



SHANDONG
XINHUA
PHARMACEUTICAL
COMPANY LIMITED

(H Share Stock Code: 0719)
(A Share Stock Code: 000756)



2010
INTERIM REPORT



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Important:

The board of directors ("Board") and the directors ("Directors") of Shandong Xinhua Pharmaceutical Company Limited 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 2010 (the "Reporting Period") 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 state that the financial report of the Company for the Reporting Period is true 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.



COMPANY INFORMATION

Chinese Name of the Company	:	山東新華製藥股份有限公司 (「本公司」或「新華製藥」)
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	:	86-533-2196024
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)

Item	As at	As at	Change as
	30 June 2010 (Unaudited)	31 December 2009 (The "End of Last Year") (Audited)	compared to the End of Last Year (%)
Total assets	2,796,099,567.06	2,626,187,060.38	6.47
Total equity attributable to equity holders of Company	1,637,660,330.73	1,633,645,846.35	0.25
Capital	457,312,830.00	457,312,830.00	0.00
Net assets per share attributable to equity holders of Company	3.58	3.57	0.28
		Six months ended 30 June 2009 (the "Same Period Last Year") (Unaudited)	Change as compared to the Same Period Last Year (%)
Total operating income	1,368,618,869.54	1,196,792,146.64	14.36
Operating profit	71,140,908.69	58,040,612.50	22.57
Profit before taxation	74,980,507.52	50,683,526.89	47.94
Profit attributable to the equity holders of Company	57,881,893.63	39,887,094.33	45.11
Profit attributable to the equity holders of Company after extraordinary items (Note)	54,449,164.58	38,401,542.24	41.79
Basic earnings per share	0.13	0.09	44.44
Diluted earnings per share	0.13	0.09	44.44
Return on equity (%)	3.48	2.71	Increase 0.77 percentage points
Net cash flow from operating activities	136,981,964.64	121,733,607.26	12.53
Net cash flow from operating activities per share	0.30	0.27	11.11

Note:

Extraordinary items include:

Item	Amount (RMB)
Profit or loss from disposal of non-current assets	793,794.41
Government subsidies recognised in current profit and loss, (excluding those closely related to the Company's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume)	4,447,696.50
Gains/losses from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's normal operations	801,498.99
Other non-operating income or cost except the above items	(1,401,892.08)
Non-controlling interests	(25,039.25)
Income tax expense	(1,183,329.52)
Total	<u>3,432,729.05</u>



SUMMARY OF FINANCIAL AND OPERATING RESULTS

Unit: RMB

Items by fair value

Items	Amount as at 1 January 2010	Change of fair value	Total change of fair value	Provision impairment	Amount as at 30 June 2010
Financial assets:					
Include: 1. Financial assets by fair value and its change is included into profit and loss	—	—	—	—	—
Include: Derivative financial assets	—	—	—	—	—
2. Available-for-sale financial assets	201,595,788.00	—	137,531,402.00	—	161,956,720.00
Total of financial assets	201,595,788.00	—	137,531,402.00	—	161,956,720.00
Financial liabilities	—	—	—	—	—
Investment property	—	—	—	—	—
Biological assets	—	—	—	—	—
Others	—	—	—	—	—
Total	<u>201,595,788.00</u>	<u>—</u>	<u>137,531,402.00</u>	<u>—</u>	<u>161,956,720.00</u>

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

Consolidated Income Statement

Item	Six months ended 30 June 2010 (Unaudited)	Six months ended 30 June 2009 (Unaudited)
Revenue	1,352,583	1,179,184
Profit before taxation	77,126	49,776
Income tax expense	(13,904)	(8,701)
Profit for the period	63,222	41,075
Includes:		
Profit attributable to owners of the Company	60,174	39,115
Non-controlling interests	3,048	1,960

Consolidated Statement of Financial Position

Item	As at 30 June 2010 (Unaudited)	As at 31 December 2009 (Audited)
Total assets	2,798,035	2,636,363
Total liabilities	(1,114,917)	(955,542)
Non-controlling interests	(35,430)	(36,318)
Equity attributable to owners of the Company	1,647,688	1,644,503



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

Item	Profit attributable to the equity holders of Company		Total equity attributable to equity holders of Company	
	Reporting Period	Same Period Last Year	As at 30 June 2010	As at 1 January 2010
Prepared under HKGAAP	60,174,000.00	39,115,094.33	1,647,688,000.00	1,644,503,000.00
Prepared under PRC accounting standards	57,881,893.63	39,887,094.33	1,637,660,330.73	1,633,645,846.35
HKGAAP adjustments:				
Deferred taxation	145,106.37	136,000.00	(1,771,330.73)	(1,914,846.35)
Depreciation charges due to revaluation in previous years	—	(204,000.00)	(21,300,000.00)	(21,300,000.00)
Provision for education fund	(973,000.00)	(704,000.00)	11,799,000.00	12,772,000.00
Surplus from revaluation for listing of H Shares	—	—	21,300,000.00	21,300,000.00
Financial award for Energy-saving technological transformation	3,120,000.00	—	—	—
Total of the difference between accounting standards and HKGAAP	<u>2,292,106.37</u>	<u>(772,000.00)</u>	<u>10,027,669.27</u>	<u>10,857,153.65</u>

Explanation of the difference between the PRC accounting standards and HKGAAP:

1. Education fees are set out as per the actual circumstances, without the need of provision under HKGAAP. As at 30 June 2010, provision made for the balance of education fees under the PRC accounting standards was RMB11,799,000 with an amount in education fees of RMB973,000 for the period from Jan to Jun 2010.
2. The Company received financial award for energy-saving technological transformation of cash RMB3,120,000, which should be included in current profit and loss under HKGAAP, but this amount should be included in capital reserve under the PRC accounting standards.
3. The differences mentioned above led to the difference in the Company's deferred income tax, with the difference in accumulated deferred income tax of RMB1,771,330.73 and that in deferred income tax of the current period of RMB145,106.37.



CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

1. Share Capital structure

Unit: Share

Class of shares	30 Jun 2010		Class of shares	1 Jan 2010	
	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	16,223	0.004%	1. Total number of conditional tradable shares	187,809,725	41.07%
Stated-owned shares	0	0	Stated-owned shares	164,207,424	35.91%
Domestic legal person shares	0	0	Domestic legal person shares	0	0
Conditional tradable senior management A Shares	16,223	0.004%	Conditional tradable senior management A Shares	23,390	0.01%
Others	0	0	Others	23,578,911	5.15%
2. Total number of unconditional tradable shares	457,296,607	99.996%	2. Total number of unconditional tradable shares	269,503,105	58.93%
Renminbi ordinary shares (A Shares)	307,296,607	67.196%	Renminbi ordinary shares (A Shares)	119,503,105	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%



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 2010	Number of unconditional tradable shares between 1 January 2010 to 19 March 2010	Increase in shares subject to conditions of trading		Number of shares subject to conditions of trading as at 19 March 2010	Conditions	Date of plan removing the conditions
			between 1 January 2010 to 19 March 2010	between 19 March 2010 to 19 March 2010			
Shandong Xinhua Pharmaceutical Group Company Limited("SXPGC")	164,207,424	20,221,594	1,864,414		145,850,244	Special undertaking	19 March 2010
Qingdao Haowei Investment Development Company Limited	15,000,000	1,599,443	(1,864,414)		11,536,143	Compliance with the special undertaking of SXPGC	19 March 2010
Zibo High-Tech Venture Capital Company Limited	6,683,911	813,861	0		5,870,050	Compliance with the special undertaking of SXPGC	19 March 2010
Huludao Bajiazi Mining Industry Company Limited	1,550,000	188,734	0		1,361,266	Compliance with the special undertaking of SXPGC	19 March 2010
Shangrao Daihu Industrial Company Limited	345,000	42,009	0		302,991	Compliance with the special undertaking of SXPGC	19 March 2010

Name of shareholders	Number of shares subject to conditions of trading as at 19 March 2010	Number of unconditional tradable shares between 19 March 2010 to 30 June 2010	Increase in shares subject to conditions of trading		Number of shares subject to conditions of trading as at 30 June 2010	Conditions	Date of plan removing the conditions
			between 19 March 2010 to 30 June 2010	between 30 June 2010 to 30 June 2010			
SXPGC	145,850,244	145,850,244	0		0	Special undertaking	7 June 2010
Qingdao Haowei Investment Development Company Limited	11,536,143	11,536,143	0		0	Compliance with the special undertaking of SXPGC	7 June 2010
Zibo High-Tech Venture Capital Company Limited	5,870,050	5,870,050	0		0	Compliance with the special undertaking of SXPGC	7 June 2010
Huludao Bajiazi Mining Industry Company Limited	1,361,266	1,361,266	0		0	Compliance with the special undertaking of SXPGC	7 June 2010
Shangrao Daihu Industrial Company Limited	302,991	302,991	0		0	Compliance with the special undertaking of SXPGC	7 June 2010



CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Note 1: 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), the shares to be sold through the SZSE shall not exceed 5% of the total share capital of the Company, and it shall not sell any of its 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 closing price 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.

Note 2: According to the Shandong Provincial State-owned Assets Supervision and Administration Commission Lu Guozi Kaoping document No. (2007) 60, SXPGC recovered 1,864,414 shares from Qingdao Haowei Investment Development Company Limited through a judicial auction. The transfer procedures were completed in the China Securities Depository and Clearing Corporation Limited Shenzhen Branch on 7 January 2010.

- As at 30 June 2010, the Company had on record a total of 40,445 shareholders, including 58 holders of H Shares and 40,387 holders of A Shares.
- As at 30 June 2010, the ten largest shareholders of the Company were as follows:

Name of Shareholder	Types of shareholders	Number of shares held (Share)	Proportion of the total share capital %	Number of conditional tradable shares held (Share)	Number of shares being charged or frozen (Share)
SXPGC	State-owned shareholder	166,071,838	36.31	0	0
HKSCC (Nominees) Limited	H shares shareholder	147,309,998	32.21	0	0
Qingdao Haowei Investment Development Company Limited	Domestic general legal person	11,536,143	2.52	0	11,250,000
Zibo High-Tech Venture Capital Company Limited	Domestic general legal person	6,683,911	1.46	0	0
China Bank - Jingshun Changcheng Dongli Pingheng Security Investment Fund	Fund	4,499,904	0.98	0	0
Huludao Bajiazi Mining Industry Company Limited	Domestic general legal person	1,550,000	0.34	0	0
Liu Jinhao	Domestic person	1,020,055	0.22	0	0
Chongqing International Trust Company Limited	Domestic general legal person	1,000,000	0.22	0	0
DA ROSA JOSE AUGUSTO MARIA	H shares shareholder	1,000,000	0.22	0	0
GUOSEN-China Merchants Bank - Guoxin Cash financial return swap (multiple strategies) asset management plans	Fund	810,560	0.18	0	0



4. As at 30 June 2010, 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
SXPGC	166,071,838	A Shares
HKSCC (Nominees) Limited	147,309,998	H Shares
Qingdao Haowei Investment Development Company Limited	11,536,143	A Shares
Zibo High-Tech Venture Capital Company Limited	6,683,911	A Shares
China Bank - Jingshun Changcheng Dongli Pingheng Security Investment Fund	4,499,904	A Shares
Huludao Bajiazi Mining Industry Company Limited	1,550,000	A Shares
Liu Jinhao	1,020,055	A Shares
Chongqing International Trust Company Limited	1,000,000	A Shares
DA ROSA JOSE AUGUSTO MARIA	1,000,000	H Shares
GUOSEN-China Merchants Bank - Guoxin Cash financial return swap (multiple strategies) asset management plans	810,560	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 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 2010, no other person (other than the Directors, supervisors of the Company (the “Supervisors”), chief executives or members of senior management of the Company (the “Senior Officers”)) had an interest or short position in the Company’s shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (“SFO”)) and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”)) of the Company.*



DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

As at 30 June 2010, the number of shares held by the Directors, Supervisors and the Senior Officers were as follows:

Name	Position	As at 1 January 2010 Number of Shares	As at Change Number of Shares	30 June 2010 Number of Shares
Directors:				
Ms. Guo Qin	Chairman	9,479	Nil	9,479
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 (resigned on 9 April 2010)	Nil	Nil	Nil
Mr. Xu Lie	Non-executive Director (appointed on 25 June 2010)	Nil	Nil	Nil
Mr. Zhao Bin	Non-executive Director	Nil	Nil	Nil
Mr. Zhu Baoquan	Independent non-executive Director	Nil	Nil	Nil
Mr. Sun Minggao	Independent non-executive Director	Nil	Nil	Nil
Mr. Kwong Chi Kit, Victor	Independent non-executive Director	Nil	Nil	Nil
Supervisors:				
Mr. Yu Gongfu	Chairman of Supervisory Committee	6,075	Nil	6,075
Mr. Li Tianzhong	Supervisor (appointed on 25 June 2010)	Nil	Nil	Nil
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. Dou Xuejie	Deputy General Manager	Nil	Nil	Nil
Mr. Du Deqing	Deputy General Manager	Nil	Nil	Nil
Mr. Du Deping	Deputy General Manager	Nil	Nil	Nil
Mr. Cao Changqiu	Company Secretary	1,708	(427)	1,281
Ms. Guo Lei	Company Secretary	Nil	Nil	Nil
Total		21,632	Nil	21,205

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

The changes in the number of shares held by the Directors, Supervisors and Senior Officers were due to the shares sold on the secondary market according to relevant provisions.

So far as the Directors, Senior Officers and Supervisors are aware, save as disclosed above, as at 30 June 2010, no Director, Senior Officer or Supervisor had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior 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 Listing Rules.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

Mr. Li Tianzhong resigned as a non-executive director of the Company with effect from 9 April 2010 due to a change of job.

Mr. Xu Lie was appointed as a non-executive director of the Company and Mr. Li Tianzhong was appointed as a supervisor of the Company in the annual general meeting held on 25 June 2010.



Dear shareholders,

I am pleased to report the operating results of the Company for the six months ended 30 June 2010.

For the six months ended 30 June 2010, pursuant to the PRC accounting standards, the operating income of the Company and its subsidiaries (collectively referred to as “**the Group**”) was RMB1,368,619,000 and net profit attributable to equity holders of the Company was RMB57,882,000, representing an increase of 14.36% and an increase of 45.11% respectively, as compared to that of the same period last year.

The Group had a turnover of RMB1,352,583,000 and the profit attributable to owners of the Company of RMB60,174,000 for the six months ended 30 June 2010 under HKGAAP, representing an increase of 14.70% and an increase of 53.84% 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 2010.

BUSINESS REVIEW

During the first half of 2010, the Group aggressively made use of opportunities in pharmaceutical market and accomplished the business objectives set at the beginning of the year by overcoming various difficulties, adapting itself to policy changes in the domestic pharmaceutical market. Below is the business review of the Group for the period:

1. Aligning itself to new situations and vigorously exploring domestic and overseas markets

During the first half of 2010, the Company enhanced communications with its key customers (including through customer visits) to deepen cooperation and build up long-term strategic partnerships with them, with an aim to further consolidating and improving the market position of its key and strategic products.

Taking advantage of the selling peak in principal pharmaceutical raw materials, the Company made great efforts to open up the market in the first half of 2010. As a result, the Company's domestic sales and export sales of pharmaceutical raw materials for the period grew rapidly by 23.06% and 17.49% respectively, over the same period last year. In line with new policies and changes with respect to national essential drugs such as “zero mark-up” and provincial authorities' invitation of tenders, the Company spared no effort in building its sales outlets and marketing teams for its preparation products as well as controlling operational risk. As such, sales of its preparation products increased 4.29% over the same period last year.

2. Steadily pushing forward industrial zone deployment strategy

The Company has adhered to the principle of “centralised planning, staged implementation, project-based advancement and rolling development” in determining the layout for the four industrial zones and pushing forward construction and development of the new parks. During the first half of 2010, the overall planning of Hutian Park was completed, while the Phase I relocation project completed the design work and was under pre-construction preparation. The Company will push forward with the construction of Hutian Park to build it into a “modern industrial base for chemical pharmaceuticals” by the Company.

Aiming at developing a circular economy demonstration zone, Shouguang Park will be built into a “fine chemical industrial base”. Following the commencement of the commercial production for various pharmaceutical intermediate projects such as chloro-propionyl chloride and violuric acid last year, the diketene and pyrazolone projects were also put into production in the first half of this year. In addition to satisfying the Company's need for the production of bulk pharmaceuticals, Shouguang Park, leveraging on the Company's brand and quality strengths, also achieved substantial growth in external sales and maintained a healthy growth momentum by actively exploring domestic and overseas markets.



