for-sale raw materials shall be determined by their estimated sales less the related selling expenses and taxes. Net realisable value for held-for-produce raw materials shall be determined by the estimated selling price of the finished goods less the estimated cost for completion, selling expenses and taxes. Net realisable value of inventories held-for-contracts shall be determined by the carrying amount of the contracts. Net realisable value of inventories in excess of the contract order shall be determined by the selling price.

9. Long-term Investments

9.1 Initial Measurement

The initial investment cost of a long-term equity investment acquired through a business combination involving an enterprise under common control shall be the absorbing party's share of the owners' equity of the party being absorbed at the combination date, while the investment cost acquired through a business combination but not involving an enterprise under common control shall be the combination cost which contains assets given, liabilities incurred or assumed and equity securities issued as consideration of the business combination on the acquisition date.

The initial investment cost of a long-term equity investment acquired other than through a business combination shall be determined as follows: (a) for a long-term equity investment acquired by paying cash, the initial investment cost shall be the actual purchase price, including those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; (b) for a long-term equity investment acquired by the issue of equity securities, the initial investment cost shall be the fair value of the securities issued; (c) for a long-term equity investment contributed by an investor, the initial investment cost shall be the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair; (d) for a long-term equity investment acquired through an exchange of non-monetary assets or a debt restricting transaction, the initial investment cost shall be determined in accordance with related standards in ASBEs.

9.2 Subsequent Measurement

Long-term equity investment to subsidiaries shall be accounted for using the cost method and be adjusted when the Company prepares the consolidated financial statements. Long-term equity investment to joint ventures and associates shall be accounted for using the equity method; long-term equity investment, where the Company does not have control, joint control or significant influence over the investee and the investment is not quoted in an active market and its fair value cannot be reliably measured, shall be accounted for using the cost method; long-term equity investment, where the Company does not have control, joint control or significant influence, but the investment is quoted in an active market and its fair value can be reliably measured, shall be accounted as available-for-sale financial assets.

10. Fixed Assets

10.1 Fixed assets refer to those tangible assets with useful lives for more than one accounting year, which are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. The fixed asset shall simultaneously meet the conditions as, firstly it is probable that economic benefits associated with the assets will flow to the Company; and secondly the cost of the asset can be measured reliably.

10.2 Fixed assets include housing, buildings, machinery, equipment, vehicles and electronic apparatus.

10.3 Fixed assets shall be initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, related taxes and any directly attributable expenditure for bringing the assets to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use. The cost of a fixed asset contributed by an investor shall be determined in accordance with the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair. The cost of a fixed asset acquired by finance lease shall be the lower of the fair value of the leased asset and the present value of the minimum lease payments at the commencement of the lease term.

10.4 Fixed assets (excluding those fully depreciated yet still used in operation) depreciate on a straight-line basis with the estimated net residual value at 5%. Depreciation of a fixed asset shall be provided for monthly and, depending on the purpose for which the fixed asset is used, shall either be included as part of the cost of the related assets or recognised in the profit or loss for the current period. The life and rate of depreciation for different classes of fixed assets are as follows:

Items	Useful lives	Annual Depreciation rate
Housing and Buildings	20 Years	4.75%
Machinery and equipment	10 Years	9.5%
Electronic apparatus	5 Years	19%
Office equipment and vehicles	5 Years	19%

10.5 The subsequent expenditure for a fixed asset, which mainly arise from mending, improvement and fittings, shall be included in the cost of the fixed asset if the economic benefits associated with the expenditures can flow to the Company. While if not, the expenditures shall be recognised in the profit or loss in the period in which they are incurred.

10.6 The company shall review and make proper adjustments to the estimated useful life, estimated net residual value, and the depreciation method of fixed assets at the end of each year. Any change shall be disclosed as changes of accounting estimates.

11. Construction-in-progress

- 11.1 The cost of construction-in-progress is determined according to expenditures actually incurred. The cost of construction work undertaken by the Company itself is determined according to direct materials cost, direct labour cost, and direct construction expenses; the cost of construction work undertaken by a third party is determined according to amount paid to the contractor; and the cost of equipment installation construction is determined according to the cost of equipment, installation charges and test run expenses. Capitalised borrowing costs and exchange profit or loss should also be included in the related cost of construction-in-progress.
- 11.2 Construction-in-progress is transferred to fixed assets at the date it reaches its usable condition at an estimated amount based on the budget price, the amount paid to the contractor or the actual cost of construction. The asset will depreciate from the second month after it is put into use. The estimated value of the asset and its accumulated depreciation is adjusted after going through the procedures for the final accounts for project completion.

12. Borrowing Cost

- 12.1 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. The amount of other borrowing costs incurred shall be recognised as an expense in the period in which they are incurred. Qualifying assets are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to be ready for their intended use or sale.
- 12.2 The capitalisation of borrowing costs can commence only when all of the following conditions are satisfied: expenditures for the asset are being incurred; borrowing costs are being incurred; and 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. Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is abnormally interrupted, when the interruption is for a continuous period of more than 3 months. Capitalisation of borrowing costs shall cease when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale.
- 12.3 The Company shall determine the capitalised amount of interest as follows: where funds are borrowed under a specific-purpose for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; where funds are borrowed under general-purpose borrowings and are utilised for the acquisition, construction or production of a qualifying asset, the Company shall determine the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess amount of cumulative expenditure on the asset over and above the amounts of specific-purpose borrowings.

13. Intangible Assets

- 13.1 The Company's intangible assets mainly contain land use rights, software use rights, non-patented technology, etc. The cost of a purchased intangible asset shall be determined by the expenditure actually incurred and other related costs. The cost of an intangible asset contributed by an investor shall be determined in accordance with the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair.
- 13.2 The cost of land use rights is amortised evenly over the whole period of the right. The cost of software use rights and non-patented technology of the Company is amortised evenly over the amortisation period not longer than the shortest of the following: the expected useful life; the beneficial period as specified in the contract; or the useful life specified in law, which is five years for the Company. The amortisation charge shall be recognised as the cost of an intangible asset or the profit or loss for the current period by the benefit the object derives from the asset.

- 13.3 For an intangible asset with a finite useful life, the Company shall review the useful life and amortisation method at least at each financial year-end. If the expected useful life of the asset or the amortisation method differs significantly from previous assessments, the amortisation period or amortisation method shall be changed accordingly. For an intangible asset with an indefinite useful life, the Company shall reassess the useful life of the asset in each accounting period. If there is evidence indicating that the useful life of that intangible asset is finite, the Company shall estimate the useful life of that asset and amortised accordingly.

14. Research and Development

According to the nature of expenditures and the uncertainty of achievement, expenditure on an internal research and development project shall be classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase of an internal research and development project shall be recognised in the profit or loss in the period in which it is incurred. While expenditure on the development phase of that shall be recognised as an intangible asset when all the conditions are satisfied as follows: (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (b) the intention to complete the intangible asset and use or sell it; (c) there is a market for the output of the intangible asset or the intangible asset itself; (d) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; (e) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure in the development phase that fails to meet all the conditions above should be included in the profit or loss in the period in which it is incurred. The expenditure in the development phase that has been included in the profit or loss in the prior period cannot be recognised as an intangible asset. The capitalised expenditure in the development phase shall be recognised as intangible asset when the asset is ready for its intended use.

15. Impairment for Non-financial Assets

The Company shall assess at each balance sheet date whether there is any indication that the following assets may be impaired: long-term equity investment on subsidiaries, joint ventures and associates; fixed assets; construction-in-progress; intangible assets of finite useful life, etc. Goodwill and an intangible asset with an indefinite useful life shall be tested for impairment annually, irrespective of whether there is any indication that the asset may be impaired. If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the asset group or set of asset groups to which the asset belongs.

If the recoverable amount of an asset is less than its carrying amount, the difference shall be recognised as an impairment loss. Once the impairment loss is recognised, it shall not be reversed in a subsequent period. The recoverable amount of an asset is the higher of its fair value less costs to sell, and the present value of the future cash flow expected to be derived from the asset.

The following are indications that an asset may be impaired: (a) during the period, the asset's market value has declined more than would be expected as a result of the passage of time or normal use; (b) significant changes with an adverse effect on the Company have taken place during the period, or will take place in the near future, in the technological, economic or legal environment etc. in which the Company operates or in the market to which an asset is dedicated; (c) market interest rates or other market rates of return on investments have increased during the period, and those increase are likely to affect the discount rate used in calculating the present value of an asset's expected future cash flows and decrease the assets recoverable amount materially; (d) evidence is available of obsolescence or physical damage of an asset; (e) an asset has become or is becoming idle and the Company discontinues using an asset or plans to dispose of an asset before the previously expected date; (f) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected, for example, the net cash flow generated or operating profit realised (or operating loss arising) from the asset are much less (or more) than the budgeted amounts; (g) other factors that indicate an asset may be impaired.

16. Goodwill

Goodwill refers to the difference at the acquisition date or purchasing date, which comes from the investment cost or cost of a business combination not involving enterprises under common control or exceeding the acquirer's interest in the fair value of the investees' or acquiree's identifiable net assets.

Goodwill related to subsidiaries shall be separately presented in the consolidated financial statements, while goodwill related to joint ventures and associates shall be included in the carrying amount of long-term equity investment.

Goodwill that is presented separately shall be tested for impairment at least at each financial year-end. For the purpose of impairment testing, the carrying amount of goodwill shall be allocated on a reasonable basis to the asset group or set of asset groups that is able to benefit from the synergies of the business combination.

17. Employee Benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, social security contributions, housing funds, union running costs, employee education costs, and other expenditures incurred in exchange for service rendered by employees.

In the accounting period in which an employee has rendered service to the Company, the Company shall recognise the employee benefits payable as a liability, except for compensation for the termination of employment relationships with employees that are included in the profit or loss in the current period. Employee benefits shall be accounted as a cost of related assets or charged to the profit or loss for the current period according to the benefits derived from the employee service.

18. Provision

18.1 An obligation related to a contingency, such as guarantees provided to outsiders, pending litigations or arbitrations, product warranties, redundancy plans, onerous contracts, reconstructing, expected disposal of fixed assets, etc. shall be recognised as a provision when all of the following conditions are satisfied: (a) the obligation is a present obligation of the Company; (b) it is probable that an outflow of economic benefits will be required to settle the obligation; (c) the amount of the obligation can be measured reliably.

18.2 A provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as risk, uncertainties, and time value of money shall be taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflow. The Company will review the carrying amount of a provision at the balance sheet date. Where there is clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount shall be adjusted to the current best estimate.

19. Revenue

The Company's revenue is mainly from sale of goods, rendering of services and use by others of enterprise assets. Revenue can only be recognised as the following conditions are satisfied: the amount of revenue can be measured reliably and the associated economic benefit will flow into the Company, further details as follows:

19.1 Revenue from the sale of goods shall be recognised only when all of the following conditions are satisfied: (a) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; (b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the associated economic benefits will flow into the Company; and (e) the associated costs incurred or to be incurred can be measured reliably.

19.2 Revenue from the rendering of services shall be recognised only when all of the following conditions are satisfied: (a) the amount of revenue and costs incurred or to be incurred for the transaction involving the rendering of services can be measured reliably; (b) the associated economic benefits can flow into the Company; and (c) the stage of completion of the transaction can be measured reliably. When the transaction commences and ends in one year, the revenue shall be recognised at the completion; when they are not in one year, the revenue shall be recognised in the percentage of completion method at the balance sheet date if the outcome of the transaction can be estimated reliably. The percentage of completion shall be determined by the cost incurred and the estimated whole cost.