3. Transforming growth mode and adjusting development structure

The Company's product mix was optimised and upgraded. After obtaining the GMP certification, the new production line of Ibuprofen actively utilised its production capacity within a short time period and recorded a double year-on-year growth in its domestic sales. The Company's distinctive raw material drugs achieved admirable production and sales results. The levodopa raw material drug, a new product, exceeded its sales target for the first half of 2010.

Shandong Xinhua Pharmaceutical (Europe) GmbH fulfilled its role as being at the forefront of the European market and recorded 136.1% year-on-year growth in revenue. Projects at Shouguang Park were put into production in tandem which will become a new growth driver for the Company.

Calcium polycarbophil, a new drug in category 3, has obtained, and a number of new drugs are in the process of applying for, clinical approval from the State Food and Drug Administration.

The Company's success in processing and producing preparation products for Bayer in Germany resulted in economic benefits and enhancements in quality control and brand imaging. Based on this the Company made progress in seeking new business partners.

4. Enhancing internal management to improve quality and lower cost

We continued to carry out the technical breakthrough campaigns "double growth and double save" and "one tactics for one product" and strived to improve technical and economic indexes of products by optimising craftsmanship and upgrading technology. As a result, the Company's raw material consumption for the first half of 2010 was reduced by RMB6,545,000 from the same period last year.

Quality system and site management were further improved. Various products including Ibuprofen have successfully obtained GMP certification.

We further increased investment in technical renovation in energy saving and emission reduction. The application of "Four New" technologies was promoted, and the energy online management system independently developed by the Company was optimised, including the internal waste water online measurement system. For the first half of 2010, the Company's energy consumption per RMB10,000 production value decreased 9.34% over the same period last year, bringing energy saving of approximately RMB7,052,000 for the Company.

PLANS FOR THE SECOND HALF OF THE YEAR 2010

In the second half of 2010, the Group is facing new challenges arising from the enforcement of the new pharmacopoeia of the PRC, the new GMP to be promulgated and implemented, changes in the State's pricing policy for pharmaceutical products and rules for tender invitation management, as well as the export tax rebate rate reduction and the fluctuation in the RMB exchange rate as a result of the changes in the macroeconomic policy. The Group will assign staff to study and formulate practical measures and use its best endeavours to put into effect such measures. For the second half of the year, we will focus on the following:

1. Seize opportunities by intensifying efforts to open up the market of our products

In order to expand its sales, the Group will continue to consolidate and strengthen its position in the traditional product market by enhancing its association with customers and actively exploring the emerging markets. Taking advantage of the approval of the bulk pharmaceutical raw material, Ibuprofen and Levodopa by the U.S. FDA, the Group will explore every possible ways to tap into the international market with a view to further consolidating the Company's leading position in the antipyretic and analgesic drug markets. The Group will explore its target markets by reinforcing its market position in preparation products, strengthening the terminal network building and team building as well as formulating practical market development measures in accordance with product features and market characteristics.

Moreover, the Group will further improve and strictly implement the risk control system so as to reduce operational risk and optimise economic performance.



2. Further our plans for our industrial zones under which any structural adjustment schemes will be drawn on the basis of the strategy underpinning the industrial zones

The Company will actively press ahead with the construction of the Hutian Park Project with reference to the master plan and the actual condition of the Company, and complete the preparation and construction of the relocation and renovation of the 10,000-tonne Aspirin materials project. It will also continue the production and operation of existing products in Shouguang Park, coordinate any facilities and external distribution in respect thereof and expand the production capacity of Shouguang Park through “complementation” and with reference to market demand. Efforts will be made in kick-starting the production of sulfuric acid and other products with an unwavering commitment to a cyclic economy.

3. Finalise the Company’s “12th Five-Year Plan” to set clear future targets

With more than 6 months of organisation, discussion and preparation, the Company completed the draft of its “12th Five-Year Plan”. In the second half of the year, the Company will focus on revisiting and finalising its five-year plan to set specific targets and formulate initiatives for the Company’s development over the next five years and in the near future.

4. Further initiate “Let’s Improve Quality” campaign to gain market share by quality

To adapt to the enforcement of the new pharmacopoeia and the promulgation and implementation of new GMP in the PRC, to meet international certification requirements for its products and cater to high-end customers’ needs for higher quality products, the Company will further initiate the “Let’s Improve Quality” campaign in the second half of the year, on top of the related promotional activities launched in early June this year in a bid to enhance the overall quality management of the Company.

By order of the Board
Guo Qin
Chairman

28 July 2010
Zibo, Shandong, PRC



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 2010, the liquidity ratio of the Group was 174.70%, the quick ratio was 131.10%, the turnover ratio of account receivables was 424.54% (turnover ratio of account receivables = turnover/average account receivables and net value of bills x 100%) and the turnover ratio of inventory was 336.50% (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 2010, the total amount of bank loans was approximately RMB443,620,000, which was floating rate loans and was accounted by HIBOR and rates issued by Bank of China. As at 30 June 2010, cash on hand and in bank amounted to approximately RMB486,245,000 (including bank acceptance drafts deposits of approximately RMB74,716,000).

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.

The Group did not have any significant investment, acquisitions or asset disposals during this Reporting Period.

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

As at 30 June 2010, the number of employees of the Group was 5,289. The total salaries for employees in the first half of 2010 amounted to RMB84,588,000.

It is expected that there will be no significant investment projects in the second half of 2010.

As at 30 June 2010, the capital debt ratio of the Group was 26.92% (capital debt ratio = total borrowings/equity attributable to owners of the Company x 100%).

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

The assets and debts of the Group were denominated in Renminbi. However, the Group achieved USD74,164,000 in its export for the first half of 2010. 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; 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. actively striving for using RMB as a currency for settlement with overseas customers.



2. RESULTS AND FINANCIAL ANALYSIS UNDER PRC ACCOUNTING STANDARDS

In the first half of 2010, the Group had achieved a turnover of RMB1,368,619,000 from its principal business, representing an increase of 14.36% as compared to the same period last year. The increase in revenue from the principal business was mainly attributable to the Company taking advantage of the selling peak in principal pharmaceutical raw materials, the Company made great efforts to open up the market in the first half of 2010 and the Company's domestic sales and export sales of pharmaceutical raw materials for the period grew rapidly by 23.06% and 17.49% respectively, over the same period last year. The increase in net cash and cash equivalents was RMB47,131,000, while there was an increase of RMB60,982,000 in the same period last year. The main reason for the change was that the increase in net cash outflow from investing activities was RMB26,586,000 as compared to the same period last year. Operating profit amounted to RMB71,141,000, representing an increase of 22.57% as compared to the same period last year. The main reason for the increase was that the Group actively expanded new markets and the leading products sales increased. At the same time it controlled purchase costs, reduced the consumption of raw materials and power and increased the product gross profit margin.

Total assets of the Group as at 30 June 2010 amounted to RMB2,796,100,000, representing an increase of RMB169,913,000 or 6.47% as compared to the figure of RMB2,626,187,000 as at 1 January 2010. This increase was mainly due to an increase in cash during the Reporting Period. The Group's bank loans as at 30 June 2010 was RMB443,620,000, representing an increase of RMB49,596,000 from RMB394,024,000 at the beginning of this year. Such increase was attributable to cash borrowed by the Company from the bank to ensure supply of funds for production and projects construction. The Company has obtained part of the loan during the Reporting Period. Total equity attributable to equity holders of the Company as at 30 June 2010 overall increased by RMB4,014,000 or 0.25%, from RMB1,633,646,000 at the beginning of this year to RMB1,637,660,000. This change was mainly attributable to (1) an increase of RMB57,882,000 from the operating profit of the Group during the Reporting Period; (2) a decrease of RMB33,299,000 in the fair value of financial assets available for sale of the Group; and (3) a deduction of RMB22,866,000 from the total equity attributable to equity holders of the Company due to the distribution 2009 annual cash dividend.

An analysis of the Group's turnover from principal operations is as follows (RMB'000):

By geographical location of customers	First half of 2010		First half of 2009	
	Total turnover	Costs	turnover	Costs
PRC (incl. Hong Kong)	881,518	721,942	790,429	663,648
Europe	166,175	127,086	119,181	93,602
Americas	243,950	203,246	148,959	118,730
Others	52,749	39,509	116,411	76,369
Total	<u>1,344,392</u>	<u>1,091,783</u>	<u>1,174,980</u>	<u>952,349</u>
By industry and By product		Income from principal operations	Costs of sales of principal operations	Gross profit margin (%)
Bulk pharmaceutical Preparations		732,191	579,643	20.83
Medical commercial logistics		255,126	180,568	29.22
Chemical products and other products		329,306	312,121	5.22
		<u>27,769</u>	<u>19,451</u>	<u>29.95</u>
Total		<u>1,344,392</u>	<u>1,091,783</u>	<u>18.79</u>



An analysis of profit as compared to 2009 is as follows:

Items	Amount (RMB'000)		% of total profit	
	Jan.-Jun. 2010	2009	Jan.-Jun. 2010	2009
Operating profit	71,141	135,909	94.88	113.85
Profit/Loss from non-operation activities	3,840	(16,535)	5.12	(13.85)
Profit before taxation	74,981	119,374	100.00	100.00

Analysis of the reasons for changes: the percentage of the net non-operation income attributable to the total profit of the Reporting Period has seen a more substantial change because the Company has written off fixed assets of RMB19,606,000 during last year.

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 2010, RMB332,415,000 were used in the following projects:

Name of project	Planned investment (RMB'000)	Actual investment Jan.-Jun. 2010 (RMB'000)	Accumulated amount of investment (RMB'000)	% of the investment	Remarks
State-level technical center renovation	74,500	1,446	22,482	30.18%	—
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>1,446</u>	<u>360,616</u>	—	RMB28,201,000 financed by the Company

- (1) Injection GMP renovation project did not reach its profit forecast due to the decrease in pharmaceutical prices.
- (2) Caffeine technical renovation did not reach its profit forecast because of the effects of the drop in the price and the export tax rebate rate.
- (3) The main project of the renovation of the state-level technical center has been completed.

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 2010.
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 were carried over to this Reporting Period.

5. Material Related Party Transactions

Related party transactions of the Company during the Reporting Period are set out in Note 9 to the accounts of the Company ("Accounts") prepared in conformity with PRC accounting standards and Note 13 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 by related parties and external security provided are as follows:

The Company was in strict compliance with the regulations of the notice Zhengjianfa [2003] No.56 issued by the CSRC and there was no non-operational use of the Company's funds by the controlling shareholder and other related parties.

During this Reporting Period, there was no material guarantee provided by the Company, nor has there been any obligations that have not been performed in full by the Company. The Company was in strict compliance with the regulations of the notice Zhengjiafa [2003] no. 56 issued by the CSRC and there were no guarantees provided by any controlling shareholders, non-legal entity or individuals which were prejudicial to the interests of the Company and the shareholders, in particular the minority shareholders, of the Company. As at 30 June 2010, the Company had no overdue external guarantee debts and the Company had no liability arising from any guarantee due to the default of a guaranteed party.

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 closing price 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 purposes. SXPGC 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 purposes.

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 (RMB)

Stock Code	Abbreviated Name	Initial investment amount	Proportion of equity interest in investee	Book value of end of the Reporting Period	Profit/loss in the Reporting Period	Change of shareholder's equity in the Reporting Period	Accounting courses	Share source
601601	China Pacific Insurance	7,000,000.00	0.06%	113,850,000.00	—	(24,956,480.00)	Available-for-sale financial assets	Purchase
601328	BANKCOMM	14,225,318.00	0.02%	44,906,720.00	747,200.00	(14,250,000.00)	Available-for-sale financial assets	Purchase
600831	BC & TV Network	463,655.00	0.01%	—	54,298.99	31,067.00	Available-for-sale financial assets	Adjudication
Total		21,688,973.00	—	158,756,720.00	801,498.99	(39,175,413.00)	—	—

12. Index of important information which has been disclosed

The announcement of the “2009 Annual Results Announcement” was published on the HKExnews, in the Securities Times in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 12 April 2010.

The announcement of the “The First Quarter Report of 2010” was published on the HKExnews, in the Securities Times in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 29 April 2010.

The announcement of the “The Notice of Annual General Meeting for the 2009” was published on the HKExnews, in the Securities Times in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 10 May 2010.

The announcement of the “Announcement of 2009 Annual General Meeting Resolutions” was published on the HKExnews, in the Securities Times in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 28 June 2010.

13. Information of reception research, communication and interview during the Reporting Period

Reception time	Reception location	Reception method	Reception objects	Main content of the discussion and the information provided
11 May 2010	Office address of the Company	Field study	Hong Kong VL Asset etc.	Understand the production and operation of the Company
13 May 2010	Office address of the Company	Field study	Chang xin Fund etc.	Understand the production and operation of the Company



COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors confirmed that the Company was in compliance with the Code on Corporate Governance Practices (the “Code”) and has not deviated from the Code during the six months ended 30 June 2010. The Code includes the provisions continued in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Company set up the audit committee under the Board (the “Audit Committee”) in accordance with Rule 3.21 of the Listing Rules.

The Audit Committee along with the management of the Company 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 2010.

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 2010, and it has been disclosed fully.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of a sufficient number of independent non-executive directors and at least one independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive directors including one with financial management expertise, details of their biographies were set out in the 2009 Annual Report of the Company.

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

During the Reporting Period, the Company has adopted a code of conduct regarding transactions by Directors on terms no less exacting than the required standards set out in the Model Code. After having made specific enquiries to the Directors and Supervisors, the Company has confirmed that during the Reporting Period, all Directors and Supervisors have complied with the required standard set out in the Model Code in relation to directors’ securities transactions and they did not have any non-compliance with the Model Code.



FINANCIAL REPORT PREPARED IN CONFORMITY WITH PRC ACCOUNTING STANDARDS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

CONSOLIDATED AND THE COMPANY'S BALANCE SHEET

Unit: RMB

Item	Notes	2010.6.30		2009.12.31	
		Consolidated	The Company	Consolidated	The Company
Current assets:					
Cash and Cash equivalents	8.1	486,245,596.05	421,061,843.35	401,894,294.64	297,108,985.14
Held-for-trade financial assets		—	—	—	—
Notes receivable	8.2	152,311,842.19	119,633,327.92	118,688,908.68	94,619,427.13
Accounts receivable	8.3	212,700,528.98	269,795,498.15	155,210,724.53	237,065,863.34
Advances to suppliers	8.4	30,781,260.47	32,410,723.63	25,579,444.11	14,468,555.39
Interest receivable		—	—	—	—
Dividend receivable		—	—	—	—
Other receivables	8.5	26,121,476.71	28,335,522.93	15,062,571.54	98,706,970.43
Inventories	8.6	309,060,550.90	178,478,555.86	344,219,424.06	215,864,663.28
Non-current assets due within one year		—	—	—	—
Other current assets		—	—	—	—
Sub-total current assets		1,217,221,255.30	1,049,715,471.84	1,060,655,367.56	957,834,464.71
Non-current assets:					
Available-for-sale Financial Assets	8.7	161,956,720.00	161,956,720.00	201,595,788.00	201,595,788.00
Held-to-maturity investment		—	—	—	—
Long-term receivable		—	—	—	—
Long-term equity investment	8.8	29,540,980.25	356,289,495.04	29,762,651.63	251,116,354.20
Investment property	8.9	37,033,972.81	37,033,972.81	36,694,429.53	36,694,429.53
Fixed assets	8.10	959,480,838.79	752,765,264.64	961,550,060.78	792,722,287.08
Construction in progress	8.11	156,064,727.74	89,478,794.69	134,355,522.37	51,607,215.47
Construction materials		—	—	—	—
Disposal of fixed assets		—	—	—	—
Biological assets		—	—	—	—
Oil and nature gas		—	—	—	—
Intangible assets	8.12	231,757,369.42	170,668,589.43	198,529,537.76	173,153,688.11
Research & Development cost		—	—	—	—
Goodwill		—	—	—	—
Long-term prepayments		—	—	—	—
Deferred tax assets	8.13	3,043,702.75	—	3,043,702.75	—
Other non-current assets		—	—	—	—
Sub-total non-current assets		1,578,878,311.76	1,568,192,836.61	1,565,531,692.82	1,506,889,762.39
Total Assets		2,796,099,567.06	2,617,908,308.45	2,626,187,060.38	2,464,724,227.10



Unit: RMB

Liabilities & Shareholders' equity	Notes	2010.6.30		2009.12.31	
		Consolidated	The Company	Consolidated	The Company
Current liabilities:					
Short-term loans	8.15	93,619,500.00	93,619,500.00	124,024,000.00	124,024,000.00
Held-for-trade financial liabilities		—	—	—	—
Notes payable	8.16	211,866,400.00	208,466,400.00	121,835,200.00	123,835,200.00
Accounts payable	8.17	183,966,230.41	98,700,743.85	162,127,184.39	106,343,946.93
Advances for customers	8.18	10,903,502.53	3,377,550.05	22,854,924.10	7,271,757.24
Employees' wage payable	8.19	52,803,308.16	52,788,051.84	70,744,877.94	69,413,599.36
Tax payable	8.20	6,084,275.76	11,419,413.58	(176,209.49)	7,034,298.47
Interest payable	8.21	393,450.00	393,450.00	346,995.00	346,995.00
Dividends payable	8.22	28,220,046.93	28,220,046.93	5,832,005.43	5,832,005.43
Other accounts payable	8.23	127,424,895.04	82,770,744.74	114,735,524.51	52,377,425.50
Non-current assets within one year		—	—	—	—
Other current liabilities		—	—	—	—
Sub-total current liabilities		715,281,608.83	579,755,900.99	622,324,501.88	496,479,227.93
Non-current liabilities:					
Long-term borrowings	8.24	350,000,000.00	350,000,000.00	270,000,000.00	270,000,000.00
Bonds payable		—	—	—	—
Long-term payables		—	—	—	—
Specific payables		—	—	—	—
Provisions		—	—	—	—
Deferred tax liabilities	8.25	3,804,820.06	3,804,820.06	9,681,132.01	9,681,132.01
Other non-current liabilities	8.26	53,922,887.00	53,922,887.00	54,217,887.00	54,217,887.00
Sub-total of non-current liabilities		407,727,707.06	407,727,707.06	333,899,019.01	333,899,019.01
Total liabilities		1,123,009,315.89	987,483,608.05	956,223,520.89	830,378,246.94
Shareholders' equity:					
Capital	8.27	457,312,830.00	457,312,830.00	457,312,830.00	457,312,830.00
Capital surplus	8.28	679,421,499.62	678,940,768.85	709,600,600.67	709,119,869.90
Less: Treasury stock		—	—	—	—
Special reserve		—	—	—	—
Surplus reserve	8.29	177,198,800.73	176,536,259.42	177,198,800.73	176,536,259.42
General risk provision		—	—	—	—
Undistributed profits	8.30	324,211,359.27	317,634,842.13	289,195,107.14	291,377,020.84
Foreign currency statements translation difference		(484,158.89)	—	338,507.81	—
Sub-total shareholders' equity attributable to the parent company		1,637,660,330.73	1,630,424,700.40	1,633,645,846.35	1,634,345,980.16
Minority Interest	8.31	35,429,920.44	—	36,317,693.14	—
Total shareholders' equity		1,673,090,251.17	1,630,424,700.40	1,669,963,539.49	1,634,345,980.16
Total liabilities & shareholders' equity		2,796,099,567.06	2,617,908,308.45	2,626,187,060.38	2,464,724,227.10



CONSOLIDATED AND THE COMPANY'S INCOME STATEMENT

Unit: RMB

Item	Notes	First half of 2010		First half of 2009	
		Consolidated	The Company	Consolidated	The Company
1. Total Operating Income		1,368,618,869.54	919,627,165.93	1,196,792,146.64	784,725,133.18
Including: Operating Income	8.32	1,368,618,869.54	919,627,165.93	1,196,792,146.64	784,725,133.18
2. Total Operating Costs		1,301,110,155.78	868,429,433.07	1,151,722,488.27	743,297,685.20
Including: Operating Costs	8.32	1,117,047,193.39	740,266,357.99	976,473,336.24	626,225,077.32
Business taxes and surcharges	8.33	7,349,609.91	6,390,089.53	6,933,122.86	5,664,525.82
Selling and distribution expenses		89,541,312.71	45,366,864.74	79,536,761.31	34,821,029.72
Administrative expenses		77,263,090.21	65,903,825.12	73,492,127.93	61,543,421.68
Financial expenses	8.34	9,908,949.56	10,502,295.69	15,287,139.93	15,043,630.66
Impairment loss of assets		—	—	—	—
Add: Gain or Loss from changes in fair value (decrease is presented in bracket)	8.35	—	—	6,898,720.38	6,687,079.08
Investment gain or loss (decrease is presented in bracket)	8.36	3,632,194.93	7,173,643.44	6,072,233.75	8,075,783.75
Including: Investment gain or loss from joint ventures and associates		2,822,345.26	2,822,345.26	3,822,703.75	3,822,703.75
Exchange gain or loss (decrease is presented in bracket)		—	—	—	—
3. Operating profit (decrease is presented in bracket)		71,140,908.69	58,371,376.30	58,040,612.50	56,190,310.81
Add: Non-operating income	8.37	5,524,758.33	1,408,050.15	911,199.91	776,873.19
Less: Non-operating expenses	8.38	1,685,159.50	1,591,481.52	8,268,285.52	8,156,158.42
Including: Gain or loss on disposal of non-current assets		153,790.74	153,790.74	5,174,106.18	5,162,269.37
4. Total profit (decrease is presented in bracket)		74,980,507.52	58,187,944.93	50,683,526.89	48,811,025.58
Less: Income tax expense	8.39	14,050,412.21	9,064,482.14	8,836,807.36	8,334,531.97
5. Net profit (net decrease is presented in bracket)		60,930,095.31	49,123,462.79	41,846,719.53	40,476,493.61
Net profit attributable to equity holders of the company		57,881,893.63	49,123,462.79	39,887,094.33	40,476,493.61
Net profit attributable to minority shareholder		3,048,201.68	—	1,959,625.20	—
6. Earnings per share	8.40				
(1) Basic earning per share		0.13	0.11	0.09	0.09
(2) Diluted earning per share		0.13	0.11	0.09	0.09
7. Other comprehensive income	8.41	(31,444,742.13)	(30,179,101.05)	75,135,767.43	75,063,089.28
8. Total of comprehensive incomes		29,485,353.18	18,944,361.74	116,982,486.96	115,539,582.89
Total of comprehensive incomes attributable to the equity holders of the parent company		26,880,125.88	18,944,361.74	115,024,394.30	115,539,582.89
Total comprehensive income attributable to the minority shareholders		2,605,227.30	—	1,958,092.66	—



CONSOLIDATED AND THE COMPANY'S CASH FLOW STATEMENT

Unit: RMB

Item	Notes	First half of 2010		First half of 2009	
		Consolidated	The Company	Consolidated	The Company
1. CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash receipts from the sale of goods or rendering of services		1,045,104,430.78	785,384,816.44	890,300,411.43	679,468,131.36
Receipts of tax refunds		5,702,908.94	3,075,467.81	2,126,188.62	—
Other cash receipts relating to operating activities	8.42	14,656,173.45	17,010,131.75	10,000,448.37	12,918,307.43
SUB-TOTAL OF CASH INFLOWS FROM OPERATING		1,065,463,513.17	805,470,416.00	902,427,048.42	692,386,438.79
Cash payments for goods purchased and services received		631,785,467.45	452,911,746.93	533,591,495.19	399,416,106.39
Cash paid to and on behalf of employees		130,207,137.06	104,202,123.07	107,287,032.47	93,789,398.73
Payments of all types of taxes		60,101,050.36	48,228,129.60	49,677,898.18	34,142,802.54
Other cash payments relating to operating activities	8.42	106,387,893.66	81,515,716.43	90,137,015.32	47,915,059.93
SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES		928,481,548.53	686,857,716.03	780,693,441.16	575,263,367.59
NET CASH FLOWS FROM OPERATING ACTIVITIES		136,981,964.64	118,612,699.97	121,733,607.26	117,123,071.20
2. CASH FLOWS FROM INVESTING ACTIVITIES					
Cash receipts from disposals of investments		463,655.00	463,655.00	—	—
Cash receipts from returns on investments		809,849.67	4,308,498.99	2,249,530.00	4,253,080.00
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		943,311.65	943,311.65	276,235.59	276,235.59
Net cash receipts from disposals of subsidiaries and other business units		—	—	—	—
Other cash receipts relating to investing activities		—	80,000,000.00	—	—
SUB-TOTAL OF CASH INFLOWS FROM INVESTMENT ACTIVITIES		2,216,816.32	85,715,465.64	2,525,765.59	4,529,315.59
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		129,221,219.59	58,311,167.40	102,943,872.81	73,358,781.52
Cash payments to acquire investments		—	100,000,000.00	—	44,000,000.00
Net cash payments for acquisition of subsidiaries and other business units		—	—	—	—
Other cash payments relating to investing activities		—	—	—	—
SUB-TOTAL OF CASH OUTFLOWS FROM INVESTMENT ACTIVITIES		129,221,219.59	158,311,167.40	102,943,872.81	117,358,781.52
NET CASH FLOWS FROM INVESTING ACTIVITIES		(127,004,403.27)	(72,595,701.76)	(100,418,107.22)	(112,829,465.93)



FINANCIAL REPORT

(PREPARED UNDER PRC ACCOUNTING STANDARDS)

Unit: RMB

Item	Notes	First half of 2010		First half of 2009	
		Consolidated	The Company	Consolidated	The Company
3. CASH FLOWS FROM FINANCING ACTIVITIES:					
Cash receipts from investors		—	—	—	—
Including: Cash receipts from the shareholders of subsidiaries		—	—	—	—
Cash receipts from borrowings		130,000,000.00	130,000,000.00	144,989,477.00	140,000,000.00
Cash receipts from bonds		—	—	—	—
Other cash receipts relating to financing activities		—	—	—	—
SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES		130,000,000.00	130,000,000.00	144,989,477.00	140,000,000.00
Cash repayments of amounts borrowed		80,000,000.00	80,000,000.00	90,380,000.00	90,000,000.00
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		11,875,596.63	8,382,596.63	14,536,628.34	12,540,628.34
Including: Cash payments to the minority shareholders for distribution of dividends or profits		3,493,000.00	—	1,996,000.00	—
Other cash payments relating to financing activities		—	—	—	—
SUB-TOTAL OF CASH OUTFLOWS		91,875,596.63	88,382,596.63	104,916,628.34	102,540,628.34
NET CASH FLOWS FROM FINANCING ACTIVITIES		38,124,403.37	41,617,403.37	40,072,848.66	37,459,371.66
4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(970,603.33)	(901,483.37)	(405,954.21)	(364,547.01)
5. NET INCREASE IN CASH AND CASH EQUIVALENTS		47,131,361.41	86,732,918.21	60,982,394.49	41,388,429.92
Add: Beginning balance of cash and cash equivalents		364,398,234.64	259,612,925.14	183,666,637.62	140,632,397.58
6. ENDING BALANCE OF CASH AND CASH EQUIVALENTS		411,529,596.05	346,345,843.35	244,649,032.11	182,020,827.50



CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY IN THE FIRST HALF OF 2010

Unit: RMB

Item	Amount									
	Equity attributable to the parent company									Total Shareholder's Equity
	Share capital	Capital reserve	Less: Treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Others	Minority Interests	
1. Ending balance of last year	457,312,830.00	709,600,600.67	—	—	177,198,800.73	—	289,195,107.14	338,507.81	36,317,693.14	1,669,963,539.49
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	709,600,600.67	—	—	177,198,800.73	—	289,195,107.14	338,507.81	36,317,693.14	1,669,963,539.49
3. Increase/decreased in the year (decrease is presented in bracket)	—	(30,179,101.05)	—	—	—	—	35,016,252.13	(822,666.70)	(887,772.70)	3,126,711.68
I Net profit	—	—	—	—	—	—	57,881,893.63	—	3,048,201.68	60,930,095.31
II Other comprehensive income	—	(30,179,101.05)	—	—	—	—	—	(822,666.70)	(442,974.38)	(31,444,742.13)
Subtotal of I and II	—	(30,179,101.05)	—	—	—	—	57,881,893.63	(822,666.70)	2,605,227.30	29,485,353.18
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	—	—	(22,865,641.50)	—	(3,493,000.00)	(26,358,641.50)
a. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(22,865,641.50)	—	(3,493,000.00)	(26,358,641.50)
d. Others	—	—	—	—	—	—	—	—	—	—
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	679,421,499.62	—	—	177,198,800.73	—	324,211,359.27	(484,158.89)	35,429,920.44	1,673,090,251.17



CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY IN THE FIRST HALF OF 2009

Unit: RMB

Item	Amount									
	Equity attributable to the parent company									Total Shareholder's Equity
	Share capital	Capital reserve	Less: Treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Others	Minority Interests	
1. Ending balance of last year	457,312,830.00	617,502,733.62	—	—	167,309,492.08	—	210,690,983.71	436,951.95	33,744,855.23	1,486,997,846.59
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	617,502,733.62	—	—	167,309,492.08	—	210,690,983.71	436,951.95	33,744,855.23	1,486,997,846.59
3. Increase/decreased in the year (decrease is presented in bracket)	—	75,142,401.78	—	—	—	—	26,036,180.22	(5,101.81)	(168,911.49)	101,004,568.70
I Net profit	—	—	—	—	—	—	39,887,094.33	—	1,959,625.20	41,846,719.53
II Other comprehensive income	—	75,142,401.78	—	—	—	—	—	(5,101.81)	(1,532.54)	75,135,767.43
Subtotal of I and II	—	75,142,401.78	—	—	—	—	39,887,094.33	(5,101.81)	1,958,092.66	116,982,486.96
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	—	—	(13,850,914.11)	—	(2,127,004.15)	(15,977,918.26)
a. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(13,719,384.90)	—	(1,996,000.00)	(15,715,384.90)
d. Others	—	—	—	—	—	—	(131,529.21)	—	(131,004.15)	(262,533.36)
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	692,645,135.40	—	—	167,309,492.08	—	236,727,163.93	431,850.14	33,575,943.74	1,588,002,415.29



THE PARENT COMPANY'S STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY IN THE FIRST HALF OF 2010

Unit: RMB

Item	Amount							
	Share capital	Capital reserves	Less: treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Total shareholders' equity
1. Ending balance of last year	457,312,830.00	709,119,869.90	—	—	176,536,259.42	—	291,377,020.84	1,634,345,980.16
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	709,119,869.90	—	—	176,536,259.42	—	291,377,020.84	1,634,345,980.16
3. Increase/decreased in the year								
(decrease is presented in bracket)	—	(30,179,101.05)	—	—	—	—	26,257,821.29	(3,921,279.76)
I Net profit	—	—	—	—	—	—	49,123,462.79	49,123,462.79
II Other comprehensive income	—	(30,179,101.05)	—	—	—	—	—	(30,179,101.05)
Subtotal of I and II	—	(30,179,101.05)	—	—	—	—	49,123,462.79	18,944,361.74
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	—	—	(22,865,641.50)	(22,865,641.50)
a. Transfer to surplus reserves	—	—	—	—	—	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(22,865,641.50)	(22,865,641.50)
d. Others	—	—	—	—	—	—	—	—
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	678,940,768.85	—	—	176,536,259.42	—	317,634,842.13	1,630,424,700.40



THE PARENT COMPANY'S STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY IN THE FIRST HALF OF 2009

Unit: RMB

Item	Amount							
	Share capital	Capital reserves	Less: treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Total shareholders' equity
1. Ending balance of last year	457,312,830.00	618,086,240.10	—	—	166,646,950.77	—	216,092,627.86	1,458,138,648.73
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	618,086,240.10	—	—	166,646,950.77	—	216,092,627.86	1,458,138,648.73
3. Increase/decreased in the year								
(decrease is presented in bracket)	—	75,063,089.28	—	—	—	—	26,757,108.71	101,820,197.99
I Net profit	—	—	—	—	—	—	40,476,493.61	40,476,493.61
II Other comprehensive income	—	75,063,089.28	—	—	—	—	—	75,063,089.28
Subtotal of I and II	—	75,063,089.28	—	—	—	—	40,476,493.61	115,539,582.89
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	—	—	(13,719,384.90)	(13,719,384.90)
a. Transfer to surplus reserves	—	—	—	—	—	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(13,719,384.90)	(13,719,384.90)
d. Others	—	—	—	—	—	—	—	—
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	693,149,329.38	—	—	166,646,950.77	—	242,849,736.57	1,559,958,846.72



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 (here-in-after referred to the “Company”) was established in 1993, through the reorganisations of Shandong Xinhua Pharmaceutical Factory. The Company was listed in Hong Kong and issued its H Shares at Hong Kong Stock Exchange in December 1996. The Company was also listed in Shenzhen and issued its A Shares at Shenzhen Stock Exchange in July 1997. The Company became a foreign invested joint stock company in November 1998, with approval from the Ministry of Foreign Trade and Economic Cooperation of the People’s Republic China. On approval, the Company issued an additional 30 million ordinary A shares and decreased 3 million state-owned shares on September 2001.