19.3 Revenue from use by others of enterprise assets shall be recognised only when the associated economic benefit can flow into the Company, and the amount of revenue can be measured reliably.

20. Deferred Tax Assets and Deferred Tax Liabilities

A deferred tax asset and deferred tax liability shall be determined by a difference (temporary difference) between the carrying amount of an asset or liability and its tax base. The deferred tax asset shall be recognised for the carry forward of unused deductible losses and tax credits to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised. At the balance sheet date, deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

The Company shall recognise the corresponding deferred tax asset for deductible temporary differences as no higher than the taxable profits that will be available in the future, against which the temporary difference can be utilised. The Company shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profits will be available in future periods to allow the benefit of the deferred tax asset to be utilised. Any such reduction in amount shall be reversed to the extent that it becomes probable that sufficient taxable profits will be available.

21. Income Tax

The Company accounts the income tax as a method of debit in the balance sheet. The income tax expenses include income tax in the current period and deferred income tax. The income tax associated with the events and transactions directly included in the owners' equity shall be included in the owners' equity; and the deferred income tax derived from the business combination shall be included in the carrying amount of goodwill, except for that above, the income tax expense shall be included in the profit or loss in the current period.

The income tax expense in the current period refers to the tax payable, which is calculated according to the tax laws on the events and transactions incurred in the current period. The deferred income tax refers to the difference between the carrying amount and the deferred tax assets and deferred tax liabilities at the year-end recognised in the method of debit in the balance sheet.

22. Business Combination

Business combination refers the event or transaction where the Company combines two or more separate enterprises as one reporting entity. The Company shall recognise the assets and liabilities derived from a business combination at the combination date or acquisition date. A combination date or acquisition date is the date on which the Company effectively obtains control of the company being absorbed.

22.1 The assets and liabilities acquired through a business combination involving enterprises under common control shall be measured by the acquirer according to the carrying amount recorded by the acquiree at the combination date. The difference between the consideration of the combination and the carrying amount of the acquired net assets shall be included in capital surplus, or it shall be included in retained earnings continuously if the capital surplus is not sufficient.

22.2 The cost of business combinations not involving enterprises under common control is the aggregate of the fair value, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree. When the costs of business combinations exceed the acquirer's identifiable net assets, the difference shall be recognised as goodwill, if not, the differences shall be included in the profit or loss in the current period.

23. Basis of Preparation of Consolidated Financial Statements

23.1 The consolidated financial statements include subsidiaries and special purpose entities effectively controlled by the Company.

23.2 Consolidated financial statements have been prepared in accordance with the ASBEs No. 33 — Consolidated Financial Statements and relevant supplementary regulations. All significant transactions and balances between the Company and its subsidiaries are eliminated for the purpose of consolidation. The equity of subsidiaries not held by the parent company shall be presented separately as minority shareholders' equity in consolidated shareholders' equity.

Any difference arising from the inconformity of the accounting year or accounting policies between the subsidiaries and the Company shall be adjusted in the consolidated financial statements.

When preparing the consolidated financial statements, if the Company acquired the subsidiary through a business combination not involving common control, the separate financial statements shall be adjusted based on the fair value of identifiable net assets at the acquisition date. If the subsidiary is acquired through a business combination involving common control, the consolidated financial statements shall included the carrying amount of assets, liabilities, operating result and cash flow of the subsidiary at the beginning of the current period.

24. Significant Changes of Accounting Policies and Accounting Estimates and Corrections of Errors

Nil

5. TAXES

Major taxes and tax rates applicable to the Company are as follows:

1. Income tax

According to the document (State Revenue Issue [1994] No. 151 “The Notice of Applying favorable tax policies for the new and high technology companies”) issued by State Bureau of Revenue, the Company is subject to an income tax rate of 15% starting from 2002 because its place of registration is the chemical zone in Zibo Municipal New and High Technology Industrial Development Zone, Shandong Province, and is approved by the local department of revenue. The Company is subject to 15% income tax for operating income generated from the development zone and 33% income tax for operating income generated outside the development zone from 2004, which has been put on record in the local department of revenue. According to the document (State Revenue Issue [2008] No. 17), the Company is subject to an income tax rate of 25% starting from 2008.

The other subsidiaries of the Company are subject to 25% income tax except for Sino-USA Zibo Xinhua-Perrigo Pharmaceutical Company Limited and Zibo Xinhua-Eastwest Pharmaceutical Company Limited which are subject to 24%.

2. Value added tax

The Company is subject to value added tax for its sales revenues at a VAT rate of 17% or 13% for domestic sales and 0% for export sales.

In purchasing raw materials, the input VAT is deductible against output VAT at the rate of 17%.

The VAT payable for the period is the amount of output VAT less input VAT.

3. Business tax

Business tax is based on the design revenue, at a rate of 5%.

4. Urban maintenance and construction tax and educational surcharges

Urban maintenance and construction tax and educational surcharges are based on the sum of VAT payable and sales tax payable, at the rates of 7%, 3% and 1% respectively.

5. Property tax

Property tax is levied based on 70% of the original cost of the building property of the Company at a rate of 1.2%. The Company is subject to a 12% tax rate for rental income from leasing its building property.

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

1. Information about Subsidiaries

Company name	Registered address	Registered capital	Business Scope	Initial Investment	Holding Ratio (%)	Voting Ratio (%)
Shandong Xinhua Pharmaceutical Trade Company Limited	Zibo, Shandong	RMB48,498,900	Drug sales	RMB47,528,900	99.76	99.76
Shandong Xinhua Pharmaceutical Export & Import Company Limited	Zibo, Shandong	RMB3,000,000	Exporting & Importing of goods and technology, entrepot & counter trade	RMB3,000,000	99.52	99.52
Zibo Xinhua Pharmaceutical Design Institute Company Limited	Zibo, Shandong	RMB2,000,000	Pharmaceuticals project design	RMB1,800,000	90	90
Zibo Xinhua Drug Store Chain Company Limited	Zibo, Shandong	RMB2,000,000	Pharmaceutical retail	RMB1,760,000	88	88
Dongying Xinhua Pharm. Company Limited	Zibo, Shandong	RMB900,000	Pharmaceutical retail	RMB477,000	46.64	46.64
Shandong Xinhua Pharmaceutical (European) GmbH	Hamburg, Germany	EURO650,000	Sales of bulk pharmaceuticals and etc.	EURO500,000	76.9	76.9
Zibo Xinhua-Eastwest Pharmaceutical Company Limited	Zibo, Shandong	USD1,500,000	Producing & sales of Calcium Polycarbophil materials	USD1,125,000	75	75
Sino-USA Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Zibo, Shandong	USD6,000,000	Producing & sales of Ibuprofen materials	USD3,006,000	50.1	50.1
Xinhua Pharmaceutical (Shouguang) Company Limited	Shouguang, Shandong	RMB80,000,000	Production and sales of chemical products (excluded dangerous chemical)	RMB80,000,000	100.00	100.00

- 1) With a registered capital of RMB5 million, Shandong Xinhua Pharmaceutical Trade Company Limited (hereafter referred to as "Pharm. Trade") was established on 30 August 2004 by the Company and Zibo Xinhua Drug Store Chain Company Limited (a majority-owned subsidiary of the Company), which hold 98% and 2% of the registered capital, respectively. In March 2005, the registered capital increased by 43,498,900, among which, 42,628,900 was contributed by the Company in tangible assets, and 870,000 was contributed by Zibo Xinhua Drug Store Chain Company Limited in cash. The share of equity interest held by each shareholder remains unchanged.

- 2) With a registered capital of RMB3 million, Shandong Xinhua Pharmaceutical Export & Import Company Limited (hereafter referred to as “Xinhua Export & Import”) was established on 15 May 2006 by Shandong Xinhua Pharmaceutical Trade Company Limited and Zibo Xinhua Drug Store Chain Company Limited, which hold 98% and 2% of the equity interests respectively, the principle operation of Xinhua Export & Import is exporting & importing of goods and technology, entrepot & counter trade.
- 3) With a registered capital of RMB2 million, Zibo Xinhua Pharmaceutical Design Institute (hereinafter referred to as the “Design Institute”) was formed in March 2002 by the Company and Xinhua Pharmaceutical Group Company Limited, which hold 90% and 10% of the registered capital, respectively.
- 4) Zibo Xinhua Drug Store Chain Company Limited (the name was changed from Zibo Xinhua Drug Store Company Limited in December 2003, hereafter referred to as the “Zibo Drug Store”) was incorporated in July 1999 with the registered capital contributed by the Company and Xinhua Pharmaceutical Group Company Limited, which hold 88% and 12% of the equity interests, respectively. The original registered capital was RMB1,000,000 and it was increased to RMB2,000,000 in September 2002.
- 5) With a registered capital of RMB900,000, Dongying Xinhua Pharmaceutical Company Limited (hereinafter referred to as the “Dongying Pharmaceutical”) was formed in March 2002 by Zibo Drug Store and Dongying Lanjing Tech. Company Limited, which hold 53% and 47% of equity interests respectively.
- 6) Shandong Xinhua Pharmaceutical (European) GmbH (hereinafter referred to as the “Xinhua European”) was established on 25 November 2003. It was jointly invested by the Company and Mr. LI PENG from Germany. The registered capital was 1 million Euros. The Company holds 70% of equity interests, while Mr. LIPENG owns 30%. This company was incorporated in Hamburg, Germany. This company’s reporting currency is Euro. In July 2006, the registered capital of the Company was changed to EURO650,000 according to the resolution of the Board of Directors’ meeting, and the share of equity interest held by the Company and Mr. LI PENG was changed to 76.90% and 23.10% respectively.
- 7) With a registered capital of USD1.5 million, Zibo Xinhua — Eastwest Pharmaceutical Company Limited (hereafter referred to as “Xinhua-Eastwest”) was established on 15 November 2005 by the Company and Eastwest United Group, Inc., which hold 75% and 25% of the equity interests respectively, the principle operation of Zibo Xinhua — Eastwest Pharmaceutical Company Limited is producing and sales of Calcium Polycarbophil materials. On 26 June 2006, the Company and Eastwest United Group, Inc. injected USD1.125 million and USD0.375 million in cash respectively.
- 8) Sino-USA Zibo Xinhua-Perrigo Pharmaceutical Company Limited (hereinafter referred to as the “Xinhua-Perrigo”) was established by the Company and Perrigo International Inc. on 11 September 2003, a foreign invested joint company. With a registered capital of USD6 million, each party holds 50% of equity interests. On 3 April 2006, Perrigo International Inc. transferred 0.1% shares of Xinhua-Perrigo to the Company with a consideration of USD6,000 according to the Mending Agreement of Joint Venture. The transaction was approved by Bureau of Economic Development in Zibo New & high-tech Industrial Development Zone. The Company held 50.1% shares of Xinhua-Perrigo as at the end of 31 December 2007.
- 9) Shandong Dadi Xinhua Chemical & Industrial Company Limited (“Dadi Xinhua”), was renewed as Xinhua Pharmaceutical (Shouguang) Company Limited (“Shouguang Company”) in June 2008. It was established with the registered capital of RMB26,000,000 by the Company and Shandong Dadi Stalinisation Group Limited (“Dadi Stalinisation”) on 12 September 2006. The Company contributed RMB12,740,000, accounting for 49% of the registered capital. The Company injected RMB6,000,000 more to Dadi Xinhua and increased its registered capital to RMB32,000,000 in November 2007. The Company held 58.5625% of its shares. During the six months ended 30 June 2008, the Company purchased a 41.4375% equity interest of Dadi Xinhua from Dadi Stalinisation. After the acquisition, the Company held 100% equity interest of Shouguang Company. The Company invested an additional RMB48,000,000 in Shouguang Company in June 2008, and the registered capital of Shouguang Company changed to RMB80,000,000 from RMB32,000,000. The main business of Shouguang Company includes production and sale of chemical products (excluded dangerous and poisonous chemical).