The Company’s registered capital at 30th June 2010 is RMB457.313 million, the structure is as follow:

	Shares	Amount	Ratio (%)
State-owned shares	166,072	166,072	36.31
Legal-person shares	21,714	21,714	4.75
Restricted tradable			
Senior management-held shares	16	16	0.01
Publicly-held A shares	119,511	119,511	26.13
Publicly-held H shares	150,000	150,000	32.80
	<u>457,313</u>	<u>457,313</u>	<u>100.00</u>
Total	<u>457,313</u>	<u>457,313</u>	<u>100.00</u>

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

According to the Circular “Lu Ke Gao Zi (2009) No. 12” issued by Shandong Province Science & Technology Bureau, Shandong Province Financial Bureau, Shandong Province State Tax Bureau, and Shandong Province Local Tax Bureau, the Company was accredited as a new and high-tech company .

The Company’s registered address is Chemical Area of Zibo New and High Technology Industrial Development Zone, Zibo, Shandong Province.

2. BASIS OF THE PREPARATION FOR FINANCIAL STATEMENTS

The financial statements have been prepared on the basis of going concern. According to the actually incurred business transactions and matters, in accordance with Accounting Standards for Business Enterprises (“ASBEs”) and other related requirements issued by the Ministry of Finance, the financial statement has been prepared based on the Significant Accounting Policies Accountings, Estimates referred to in this Note 4 and preparation of consolidated financial statements.

3. THE STATEMENT OF COMPLIANCE WITH THE ASBEs

The financial statements of the Company have been prepared in accordance with the requirements of the ASBEs, and present truly and completely, in all material respects, the consolidated and the Company’s financial position, the operations results as well as the cash flows.



4. SIGNIFICANT ACCOUNTING POLICIES ACCOUNTING, ESTIMATES AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT CONSOLIDATION

1. ACCOUNTING YEAR

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

2. FUNCTIONAL CURRENCY

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

3. BASIS OF ACCOUNTING AND PRINCIPLE OF MEASUREMENT

The financial statements have been prepared on an accrual basis. Except for the held-for-trading financial assets and available-for-sale financial assets which measured at their fair value, the principle of measurement of the Financial Statements is historical cost.

4. CASH AND CASH EQUIVALENTS

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

5. FOREIGN CURRENCY TRANSACTIONS

5.1 Foreign Currency Transactions

Foreign currency transactions shall be translated into RMB according with the spot exchange rate on the first day of the month, in which the transactions occurred. At the balance sheet date, foreign currency monetary items shall be translated into RMB using the spot exchange rate on 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 arising from borrowing in foreign currencies or production of qualified assets that are eligible for capitalisation, difference related to the principal and interest on a specific-purpose borrowing denominated in foreign currency for acquisitions, constructions or production of the qualified assets, which capitalised as cost of the related assets. Foreign currency non-momentary items measured in fair value are translated using the spot exchange rate at the date when the fair value was determined. Differences between the translated amount and the original amount are accounted for as changes in fair value and included in profit or loss for the current period. Foreign currency non-monetary items measured in historic cost using the spot exchange rate when the transaction occurred.

5.2 Translation of Financial Statements Denominated in Foreign Currencies

Assets and liabilities in the balance sheet denominated in foreign currencies are translated at the spot rate prevailing at the balance sheet date. The equity items, except for undistributed profits, are translated at the spot exchange rate when they occurred. Income and expenses in the income statement denominated in foreign currencies are translated at the spot exchange rate at the date of the transactions. The resulting differences are presented as a separated component of shareholders' equity in the balance sheet. Cash flow dominated in foreign currency or from the foreign subsidiaries are translated at the spot rate when they occurred. Effects on cash arising from the change of exchange rate are presented as separate item in the cash flow statement.



6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Classification of financial assets

Financial assets are classified into the following 4 categories: financial assets at fair value through profit or loss, available-for-sale financial assets, receivables and held-to-maturity investments, the classification depends on the intention and economic substance to hold the financial assets.

- (1) Financial assets at fair value through profit or loss are included with the financial assets held for a short time, and presented in the balance sheet as held-for-trading financial assets.
- (2) Available-for-sale financial assets are non-derivative financial assets that are either designated in this category upon initial recognition or not classified under other categories.
- (3) Receivable refers to non-derivative financial assets for which there is no quotation in the active market with fixed or determinable amount. They include Notes receivable, Accounts receivable, Interests receivable, Dividends receivable and other accounts receivables.
- (4) Held-to-maturity investments refer to the non-derivate financial assets with fixed or determinable recoverable amount and fixed maturity that the management has the positive institution and ability to hold to maturity.

6.2 Recognition and measurement of financial assets

The financial assets are initially recognised at its fair value. Transaction cost related to the acquisition of financial assets at fair value through profit or loss is expensed to the profit or loss as incurred. Transaction costs are included in the carrying amount of assets at initial recognition. Financial asset are decongested when the contractual rights to receive cash flows from the financial assets expired, or all the risks and rewards related to the ownership of a financial assets 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.

Changes in fair value of financial assets at fair value through profit or loss are recorded in the gain or loss from changes in fair value. Interests or cash dividends received during the holding period are recognised as investment income. On disposal, the difference between fair value and initial recognised amount are recognised as investment income and adjust the gain or loss from changes in fair value accordingly.

Changes in fair value of available-for-sale financial assets are recognised in shareholders' equity. Interests calculated using the effective interest method during the holding period is recognised as investment income. Dividends from available-for-sale equity instruments are recognised as investment income when these financial assets are decongested; the differences between the disposal proceeds and the carrying amount of assets after deducting the accumulated fair value adjustments are recognised as investment income.

6.3 Impairment of financial assets

Except for financial assets at fair value through profit or loss, the Company shall assess the book value of financial assets on the balance sheet date. Provision for impairment loss is made if there is objective evidence showing that a financial asset is impaired. When there is a relatively significant or decline in fair value of available-for-sale financial assets, the accumulated loss that originally recorded in equity should be recorded as impairment loss. Impairment loss on available-for-sale financial assets is reversed through equity when the fair value subsequently increases as a result if objective changes in circumstances occurring after the impairment loss was originally recognised. Impairment loss on equity investments that do not have quoted prices in an active market and whose fair value cannot be reliably measured is not reversed.



6.4 Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities upon initial recognition.

Financial liabilities at fair value through profit and loss include those held-for-trading financial liabilities and those designated as financial liabilities at fair value through profit or loss upon initial recognition. These financial liabilities are subsequently measured at fair value. The gains or losses from the change of fair value and the dividends or interests expenses relating to these financial liabilities are recognised as profit or loss for the period.

Other financial liabilities are measurement at adopt method of actually rate, subsequent measured in using effective interest method amortised cost.

7. ACCOUNTING FOR PROVISION FOR BAD DEBT LOSS

7.1 The Company assesses the carrying amount of receivables at the balance sheet date. Provision for bad debts are made when the debts may go into liquidation, bankruptcy; or the debtors have not enough assets to distinguish its liabilities; or have severe short fall of cash; or there are serve natural disaster that causes the debtors to suspend their operations and become unable to settle the debts in the foreseeable period; or the debtors allow the payment to become overdue in the settlement of debts or other evidence shows that the amounts, will not or probably not be able to be recovered.

7.2 Bad debt losses are accounted for using the allowance method. Provisions for bad debts are made on an aging basis and are recognised at the end of the period in the income statement. When there is evidence showing that the amount is to be recovered, it is written off against the allowance accounted for as receivables after the Company's approval procedures have been completed. No provision for bad debt is generally made for receivables from related parties.

7.3 The Company regards the balance over RMB5 million as an individually significant receivable. When there is objective evidence indicating the amounts cannot be recovered according to the original term, provision for bad debts are assessed on an individual basis and calculated as the excess of its carrying amount over the present of the estimated future cash flow.

The individually insignificant receivables and those having not been individually assessed as impaired receivables are assessed collectively on the basis of aging analysis. Provision for bad debts is made based on their historic loss experience and adjusted by the observative figures reflecting present economic conditions.

Provision for bad debts loss shall be made as follows:

Aging	Less than one year	1-2 years	2-3 years	Over 3 years
Provision %	0.5%	20%	60%	100%

8. INVENTORIES

8.1 Classification of inventories

Inventories mainly include raw materials, packaging materials, low-value consumables, work-in-process, finished products and goods in stock.



8.2 Measurement of receiving inventories

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 Measurement of issuing inventories

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 Principle of measurement for inventories and provision for decline in the value of inventories

Inventories are stated at the lower of cost or net realisable value. At the end of the period, provision for the decline in the value of inventories is made if the inventories are damaged, become partially or completely obsolete or are sold at a price lower than cost. The provisions for finished goods and large-amount raw materials are made on the excess of their costs over their lower net realisable values on an item-by-item basis. Other inventories items are assessed on collective basis.

8.6 Net realisable value of inventories

Net realisable value of goods-in-stock, work-in-progress or held-for-sale raw materials are determined by their estimated sales less the related selling expenses and taxes. Net realisable value for raw material for held for production are determined by the estimated selling price of finished goods less the estimated cost to completion, selling expenses and taxes. Net realisable value of inventories held for contracts or rendering of service are determined on the basis of the carrying amount of the contracts. Net realisable value of inventories in excess of the contracted quantity is determined by their general selling price.

9. LONG-TERM EQUITY INVESTMENTS

9.1 Classification of Long-term Investments

Long-term Investments mainly include the investment's investee over which the Company can exercise control, joint control or can exercise significant influence as well as those that do not have quoted prices in an active market and whose fair value can not be reliably determined and over which the Company cannot exercise control, joint control or exercise significant influence.

The term "Joint control" refers to the control over an economic activity in accordance with the contracts and agreements. The determination of joint control is based on the fact that there is no unilateral control over the operating activities of the entity. The decision relating to the operations must be made by all parties' unanimous agreement. Significant influence refers to the rights to participate in making decisions on the financial and operating policies of an enterprise, but not to control or jointly control together with other parties the formulation of these policies. The existence of significant influence is mainly based on whether, directly or indirectly through subsidiaries, more than 20% (including 20%) and less than 50% is held in the investee's voting shares. If there is no evidence showing that the Company has no rights take part in the decision of the investee's operating decision, it will not constitute significant influence.



9.2 Initial Measurement of Long-term Equity Investment

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

Apart from the long-term equity investment acquired through a business combination as mentioned above, the initial investment cost of a long-term equity investment acquired by payment of cash shall be the actual purchase price that has been paid, that includes those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; 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; For a long-term equity investment invested by an investor, the initial investment cost shall be value stipulated in the investment contract or agreement; For a long-term equity investment acquired through an exchange of non-monetary assets or debt restricting transaction, the initial investment cost shall be determined in accordance with relevant accounting standards.

9.3 Subsequent Measurement of Long-term Equity Investment

Investments in subsidiaries are accounted for using the cost method and adjusted by the equity method with the preparation of the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method. Investments, 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 are accounted as available-for-sale financial assets.

When applying the equity method, the investment gain or loss for the period represents the Group's share of the net profits or losses made by the investee for the current period. The Company recognises its share of the investee's net profits or losses based on the fair value of the investee's individual separately identifiable assets at the acquisition date, the adjustments to align the accounting policies and accounting period of the Company, unrealised profit or loss resulting from the Company and the associates and joint venture are eliminated for the attributable to the Company based on its share in the investee.

9.4 Switching of cost method and equity method

The company will convert to use the cost method for Long-term investment measured using the equity method and will change to cost method when the share of equity in the investee decreases so that the Company has no longer joint control or significant influence over the investee and there is no quoted prices in an active market for the investments and whose fair value cannot be measured reliably when the Company has ability to exercise control over the investee due to such reasons as increase in investment. For the Long-term equity investments over which the Company has gained joint control, but not full control, due to such reasons as increase in investment or when the Company has no longer has the ability to exercise control but has the ability to exercise joint control or significant influence over the investee due to such reasons as disposal of investment, the measurement will change from cost method to equity method.

9.5 Disposal of Long-term Investments

On disposal of Long-term investment, the difference between the carrying value of the investments is recorded as investment gain or loss. For the Long-term investments using the equity method, the share of owners' equity other than profit or loss, of the investee included in the owner's equity of the Company will be transferred to reckon into owners' equity as a result of other change of investee owners' equity except net profit. If the company deals the investment, investment gain or loss reckon into the period.



10. INVESTMENT PROPERTIES

Investment properties for the period including rented land use right and rented buildings.

Investment properties are initially measured at initial cost. The cost of Investment properties purchased includes purchasing price, tax, and other expenses directly related to the assets. The cost of Investment properties constructed by the Company itself is the cost of construction incurred to bring the assets to its intended usage condition.

Investment properties are subsequently measured by cost model. Depreciation is provided to investment properties over their estimated useful lives and after taking into account of their estimate residual value, using straight-line basis. The expected usage life of the investment properties, the net residual value rate and the annual depreciation (amortisation) rates of the investment properties are as follows:

Types	Depreciable life <i>(Years)</i>	Estimated residual value rate <i>(%)</i>	Annual depreciation rate <i>(%)</i>
Land use right	Benefit from the transfer of life	0	—
Building & house	20 years	5	4.75

When the usage of the investment properties is changed to own-used, they will be accounted for as fixed assets or intangible assets from the date of change. When the usage of own-used properties change to held for rental income or for capital appreciation, the properties will be accounted for from fixed assets or intangible assets to investment properties from the date of change. The carrying amount of the assets immediately before the change will be adopted as the cost immediately after the change.

Investment properties are derecognised on disposal or retirement that these shall be of no economic benefit after disposal. When the investment properties are sold, transferred, scraped or changed, the proceeds received after deducting their carrying amount and related taxes are recognised in profit or loss for the period.

11. FIXED ASSETS

11.1 Recognition of Fixed assets

Fixed assets are tangible assets with useful lives of more than one accounting year, and held for use in the production goods, rendering of services, for rental, or for administrative purposes and it is probable that economic benefits associated with the assets will flow to the Company; and the cost of the asset can be measured reliably.

11.2 Classification of Fixed assets

Fixed assets include house & buildings, machinery & equipment, vehicles and office equipment and other equipment.



11.3 Measurement of Fixed assets

Fixed assets are initially measured at actual cost of acquisition, among which, the cost of a purchased fixed asset comprises the purchase price VAT, import, related taxes and any directly attributable expenditure for bringing the assets to working condition for its intended use. The cost of self-constructed fixed assets comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use. The cost of a fixed asset invested by an investor are 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 in this case fair value issued. The cost of a fixed assets acquired by finance lease are 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.

11.4 Depreciation of Fixed assets

Fixed assets (excluding those fully depreciated yet still used in operation) are depreciated on a straight-line basis. The estimated net residual value is 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 relayed assets or recognised in profit or loss for the current period. The useful life and rate of depreciation are as follows:

Items	Depreciation period (Years)	Annual Depreciation rate (%)
House & Buildings	20 Years	4.75
Machinery & equipment	10 Years	9.50
Electronic instrument	5 Years	19.00
Office equipment and vehicles	5 Years	19.00

11.5 Subsequent expenditure of fixed assets

The subsequent expenditures related to a fixed asset, mainly include expenses for repair, renovation and mending, improvement which shall be included in the cost of the fixed asset if it meets the recognition condition of a fixed assets. The carrying amount of the replaced parts is derecognised. Expenditure not quantified for recognition as a fixed asset.

11.6 The Company reviews the estimated useful life, estimated net residual value, and the depreciation method of the fixed assets at the end of each year. Any change shall be treated as changes of accounting estimates.

12. CONSTRUCTION-IN-PROGRESS

12.1 Measurement of construction progress

Construction-in-progress measured at the expenditures actually incurred. The cost of construction work undertaken by the Company itself includes direct materials cost, direct labour cost, and direct construction expenses. The cost of construction work is determined according to the amount paid to the contractor. The cost of equipment installation is determined according to the cost of equipment, installation charges and test run expenses. Cost of construction-in-progress also includes capitalised borrowing costs and gain or loss from currency exchange.

12.2 Timing for transfer of construction-in-progress to fixed assets

Construction-in-progress is transferred to fixed assets at the date of reaching its usable conditions at an estimated amount based on the construction budget, construction price, or actual cost of construction. Depreciation is charged from the next month after it is put into use. The value of the asset will be adjusted when the resolution procedures are completed



13. BORROWING COST

Borrowing costs include interest, amortisation of discount or premium related to borrowings, ancillary costs incurred in connection with the borrowings, and exchange difference arising from foreign currency borrowings. Borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset. 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. The amount of other borrowing costs incurred shall be recognised as an expense in the period in which they are incurred.