2. Changes of the Scope of Consolidation

During this reporting period, the consolidated financial statements of the Company do not include Weifang Wanyuan Chemical Company Limited (“Weifang Wanyuan”). According to the equity transfer agreement entered into between Shandong Dadi Xinhua Chemical & Industrial Company Limited and Shandong Dadi Stalinisation Group Limited (“Dadi Stalinisation”), Dadi Xinhua transferred a 51% equity interest of Weifang Wanyuan to Dadi Stalinisation for a consideration. This time of the share transfer was dated-back to 31 December 2007. Since 1 January 2008, Dadi Xinhua no longer has any equity interest of Weifang Wanyuan. Accordingly, this consolidated financial statement does not include Weifang Wanyuan. Owing to this change, there is a decrease in the total assets of the Company amounting to RMB35,166,000 and a decrease in liability amounting to RMB17,777,000.

(The above equity transfer agreement was signed after Dadi Xinhua had become a wholly-owned subsidiary of the Company and Dadi Stalinisation was and is no longer a connected person (as defined in the Listing Rules) of the Company. Therefore, the above share transfer was not a connected transaction.)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash & Cash Equivalents

Item	Original Currency	2008.6.30		Original Currency	2007.12.31	
		Exchange Rate	Translated into RMB		Exchange Rate	Translated into RMB
Cash on Hand			156			149
Including: USD	5	6.8591	37	2	7.3046	11
EURO	4	10.8302	39	4	10.6669	39
HKD	31	0.8792	27	21	0.9364	19
JPY	351	0.064468	23	91	0.064064	6
Cash in Bank			171,811			142,637
Including: USD	10,323	6.8591	70,803	6,795	7.3046	49,634
EURO	193	10.8302	2,089	363	10.6669	3,873
Other Fund			33,884			69,472
Including: USD	—	—	—	174	7.3046	1,270
Total	—	—	205,851	—	—	212,258

The ending balance of other fund contained bank acceptance deposit and long-term settlement deposit of RMB21,965,000, freely-drawn notifying deposit of RMB10,000,000 and letter of credit deposit of RMB1,919,000.

2. Held-for-sale Financial Assets

Item	Fair Value on 2008.6.30	Fair Value on 2007.12.31
Derivate Financial Instruments	2,262	15,897

- (1) Held-for-trading financial assets referred to the United States Dollar forward contracts. The Company entered into forward contracts denominated in USD for the settlement of exchange of exportation. There is no significant restriction on the returns of investment.
- (2) The ending balance of held-for-trading financial assets has decreased as that of beginning of this period, mainly due to some long-term exchange contracts, which matured in the first half of 2008.

3. Notes Receivable

Item	2008.6.30	2007.12.31
Bank acceptance	<u>69,405</u>	<u>71,966</u>

4. Accounts Receivable

(1) Risk Classification of Accounts Receivable

Item	2008.6.30			2007.12.31		
	Amount	Ratio %	Bad debts Provision	Amount	Ratio %	Bad debts Provision
Individually significant accounts receivable	103,006	33.55	284	63,318	26.91	316
Individually non-significant accounts receivable	<u>203,999</u>	<u>66.45</u>	<u>14,957</u>	<u>171,956</u>	<u>73.09</u>	<u>13,868</u>
Total	<u>307,005</u>	<u>100.00</u>	<u>15,241</u>	<u>235,274</u>	<u>100.00</u>	<u>14,184</u>

Individually significant accounts receivable referred to as individual accounts receivable with an amount over RMB10,000,000, as no impairment of individually significant accounts receivable was found after the assessing.

(2) Aging Analysis

Item	2008.6.30			2007.12.31		
	Amount	Ratio %	Bad debts Provision	Amount	Ratio %	Bad debts Provision
Less than 1 year	248,619	80.99	1,325	176,555	75.04	868
1 to 2 years	17,381	5.66	1,073	21,729	9.24	849
2 to 3 years	30,398	9.90	2,236	27,707	11.78	3,750
Over 3 years	<u>10,607</u>	<u>3.45</u>	<u>10,607</u>	<u>9,283</u>	<u>3.94</u>	<u>8,717</u>
Total	<u>307,005</u>	<u>100.00</u>	<u>15,241</u>	<u>235,274</u>	<u>100.00</u>	<u>14,184</u>

The ending balance of accounts receivable has increased significantly as that of beginning of this year, mainly due to the increased of settlements in bank acceptance in the first half of 2008.

- (3) In the ending balance, there is no account receivable due from shareholders who hold 5% or more of the Company's voting capital.
- (4) The balance of accounts receivable due from the top five debtors is RMB103,006,000, accounting for 33.55% of the total balance of accounts receivable.
- (5) The balance of accounts receivables due from the related parties is RMB51,030,000, accounting for 16.62% of the total balance of accounts receivable.
- (6) The ending balance of accounts receivable includes receivables of RMB1,185,000 in relation to the export bid purchase.

(7) The ending balance of accounts receivable expressed in the foreign currency is as follows:

Item	2008.6.30			2007.12.31		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	21,881	6.8591	150,300	15,821	7.3046	115,570
EURO	914	10.8302	9,902	89	10.6669	952
Total	<u>—</u>	<u>—</u>	<u>160,202</u>	<u>—</u>	<u>—</u>	<u>116,522</u>

5. Advances to Suppliers

Item	2008.6.30		2007.12.31	
	Amount	Ratio %	Amount	Ratio %
Less than 1 year	26,182	97.69	20,905	97.51
1 to 2 years	174	0.65	14	0.07
2 to 3 years	162	0.60	290	1.35
Over 3 years	285	1.06	229	1.07
Total	<u>26,803</u>	<u>100.00</u>	<u>21,438</u>	<u>100.00</u>

(1) The ending balance of advance payments does not have any advance payment due from shareholders who hold 5% or more of the Company's voting capital.

(2) There is no advance payment expressed in foreign currency in the ending balance.

6. Other Receivable

(1) Risk Classification of Other Receivable

Item	2008.6.30			2007.12.31		
	Amount	Ratio %	Bad debts Provision	Amount	Ratio %	Bad debts Provision
Individually significant other receivable	6,196	18.93	6,196	6,196	22.01	6,196
Individually non-significant other receivable	<u>26,533</u>	<u>81.07</u>	<u>1,370</u>	<u>21,951</u>	<u>77.99</u>	<u>1,370</u>
Total	<u>32,729</u>	<u>100.00</u>	<u>7,566</u>	<u>28,147</u>	<u>100.00</u>	<u>7,566</u>

Individually significant other receivable refers to as individual other receivable with an amount over RMB5,000,000. Provision for bad debts has been made and there was impairment and aging of over 3 years of individually significant other receivable.

(2) Aging Analysis

Item	2008.6.30			2007.12.31		
	Amount	Ratio %	Bad debts Provision	Amount	Ratio %	Bad debts Provision
Less than 1 year	21,702	66.31	48	16,986	60.33	28
1 to 2 years	678	2.07	69	1,139	4.05	30
2 to 3 years	3,357	10.26	457	2,954	10.51	450
Over 3 years	6,992	21.36	6,992	7,068	25.11	7,058
Total	<u>32,729</u>	<u>100.00</u>	<u>7,566</u>	<u>28,147</u>	<u>100.00</u>	<u>7,566</u>

(3) The ending balance of other receivable include deductible input VAT, output VAT for exporting before applying to customs. No bad debts provision is made on these items.

(4) In the ending balance, there is no other receivable due from shareholders who hold 5% or more of the Company's voting capital.

(5) The balance of other receivable due from the top five debtors is RMB18,839,000, accounting for 57.56% of the total balance of other receivable.

(6) The balance of other receivable due from the related parties is RMB388,000, accounting for 1.19% of the total balance of other receivable.

(7) The ending balance of other receivable expressed in foreign currency is as follows:

Item	2008.6.30			2007.12.31		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EURO	<u>75</u>	<u>10.8302</u>	<u>815</u>	<u>75</u>	<u>10.6669</u>	<u>804</u>

7. Inventories

Item	2008.6.30		2007.12.31	
	Balance	Provision for impairment	Balance	Provision for impairment
Raw material	65,107	—	46,678	—
Work-in-progress	56,287	—	51,528	—
Finished goods	72,234	7,771	114,773	7,771
Goods-in-stock	70,472	825	68,704	825
Low-value consumables	13,406	—	11,357	—
Special materials for Government	1,363	—	1,597	—
Total	<u>278,869</u>	<u>8,596</u>	<u>294,637</u>	<u>8,596</u>

There was no price decrease in inventories except for finished products and goods in stock.

8. Available-for-sale Financial Assets

Item	2008.6.30	2007.12.31
Equity of Ruiheng Pharmaceutical & Technology Investment Company Limited	3,200	3,200
Legal-person share of Bank of Communications	55,891	116,713
Legal-person share of Pacific Insurance Company Limited	96,250	247,250
Equity of Tiantong Securities Company Limited	30,000	30,000
	<u>185,341</u>	<u>397,163</u>
Total	185,341	397,163
Impairment of available-for-sale financial assets	30,000	30,000
Including: Impairment on Equity of Tiantong Securities Company Limited	30,000	30,000
	<u>30,000</u>	<u>30,000</u>
Net value of available-for-sale financial assets	155,341	367,163

The ending balance of available-for-sale financial assets has decreased more than that of last year, mainly due to the fall in the market price of Bank of Communications and Pacific Insurance shares.

9. Long-term Equity Investment

(1) Long-term Equity Investment

Item	2008.6.30	2007.12.31
Accounted in cost method	—	—
Accounted in equity method	24,068	23,512
	<u>24,068</u>	<u>23,512</u>
Total of Long-term equity investment	24,068	23,512
Less: Impairment of Long-term equity investment	—	—
	<u>—</u>	<u>—</u>
Net value of Long-term equity investment	24,068	23,512

(2) Accounted in Equity Method of Long-term Equity Investment

Name of investee	Holding Ratio %	Original Cost	Balance in 2007.12.31	Addition	Deduction	Balance in 2008.6.30	Dividends received
Accounted in Equity Method							
Shandong Xinhua Longxin Chemical & Industrial Company Limited	40	10,000	10,364	203	—	10,567	—
Shandong Xinhua Changxing Chemical Equipment Company Limited	35	7,700	5,749	(453)	—	5,296	—
Shandong Zibo XinCat Pharmaceutical Company Limited	20	10,179	7,399	806	—	8,205	—
Total	—	—	23,512	556	—	24,068	—

(3) Impairment on Long-term Equity Investment

No provision for impairment is made and no evidence indicates any impairment of long-term equity investment at the end of the period.

(4) Joint Ventures and Associates

Name of investee	Registered address	Business scope	Holding Ratio (%)	Voting Ratio (%)	Net Assets on 2008.6.30	Turnover in the first half of 2008	Net profit in the first half of 2008
Shandong Xinhua Longxin Chemical & Industrial Company Limited	299th Ethene Road, Linzi Dist., Zibo, Shandong	Production and sales of Salicylic acid series	40	40	26,418	49,024	508
Shandong Xinhua Changxing Chemical Equipment Company Limited	Sanlihe, Changshan Town, Zouping, Shandong	Production and sales of chemical facilities and fittings	35	35	15,131	9,493	(1,295)
Shandong Zibo XinCat Pharmaceutical Company Limited	Chemical Area in Zibo New & High-Tech Industrial Development Zone, Shandong	Preparation of chemical medicine	20	20	35,010	99,059	4,032

(5) There is no significant restriction on the Company to dispose of long-term equity investments.