When funds are borrowed under a specific-purpose borrowing the amount of interest to be capitalised is 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; when funds are borrowed under general-purpose borrowings the amount of interest to be capitalised is determinate by applying the weighted average of the interest rate applicable to the general purpose borrowing to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings.

Qualifying assets are assets (fixed assets, investment property, inventories,) that necessarily takes a substantial period of time (usually 1 year or above) for acquisition, construction or production to get ready for their intended use or sale.

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, 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.

14. INTANGIBLE ASSETS

14.1 The pricing method of intangible assets

The Company's intangible assets mainly include land use right, software use right, non-patented technology, and etc. The cost of a purchased intangible asset is determined by the expenditures actually incurred and other costs. The cost of an intangible asset invested by an investor is 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, fair value will be used.

14.2 Amortisation of intangible assets

The cost of land use right is amortised evenly over the whole period of the right. The cost of software use right and non-patented technology of the Company is amortised evenly over the shorter period of the expected useful life, the contractual beneficial period and the useful life specified in the law, which is five years in the Company. Land use rights are amortised over the terms 8, the rights, software use rights are amortised over 5 years. The amortisation charge shall be recognised as the cost of an intangible asset or profit or loss for the current period by the object of benefit derives from the assets.

14.3 For an intangible asset with a finite useful life, the Company reviews the useful life and amortisation method at each financial year-end. Where there are changes, adjustments will be made. For an intangible asset with an indefinite useful life, the Company reassesses 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 it shall be amortised accordingly.



15. RESEARCH AND DEVELOPMENT

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

Expenditure on the research phase of an internal research and development project is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is recognised as an intangible asset when all of the following conditions are satisfied: (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 on the development phase that does not meet all the above conditions is included in the profit or loss in the period in which it is incurred. Expenditure in the development phase which has been included in the profit or loss in the prior period will not be recognised as an intangible asset in subsequent periods. The capitalised expenditure in the development phase shall be recognised as an intangible asset when the asset is ready for its intended use.

16. IMPAIRMENT FOR NON-FINANCIAL ASSETS

The Company assesses at each balance sheet date whether there is any indication that it may be impaired, as long-term equity investment fixed assets, construction-in-progress, intangible assets of finite useful life if there is any indication that is an assets may be impaired, the recoverable amount is estimated for the asset. 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 determines the recoverable amount of the asset group or set of asset group 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 subsequent periods. Recoverable amount of an asset is the higher of its fair value less cost 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, market value of the asset has declined significantly more than that 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 technology, economic or legal environment, in which the Company operates; (c) the market interest rates or other market rates of return on investments have increased during the period, and these increases 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, the Company discontinues using an asset or plans to dispose of an asset before the previously expected date; (f) evidence is available from internal reports that indicates that the economic performance of an asset is, or will be, worse than expected, for example, the net cash flows generated or operating profit realised (or operating loss arising) from the asset are much less (or more) than the budgeted amounts; (g) other indications that an asset may be impaired.



17. GOODWILL

Goodwill is the amount at the acquisition date or purchasing date, of the investment cost or cost of business combination not involving enterprises under common control, exceeds the acquirer's interest in the fair value of the investees' or acquirer's identifiable net assets.

Goodwill related with subsidiaries is presented in consolidated financial statements as a separate item. Goodwill related with joint ventures and associates are included in the carrying amount of long-term equity investment.

18. EMPLOYEE BENEFITS

In the accounting period in which an employee has rendered service to the Company, employee benefits payable are recognised as a liability. Employee benefits are accounted as cost of related assets or charged to profit or loss for the current period according to the benefits derived from the employee service. Compensation for termination of employment relationship with employees is included in the profit or loss in the current period.

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

19. PROVISION

19.1 Recognition of provision

A provision is recognised as a liability when an obligation related to a contingency, such as guarantees provided to outsiders, commercial acceptance drafts discounting, pending litigations or arbitrations, product warranties, satisfy all of the following conditions: (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.

19.2 Measurement of provision

A provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation. Considering the factors, such as risk, uncertainties, and time value of money related to the contingencies. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflows. The Company reviews the carrying amount of a provision at the balance sheet date. Where there is a change, the carrying amount shall be adjusted to the current best estimate.

20. REVENUE

The Company's revenue is mainly from sale of goods, rendering of services and alternatively the rights to use assets. Revenue is recognised when the amount of revenue can be measured reliably and associated economic benefit will flow into the Company not the following conditions are satisfied.

20.1 Revenue from sales of goods

Revenue from the sale of goods is recognised 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 or 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.



20.2 Revenue from rendering of services

Revenue from the rendering of services is recognised only when all of the following conditions are satisfied: (a) the amount of revenue and costs for the transaction involving the rendering of services can be measured reliably; (b) the associated economic benefits can flow into the Company; (c) and the stage of completion of the service can be measured reliably. When the provision of service is commenced and completed in the same year, revenue is recognised at the completion; where in a different accounting year, the revenue is a recognised percentage of completion method at the balance sheet date 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.

20.3 Revenue from alienating the rights to use assets, is recognised only when the associated economic benefit can flow into the Company, and the amount of revenue can be measured reliably.

21. GOVERNMENT GRANTS

Only the governmental allowance meeting the following conditions will be confirmed: The enterprises can meet the relevant conditions required by the governmental allowance; the enterprises can receive the governmental allowance; a government grant is recognised when the Company complies with the conditions attaching to the grant and the Company is able to receive the grant. Calculation: If the government grant is the form of a transfer of monetary assets, measured at the received amounts. If the government grant is in a form of a non-monetary asset, it is measured at the fair values; if the fair values are not reliably given, they will be calculated at the nominal amounts of RMB1.

Government grant related to assets is recognised as the deferred income and amortised over the usage life of relevant assets, to profit and loss for a government grant related to income, if the grant is a compensation in related expenses or losses to the incurred in subsequent periods, the grant is recognised as deferred income and recognised in profit or loss over the periods. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period.

22. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

A deferred tax asset and deferred tax liability is recognised based on the difference (temporary difference) between the carrying amount of an asset or liability and its tax base. The deferred tax asset is 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 recognises the corresponding deferred tax asset for deductible temporary differences to the extent of the amount of taxable profits that will be available in the future and which can be deducted from the temporary difference. For the recognised deferred tax assets, if it is unlikely to obtain sufficient taxable profits to offset against the benefit of the deferred tax asset. Any such reduction in amount shall be subsequently reversed where it becomes probable that sufficient taxable profits will be available.



23. ACCOUNTING PROCESSING METHOD OF INCOME TAX

The Company accounted for the income tax method. Income tax expenses include income tax and deferred income tax expenses. The income tax associated with the events and transactions directly included in the owners' equity is included in the owners' equity. Deferred income taxes derived from business combination are included in the carrying amount of goodwill, except for that above; the income tax expense is included in the profit or loss in the current period.

The current income tax expense 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 using balance sheet liability method.

24. BUSINESS COMBINATION

Business combination refers to 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.

24.1 Business combination involving enterprises under common contract

The assets and liabilities acquired through a business combination involving enterprise under common control is measured by the acquirer according to the carrying amount recorded by the acquirer's at the combination date. The difference between the consideration of combination and the carrying amount of the acquired net assets is included in capital reserve; If the capital reserve is not sufficient, it is adjusted in retained earnings.

24.2 Business Combination not involving enterprises under common control

The cost of business combinations not involving enterprise 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 acquire. When the costs of business combinations exceed the acquirer's identifiable net assets, the difference is recognised as goodwill. When the costs of a business combination is less than the acquirer's identifiable net assets, after reassessment, the difference is included in the profit or loss in the current period.

25. THE DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

For financial investments with an active market, the fair value is determined as the quotations in the active market. For the financial instruments with no active market, the fair value is determined by valuation technology. The financial assets that are initially obtained or derived or financial liabilities will take the market transaction prices as the basis to determine their fair values.

26. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

26.1 Scope of Consolidation

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



26.2 Preparation of consolidated financial statements

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 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 business combination not involving enterprise under common control, the separate financial statements shall be adjusted based on the fair value of identifiable net asset at the acquisition date. If the subsidiary is acquired through business combination involving enterprise under 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.

5 CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS OF PRIOR PERIOD’S

The company has no change in accounting polices, alteration of accounting estimated and rectification for significant errors of last year during January to June 2010.

6 TAXES

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

1. INCOME TAX

The Company is a high-tech enterprise. According to “The People’s Republic of China Enterprise Income Tax Law”, the Company enjoys the enterprise income tax preferential policies at the rate of 15% for three years from the date of accreditation with a high-tech enterprise.

The applicable tax rate for the Company’s subsidiaries is 25%, Subsidiaries, Zibo Xinhua - West Pharmaceutical Co., Ltd., and Zibo Xinhua - Perrigo Pharmaceutical Co., Ltd., are in the tax-free period.

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 net amount of output VAT after deducting input VAT.

3. BUSINESS TAX

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

4. URBAN MAINTENANCE & CONSTRUCTION TAX AND EDUCATIONAL SURCHARGES

Urban maintenance & construction tax and educational surcharges are based on the amount 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 the tax rate of 1.2%. The rental income from leasing its building property of the Company is charged at a rate of 12%.

7. BUSINESS COMBINATION & CONSOLIDATED FINANCIAL STATEMENTS

1. DETAILS OF SUBSIDIARIES

Name of company	Type of Subsidiaries	Place of registration	Nature of business	Registered capital	Business Scope	Investment at the end of the year	Other amount substantively constituted as net investment	Percentage of shareholding %	Percentage of voting rights %	Included in Consolidated Financial Statements	Minority Interests	The exceed amount taken up by the equity of the Company's shareholders for the loss for the year attributable to	
												Amounts of profit or loss for the year attributable to shareholders' equity	minority shareholders over beginning balance of minority shareholders' equity
Shandong Xinhua Pharmaceutical Trade Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB48,498.9 million	Drug sales	48.58 million		100	100	YES	—	—	—
Shandong Xinhua Pharmaceutical Import & Export Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB5 million	Engaged in goods, and technology import and export and conducting counter trade, entrepot trade	RMB5 million		100	100	YES	—	—	—
Zibo Xinhua Pharmaceutical Design Institute Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB3 million	Medical Engineering design	RMB3.04 million		100	100	YES	—	—	—
Zibo Xinhua Drug Store Chain Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB2 million	Retailing of medicines	RMB2.16 million		100	100	YES	—	—	—
Shandong Xinhua Pharmaceutical (European) GmbH	Control subsidiary	Hamburg, Germany	Sale of Medical Chemicals	769,000 Euro	Pharmaceutical raw materials and work in process	500,000 Euro		65	65	YES	3.06 million	—	—
Zibo Xinhua-Eastwest Pharmaceutical Company Limited	Control subsidiary	Zibo, Shandong	Sale of Medical Chemicals	1.5 million US dollars	Production and sales of non-calcium poly Kaposi APIs	1.125 million US dollars		75	75	YES	3.30 million	—	—
Zibo Xinhua-Perigo Pharmaceutical Company Limited	Control subsidiary	Zibo, Shandong	Turing of Medical Chemical Manufac	6 million US dollars	Production and sales of bulk drugs Ibuprofen	3,006 million US dollars		50.1	50.1	YES	29.07 million	—	—
Xinhua-Pharmaceutical (Shouguang) Company Limited	wholly-owned subsidiary	Shouguang, Shandong	Turing of Medical Chemical Manufac	230 million	Production and sales of chemical equipment and accessories	230.71 million		100	100	YES	—	—	—



- 1) Shandong Xinhua Pharmaceutical Trade Company Limited (hereafter referred to as “Pharm Trade”) was established on 30 August 2004 with a registered capital of RMB5 million by the Company and Zibo Xinhua Drug Store Chain Company Limited (subsidiary of the Company), they held 98% and 2% of the registered capital in Pharm Trade, respectively. In March 2005, the registered capital of Pharm Trade increased by RMB43,498,900, among which, RMB42,628,900 was contributed by the Company in tangible assets, and RMB870,000 was contributed by Zibo Xinhua Drug Store Chain Company Limited in cash. There has been no change in proportion of shareholding in Pharm Trade of each shareholder’s equity.

On 9 November, 2009, the Company entered into an equity transfer contract with Zibo Xinhua Drug Store Chain Company Limited whereby the 2% equity interests held by Zibo Xinhua Drug Store Chain Company Limited was transferred to the Company at a consideration of RMB1,053,614. As at 30 June 2010, Pharm Trade is a wholly owned subsidiary of the Company.

- 2) Shandong Xinhua Pharmaceutical Import & Export Company Limited (hereafter referred to as “Xinhua Import & Export”) was established on 15 May 2006 with a registered capital of RMB3 million by Pharm Trade and Zibo Xinhua Drug Store Chain Company Limited, and carrying on held 98% and 2% of the equity interests in Xinhua Import & Export respectively. The principle operation of Xinhua Import & Export is exporting & importing of goods and technology, entrepot & counter trade business.

On 5 November, 2009, the Company entered into a contract with Zibo Xinhua Drug Store Chain Company Limited whereby the 2% equity interests in Xinhua Import & Export held by Zibo Xinhua Drug Store Chain Company Limited was transferred to the Company at a consideration of RMB149,880.

On 4 January 2010, the Company entered into a contract with Pharm Trade whereby the 98% equity interests in Xinhua Import & Export held by Pharm Trade was transferred to the Company at a consideration of RMB5,350,800. As at 30 June 2010, Xinhua Import & Export is a wholly owned subsidiary of the Company.

- 3) Zibo Xinhua Pharmaceutical Design Institute Company Limited (hereinafter referred to as the “Design Institute”) was formed in March 2002 with a registered capital of RMB2 million, by the Company and Shandong Xinhua Pharmaceutical Group Company Limited (hereinafter referred to as “Shandong Xinhua Group”). They hold 90% and 10% of the registered capital of Design Institute respectively.

On 30 July, 2009, the Company signed a property rights transaction contract with Shandong Xinhua Group transactions of property rights whereby Shandong Xinhua Group transferred its 10% equity interests to Design Institute at a consideration of RMB233,700 and paid the related tax of RMB4,000.

On 7 August, 2009, the Company contributed additional capital of RMB1 million to Design Institute. The increase of capital have been verified by PricewaterhouseCoopers Limited, verification report and issued the “Price Waterhouse inspection Zi [2009] No. 098”. Thereafter the registered capital of Design Institute was increased to RMB3 million. As at 30 June 2010, Design Institute is a wholly owned subsidiary of the Company.

- 4) Zibo Xinhua Drug Store Chain Company Limited (originally known as Zibo Xinhua Drug Store Company Limited prior to changing to its name in December 2003, hereafter referred to as the “Zibo Drug Store”) was incorporated in July 1999. Its registered capital was RMB1,000,000 contributed as of 82% and 12% by the Company and Shandong Xinhua Group respectively. The registered capital was increased to RMB2,000,000 in September 2002.

On 30 July, 2009, the Company signed a property rights transaction contract with Shandong Xinhua Group; whereby Shandong Xinhua Group transferred its 12% equity interests in Zibo Drug Store to the Company of RMB394,900 and paid related tax in the amount of RMB4,000. As at 30 June 2010, Zibo Drug Store is a wholly owned subsidiary of the Company.



- 5) 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 of Germany. The registered capital was EURO1 million. The Company holds 70% of equity interests, while Mr. LI PENG owns 30%. Xinhua European was incorporated in Hamburg, Germany. Its 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.

On 24 June, 2009, the LK & K Trading Co., Ltd. signed a corporation agreement with Mr. LI PENG, that Mr. LI PENG transferred all holding shares in Xinhua European to LK & K Trading Co., Ltd. After the transfer, the shares of Xinhua European held by the Company and LK & K Trading Co., Ltd. are 76.90% and 23.10% respectively.

On 8 September, 2009, at the first general meeting of Xinhua European passed the resolution that LK & K Trading Co., Ltd. increases its contribution in Xinhua European to EURO119,000. The fund was received on 20 October, 2009. The verification report was obtained on 10 November, 2009. As at 30 June 2010, the registered capital of Xinhua European was EURO769,000. The Company paid EURO500,000 accounting for 65% interests in Xinhua European; LK & K Trading Co., Ltd. invested EURO269,000, accounting for 35% interests in Xinhua European.