10. Fixed Assets

(1) Details of fixed assets

	Houses & Buildings	Machinery & Equipment	Vehicles	Electronic Apparatus	Total
Original cost at beginning of year	526,174	1,201,089	17,966	34,328	1,779,557
Add: Increases in the yr.	3,262	17,233	1,011	1,702	23,208
Including: Construction-in-progress transferred in	800	2,524	—	18	3,342
Less: Decreases in the yr.	7,511	11,678	412	6,113	25,714
Cost at 2008.6.30	521,925	1,206,644	18,565	29,917	1,777,051
Accumulated depreciation at beginning of year	219,441	669,694	13,393	23,765	926,293
Add: Increases in the yr.	9,586	42,427	712	1,156	53,881
Less: Decrease in the yr.	1,745	5,826	395	1,907	9,873
Accumulated depreciation at 2008.6.30	227,282	706,295	13,710	23,014	970,301
Provision for impairment at beginning of year	—	—	—	—	—
Add: Increases in the yr.	—	—	—	—	—
Reversed in the yr.	—	—	—	—	—
Less: Other decrease in the yr.	—	—	—	—	—
Provision for impairment at 2008.6.30	—	—	—	—	—
Net value					
Net value at 2007.12.31	306,733	531,395	4,573	10,563	853,264
Net value at 2008.6.30	294,643	500,349	4,855	6,903	806,750

(2) The ending balance of fixed assets included RMB14,754,000 of original cost and RMB13,982,000 of net value of housing and buildings used for operations.

11. Construction-in-progress

(1) Detailed list of construction in projects

Project	Budget	Beginning balance	Addition	Transfer to fixed assets	Other deduction	Ending balance	Source of fund	Investment accounts for the budget (%)
Xinhua (West) Intel' building	—	8,952	—	—	4,327	4,625	Self-owned	—
Xinhua (East) Intel' building	—	854	20	—	—	874	Self-owned	—
L380	30,000	18,323	9,362	—	—	27,685	Self-owned	92
Lbuprofen project	98,000	229	28,012	—	—	28,241	Self-owned	29
R&D centre in West Park	95,000	2,213	2,142	—	—	4,355	Self-owned	5
201 high concentration waste water treatment project	10,000	6,988	738	—	—	7,726	Self-owned	77
Other	—	33,621	39,423	3,342	—	69,702	—	—
Total	—	71,180	79,697	3,342	4,327	143,208		
Include: Capitalised borrowing expense	—	—	—	—	—	—		

(2) No provision for impairment is made and no evidence indicates any impairment of construction-in-progress at the end of the period.

12. Intangible Assets

(1) Details of Intangible Assets

Item	Land use right	Software use right	Non-patented technology	Total
Original cost at beginning of year	113,418	2,690	6,558	122,666
Add: Increases in the yr.	6,238	139	—	6,377
Less: Decreases in the yr.	—	—	—	—
Cost at 2008.6.30	119,656	2,829	6,558	129,043
Accumulated amortisation at beginning of year	19,575	1,808	4,636	26,019
Add: Increases in the yr.	1,553	164	565	2,282
Less: Decrease in the yr.	—	—	—	—
Accumulated amortisation at 2008.6.30	21,128	1,972	5,201	28,301
Book Value				
Net value at 2007.12.31	93,843	882	1,922	96,647
Net value at 2008.6.30	98,528	857	1,357	100,742

(2) No provision for impairment is made and no evidence indicates any impairment of intangible assets at the end of the period.

13. Deferred Tax Assets

- (1) Recognised deferred tax assets

Item	2008.6.30	2007.12.31
Deferred Tax Assets from deductable temporary difference	<u>9,678</u>	<u>9,678</u>

- (2) Deductible temporary difference of deferred tax assets at the ending balance

Items of deductible temporary difference	2008.6.30	2007.12.31
Provision for impairment of available-for-sale financial assets	30,000	30,000
Provision for impairment of receivables	20,751	20,751
Provision for impairment of inventories	<u>8,019</u>	<u>8,019</u>
Total	<u>58,770</u>	<u>58,770</u>
Tax rate	15%, 25%	15%, 25%
Deferred Tax Assets	<u>9,678</u>	<u>9,678</u>

14. Short-term Loans

Item	2008.6.30	2007.12.31
Credit loans	113,959	126,819
Secured borrowings	130,000	80,000
Charged borrowings	<u>1,185</u>	<u>—</u>
Total	<u>245,144</u>	<u>206,819</u>

- (1) The recurred borrowings were secured by Shandong Xinhua Pharmaceutical Group Company Limited and Hualu Holdings Company Limited.
- (2) Please see Note 7.4 about charged borrowings.

15. Notes Payable

Item	2008.6.30	2007.12.31
Bank acceptance	<u>54,716</u>	<u>30,184</u>

The maturity date of notes payable is from 29 August 2008 to 29 November 2008.

16. Accounts Payable

Item	2008.6.30	2007.12.31
Accounts payable	<u>177,715</u>	<u>154,100</u>

- (1) The ending balance of accounts payable does not have any amount due to the shareholders who hold 5% or more of the Company's voting capital.
- (2) Accounts payable aged over one year were unsettled payments for raw materials.
- (3) The ending balance of accounts payable expressed in foreign currency is as follows:

Item	2008.6.30			2007.12.31		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	—	—	—	82	7.3046	599
EURO	956	10.8302	<u>10,357</u>	357	10.6669	<u>3,805</u>
Total			<u>10,357</u>			<u>4,404</u>

17. Advances from Customers

Item	2008.6.30	2007.12.31
Advances from customers	<u>8,846</u>	<u>22,386</u>

- (1) The ending balance of advances from customers does not have any amount due to the shareholders who hold 5% or more of the Company's voting capital.
- (2) The advance from customers aged over one year was unsettled petty expense.

18. Employee Benefits Payable

Item	2007.12.31	Additions	Payment	2008.6.30
Salaries (including bonuses, allowance and subsidies)	—	65,528	65,528	—
Staff welfare	5,595	—	5,595	—
Social securities	—	18,518	18,518	—
Including: 1. Medical insurance	—	3,861	3,861	—
2. Pension insurance	—	12,626	12,626	—
3. Unemployment insurance	—	1,109	1,109	—
4. Work injury insurance	—	541	541	—
5. Maternity insurance	—	381	381	—
Housing funds	864	7,329	7,267	926
Union running costs and employee education costs	13,629	2,293	1,418	14,504
Directors' and Supervisors' remuneration	2,020	270	1,305	985
Compensation to employees for termination of employment relationship	—	65	65	—
Other	17,618	967	3,189	15,396
Including: Stock-based payment settled in cash	—	—	—	—
Total	<u>39,726</u>	<u>94,970</u>	<u>102,885</u>	<u>31,811</u>

19. Tax Payables

Item	Applicable tax rates	2008.6.30	2007.12.31
Value added tax		1,269	(3,707)
Business tax	3%, 5%	21	46
Urban maintenance & construction tax	7%	405	504
Income tax	24%, 25%	6,577	(146)
Payroll tax		123	177
Property tax	1.20%	263	20
Land VAT		1,653	1
Stamp tax		66	150
Educational surcharges	4%	231	257
Others		(10)	—
Total		<u>10,598</u>	<u>(2,698)</u>

20. Dividends Payable

Item	2008.6.30	2007.12.31
Shandong Dadi Salt Chemical Group Company Limited	—	122
Ms. Ren Aiqin	—	117
State-owned share	4,898	—
H Shareholder	4,500	—
Others	9,590	5,268
Total	<u>18,988</u>	<u>5,507</u>

21. Other Payable

	2008.6.30	2007.12.31
Other payable	<u>37,542</u>	<u>40,581</u>

(1) The ending balance of other payable does not have any amount due to the shareholders who hold 5% or more of the Company's voting capital.

(2) Other payable aged over one year in the ending balance was mainly unsettled payment of constructions.

22. Deferred Tax Liabilities

(1) Recognised deferred tax liabilities

Item	2008.6.30	2007.12.31
Income tax from taxable temporary difference	<u>19,977</u>	<u>53,795</u>

(2) Deductible temporary difference of deferred tax liabilities at the ending balance

Items of taxable temporary difference	2008.6.30	2007.12.31
Changes of fair value of available-for-sale financial assets	130,915	342,737
Changes of fair value of held-for-trading financial assets	2,262	15,897
Total	<u>133,177</u>	<u>358,634</u>

Tax rate	15%	15%
Deferred tax liabilities	<u>19,977</u>	<u>53,795</u>

23. Share Capital

Item	2008.6.30	2007.12.31
Conditional tradable shares		
State-held shares	163,259	163,259
State-owned legal-person held shares	—	—
Domestic-funded-held shares	24,550	24,558
Including: Domestic legal-person held shares	24,527	24,527
Domestic natural person held shares	23	31
Foreign-funded-held shares	—	—
Including: Foreign legal-person held shares	—	—
Foreign natural person held shares	—	—
Sub-total	<u>187,809</u>	<u>187,817</u>
Unconditional tradable shares		
Domestically listed RMB A shares	119,504	119,496
Domestically listed foreign invested shares	—	—
Overseas listed foreign invested H shares	150,000	150,000
Others	—	—
Sub-total	<u>269,504</u>	<u>269,496</u>
Total stock	<u>457,313</u>	<u>457,313</u>

24. Capital Surplus

Item	2007.12.31	Additions	Deductions	2008.6.30
Upward revaluation of assets	60,910	—	—	60,910
Premium of stock	496,851	—	—	496,851
Receipt of donation	1,158	—	—	1,158
Others	291,327	31,773	211,822	111,278
Total	<u>850,246</u>	<u>31,773</u>	<u>211,822</u>	<u>670,197</u>

- (1) Others capital surplus mainly accounting for the change in fair value of available-for-sale financial assets, which were legal-person held shares of Bank of Communications and Pacific Insurance Company Limited.
- (2) The ending balance of capital surplus has decreased more than that of last year, mainly due to the fall in the market prices of Bank of Communications and Pacific Insurance shares.

25. Surplus Reserves

Item	2007.12.31	Additions	Deductions	2008.6.30
Statutory surplus reserves	99,461	—	—	99,461
Discretionary surplus reserve	64,797	—	—	64,797
Total	<u>164,258</u>	<u>—</u>	<u>—</u>	<u>164,258</u>

26. Undistributed Profits

(1) Profit Distribution Statement

Item	2008.6.30	2007.12.31
Undistributed profit at beginning of the year	193,497	171,892
Add: adjustment to the undistributed profit at beginning of the year	—	—
Add: Net profit of the year	20,457	32,723
Less: Appropriation of statutory surplus reserve	—	1,972
Dividends payable on common stock	13,719	9,146
Undistributed profit at the end of the year	<u>200,235</u>	<u>193,497</u>
Including: dividend in cash to be distributed	<u>—</u>	<u>13,719</u>

The General Meeting for 2007 held on 26 June 2008 passed the resolution on the proposal for 2007 profit distribution. Under the resolution, the shareholders will be allocated cash dividend of RMB0.03 per share (before tax) based on the total number of 457,312,830 shares after providing for 10% statutory surplus reserve.