- 6) Zibo Xinhua-Eastwest Pharmaceutical Company Limited (hereafter referred to as “Xinhua-Eastwest”) was established on 15 November 2005 with a registered capital of USD1.5 million, by the Company and Eastwest United Group, Inc., which hold 75% and 25% of the equity interests respectively, On 26 June 2006, the Company and West United Group, Inc. injected USD1.125 million and USD0.375 million in cash respectively. The paid-up capital of Xinhua-Eastwest was USD1.5 million. The principal operation of Xinhua-Eastwest is production and sales of Calcium Polycarboxylate materials.
- 7) 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 with a registered capital of USD6 million. Each party holds 50% of equity interests in Xinhua-Perrigo. On 3 April 2006, Perrigo International Inc. transferred 0.1% shares of Xinhua-Perrigo to the Company as pursuant to the amended joint venture contract. On 31 July 2007, with the approval of the Economic Development Bureau of Zibo High-tech Development Zone, Perrigo International Inc., transferred its 49.9% equity interests in Xinhua-Perrigo to Perrigo Asia Holding Company. The Company held 50.1% shares of Xinhua-Perrigo as at 30 June 2010.
- 8) Xinhua Pharmaceutical (Shouguang) Company Limited (hereinafter referred to as “Xinhua Shouguang”), originally named as Shandong Dadi Xinhua Chemical Company Limited, was established with the registered capital of RMB26,000,000 by the Company and Shandong Dadi Salt Chemical Group Company Limited on 12 September 2006. The Company contributed RMB12,740,000, accounting for 49% of the registered capital. The Company injected additionally RMB6,000,000 to Xinhua Shouguang and increased its registered capital to RMB32,000,000 in November 2007. The Company invested a total of RMB18.74 million and held 58.5625% of its shares. In 2008, the Company purchased all the shares of Shandong Dadi Xinhua Chemical Company Limited, at a consideration of RMB13,972,368 and renamed Shandong Dadi Xinhua Chemical Company Limited as Xinhua Pharmaceutical (Shouguang) Company Limited, the Company also contributed an additional capitals of RMB48 million. After the injection, the registered capital of Xinhua Shouguang was RMB80 million and became the wholly owned subsidiary. The Company increased the capital of Xinhua Shouguang by RMB6 million in December 2008 and RMB44 million in April 2009. The capital increase was verified by Shandong Shencheng certificated public accountants with verification report (Shencheng CPA 2009 NO.21). The Company increased the capital of Xinhua Shouguang by RMB100 million in March 2010. The capital increase was verified by Shandong Shencheng certificated public accountants with verification report (Shencheng CPA 2010 NO.10). As at 30 June 2010, the capital of Xinhua Shouguang is RMB230 million. Main business of Xinhua Shouguang is mainly engaged in production and sales of chemical products (excluded dangerous and poisonous chemical).

**2. CHANGES IN THE SCOPE OF CONSOLIDATION**

There is no change in the scope of consolidation from January to June 2010.

3. TRANSLATION OF FINANCIAL STATEMENTS DENOMINATED IN FOREIGN CURRENCIES

Name of Company	Balance sheet		Income Statement and Cash Flow Statement
	Exchange rate at the end of the year	Exchange rate at the beginning of the year	
Shandong Xinhua Pharmaceutical (Europe) Ltd.	1 Euro = 8.2710 RMB	1 Euro = 9.7971 RMB	Exchange rate in occurred date

8. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise indicated, the terms of, 'beginning of the year' refers to 1 January, 2010, 'end of the period' refers to 30 June 2010. 'This year' refers to the period from 1 January to 30 June 2010. 'Last year' refers to the period from 1 January to 30 June 2009. In the following notes the financial statements all figures are stated in RMB'000.

1. CASH & CASH EQUIVALENTS

Item	Balance at the end of the period			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
Cash on Hand	—	—	94	—	—	162
Including: USD	3	6.7909	21	—	6.8282	1
EURO	—	8.2710	1	1	9.7971	11
HKD	20	0.87239	17	23	0.88048	20
JPY	66	0.076686	5	351	0.073782	26
Cash in Bank	—	—	409,420	—	—	359,448
Including: USD	2,951	6.7909	20,050	1,242	6.8282	8,479
EURO	1,054	8.2710	8,719	743	9.7971	7,276
Other Fund	—	—	76,731	—	—	42,284
Total			486,245			401,894

- (1) In the end of the period, significant increase in the ending balance of cash and cash equivalents is mainly because there were new loans during the year.
- (2) At the end of the period, the balance of other fund included bank acceptance security deposit of RMB74,716,000 and bonus of RMB2,015,000.



2. NOTES RECEIVABLE

Nature of notes	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance	<u>152,312</u>	<u>118,689</u>

- (1) In the end of period, the significant increase in the balance of notes is mainly because more accounts receivable of the Company settled their balance with notes during the year.
- (2) At the end of the period, the balances of notes receivable are unsecured, and without collateral, and are not overdue.
- (3) In the end of 30 June, 2010, the amount of notes which were endorsed to the other party but has not yet expired is RMB256,355,000, the details of the largest top five balance are as follows:

Drawer	Date of issue	Date of maturity	Amount
Shandong Rui Zhong Pharmaceutical Company	2010-05-27	2010-11-27	2,000
Zhong Hua Ping Yuan Chemical Company Limited	2010-04-15	2010-10-15	1,200
Weifang Wei Li Advertising Company Limited	2010-01-29	2010-07-29	1,100
Shandong Hai Wang Yin He Pharmaceutical Company Limited	2010-03-05	2010-09-15	1,087
Shandong Hengan Pharmaceutical Company Limited	2010-04-15	2010-10-15	1,057
Total	—	—	<u>6,444</u>

- (4) At 30 June, 2010, the discounted bank acceptance bills which have not yet expired is RMB76,686,000.

3. ACCOUNTS RECEIVABLE

- (1) Risk Classification of Accounts Receivable

Item	Balance at the end of the period				Balance at the beginning of the year			
	Amount	Proportion %	Bad debts Provision	Proportion %	Amount	Proportion %	Bad debts Provision	Proportion %
Individually significant accounts receivable	58,161	26.39	799	10.40	35,062	21.54	799	10.50
Individually in-significant accounts receivable	<u>162,225</u>	<u>73.61</u>	<u>6,887</u>	<u>89.60</u>	<u>127,751</u>	<u>78.46</u>	<u>6,804</u>	<u>89.50</u>
Total	<u>220,386</u>	<u>100.00</u>	<u>7,686</u>	<u>100.00</u>	<u>162,813</u>	<u>100.00</u>	<u>7,603</u>	<u>100.00</u>

Individually significant accounts receivable referred to as individual accounts receivable with an amount over RMB5,000,000. The provision for bad debts have been made on aging basis as no impairment of individually significant accounts receivable was found after the assessing.



3. ACCOUNTS RECEIVABLE

(2) Aging Analysis

Item	Balance at the end of the period			Balance at the beginning of the year		
	Amount	Proportion %	Bad debts Provision	Amount	Proportion %	Bad debts Provision
Less than 1 year	212,150	96.26	1,969	155,061	95.24	1,886
1 to 2 years	2,547	1.16	376	1,878	1.15	376
2 to 3 years	1,147	0.52	799	1,332	0.82	799
Over 3 years	4,542	2.06	4,542	4,542	2.79	4,542
Total	<u>220,386</u>	<u>100.00</u>	<u>7,686</u>	<u>162,813</u>	<u>100.00</u>	<u>7,603</u>

(3) Please refers to Notes 4.7 for the policy of bad debts. The accounts receivable which have been written off in previous year, but recovered during the year is RMB83,000, details as follows:

Debtors	Amount	Proportion of provision %	Bad debts Provision	Amount Recovered	Reason for provision made and reserved for the year
Zibo Bureau of Mines					
Kun Lun Hospital	53	100%	53	12	Clean debts
Shangyu Pharmaceutical Company Limited	55	100%	55	64	Clean debts
Zhejiang Rui Xin Pharmaceutical Company Limited	7	100%	7	7	Clean debts
Total	<u>115</u>		<u>115</u>	<u>83</u>	—

(4) At the end of the period, accounts receivable balance do not include receivable due from shareholders holding 5% inclusive or more of the Company's voting capital.

(5) At the end of the period, the balance of accounts receivable due from the top five debtors is RMB51,850,000 accounting for 23.53% of the total balance of accounts receivable.

Name of equity	Relationship	Amount	Aging	proportion %
Mitsubishi corporation	Non-related parties	16,304	Less than one year	7.40
PEPSI COLA SALES & DISTRIBUTION	Non-related parties	10,787	Less than one year	4.89
NATUREX S.A.	Non-related parties	9,769	Less than one year	4.43
Perrigo	Non-related parties	8,052	Less than one year	3.65
Zibo Central Hospital	Non-related parties	6,938	Less than one year	3.15
Total		<u>51,850</u>		<u>23.53</u>



- (6) At the end of the period, the balance of accounts receivables due from the related parties of RMB1,444,000, accounting for 0.65% of the total balance of accounts receivable, details as follows:

Name of equity	Relationship	Amount	Proportion %
Shandong Xinhua Industry & Trade Co., Ltd. *	other-related parties	1,150	0.52
Shandong Zibo XinCat Pharmaceutical Co., Ltd.	Joint venture	294	0.13
Total		<u>1,444</u>	<u>0.65</u>

* The Company has made full provision for bad debts for the amount due from Shandong Xinhua Industry & Trade Co., Ltd.

- (7) The ending balance of accounts receivable denominated in the foreign currencies is as follows:

Name of currency	At the ending of the period			At the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	19,182	6.7909	130,262	15,300	6.8282	104,468
EURO	1,377	8.2710	11,389	1,377	9.7971	13,490
Total	<u>—</u>	<u>—</u>	<u>141,651</u>	<u>—</u>	<u>—</u>	<u>117,958</u>

4. ADVANCES TO SUPPLIERS

Item	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Proportion %	Amount	Proportion %
Less than 1 year	30,677	99.66	25,248	98.70
1 to 2 years	44	0.14	291	1.14
2 to 3 years	60	0.20	40	0.16
Total	<u>30,781</u>	<u>100.00</u>	<u>25,579</u>	<u>100.00</u>



- (1) At the end of period, the top five balances of advances to suppliers is RMB23,195,000, details as follow:

Name of equity	Relationship	Amount	Aging	Reason for not settled
Shandong Xinhua Wanbo Chemical Co., Ltd.,	Related party	12,012	Less than one year	Material not yet arrived
Nanjing Huadong Medicine Co., Ltd.	Non-related party	4,041	Less than one year	Material not yet arrived
Zibo Thermoelectricity Company Limited	Non-related party	3,908	Less than one year	Material not yet arrived
Qingdao Free Trade Zone Dong Fang Han Hai Trade Company Limited	Non-related party	1,734	Less than one year	Material not yet arrived
Shandong Xinhua longxin Chemical Co., Ltd.,	Associate	1,500	Less than one year	Material not yet arrived
Total		<u>23,195</u>		

- (2) At the end of the period, the balances of advances payments do not include advances to shareholders holding 5% inclusive or more of the Company's voting capital.

- (3) The ending balance of advance payments denominated in the foreign currency is as follows:

Name of currency	Balance at the end of this the period			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	<u>—</u>	<u>—</u>	<u>—</u>	<u>109</u>	<u>6.8282</u>	<u>743</u>

5. OTHER RECEIVABLES

- (1) Risk Classification of Other Receivable

Item	Balance at the end of the period				Balance at the beginning of the year			
	Amount	Proportion %	Bad debts Provision	Proportion %	Amount	Proportion %	Bad debts Provision	Proportion %
Individually significant other receivables	15,682	46.18	6,196	79.05	6,196	27.06	6,196	79.05
Individually in-significant other receivable	<u>18,278</u>	<u>53.82</u>	<u>1,642</u>	<u>20.95</u>	<u>16,705</u>	<u>72.94</u>	<u>1,642</u>	<u>20.95</u>
Total	<u>33,960</u>	<u>100.00</u>	<u>7,838</u>	<u>100.00</u>	<u>22,901</u>	<u>100.00</u>	<u>7,838</u>	<u>100.00</u>

Individually significant other receivable referred to as individual other receivable with an amount over RMB5,000,000. The provision for bad debts have been made on aging basis as no impairment of individually significant other receivable was found after the assessing.



(2) Aging Analysis

Item	Balance at the end of the period			Balance at the beginning of the year		
	Amount	Proportion %	Bad debts Provision	Amount	Proportion %	Bad debts Provision
Less than 1 year	25,716	75.72	44	14,675	64.08	44
1 to 2 years	326	0.96	23	343	1.50	23
2 to 3 years	413	1.21	266	378	1.65	266
Over 3 years	7,505	22.11	7,505	7,505	32.77	7,505
Total	33,960	100.00	7,838	22,901	100.00	7,838

- (3) Please refer to Notes 4.7. For the policy for provision for bad debts.
- (4) The ending balance of other receivables include deductible input VAT, output VAT for exporting before applying to customs. No bad debts provision is made on these items.
- (5) At the ending of the period, other receivables do not include receivable shareholders holding 5% inclusive or more of the Company's voting capital.
- (6) At the end of the period, the top five balances of other receivables are RMB23,604,000, accounting for 69.51% of the total balance of other receivable, details as follows:

Name of equity	Relationships	Amount	Aging	Proportion %	Nature or Content
Output VAT for exporting before applying to customs	Non-related party	9,486	Less than one year	27.93	Output VAT for exporting before applying to customs
Rebate of income tax*	Non-related party	6,196	More than three year	18.24	Rebate of income tax
Pending deduction of VAT on purchase	Non-related party	4,247	Less than one year	12.50	Pending deduction of VAT on purchase
Zibo Xinhua Tongli Service Company Limited	Non-related party	1,946	Less than one year	5.73	Water and electricity fees
Rebate of tax	Non-related party	1,729	Less than one year	5.09	Rebate of tax
Total		23,604		69.51	

* Full provision for bad debts has been made for refund of income tax in accordance with bad debts policy.



- (7) At the end of the period, the balance of other receivable due from the related parties is RMB8,000, accounting for 0.02% of the total balance of other receivable, details as follows:

Name of Company	Relationships	Amount	Proportion %
Shandong Xinhua Industry & Trade Co., Ltd.	other-related parties	8	0.02

- (8) The ending balance of other receivables denominated in foreign currency is as follows:

Name of currency	Balance at the end of the period			Balance at the beginning of the year		
	Original Currency	Exchange Rate %	Translated into RMB	Original Currency	Exchange Rate %	Translated into RMB
EURO	52	8.2710	433	52	9.7971	513

6. INVENTORIES AND PROVISION FOR DECLINE IN VALUE OF INVENTORIES

- (1) Classification of Inventories

Item	Balance at the end of the period			Balance at the beginning of the year		
	Book value	Provision for decline in value	Carrying value	Book value	Provision for decline in value	Carrying value
Raw material	62,845	248	62,597	52,104	248	51,856
Work-in-progress	42,878	—	42,878	67,362	—	67,362
Goods-in-stock	199,117	8,842	190,275	219,254	8,842	210,412
Low-value consumables	11,471	—	11,471	12,750	—	12,750
Special materials for Government	1,840	—	1,840	1,840	—	1,840
Total	318,151	9,090	309,061	353,310	9,090	344,220

- (2) Provision for decline in value of inventories

Items	Balance at the beginning of the year	Provision made	Reduction		Balance at the end of the period
			Written back	Written off	
Raw material	248	—	—	—	248
Work-in-progress	—	—	—	—	—
Goods-in-stock	8,842	—	—	—	8,842
Total	9,090	—	—	—	9,090

Please refer to Notes 4.8, for the policies for provision for decline in value of inventories.



(3) Making of provision for decline in value of inventories

Items	Basis for making of provision for decline in value of inventories	Reasons for reversal of provision for decline in value of inventories	Provision of reversal to the ending balance of inventories
Raw material	Book value is less than net realisable value	—	—
Work-in-progress	Book value is less than net realisable value	—	—
Goods-in-stock	Book value is less than net realisable value	—	—

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Item	Balance at the end of the period	Balance at the beginning of the year
Shares of Ruiheng Pharmaceutical & Technology Investment Company Limited	3,200	3,200
Legal-person share of Bank of Communications	44,907	69,863
Shares of Pacific insurance Company Limited	113,850	128,100
Shares of Tiantong Securities Company Limited	30,000	30,000
Shares of ShanXi media communication Company Limited	—	433
Total	191,957	231,596
Impairment of available-for-sale financial assets	30,000	30,000
Including: Impairment on shares of Tiantong Securities Company Limited	30,000	30,000
Net value of available-for-sale financial assets	161,957	201,596

At the end of the period, the ending balance of available-for-sale financial assets has decreased significantly; it is mainly due to the decrease in the market price of the shares of Bank of Communications and Pacific Insurance Company Limited at the end of period as compared with that of the beginning of the year.