27. Minority Interest

Name	Ratio of equity interests	2008.6.30	2007.12.31
Shandong Xinhua Pharmaceutical Group Company Limited	10%	105	49
Shandong Xinhua Pharmaceutical Group Company Limited	12%	311	256
LI PENG	23.10%	755	684
Eastwest United Group, INC	25%	3,852	3,622
Perrigo Asia Holding Company	49.90%	24,710	23,698
Shandong Dadi Salt & Industrial Company Limited	—	—	13,613
Ms. Ren Aiqin	—	—	8,871
Total	—	<u>29,733</u>	<u>50,793</u>

28. Operating Income and Cost

(1) Operating Income and Cost

Item	2008.1-6	2007.1-6
Income from main operation	1,119,148	936,560
Income from other operation	21,505	32,317
Sub-total	1,140,653	968,877
Sales to top 5 customers	163,819	125,799
Accounting of the total sales	14.64%	13.43%
Cost from main operation	961,484	776,207
Cost from other operation	20,738	31,379
Sub-total	982,222	807,586

(2) Income and Cost from Main Operation Listed by Products

Item	2008.1-6	2007.1-6
Income from main operation		
Bulk Pharmaceuticals	677,674	595,240
Including: Export sales	477,489	435,589
Preparations	203,768	166,903
Commerce circulations	231,913	172,595
Chemical and others	5,793	1,822
Sub-total	1,119,148	936,560
Cost from main operation		
Bulk Pharmaceuticals	587,752	484,687
Including: Export sales	418,127	354,010
Preparations	145,742	123,067
Commerce circulations	224,807	167,494
Chemical and others	3,183	959
Sub-total	961,484	776,207
Gross margin from main operation		
Bulk Pharmaceuticals	89,922	110,553
Including: Export sales	59,362	81,579
Preparations	58,026	43,836
Commerce circulations	7,106	5,101
Chemical and others	2,610	863
Sub-total	157,664	160,353

29. Taxes and Surcharges

Item	Base of computation	Tax rate	2008.1-6	2007.1-6
Business tax	Design revenue	5%	137	38
Urban maintenance & construction tax	VAT	7%	3,016	3,268
Educational surcharges	VAT	4%	1,726	1,868
Total			<u>4,879</u>	<u>5,174</u>

30. Financial Expenses

Item	2008.1-6	2007.1-6
Interest expenses	6,918	6,486
Less: interest income	934	705
Add: exchange loss	(4,455)	3,250
Add: commission charges	427	354
Add: others	(764)	1,283
Total	<u>1,192</u>	<u>10,668</u>

During this report period, financial expenses decreased due to some long-term exchange contracts which matured in the first half of 2008 and income turned into financial expenses-exchange income/loss.

31. Impairment Loss of Assets

Item	2008.1-6	2007.1-6
Impairment loss of bad debts	19	5,808
Total	<u>19</u>	<u>5,808</u>

32. Gain or Loss from changes in fair value

Item	2008.1-6	2007.1-6
Gain or loss from changes in fair value of held-for-trading financial assets	(13,635)	1,962
Total	<u>(13,635)</u>	<u>1,962</u>

During this report period, gain or loss from changes in fair value decreased due to some long-term exchange contracts which matured in the first half of 2008 and income turned into financial expenses-exchange income/loss.

33. Investment Gain or Loss

Sources of Investment gain or loss	2008.1-6	2007.1-6
Dividends from the available-for-sale financial assets	651	167
Bond investment gain or loss	—	1,647
Adjustment on the investee's shareholders' equity at the end of the year	556	604
Other	479	(9)
	<u>1,686</u>	<u>2,409</u>
Total	<u>1,686</u>	<u>2,409</u>

There is no significant restriction on the returns of investment income.

34. Non-operating Income

Item	2008.1-6	2007.1-6
Proceeds from disposal of non-current assets	602	10,621
Government Subsidies	—	400
Income from penalties	352	45
Others	197	—
	<u>1,151</u>	<u>11,066</u>
Total	<u>1,151</u>	<u>11,066</u>

35. Non-operating Expense

Item	2008.1-6	2007.1-6
Loss from disposal of non-current assets	147	5,875
Donations for commonweal	501	34
Overdue fines and penalties	406	369
Others	1,058	995
	<u>2,112</u>	<u>7,273</u>
Total	<u>2,112</u>	<u>7,273</u>

36. Income Tax Expenses

Item	2008.1-6	2007.1-6
Income tax expenses in current period	8,696	7,694
	<u>8,696</u>	<u>7,694</u>
Total	<u>8,696</u>	<u>7,694</u>

37. Cash Flow Statement

(1) Cash and its equivalents presented in cash flow statement

Item	2008.6.30	2007.12.31
Cash	181,967	199,833
Including: Cash in hand	156	149
Bank deposit available for payment at any moment	171,811	142,638
Other funds available for payment at any moment	10,000	57,046
Cash equivalents	—	—
Including: debt investment with a maturity of 3 months	—	—
Ending balance of cash and equivalents	181,967	199,833
Including: cash and equivalents restricted to use by parent company or subsidiaries in the Group.	—	—

(2) Other Cash Received/Paid Relating to Operating Activities

(i) Other Cash Received Relating to Operating Activities

Item	2008.1-6	2007.1-6
Interest income	934	594
Subsidies income	—	400
Long-term settlement income	14,232	853
Compensation	—	3,760
Deposit money	3,116	2,806
Other	2,540	1,656
Total	20,822	10,069

(ii) Other Cash Paid Relating to Operating Activities

Item	2008.1-6	2007.1-6
Office expenses	1,195	1,128
Travel expenses	4,326	2,801
Annual listing fee, audit fee and Board's fee	1,638	1,572
Sewage discharge fees	2,285	2,692
Advertising and marketing expenses	19,537	10,695
Freight charges	19,545	17,685
Entertainment expenses	1,411	943
Research and development expenses	5,692	5,464
Funds transactions	13,809	27,599
Others	24,195	9,239
Total	93,633	79,818

(3) Supplementary Information to Consolidated Cash Flow Statement

Item	2008.1-6	2007.1-6
1. Reconciliation of net income to cash flows from operating activities		
Net profit	20,457	18,936
Add: Increase/Loss of minority	1,415	3,194
Provisions for assets impairment	19	5,808
Depreciation of fixed assets, depreciation of oil assets and depreciation of biological assets	53,882	50,150
Amortisation of intangible assets	2,282	1,976
Amortisation of Long-term prepayments	—	—
Losses on disposal of fixed assets, intangible assets and other long-term assets (or deduct: gains)	(455)	(4,747)
Losses on fixed assets scrapped	—	—
Profit or loss from changes in fair value (or deduct: gains)	13,635	(1,962)
Financial expense (or deduct: gains)	1,192	10,668
Investment loss (or deduct: gains)	(1,686)	(2,409)
Decrease in deferred tax assets (or deduct: increase)	—	—
Increase in deferred tax liabilities (or deduct: decrease)	—	—
Decrease in inventories (or deduct: increase)	15,767	2,193
Decrease in operating receivables (or deduct: increase)	(78,061)	(117,689)
Increase in operating payables (or deduct: decrease)	15,533	112,667
Other	—	—
Net cash flows from operating activities	43,980	78,785
2. Significant investing and financing activities not involving cash receipt or payment:		
Conversion of a debts to capital	—	—
Convertible bonds due within one year	—	—
Financial lease-in fixed assets	—	—
3. Changes in cash and cash equivalents:		
Ending balance of cash and cash equivalent	181,967	181,890
Less: beginning balance cash and of cash equivalents	199,833	133,134
Net increase of cash and cash equivalents	(17,866)	48,756

8. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. Accounts Receivable

(1) Risk Classification of Accounts Receivable

Item	Amount	2008.6.30		Amount	2007.12.31	
		Ratio %	Bad debts Provision		Ratio %	Bad debts Provision
Individually significant accounts receivable	103,006	32.29	284	63,318	28.52	317
Individually non-significant accounts receivable	216,023	67.71	6,415	158,723	71.48	6,378
Total	<u>319,029</u>	<u>100.00</u>	<u>6,699</u>	<u>222,041</u>	<u>100.00</u>	<u>6,695</u>

Individually significant accounts receivable referred to as individual accounts receivable with an amount over RMB10,000,000, as no impairment of individually significant accounts receivable was found after the assessing.

(2) Aging Analysis

Item	Amount	2008.6.30		Amount	2007.12.31	
		Ratio %	Bad debts Provision		Ratio %	Bad debts Provision
Less than 1 year	270,937	84.93	458	175,207	78.90	692
1 to 2 years	15,380	4.82	673	18,818	8.48	294
2 to 3 years	27,855	8.73	711	23,864	10.75	1,557
Over 3 years	4,857	1.52	4,857	4,152	1.87	4,152
Total	<u>319,029</u>	<u>100.00</u>	<u>6,699</u>	<u>222,041</u>	<u>100.00</u>	<u>6,695</u>

(3) In the ending balance, there is no account receivable due from shareholders who hold 5% or more of the Company's voting capital.

(4) The balance of accounts receivable due from the top five debtors is RMB103,006,000 accounting for 32.29% of the total balance of accounts receivable.

(5) The balance of accounts receivables due from the related parties is RMB51,030,000, accounting for 16.00% of the total balance of accounts receivable.

(6) The ending balance of accounts receivable expressed in the foreign currency is as follows:

Item	Original Currency	2008.6.30		Original Currency	2007.12.31	
		Exchange Rate	Translated into RMB		Exchange Rate	Translated into RMB
USD	20,026	6.8591	137,362	15,073	7.3046	110,101
Total			<u>137,362</u>			<u>110,101</u>

2. Other Receivable

(1) Risk Classification of Other Receivable

Item	2008.6.30			2007.12.31		
	Amount	Ratio %	Bad debts Provision	Amount	Ratio %	Bad debts Provision
Individually significant other receivable	6,196	14.81	6,196	6,196	17.94	6,196
Individually non-significant other receivable	35,632	85.19	219	28,347	82.06	219
Total	<u>41,828</u>	<u>100.00</u>	<u>6,415</u>	<u>34,543</u>	<u>100.00</u>	<u>6,415</u>

Individually significant other receivable referred to as individual other receivable with an amount over RMB5,000,000. Provisions for bad debts have been made and there was impairment and aging over 3 years of individually significant other receivable.

(2) Aging Analysis

Item	2008.6.30			2007.12.31		
	Amount	Ratio %	Bad debts Provision	Amount	Ratio %	Bad debts Provision
Less than 1 year	32,424	77.52	4	25,074	72.59	4
1 to 2 years	263	0.63	—	989	2.86	—
2 to 3 years	1,568	3.75	139	908	2.63	139
Over 3 years	7,572	18.10	6,272	7,572	21.92	6,272
Total	<u>41,827</u>	<u>100.00</u>	<u>6,415</u>	<u>34,543</u>	<u>100.00</u>	<u>6,415</u>

- (3) The ending balance of other receivable includes output VAT for exporting before applying to customs. No bad debts provision is made on these items.
- (4) In the ending balance, there is no other receivable due from shareholders who hold 5% or more of the Company's voting capital.
- (5) The balance of other receivable due from the top five debtors is RMB37,099,000, accounting for 88.70% of the total balance of other receivable.
- (6) The balance of other receivable due from the related parties is RMB27,033,000, accounting for 64.63% of the total balance of other receivable.
- (7) There is no other receivable expressed in foreign currency in its ending balance.

3. Long-term Equity Investment

(1) Long-term Equity Investment

Item	2008.6.30	2007.12.31
Accounted in cost method	170,284	108,311
Accounted in equity method	24,068	23,512
Total of Long-term equity investment	194,352	131,823
Less: Impairment of Long-term equity investment	—	—
Net value of Long-term equity investment	194,352	131,823

(2) Accounted in Equity Method and Cost Method

Name of investee	Holding Ratio	Original Cost	Balance in 2007.12.31	Addition	Deduction	Balance in 2008.6.30	Dividends received
Accounted in cost method							
1. Shandong Xinhua Pharmaceutical Trade Company Limited	98%	47,529	47,529	—	—	47,529	—
2. Zibo Xinhua Pharmaceutical Design Institute Company Limited	90%	1,800	1,800	—	—	1,800	—
3. Zibo Xinhua Drug Store Chain Company Limited	88%	1,760	1,760	—	—	1,760	—
4. Shandong Xinhua Pharmaceutical (European) GmbH	76.90%	4,597	4,597	—	—	4,597	—
5. Zibo Xinhua-Eastwest Pharmaceutical Company Limited	75%	9,008	9,008	—	—	9,008	—
6. Sino-USA Zibo Xinhua-Perrigo Pharmaceutical Company Limited	50.10%	24,831	24,877	—	—	24,877	—
7. Xinhua Pharmaceutical (Shouguang) Company Limited	100%	5,300	18,740	61,973	—	80,713	—
Sub-total			108,311	61,973	—	170,284	—
Accounted in equity method							
1. Shandong Xinhua Longxin Chemical & Industrial Company Limited	40%	10,000	10,364	203	—	10,567	—
2. Shandong Xinhua Changxing Chemical Equipment Company Limited	35%	7,700	5,749	(453)	—	5,296	—
3. Shandong Zibo XinCat Pharmaceutical Company Limited	20%	10,179	7,399	806	—	8,205	—
Sub-total			23,512	556	—	24,068	—
Total			131,823	62,529	—	194,352	—

(3) Impairment on Long-term Equity Investment

No provision for impairment is made and no evidence indicates any impairment of long-term equity investment at the end of the period.

(4) Joint Ventures and Associates

Name of investee	Registered address	Business scope	Holding Ratio (%)	Voting Ratio (%)	Net Assets on 2007.12.31	Turnover in 2007	Net profit in 2007
Shandong Xinhua Longxin Chemical & Industrial Company Limited	299th Ethene Road, Linzi Dist., Zobo, Shandong	Production and sales of Salicylic acid series	40	40	26,418	49,024	508
Shandong Xinhua Changxing Chemical Equipment Company Limited	Sanlihe, Changshan Town, Zouping, Shandong	Production and sales of chemical facilities and fittings	35	35	15,131	9,493	(1,295)
Shandong Zibo XinCat Pharmaceutical Company Limited	Chemical Area in Zibo New & High-Tech Industrial Development Zone, Shandong	Preparation of chemical medicine	20	20	35,010	99,059	4,032

4. Operating Income and Cost

(1) Operating Income and Cost

Item	2008.1-6	2007.1-6
Income from main operation	796,857	732,825
Income from other operation	28,579	30,173
Sub-total	825,436	762,998
Sales to top 5 customers	163,819	125,799
Accounting of the total sales	20.56%	17.17%
Cost from main operation	687,074	604,853
Cost from other operation	29,097	31,139
Sub-total	716,171	635,992

(2) Income and Cost from Main Operation — Products Segment

Item	2008.1-6	2007.1-6
Income from main operation		
Bulk Pharmaceuticals	618,440	546,781
Including: Export sales	418,256	387,574
Preparations	178,301	184,958
Commerce circulations	—	3
Chemical and others	116	1,083
Sub-total	796,857	732,825
Cost from main operation		
Bulk Pharmaceuticals	533,469	445,120
Including: Export sales	363,844	313,905
Preparations	153,489	158,771
Commerce circulations	—	3
Chemical and others	116	959
Sub-total	687,074	604,853
Gross margin from main operation		
Bulk Pharmaceuticals	84,971	101,661
Including: Export sales	54,412	73,669
Preparations	24,812	26,187
Commerce circulations	—	—
Chemical and others	—	124
Sub-total	109,783	127,972

5. Investment Gain or Loss

Sources of Investment income	2008.1-6	2007.1-6
Dividends from the available-for-sale financial assets	651	167
Bond investment income	—	1,647
Adjustment on the investee's shareholders' equity at the end of the year	556	604
Total	1,207	2,418

There is no significant restriction on the returns of investment income.

9. RELATED PARTY RELATIONSHIP AND TRANSACTION

1. Related Party Relationship

Detailed subsidiaries under a control relationship shall be seen in Note 6. Business Combination and Consolidated Financial Statements.

1. Related Parties under a control relationship

Related Party Name	Code of Organization	Place of registration	Main operations	Relation with the Company	Nature	Legal Representative
Shandong Xinhua Pharmaceutical Group Company Limited	164132472	No. 14, East 1st Road, Zhangdian Dist., Zibo, Shandong Province.	Investment in the design of construction projects, property development and food and beverage, etc.	Parent company of the Company	State-owned	Guo Qin
Shandong Hualu Holding Group Company Limited	771039712	No. 1, Bangpeng Street, Jinan, Shandong Province.	Investment and management in fertilizer and petrochemicals, etc.	The ultimate holding company	State-owned	Li Tongdao

2. Registered capital and its changes of related parties under a control relationship

Related Party Name	2007.12.31	Addition	Deduction	2008.6.30
Shandong Xinhua Pharmaceutical Group Company Limited	298,500	—	—	298,500
Shandong Hualu Holding Group Company Limited	<u>800,000</u>	<u>—</u>	<u>—</u>	<u>800,000</u>

3. Share holdings and their changes of related parties under a control relationship

Related Party Name	Amount of shares		Ratio	
	2007.12.31	2008.6.30	2007.12.31	2008.6.30
Shandong Xinhua Pharmaceutical Group Company Limited	<u>163,259</u>	<u>163,259</u>	<u>35.70%</u>	<u>35.70%</u>

4. Nature of related parties under no control relationships

Related Party Name	Relationship	Related Transactions with the Company
Shandong Xinhua Industry & Trade Company Limited	Under the common control of parent company	Sale of power and waste materials, and purchase of raw materials
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Under the common control of parent company	Purchase of materials
Shandong Xinhua Bobang Chemical & Industrial Company Limited	Under the common control of parent company	Purchase of materials
Shandong Zibo Xincat Pharmaceutical Company Limited	Under the common control of parent company and partially held by the Company	Sale of power and housing renting
Shandong Zibo Xinhua-Chemferm Pharmaceutical Company Limited	Partially held by parent company	Sale of power and Purchase of materials
Shandong Xinhua Longxin Chemical & Industrial Company Limited	Joint venture	Purchase of materials
Shandong Xinhua Changxing Chemical Equipment Company Limited	Joint venture	Sale of equipments, work-in-progress and technology

2. Related Transactions

1. Pricing Policy

The Company sells products and purchases the materials to related parties at the market price.

2. Purchase of materials

Related Party Name	Transaction contents	2008.1-6		2007.1-6	
		Amount	Rate (%)	Amount	Rate (%)
Shandong Xinhua Industry & Trade Company Limited	Raw materials and chemical reagent	2,420	0.56	1,900	0.46
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Raw materials	29,090	6.76	17,219	4.15
Shandong Xinhua Bobang Chemical & Industrial Company Limited	Raw materials	14,418	3.35	4,669	1.12
Shandong Zibo Xinhua-Chemferm Pharmaceutical Company Limited	Raw materials	22,522	5.24	17,161	4.13
Shandong Dadi Xinhua Chemical & Industrial Company Limited*	Raw materials	—	—	14,141	3.41
Shandong Xinhua Longxin Chemical & Industrial Company Limited	Raw materials	5,441	1.27	330	0.08
Shandong Xinhua Changxing Chemical Equipment Company Limited	Daubed glass retorts	4	—	16	—
Total		73,895		55,436	

* Related transactions with Dadi Xinhua referred the transactions with Dadi Xinhua as joint venture before it was included in the consolidated financial statements.

3. Sale of merchandise

Related Party Name	Transaction contents	2008.1-6		2007.1-6	
		Amount	Rate (%)	Amount	Rate (%)
Shandong Xinhua Industry & Trade Company Limited	Sale of power and waste materials	1,589	—	2,070	—
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Sale of power and waste materials	1,676	—	3,117	—
Shandong Xinhua Bobang Chemical & Industrial Company Limited	Sale of power	—	—	—	—
Shandong Zibo XinCat Pharmaceutical Company Limited	Sale of power	783	6.25	657	5.38
Shandong Zibo Xinhua-Chemferm Pharmaceutical Company Limited	Sale of power	2,451	16.59	1,527	12.47
Total		6,499	—	7,371	—

4. Guarantee secured

The Company entered a facility contract of RMB200,000,000 as bank acceptance, short-term loans and bills purchased for exporting with Branch of New & High-tech Industrial Development Zone, China Merchant Bank. The facility is available from 26 September 2007 to 25 September 2008. Shandong Xinhua Pharmaceutical Group Company Limited, the parent company, provided the guarantee for the facility. As at 30 June 2008, the Company acquired the guaranty secured by the parent company in a mount of RMB31,578,000.

The Company entered a loan contract with Bank of Communications Zibo branch with a contracted amount of RMB50,000,000 and for a period from 10 January 2008 to 10 October 2008. Shandong Xinhua Pharmaceutical Group Company Limited, the controlling shareholders, provided the guarantee for the liabilities of the Company under the above borrowing contract.

The Company entered a loan contract with China Import & Export Bank with a contracted amount of RMB80,000,000 and for a period from 5 November 2007 to 5 November 2008. Shandong Hualu Holding Group Company Limited, the ultimate shareholders, provided the guarantee for the liabilities of the Company under the above borrowing contract.

5. Purchase of Assets

On 17 January 2008, the Company and Shandong Xinhua Industry & Trade Company Limited (“SXIT”) entered into a transfer agreement in relation to the acquisition of some of SXIT’s office and the land use rights by the Company at a total consideration of RMB9,500,000. The above assets were valued RMB10,263,000. The relevant transfer procedures are being conducted.

6. Lease of Assets

(1) Lease-out assets

Name of Related Party	Transaction contents	2008.1-6	2007.1-6
Shandong Zibo XinCat Pharmaceutical Company Limited	Lease-out of house	—	300

(2) Lease-in assets

Name of Related Party	Transaction contents	2008.1-6	2007.1-6
Shandong Xinhua Pharmaceutical Group Company Limited	Lease-in of house	500	500

7. Other Transactions

(1) Trademark Using Fee

Name of Related Party	Transaction contents	2008.1-6	2007.1-6
Shandong Xinhua Pharmaceutical Group Company Limited	Trademark using fee	1,100	1,000

Pursuant to the Trademark License Agreement signed by the holding company and the Company on 7 December 1996, the Company was granted the exclusive right to use the trademark “Xinhua” (“Trademark”) by the holding company for its existing and future products in and outside the PRC at an initial annual fee of RMB600,000 increasing at the rate of an extra RMB100,000 per year until the annual fee reaches the cap amount of RMB1,100,000, which shall 1,100,000 stay as such until the agreement is terminated.