8. LONG-TERM EQUITY INVESTMENT

(1) Long-term Equity Investment

Item	Balance at the end of the period	Balance at the beginning of the year
Using the equity method	<u>29,541</u>	<u>29,763</u>
Total long-term equity investment	<u>29,541</u>	<u>29,763</u>
Less: Impairment loss of Long-term equity investment	<u>—</u>	<u>—</u>
Net amount of Long-term equity investment	<u>29,541</u>	<u>29,763</u>

(2) Using in Equity Method

Name of investee	Proportion of shareholding %	Proportion of voting rights %	Original Cost	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the year	Cash Dividends received in the year
Using in equity method								
Shandong Xinhua Longxin Chemical & Industrial Company Limited	40	40	10,000	9,646	—	—	9,646	—
Shandong Xinhua Changxing Chemical Equipment Company Limited	35	35	7,700	3,987	—	—	3,987	—
Shandong Zibo XinCat Pharmaceutical Company Limited	20	20	10,414	16,130	2,778	3,000	15,908	3,000
Total				<u>29,763</u>	<u>2,778</u>	<u>3,000</u>	<u>29,541</u>	<u>3,000</u>



(3) Investment in Joint Ventures and Associates

Name of investee	Corporation types	Place of registration	Legal person	Business scope	Registered capital	Proportion of shareholding %	Proportion of voting rights %
Joint Ventures							
Shandong Xinhua Longxin Chemical & Industrial Company Limited	Limited company	Zibo, Shandong	Han Zhiqiang	Manufacturing Production	20,000	40	40
Shandong Xinhua Changxing Chemical Equipment Company Limited	Limited company	Binzhou, Shandong	Sun Ruifang	Manufacturing Production	22,000	35	35
Shandong Zibo XinCat Pharmaceutical Company Limited	Limited company	Zibo, Shandong	Liu Zhenwen	Manufacturing Preparation of chemical medicine	26,929	20	20

(4) No provision for impairment has been made and no evidence indicates any impairment of long-term equity investment of the Company.

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

9. INVESTMENT PROPERTIES

(1) Measured investment properties by cost model

Items	Balance at the beginning of the year	Addition	Reductions	Balance at the end of the year
Original price	42,618	1,701	—	44,319
Buildings	42,618	1,701	—	44,319
Accumulated depreciation & amortisation	5,924	1,361	—	7,285
Buildings	5,924	1,361	—	7,285
Book value	36,694	340	—	37,034
Buildings	36,694	340	—	37,034
Provision for Impairment	—	—	—	—
Buildings	—	—	—	—
Book value	36,694	340	—	37,034
Buildings	36,694	340	—	37,034

The depreciation and amortisation charge for the period was RMB1,361,000.

(2) Investment properties has not been issued with title documents

Items	Original value	Net value	The time excepted to complete the title document
Wanbo Hotel	4,230	4,230	before the end of 2010

**10. FIXED ASSETS**

(1) Details of fixed assets

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the period
Total original book value	1,909,728	69,737	16,088	1,963,377
Including: Buildings	579,931	16,710	—	596,641
Machinery&Equipment	1,274,831	48,928	13,218	1,310,541
Vehicles	21,484	2,036	2,870	20,650
Office equipment and others	33,482	2,063	—	35,545
Total accumulated depreciation	948,178	58,473	2,755	1,003,896
Including: Buildings	237,863	10,907	—	248,770
Machinery&Equipment	674,185	45,055	9	719,231
Vehicles	13,191	1,116	2,746	11,561
Office equipment and others	22,939	1,395	—	24,334
Total net value of fixed assets	961,550	11,264	13,333	959,481
Including: Buildings	342,068	5,803	—	347,871
Machinery&Equipment	600,646	3,873	13,209	591,310
Vehicles	8,293	920	124	9,089
Office equipment and others	10,543	668	—	11,211
Total provision for impairment	—	—	—	—
Including: Buildings	—	—	—	—
Machinery&Equipment	—	—	—	—
Vehicles	—	—	—	—
Office equipment and others	—	—	—	—
Total net currency value of fixed assets	961,550	11,264	13,333	959,481
Including: Buildings	342,068	5,803	—	347,871
Machinery&Equipment	600,646	3,873	13,209	591,310
Vehicles	8,293	920	124	9,089
Office equipment and others	10,543	668	—	11,211

During this period, fixed assets transferred from construction in progress was RMB51,783,000. The depreciation charge for the period was RMB58,473,000.



(2) Fixed assets has not been issued with title documents as follows:

Name of properties	Original Cost	Net value	The time expected to complete the title documents
Warehouse of Xinhua Pharmaceutical Trade Ltd	1,802	1,585	Before the end of 2010
Warehouse of Xinhua Pharmaceutical Trade Ltd	10,696	7,747	Before the end of 2010
Office block of Xinhua Pharmaceutical Trade Ltd	834	625	Before the end of 2010
Warehouse of Xinhua Pharmaceutical Trade Ltd	1,500	1,238	Before the end of 2010
Warehouse of 3,000 ton Bunuofen	24,750	20,980	Before the end of 2010
Xinhua commercial centre	9,500	8,710	Before the end of 2010
Warehouse of Formaldehyde	1,500	1,267	Before the end of 2010
Warehouse of Dibromo aldehyde	1,500	1,267	Before the end of 2010
House of Chloro-propionyl chloride	1,600	1,454	Before the end of 2010
Staff quarter of Xinhua Shouguang	1,775	1,604	Before the end of 2010
Warehouse of Violuric acid	3,685	3,462	Before the end of 2010
Warehouse of Cyanuric acid	3,000	2,866	Before the end of 2010
Warehouse of Chloroacetic acid	2,457	2,396	Before the end of 2010
Warehouse of Pyrazolone	4,087	3,985	Before the end of 2010
Workshop of calcium polycarbophil	1,784	1,569	Before the end of 2010
Total	<u>70,470</u>	<u>60,755</u>	



11. CONSTRUCTION-IN-PROGRESS

(1) Detailed list of construction in progress

Projects	Balance at the end of the period			Balance at the beginning of the year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Innovation Park						
— Xinhua Building	22,562	—	22,562	18,387	—	18,387
Innovation Park						
— Annex Building	4,923	—	4,923	3,707	—	3,707
Innovation Park						
— R & D centre ^{1#}	6,064	—	6,064	5,358	—	5,358
Innovation Park						
— R & D centre ^{2#}	6,295	—	6,295	5,555	—	5,555
Xinhua Shouguang III east industrial park project	66,272	—	66,272	76,947	—	76,947
Others	49,949	—	49,949	24,402	—	24,402
Total	<u>156,065</u>	<u>—</u>	<u>156,065</u>	<u>134,356</u>	<u>—</u>	<u>134,356</u>

(2) Major changes in construction projects

Projects	Budget	Balance at the beginning of the year		Transfer to fixed assets	Other deductions	Balance at the ending of the period		Proportion of construction investment to budget
		Addition	Source of funds			Source of funds	to budget	
Innovation Park — Xinhua Building	71,400	18,387	4,175	—	—	22,562	Funds-own	31.60%
Innovation Park — Annex Building	13,200	3,707	1,216	—	—	4,923	Funds-own	37.30%
Innovation Park - R & D ^{1#}	14,800	5,358	706	—	—	6,064	Funds-own	40.97%
Innovation Park - R & D ^{2#}	15,700	5,555	740	—	—	6,295	Funds-own	40.10%
Xinhua Shouguang III east industrial park project	182,450	76,947	33,195	43,870	—	66,272	Funds-own	—
Others		24,402	33,460	7,913	—	49,949	Funds-own	—
Total		<u>134,356</u>	<u>73,492</u>	<u>51,783</u>	<u>—</u>	<u>156,065</u>		
Include: Capitalized borrowing expense		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>		

(3) No provision for impairment has been made and no evidence indicates any impairment of construction-in-progress of the Company.



12. INTANGIBLE ASSETS

(1) Details of Intangible Assets

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the ending of the period
Total original value	234,096	36,451	—	270,547
Including: Land use rights	224,245	36,200	—	260,445
Software use rights	3,293	251	—	3,544
Non-patented technology	6,558	—	—	6,558
Total accumulated amortization	35,566	3,224	—	38,790
Including: Land use rights	26,545	2,885	—	29,430
Software use rights	2,580	222	—	2,802
Non-patented technology	6,441	117	—	6,558
Total net book value of intangible assets	198,530	33,227	—	231,757
Including: Land use rights	197,700	33,315	—	231,015
Software use rights	713	29	—	742
Non-patented technology	117	(117)	—	—
Total provision for impairment	—	—	—	—
Including: Land use rights	—	—	—	—
Software use rights	—	—	—	—
Non-patented technology	—	—	—	—
Total intangible net carrying value	198,530	33,227	—	231,757
Including: Land use rights	197,700	33,315	—	231,015
Software use rights	713	29	—	742
Non-patented technology	117	(117)	—	—

The amortisation charge for the period was RMB3,224,000.

In the end of period, the increase in the ending balance of intangible assets is relatively large, it is mainly due to the acquisition of land use rights for Xinhua Shouguang phrase.

(2) The land use right certificates of the following land are in the process of application:

Address	Net value
Land of Xinhua Shouguang Park	18,400
Land use rights of Xinhua Industrial Park, Development Zone (East Park)	6,061
Total	<u>24,461</u>

(3) No provision for impairment has been made and no evidence indicates any impairment of intangible assets of the Company.

**13. DEFERRED TAX ASSETS**

(1) Recognised deferred tax assets

Items	Balance at the ending of the period	Balance at the beginning of the year
Bad debts of subsidiaries	381	381
Provision for decline in value of inventories of subsidiaries	174	174
Unrealised internal profits on sales and purchase with subsidiaries	2,489	2,489
Total	<u>3,044</u>	<u>3,044</u>

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

Items of deductible temporary difference	Balance at the ending of the period	Balance at the beginning of the year
Bad debts of subsidiary	1,523	1,523
Provision for decline in value of inventories of subsidiaries	695	695
Unrealised internal profits on sales and purchase with subsidiaries	16,595	16,595
Total	<u>18,813</u>	<u>18,813</u>

14. STATEMENT OF PROVISION FOR IMPAIRMENT LOSS OF ASSETS

Items	Balance at the beginning of the year	Addition		Reduced		Balance at the end of the period
		Provision for the period	Recovery of years bad debts written off in previous years	written back	written off	
Provision for bad debts	15,441	—	83	—	—	15,524
Provision for decline in value of inventories	9,090	—	—	—	—	9,090
Provision for impairment loss of available-for-sale financial assets	30,000	—	—	—	—	30,000
Total	<u>54,531</u>	<u>—</u>	<u>83</u>	<u>—</u>	<u>—</u>	<u>54,614</u>



15. SHORT-TERM LOANS

Classification of short-term loans

Types of loans	Balance at the end of the period	Balance at the beginning of the year
Credit loan	93,620	44,024
Guarantee loan	—	80,000
Total	<u>93,620</u>	<u>124,024</u>

16. NOTES PAYABLE

Item	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance	<u>211,866</u>	<u>121,835</u>

The ending balance of notes payable will all get matured on 21 December, 2010.

17. ACCOUNTS PAYABLE

	Balance at the end of the period	Balance at the beginning of the year
Accounts payable	183,966	162,127
Including: More than one year	<u>7,154</u>	<u>11,170</u>

- (1) The ending balance of accounts payable does not include any amount due to the shareholders holding 5% inclusive or more of the Company's voting capital.
- (2) Accounts payable aged over one year were unsettled payment for the purchase of raw materials.
- (3) The ending balance of accounts payable denominated in foreign currencies is as follows:

Item	Balance at the end of the period			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EURO	<u>2,039</u>	<u>8.2710</u>	<u>16,869</u>	<u>2,039</u>	<u>9.7971</u>	<u>19,981</u>

**18. ADVANCES FROM CUSTOMERS**

	Balance at the end of the period	Balance at the beginning of the year
Advances from customers	10,904	22,855
Including: More than one Year	721	1,352

- (1) The ending balance of advances from customers does not include any amount due to the shareholders holding 5% inclusive or more of the Company's voting capital.
- (2) The advance from customers aged over one year was unsettled petty expense.
- (3) The ending balance of accounts payable denominated in foreign currencies is as follows:

Item	Balance at the end of the period			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	218	6.7909	1,482	432	6.8282	2,951

19. EMPLOYEES' WAGE PAYABLE

Item	Balance at the beginning of the year	Additions	Payment	Balance at the end of the period
Salaries(including bonuses, allowance and subsidies)	—	84,588	84,588	—
Staff welfare	—	1,744	1,744	—
Social securities	—	21,270	21,270	—
Including: 1. Medical insurance	—	4,461	4,461	—
2. Basic pension insurance	—	14,757	14,757	—
3. Unemployment insurance	—	964	964	—
4. Work injury insurance	—	607	607	—
5. Maternity insurance	—	481	481	—
Housing funds	310	9,637	9,238	709
Union running costs and employee education costs	13,137	1,536	2,483	12,190
Directors' and Supervisors' remuneration	8,982	960	4,219	5,723
Compensation to employee for termination of employment relationship	—	1	1	—
Other	48,316	111	14,246	34,181
Total	70,745	119,847	137,789	52,803



20. TAX PAYABLES

Categories of tax	Balance at the end of the period	Balance at the beginning of the year
Value added tax	(7,190)	(13,584)
Business tax	85	68
Urban maintenance & construction tax	867	520
Income tax	7,245	6,927
Corporation individual income tax	373	177
Property tax	1,200	1,174
Land use tax	2,827	4,032
Stamp tax	181	210
Educational surcharges	496	300
	<u>6,084</u>	<u>(176)</u>

21. INTEREST PAYABLE

Items	Balance at the end of the period	Balance at the beginning of the year
Interest on long term loan repayable by instalments	<u>393</u>	<u>347</u>

22. DIVIDENDS PAYABLE

Item	Balance at the end of the period	Balance at the beginning of the year
Dividends for State owned legal person shares	8,304	—
Dividends for H shares	4,500	—
Others	<u>15,416</u>	<u>5,832</u>
Total	<u>28,220</u>	<u>5,832</u>

23. OTHER PAYABLES

	Balance at the end of the period	Balance at the beginning of the year
Other payable	127,425	114,736
More than one year	<u>4,331</u>	<u>6,078</u>



- (1) At the end of the period, the balance of other payables mainly consists of the payment of constructions.
- (2) At the end of period, the balance of other payables does not have any amount due to the shareholders holding 5% inclusive or more of the Company's voting capital.
- (3) Other payable aged over one year in the ending balance was mainly unsettled payment of constructions.
- (4) Individually significant other payable balance are as follows:

Item	Amount	Ageing	Content
Zibo Li Jiu Industry Company Limited	4,000	Less than one year	Steam cost
Zibo Huatai Jianan Company Limited	1,212	Less than one year	construction cost
Jinma Dongda Pharmaceutical Chemical Company Limited	1,150	Less than one year	construction cost
Linyi Hongye Chemical Industry Equipment Company Limited	875	Less than one year	construction cost
Shandong Wanhe construction Engineering Company Limited	788	Less than one year	construction cost
Total	<u>8,025</u>		

- (5) The ending balance of other payables denominated in foreign currencies is as follows:

Item	Balance at the end of the period			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EURO	<u>14</u>	<u>8.2710</u>	<u>117</u>	<u>14</u>	<u>9.7971</u>	<u>139</u>
Total			<u>117</u>			<u>139</u>

24. LONG -TERM BORROWINGS

- (1) Classification of long- term borrowings

Types of loan	Balance at the end of the period	Balance at the beginning of the year
Guarantee loans	230,000	150,000
Credit loans	<u>120,000</u>	<u>120,000</u>
Total	<u>350,000</u>	<u>270,000</u>

- (2) The guaranteed loans were guaranteed by Shandong Hualu Holding Group Company Limited, the ultimate shareholder of the Company. The details are in notes 9(2)(4). "Acceptance of guarantee"



(3) Details of the long-term loans

Lender	Date of inception	Date of maturity	Currency	Interest rate	Balance at the end of the period	Balance at the beginning of the year
Export-Import Bank of China, Qingdao Branch	2009-10-14	2011-10-13	RMB	3.51%	150,000	150,000
Export-Import Bank of China, Qingdao Branch	2010-02-26	2012-02-25	RMB	3.51%	80,000	—
China CITIC Bank, Zibo Branch	2009-09-03	2012-09-02	RMB	4.86%	40,000	40,000
Agricultural Bank of China, Zibo Branch	2009-06-08	2012-06-07	RMB	5.13%	30,000	30,000
Agricultural Bank of China, Zibo Branch	2009-06-17	2012-06-16	RMB	5.13%	30,000	30,000
Special Subsidies	2009-06-30	2017-06-29	RMB	5.35%	20,000	20,000
Total					<u>350,000</u>	<u>270,000</u>

25. DEFERRED TAX LIABILITIES

(1) Components of deferred tax liabilities after netting off

Items	Balance at the end of the period		Balance at the beginning of the year	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Changes in fair value Held-for-sale financial assets	<u>25,365</u>	<u>3,805</u>	<u>64,541</u>	<u>9,681</u>