(2) Design services income

Name of Related Party	Transaction contents	2008.1-6	2007.1-6
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Design services income	12	—
Shandong Zibo Xinhua-Chemferm Pharmaceutical Company Limited	Design services income	12	—
Shandong Xinhua Changxing Chemical Equipment Company Limited	Design services income	12	—
Total		36	—

3. Related Party Current Account Balances

Name of Related Party	2008.6.30	2007.12.31
Accounts receivable		
Shandong Xinhua Industry & Trade Company Limited	46,189	40,776
Shandong Zibo XinCat Pharmaceutical Company Limited	4,841	4,958
Advances to Suppliers		
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	10,206	8,258
Shandong Xinhua Longxin Chemical & Industrial Company Limited	1,500	2,600
Other Receivable		
Shandong Xinhua Industry & Trade Company Limited	8	8
Shandong Xinhua Changxing Chemical Equipment Company Limited	826	380
Accounts Payable		
Shandong Xinhua Industry & Trade Company Limited	1,473	1,545
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	584	1,109
Shandong Xinhua Bobang Chemical & Industrial Company Limited	2,398	1,458
Shandong Zibo Xinhua-Chemferm Pharmaceutical Company Limited	2,429	3,311
Shandong Xinhua Changxing Chemical Equipment Company Limited	23	505
Other Payable		
Shandong Xinhua Industry & Trade Company Limited	2,271	2,271
Shandong Xinhua Bobang Chemical & Industrial Company Limited	1	1

10. CONTINGENCIES

1. Guaranty for the third party

The Company entered an agreement with Anyang Qiankang Pharmaceutical Company Limited (hereinafter referred to as Anyang Qiankang) and Anyang Branch of Guangdong Development Bank Company Limited (hereinafter referred to as GDB) on 27 July 2007. The agreement stipulated that the Company should guarantee the risk exposure of the gap between the amounts of bank acceptance issued by Anyang Qiankang in GDB, which was used for the payment to Xinhua Pharmaceutical & Trade, a subsidiary of the Company and the amounts of the delivering notice issued by GDB, which was used for take delivery of goods. The guaranty will be available from 27 July 2007 to 27 July 2008 with an utmost amount of RMB14,000,000. As at 30 June 2008, Anyang Qiankang has issued RMB24,000,000 of the bank acceptance and GDB has issued RMB18,500,000 of the delivering notice to Xinhua Pharmaceutical & Trade.

2. The Company has no significant contingencies besides the above to be disclosed on 30 June 2008.

11. COMMITMENT

1. Large-Sum Agreed-Upon Contractual Disbursements

Items	Contractual Amount	Amount Unpaid
Innovation Zone	2,463	754
L-380 Projects	12,723	1,857
Ibuprofen projects	33,814	18,683
Total	49,000	21,294

2. The Company has no other capital commitments signed except for the above-mentioned on 30 June 2008.

12. POST BALANCE SHEET DATE EVENTS

The Company has no significant subsequent events to be disclosed.

13. SUPPLEMENTARY INFORMATION

1. Non-Routine Profit or Loss

Item	2008.1-6	2007.1-6
Profit or loss from disposal of non-current assets	455	4,746
Change in fair value of held-for-trading financial assets	(13,635)	—
Profit or Loss from disposal of held-for-trading financial assets	14,232	—
Income distributed from available-for-sale financial assets	651	—
Income from disposal of held-to-maturity investment	—	1,647
Write back of provision for accounts receivable	1,234	329
Non-operating income or cost except items above	(1,416)	(954)
Income tax	(492)	(925)
Attributable to the parent company	42	—
Total	1,071	4,843

2. Rate of Return on Equity (ROE) and Earnings per Share (EPS)

According to the requirements of “Rule 9 on the Information Disclosure and Presentation of Companies That Issue Securities to the Public — Calculation and Disclosure of Rate of Return on Equity and Earnings per Share” issued by China Securities Regulatory Commission, the fully diluted and weighted average rate of return on equity and earnings per share of the Company are as follows:

Net income in reporting period	ROE				EPS			
	Full diluted		Weighted average		Basic		Diluted	
	2008	2007	2008	2007	2008	2007	2008	2007
	Jan - Jun	Jan - Jun	Jan - Jun	Jan - Jun	Jan - Jun	Jan - Jun	Jan - Jun	Jan - Jun
Profit attributable to the equity shareholders of parent company	1.37%	1.33%	1.23%	1.38%	0.04	0.04	0.04	0.04
Profit attributable to the equity shareholders of parent company after extraordinary items	1.30%	0.99%	1.17%	1.03%	0.04	0.03	0.04	0.03

3. Statement of Provision for Impairment of Assets

Item	2007.12.31	Additions		Deductions		2008.6.30
		Provision Recognised in the period	Recovery of written-off bad debts	Reversion	Other transferring	
Provision for impairment of bad debts	21,750	19	1,234	—	197	22,806
Provision for impairment of inventories	8,596	—	—	—	—	8,596
Provision for impairment of available-for-sale financial assets	30,000	—	—	—	—	30,000
Total	60,346	19	1,234	—	197	61,402

14. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements have been approved to report on 25 July 2008 by the Board of Directors.

CONDENSED CONSOLIDATED INCOME STATEMENT

	NOTES	For the six months ended 30th June 2008 RMB'000 (unaudited)	For the six months ended 30th June 2007 RMB'000 (unaudited)
Turnover	3	1,151,004	977,688
Cost of sales		(987,305)	(812,985)
Gross profit		163,699	164,703
Other operating income	3	3,215	9,662
Selling expenses	4	(66,547)	(72,418)
Administrative expenses	4	(57,150)	(63,263)
Other operating expenses	4	(15,766)	(1,398)
Share of results of associates		556	604
Finance costs		(2,126)	(7,769)
Profit before taxation		25,881	30,121
Income tax expense	5	(7,995)	(7,783)
Profit for the period		17,886	22,338
Attributable to:			
Equity holders of the Company		16,471	19,144
Minority interests		1,415	3,194
		17,886	22,338
Earnings per share — basic	6	RMB0.036	RMB0.042
Interim dividend	7	—	—

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>NOTES</i>	At 30th June 2008 <i>RMB'000</i> (unaudited)	At 31st December 2007 <i>RMB'000</i> (audited)
Non-current assets			
Technical know-how	8	1,358	1,922
Property, plant and equipment	8	810,297	857,040
Construction-in-progress	8	143,208	71,180
Prepaid lease payments on land use rights	8	95,421	91,266
Interests in associates		24,304	23,748
Available-for-sale investments		155,341	367,162
Deferred tax assets		2,157	2,157
		<u>1,232,086</u>	<u>1,414,475</u>
Current assets			
Inventories		270,273	286,041
Trade and bills receivables	9	294,004	247,321
Prepaid lease payments on land use rights	8	3,106	2,577
Other receivables, deposits and prepayments		52,257	34,480
Amount due from immediate holding company		26,836	39,347
Amounts due from associates		9,561	7,558
Tax recoverable		—	146
Pledged bank deposits		23,884	12,425
Derivative financial instruments		2,262	15,897
Bank balances and cash		181,967	199,833
		<u>864,150</u>	<u>845,625</u>

Current liabilities			
Trade and bills payables	10	214,813	176,356
Other payables and accrued charges		79,201	93,451
Amount due to an associate		—	125
Tax payable		6,576	—
Unsecured short-term bank loans		245,144	206,819
		<u>545,734</u>	<u>476,751</u>
Net current assets		<u>318,416</u>	<u>368,874</u>
Total assets less current liabilities		<u>1,550,502</u>	<u>1,783,349</u>
Capital and reserves			
Share capital	11	457,313	457,313
Reserves		1,048,665	1,212,214
Proposed final dividend		—	13,719
Equity attributable to equity holders of the Company		<u>1,505,978</u>	<u>1,683,246</u>
Minority interests		<u>29,733</u>	<u>50,793</u>
Total equity		<u>1,535,711</u>	<u>1,734,039</u>
Non-current liability			
Deferred tax liabilities		14,791	49,310
		<u>14,791</u>	<u>49,310</u>
		<u>1,550,502</u>	<u>1,783,349</u>

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital	Share premium	Capital reserve	Reserve funds	Asset			Retained earnings	Dividend reserve	Total	Minority interests	Total
					revaluation reserve	Other reserve	Exchange reserve					
RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
At 1st January 2007	457,313	466,618	78,642	162,404	25,850	—	648	168,523	9,146	1,369,144	3,343	1,372,487
2006 final dividend paid	—	—	—	—	—	—	—	—	(9,146)	(9,146)	—	(9,146)
Exchange difference arising on translation of overseas operations	—	—	—	—	—	—	(11)	—	—	(11)	(9)	(20)
Profit for the period	—	—	—	—	—	—	—	19,144	—	19,144	3,194	22,338
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	18,989	18,989
At 30th June 2007	457,313	466,618	78,642	162,404	25,850	—	637	187,667	—	1,379,131	25,517	1,404,648
At 1st January 2008	457,313	466,618	78,642	164,376	25,850	291,327	751	184,650	13,719	1,683,246	50,793	1,734,039
2007 final dividend paid	—	—	—	—	—	—	—	—	(13,719)	(13,719)	—	(13,719)
Exchange difference arising on translation of overseas operations	—	—	—	—	—	—	29	—	—	29	9	38
Profit for the period	—	—	—	—	—	—	—	16,471	—	16,471	1,415	17,886
Decrease in fair value of available-for-sale investments	—	—	—	—	—	(211,822)	—	—	—	(211,822)	—	(211,822)
Deferred tax liabilities arising from available-for-sale investments	—	—	—	—	—	31,773	—	—	—	31,773	—	31,773
Acquisition of addition interest in a subsidiary	—	—	—	—	—	—	—	—	—	—	(13,613)	(13,613)
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	(8,871)	(8,871)
At 30th June 2008	457,313	466,618	78,642	164,376	25,850	111,278	780	201,121	—	1,505,978	29,733	1,535,711

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th June 2008 RMB'000 (unaudited)	For the six months ended 30th June 2007 RMB'000 (unaudited)
Net cash from operating activities	85,477	126,271
Net cash (used in) from investing activities	(125,823)	45,916
Net cash from (used in) financing activities	22,480	(123,431)
	<hr/>	<hr/>
(Decrease) increase in cash and cash equivalents	(17,866)	48,756
Cash and cash equivalents at 1st January	199,833	133,134
	<hr/>	<hr/>
Cash and cash equivalents at 30th June, represented by bank balances and cash	<u>181,967</u>	<u>181,890</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and with the Hong Kong Accounting Standard (“HKAS”) No.34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The unaudited condensed consolidated interim financial statements have been prepared under the historical costs basis except for property, plant and equipment and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31st December 2007, except as described in note 2.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“New HKFRSs”) issued by the HKICPA which are either effective for accounting periods beginning on or after 1st January 2008. The adoption of the New HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not applied early the following new and revised Hong Kong Accounting Standards (“HKASs”), HKFRSs and interpretations (“HK(IFRIC)-INTs”) that have been issued but are not yet effective for accounting period beginning on 1st January 2008. The directors of the Company anticipate that the application of these HKASs, HKFRSs and HK(IFRIC)-INTs will have no material impact on the results and the financial position of the Group prepared and presented.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 1 and HKAS 32 (Amendment)	Puttable financial instruments and obligations arising on liquidation ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellation ¹
HKFRS 3 (Revised)	Business Combinations — Comprehensive revision on applying the acquisition method ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) — INT 13	Customer Loyalty Programmes ³

¹ Effective for annual periods beginning on or after 1st January 2009.

² Effective for annual periods beginning on or after 1st July 2009.

³ Effective for annual periods beginning on or after 1st July 2008.

3. SEGMENT INFORMATION

The Group is principally engaged in the development, production and sales of pharmaceutical products, preparations, chemicals and other products. Its major place of operation is in the People’s Republic of China (the “PRC”).

(i) By business segments:

	For the six months ended 30th June 2008			For the six months ended 30th June 2007		
	Pharmaceutical business RMB’000 (unaudited)	Other operations RMB’000 (unaudited)	Total RMB’000 (unaudited)	Pharmaceutical business RMB’000 (unaudited)	Other operations RMB’000 (unaudited)	Total RMB’000 (unaudited)
Segment revenues	1,153,089	1,130	1,154,219	983,584	3,766	987,350
Segment results	39,879	(12,428)	27,451	33,520	3,766	37,286
Share of results of associates			556			604
Finance costs			(2,126)			(7,769)
Profit before taxation			25,881			30,121
Income tax expense			(7,995)			(7,783)
Profit for the period			17,886			22,338
Capital expenditure	105,939	—	105,939	43,093	—	43,093
Depreciation and amortisation	56,367	—	56,367	61,850	—	61,850

	As at 30th June 2008			As at 31st December 2007		
	Pharmaceutical business RMB'000 (unaudited)	Other operations RMB'000 (unaudited)	Total RMB'000 (unaudited)	Pharmaceutical business RMB'000 (unaudited)	Other operations RMB'000 (unaudited)	Total RMB'000 (unaudited)
Assets						
Segment assets	1,914,434	155,341	2,069,775	1,866,887	367,162	2,234,049
Interests in associates	24,304	—	24,304	23,748	—	23,748
Unallocated assets			2,157			2,303
Total assets			<u>2,096,236</u>			<u>2,260,100</u>
Liabilities						
Segment liabilities	(300,590)	—	(300,590)	(269,932)	—	(269,932)
Unallocated liabilities	—	—	(259,935)	—	—	(256,129)
Total liabilities			<u>(560,525)</u>			<u>(526,061)</u>

(ii) By geographical location of customers:

	Segment revenues	
	Six months ended 30th June 2008 RMB'000 (unaudited)	Six months ended 30th June 2007 RMB'000 (unaudited)
PRC (including Hong Kong)	655,468	557,860
Europe	175,330	139,417
Americas	150,118	150,953
Others	173,303	139,120
	<u>1,154,219</u>	<u>987,350</u>

4. EXPENSES

Expenses (income) included in selling expense, administrative expenses and other operating expenses are analysed as follows:

	Six months ended 30th June 2008 RMB'000 (unaudited)	Six months ended 30th June 2007 RMB'000 (unaudited)
Depreciation	54,250	60,062
Amortisation of prepaid lease payments on land use rights	1,553	1,224
Amortisation of technical know-how	564	564
Staff costs (excluding emoluments of directors and supervisors)	84,283	79,526
Contributions to retirement scheme for the staff	12,627	10,551
Loss (gain) on disposal of property, plant and equipment	<u>167</u>	<u>(4,747)</u>

5. INCOME TAX EXPENSE

The amount of tax charged to the unaudited condensed consolidated income statement represents:

	Six months ended 30th June 2008 RMB'000 (unaudited)	Six months ended 30th June 2007 RMB'000 (unaudited)
Current period PRC enterprise income tax	6,576	7,694
Deferred taxation	1,419	89
	<u>7,995</u>	<u>7,783</u>

- (a) PRC enterprise income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.
- (b) No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong for the six months ended 30th June 2008 and 2007.

6. EARNINGS PER SHARE — BASIC

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of RMB16,471,000 (2007: RMB19,144,000) and based on the weighted average of 457,312,830 shares (2007: 457,312,830 shares) in issue during the period.

There was no dilution effect on the basic earnings per share for the six months ended 30th June 2008 and 2007 as there were no dilutive shares outstanding during the six months ended 30th June 2008 and 2007.

7. INTERIM DIVIDEND

The board of the directors of the Company did not recommend the payment of an interim dividend for the six months ended 30th June 2008 (2007: Nil).

8. CAPITAL EXPENDITURES

	Prepaid lease payments on land use rights RMB'000 (unaudited)	Technical know-how RMB'000 (unaudited)	Property, plant and equipment RMB'000 (unaudited)	Construction- in-progress RMB'000 (unaudited)	Total RMB'000 (unaudited)
Net carrying values at 1st January 2008	93,843	1,922	857,040	71,180	1,023,985
Additions	6,237	—	20,005	79,697	105,939
Disposals	—	—	(15,840)	(4,327)	(20,167)
Transfers	—	—	3,342	(3,342)	—
Acquisition of a subsidiary	—	—	—	—	—
Depreciation and amortisation	(1,553)	(564)	(54,250)	—	(56,367)
Net carrying values at 30th June 2008	<u>98,527</u>	<u>1,358</u>	<u>810,297</u>	<u>143,208</u>	<u>1,053,390</u>
Representing: Non-current portion	<u>95,421</u>	<u>1,358</u>	<u>810,297</u>	<u>143,208</u>	<u>1,053,284</u>
Current portion	<u>3,106</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,106</u>

9. TRADE AND BILLS RECEIVABLES

At 30th June 2008, the aging analysis of the trade and bills receivables, net of allowances is as follows:

	At 30th June 2008 <i>RMB'000</i> (unaudited)	At 31st December 2007 <i>RMB'000</i> (audited)
Within one year	288,222	240,537
More than one year but less than two years	4,292	3,530
More than two years but less than three years	1,490	2,688
More than 3 years	—	566
	<u>294,004</u>	<u>247,321</u>

The Group's turnover from export sales is on letter of credit or documents against payment. The remaining balances of turnover are on open account terms which are partially covered by customers' stand-by letter of credit or bank guarantees.

10. TRADE AND BILLS PAYABLES

At 30th June 2008, the aging analysis of the trade and bills payables is as follows:

	At 30th June 2008 <i>RMB'000</i> (unaudited)	At 31st December 2007 <i>RMB'000</i> (audited)
Within one year	206,955	156,140
More than one year but less than two years	2,125	6,528
More than two years but less than three years	941	9,233
Over three years	4,792	4,455
	<u>214,813</u>	<u>176,356</u>

11. SHARE CAPITAL

Issued and fully paid	At 30th June 2008		At 31st December 2007	
	Number of shares '000 (unaudited)	RMB'000 (unaudited)	Number of shares '000 (audited)	RMB'000 (audited)
State-owned legal person shares of RMB1 each				
At the beginning of the period/year	163,259	163,259	163,259	163,259
Decrease as a result of State-owned Share Reform	—	—	—	—
Transferred to PRC legal person shares	—	—	—	—
At the end of period/year	<u>163,259</u>	<u>163,259</u>	<u>163,259</u>	<u>163,259</u>
Promoters' shares of RMB1 each				
At the beginning of the period/year	—	—	16,720	16,720
Transferred to A shares	—	—	(16,720)	(16,720)
At the end of period/year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
PRC legal person shares of RMB1 each				
At the beginning of the period/year	24,527	24,527	24,527	24,527
Transferred from state-owned shares	—	—	—	—
At the end of period/year	<u>24,527</u>	<u>24,527</u>	<u>24,527</u>	<u>24,527</u>
Senior officers' shares of RMB1 each				
At the beginning of the period/year	31	31	39	39
Decrease as a result of shares sold from senior management	(8)	(8)	(8)	(8)
At the end of period/year	<u>23</u>	<u>23</u>	<u>31</u>	<u>31</u>
A shares of RMB1 each				
At the beginning of the period/year	119,496	119,496	102,768	102,768
Transferred from promoter and senior management	8	8	16,728	16,728
At the end of period/year	<u>119,504</u>	<u>119,504</u>	<u>119,496</u>	<u>119,496</u>
H shares of RMB1 each				
At the beginning and the end of the period/year	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>
	<u>457,313</u>	<u>457,313</u>	<u>457,313</u>	<u>457,313</u>

12. DISPOSAL OF A SUBSIDIARY

On 1 January 2008, the Group disposed of its entire interest in Weifang Wanyuan Chemical & Industrial Company Limited, a subsidiary which was effectively held 51% by the Group. The net assets of Weifang Wanyuan Chemical & Industrial Company Limited at the date of disposal were as follows:

	<i>RMB'000</i> (unaudited)
Net assets disposed of:	
Property, plant and equipment	15,676
Inventories	15,490
Trade and bills receivables	1,366
Other receivables	2,564
Cash and cash equivalent	70
Trade payables	(3,121)
Other payable	(14,107)
Tax payables	(550)
Minority interest	(8,871)
	<hr/>
Share of net assets at date of disposal	8,517
	<hr/>
Gain on disposal	685
	<hr/>
Total consideration	<u>9,202</u>
	<hr/>
Satisfied by:	
Other receivable	<u>9,202</u>

The subsidiary disposed of during the period ended 30 June 2008 had no significant impact on the turnover and results of the Group.

13. CAPITAL COMMITMENTS

At 30th June 2008, the Group had the following capital commitments principally related to construction-in-progress and purchase of property, plant and equipment in respect of buildings and production facilities which were not provided for in the unaudited condensed consolidated financial statements:

	At 30th June 2008 <i>RMB'000</i> (unaudited)	At 31st December 2007 <i>RMB'000</i> (audited)
Contracted but not provided for	21,294	26,511
Authorised but not contracted for	235,380	235,380
	<hr/>	<hr/>
	<u>256,674</u>	<u>261,891</u>

14. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Six months ended 30th June 2008 RMB'000 (unaudited)	Six months ended 30th June 2007 RMB'000 (unaudited)
SXPGC and its subsidiaries:		
— Sale of water, electricity and steam and raw materials	6,499	7,371
— Purchase of raw materials	68,450	40,948
— Design income received	24	—
— Rental expense	500	500
— Purchase of land and building	9,500	—
— Rental income	—	300
— Payment of annual trademark license fee (<i>Note</i>)	1,100	1,100
Associates:		
— Purchase of raw materials	5,445	14,488
— Design income received	12	—
Minority shareholder:		
— Sale of bulk pharmaceuticals and chemical materials	108,346	80,792
— Purchase of chemical materials, water, electricity and stream	<u>16,621</u>	<u>—</u>

Note:

On 7th December 1996, the Group was granted the exclusive right to use the trademark "Xinhua" ("Trademark") by SXPGC for its existing and future products in and outside the PRC at an initial annual fee of RMB600,000 increasing at the rate of an extra RMB100,000 per year until the annual fee reaches the cap amount of RMB1,100,000, which shall stay as such until the agreement is terminated. The terms of the agreement shall continue to have effect during the validity period of the Trademark, being 28th February 2013 (can be extended), subject to further renewal of the registration of the Trademark. During the period ended 30th June 2008, the annual fee paid by the Group was RMB1,100,000 (2007: RMB1,100,000).

15. CONTINGENT LIABILITIES

For the period ended 30 June 2008, the Group provided financial guarantee to a bank in respect of bills of exchange amounted to RMB14,000,000 granted to an independent third party which the bills of exchange would be issued to a subsidiary of the Company. The Group is only liable to the difference between the face value of bills of exchange issued by the bank and the amounts on bill of lading. As at 30 June 2008, bills of exchange amounted to RMB24,000,000 (RMB17,000,000 has been expired) and bills of lading amounted to RMB18,500,000.

16. EVENTS AFTER BALANCE SHEET DATE

Up to the date of this report, the Group has no significant events after balance sheet date.

(1) DOCUMENTS FOR INSPECTION

1. The original copy of the Company's 2008 Interim Report signed by the Chairman of the Board.
2. Financial statements for the six months ended 30 June 2008 signed by the Chairman of the Board, the financial controller and the chief of accounting department of the Company.

(2) PLACE FOR INSPECTION

Office of the Secretary to the Board of the Company.

As at the date of this Report, the Board consists of the following directors:

Ms. Guo Qin;
Mr. Liu Zhenwen;
Mr. Ren Fulong;
Mr. Zhao Songguo;
Mr. Li Tianzhong;

and the following independent non-executive directors:

Mr. Dai Qingjun;
Mr. Xu Guojun;
Mr. Sun Minggao.

Shandong Xinhua Pharmaceutical Company Limited

25 July 2008