(2) Deferred tax assets and deferred income tax liabilities netting details

Items	Temporary differences	Deferred income tax amount for the period
Deferred income tax assets		
Bad debts provision of the Company	13,670	2,051
Provision for decline in value of inventories of the Company	8,578	1,287
Provision for impairment loss of the Company's held-for-sale financial assets	30,000	4,500
Loses on the Company's investment in associates	4,068	610
Unpaid wages and salaries of the parent company	55,850	8,377
Subtotal	<u>112,166</u>	<u>16,825</u>
Deferred income tax liabilities		
The change in fair value of the Company's held-for-sale financial assets	<u>137,531</u>	<u>20,630</u>
Subtotal	<u>137,531</u>	<u>20,630</u>
Net amount	<u>25,365</u>	<u>3,805</u>

**26. OTHER NON-CURRENT LIABILITIES**

(1) Details of other non-current liabilities

Items	Balance at the end of the period	Balance at the beginning of the year
Asset-related government subsidies	50,361	50,656
Authorized reserve fund	3,562	3,562
Total	<u>53,923</u>	<u>54,218</u>

(2) Government subsidies

Types of government subsidiaries	Balance in the end of the period	Credited to the profit and loss for the year	Reversal for the year	Reason for reversal
Compensation for relocation	44,904	—	—	—
3000 tons Ibuprofen Project	5,457	295	—	—
Total	<u>50,361</u>	<u>295</u>	<u>—</u>	<u>—</u>

27. SHARE CAPITAL

Name of shareholders	Balance at the beginning of the year		Issue of new share	Bonus issue	Change Capitalisation of reserve	Transfer	subtotal	Balance at the ending of the period	
	Amount	proportion (%)						amount	Proportion (%)
Conditional tradable shares									
State-owned shares	164,208	35.91	—	—	—	(164,208)	(164,208)	—	—
State-owned legal-person shares	—	—	—	—	—	—	—	—	—
Domestic shares	23,602	5.16	—	—	—	(23,585)	(23,585)	17	0.004
Including: Domestic									
legal-person held shares	23,578	5.15	—	—	—	(23,578)	(23,578)	—	—
Domestic natural person shares	24	0.01	—	—	—	(7)	(7)	17	0.004
Foreign-funded shares	—	—	—	—	—	—	—	—	—
Including: Foreign legal-person shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
Sub-total	187,810	41.07	—	—	—	(187,793)	(187,793)	17	0.004
Unconditional tradable shares									
Domestically listed RMB A shares	119,503	26.13	—	—	—	187,793	187,793	307,296	67.196
Domestically listed foreign invested shares	—	—	—	—	—	—	—	—	—
Overseas listed foreign invested H shares	150,000	32.80	—	—	—	—	—	150,000	32.80
Others	—	—	—	—	—	—	—	—	—
Subtotal	269,503	58.93	—	—	—	187,793	187,793	457,296	99.996
Total share	<u>457,313</u>	<u>100.00</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>457,313</u>	<u>100.00</u>



28. CAPITAL RESERVE

Item	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the period
Revaluation of assets surplus	60,910	—	—	60,910
Premium share	496,492	—	—	496,492
Receipt of donation	1,158	—	—	1,158
Other capital reserve	151,041	(30,179)	—	120,862
Total	709,601	(30,179)	—	679,422

- (1) Other capital reserve mainly consists of the change in fair value of available-for-sale financial assets, which are legal-person shares of Bank of Communications and Pacific Insurance Company Limited.
- (2) The ending balance of capital reserve over last year is mainly due to the decrease in the market price of shares of Bank of Communications and Pacific Insurance Company Limited in the end of last year.

29. SURPLUS RESERVES

Item	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the period
Statutory surplus reserves	112,402	—	—	112,402
Discretionary surplus reserve	64,797	—	—	64,797
Total	177,199	—	—	177,199

30. UNDISTRIBUTED PROFITS

- (1) Appropriation Proportion

Item	Basis of appropriation	Proportion in this year	Proportion in last year
Statutory surplus reserve	Net profit	10%	10%

- (2) Profit Distribution Statement

Item	Balance at the end of the period	Balance at the beginning of the year
Undistributed profit at beginning of the year	289,195	210,691
Add: adjustment to the undistributed profit at beginning of the year	—	—
Add: Net profit of the year	57,882	102,244
Less: Appropriation of statutory surplus reserve	—	9,889
Dividends payable on common stock	22,866	13,719
Accruals for employee bonus and welfare fund by subsidiaries	—	132
Undistributed profit at the end of the period	324,211	289,195
Including: proposal cash dividend	—	22,866

On 25 June, 2010, at the Company's 2009 Annual General Meeting, the 2009 annual profit distribution plan was passed, that after deduction of 10% from the profit to the statutory surplus reserve fund, the Company with its total share capital of 457,312,830 shares as a base, distributes cash dividend to all shareholders of RMB0.05 per share (including tax).



31. MINORITY INTERESTS

Name of minority shareholder	Proportion of minority interests %	Balance at the end of the year	Balance at the beginning of the year
LK&K Company Limited	35%	3,063	2,515
East west United Group, INC	25%	3,300	3,266
Perrigo Asia Holding Company	49.9%	29,067	30,537
Total		<u>35,430</u>	<u>36,318</u>

32. OPERATING INCOME AND OPERATING COST

(1) Operating Income and Operating Cost

Item	Amount of this year	Amount of last year
Income from main operation	1,344,392	1,174,980
Income from other operation	24,227	21,812
Sub-total	<u>1,368,619</u>	<u>1,196,792</u>
Cost for main operation	1,091,783	952,349
Cost for other operation	25,264	24,124
Sub-total	<u>1,117,047</u>	<u>976,473</u>

(2) Income and Costs from Main Operation—Classified by Products

Category of products	Amount of this year		Amount of last year	
	income	costs	income	costs
Bulk Pharmaceuticals	732,191	579,643	614,065	464,975
Including: Export sales Preparations	495,841	394,385	422,011	324,413
Commerce circulations	255,126	180,568	244,635	179,124
Chemical and others	329,306	312,121	314,381	306,952
	27,769	19,451	1,899	1,298
Total	<u>1,344,392</u>	<u>1,091,783</u>	<u>1,174,980</u>	<u>952,349</u>

(3) Operating Income from top five customers

Name of customers	Amount of last year	Proportion (%)
Shandong xingkangqi Pharmaceutical Co., Ltd.	43,145	3.21
U.S. Perrigo Pharmaceuticals	38,328	2.85
Pepsi-cola int l.	30,923	2.30
Shandong ruizhong pharmaceutical Co., Ltd.	29,175	2.17
Bayer Healthcare Co., Ltd.	26,874	2.00
Total	<u>168,445</u>	<u>12.53</u>



33. BUSINESS TAXES AND SURCHARGES

Item	Tax rate	Amount of this year	Amount of last year
Business tax	5%	188	32
Urban maintenance & construction tax	7%	4,558	4,392
Educational surcharges	4%	2,604	2,509
Total		<u>7,350</u>	<u>6,933</u>

34. FINANCIAL EXPENSES

Item	Amount of this year	Amount of last year
Interest expenses	8,070	7,541
Less: interest income	831	467
Add: exchange loss	1,614	7,490
Add: others	1,056	723
Total	<u>9,909</u>	<u>15,287</u>

35. GAIN OR LOSS FROM CHANGES IN FAIR VALUE

Item	Amount of this year	Amount of last year
Gain or loss from changes in fair value of held-for-trading financial assets	<u>—</u>	<u>(6,899)</u>

36. INVESTMENT GAIN

(1) The source of income investment gain

Sources of income on investment	Amount of this year	Amount of last year
Income from long-term equity investment accounted for using equity method	2,822	3,823
Investment income from Available for sale financial assets during the period of ownership	801	2,249
Others	9	—
Total	<u>3,632</u>	<u>6,072</u>



(2) Income from Long -term equity investment accounted for using equity method

Items	Amount of this year	Amount of last year	The reason for change
Shandong Xinhua Longxin Chemical Industry Co., Ltd.	—	570	Net profit changes of the investee
Shandong Xinhua Changxing Chemical Equipment Co., Ltd.	—	690	Net profit changes of the investee
Shandong Zibo XinCat Pharmaceutical Co., Ltd.	2,822	2,563	Net profit changes of the investee
Total	<u>2,822</u>	<u>3,823</u>	

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

37. NON-OPERATING INCOME

(1) Details of non-operating income

Item	Amount of this year	Amount of last year
Proceeds from disposal of non-current assets	948	276
Including: Proceeds from disposal of fixed assets	948	276
Government Subsidies	4,448	483
Others	129	152
Total	<u>5,525</u>	<u>911</u>

(2) Details of Government subsidies

Type of Subsidies	Amount of this year	Amount of last year	Approval document
Circular economy and sewage treatment support funds	4,000	—	Hou Qu Fa [2010] 3
Subsidies for disposal of old vehicle	4	8	Issued by Finance Bureau of Zibo City
Subsidies for clean production	—	22	Issued by Finance Bureau of Zibo City
Xiao Fu River Basin ecological compensation	—	400	Issued by Finance Bureau of Zibo City
Blue sky green plan	120	—	Issued by Environmental Protect Bureau and Finance Bureau of Zibo city
3000 tonnes of Ibuprofen project transferred from deferred income	295	—	Lu Choi Kin means [2009] 157
Rebate of Land-use tax	9	53	Hou Zheng Fa [2008] No. 28
Postdoctoral Innovation grants	20	—	Lu Ren Ban Fa [2008] 184
Total	<u>4,448</u>	<u>483</u>	



38. NON-OPERATING EXPENSE

Item	Amount of this year	Amount of last year
Loss on disposal of non-current assets	154	5,174
Including: loss on disposal of fixed assets	154	5,174
Overdue fines and penalties	106	200
Others	1,425	2,894
Total	1,685	8,268

39. INCOME TAX EXPENSES

Item	Amount of this year	Amount of last year
Income tax expenses for current period	14,050	7,834
Deferred income tax expenses	—	1,003
Total	14,050	8,837

40. BASIC EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE CALCULATION

Items	No.	Amount of this year	Amount of last year
Net profit attributable to shareholders of the Company	1	57,882	39,887
Non-recurring gains and losses attributable to the Company	2	3,433	1,485
The net profit after attributable shareholders of the Company, excluding non-recurring gains and losses	3 = 1-2	54,449	38,402
The total number of shares in the beginning of the year	4	457,313	457,313
The number of shares of capitalisation of reserve or business (I)	5		
The number of shares increase in Issuing new shares or debt to equity (II)	6		
The accumulated number of months of Increase share (II) from next month to the end of the year	7		
Reduction due to the shares repurchased	8		
The accumulated number of reduction share from next month to the end of the year	9		
The number of shares reduced	10		
No. of Month of the Reporting Period	11		
Weighted average number of ordinary shares public outstanding	12 = $4+5+6 \times 7 \div 11 - 8 \times 9 \div 11 - 10$	457,313	457,313
Basic earnings per share (I)	13 = $1 \div 12$	0.13	0.09
Basic earnings per share (II)	14 = $3 \div 12$	0.12	0.08
Dilution potential ordinary shares interest recognized as an expense	15		
Conversion expresses	16		
Income tax rate	17	15%	15%
The increase in number of shares weighted average number of Warrants and options exercisable, convertible bonds, etc	18		
Diluted earnings per share (I)	19 = $[1+(15-16) \times (1-17)] \div (12+18)$	0.13	0.09
Diluted earnings per share (II)	19 = $[3+(15-16) \times (1-17)] \div (12+18)$	0.12	0.08

**41. OTHER COMPREHENSIVE INCOME**

Items	Amount of this year	Amount of last year
1. The profits generated by Available- for- sale financial assets	(39,206)	88,415
Less: Income tax impact on Available-for-sale financial assets	(5,881)	13,273
Amount recovered in other comprehensive income in previous period transfer for the year	26	—
Subtotal	(33,299)	75,142
2. Translation differences of financial statements denominated in foreign currencies	(1,266)	(6)
3. Other	3,120	—
Total	<u>(31,445)</u>	<u>75,136</u>

42. CASH FLOW STATEMENT

(1) Other receipts/payments relating to cash of operating/investing/financing activities

1) Other Cash Receipt Relating to Operating Activities

Item	Amount of this year	Amount of last year
Government subsidies	7,273	483
Interest income	701	467
Security deposit	485	3,511
Other	6,197	5,539
Total	<u>14,656</u>	<u>10,000</u>

2) Other Cash Payments Relating to Operating Activities

Item	Amount of this year	Amount of last year
Office expenses	1,572	1,488
Travel expenses	6,530	6,402
Annual listing fee, audit fee and Board's fee	1,930	1,926
Sewage discharge fees	2,001	400
Advertising and marketing expenses	24,863	24,662
Freight charges	14,245	13,038
Entertainment expenses	1,969	1,843
Research and development expenses	7,062	9,656
Bank acceptance note, security deposit for secured borrowings	37,220	10,939
Exchange Loss	—	7,490
Others	8,996	12,293
Total	<u>106,388</u>	<u>90,137</u>



(2) Additional information for consolidated cash flow statement

Item	Amount of this year	Amount of last year
1. Reconciliation of net income to cash flows from operating activities		
Net profit	60,930	41,847
Add: Provisions for impairment loss of assets	—	—
Depreciation of fixed assets	58,473	58,090
Amortisation of intangible assets	3,224	2,219
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains is presented in “()”)	154	4,898
Profit or loss from changes in fair value (gains is presented in “()”)	—	(6,899)
Financial expense (gains is presented in “()”)	8,070	7,541
Investment loss (gains is presented in “()”)	(3,632)	(6,072)
Decrease in deferred tax assets (increase is presented in “()”)	—	26
Increase in deferred tax liabilities (decrease is presented in “()”)	(5,876)	14,249
Decrease in inventories (increase is presented in “()”)	35,159	58,737
Decrease in operating receivables (increase is presented in “()”)	(107,373)	(107,409)
Increase in operating payables (decrease is presented in “()”)	87,853	54,507
Net cash flows from operating activities	136,982	121,734
2. Significant investing and financing activities not involving cash receipt or payment:		
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired on Finance lease	—	—
3. Changes in cash and cash equivalents:		
Ending balance of cash	411,529	244,649
Less: beginning balance of cash	364,398	183,667
Add: ending balance of cash equivalents	—	—
Less: beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	47,131	60,982

(3) Cash and Cash equivalents presented in cash flow statement

Item	Amount of this year	Amount of last year
Cash	411,529	364,398
Including: Cash in hand	94	163
Bank deposit available for payments at any moment	409,420	359,448
Other funds available for payments at any moment	2,015	4,787
Cash equivalents	—	—
Ending balance of cash and equivalents	411,529	364,398
Including: Restricted cash and equivalents of the Company or subsidiaries in the Group	—	—



9 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) RELATED PARTY RELATIONSHIPS

1. Parent company and the ultimate control

(1) Parent company and the ultimate control

Name of Related Party	Relation ships with the Company		Registered address	Principal activities	Place of the Company	Legal person	Code of Organization
	Nature						
Shandong Xinhua Pharmaceutical Group Company Limited	Parent company of the Company	State-owned	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	Guo Qin	164132472
Shandong Hualu Holding Group Company Limited	The ultimate holding company	State-owned	No. 1, Bangpeng Street, Jinan, Shandong Province.	Investment and management in fertilizer and petrochemicals, etc.	The ultimate holding company	Li Tongdao	771039712

(2) Registered capital of the Company held by parent company and its changes

Name of Related Party	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the period
Shandong Xinhua Pharmaceutical Group Company Limited	298,500	—	—	298,500

(3) Parent company's shareholding in the Company and its changes

Name of related party	Balance at the end of the year	Holding amounts		Holding proportion	
		Balance at the beginning of the year	This year	Last year	
Shandong Xinhua Pharmaceutical Group Company Limited	166,072	164,208	36.31%	35.91%	



2. Subsidiaries

(1) Subsidiaries

Name of subsidiaries	Type of organisation	Place of registration	Principal activities	Legal person	Code of Organization
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Limited company	Zibo Shandong	Sales of Pharmaceutical Chemical	Ren Fulong	766662729
Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	Limited company	Zibo Shandong	Sales of Pharmaceutical Chemical	Zhang Daiming	788496661
Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	Limited company	Zibo Shandong	Engineering Design of Pharmaceutical Chemical	Du Deping	737227162
Zibo Xinhua Drug Store Chain Co., Ltd.	Limited company	Zibo Shandong	Sales of Pharmaceutical Chemical	Re Fulong	267196268
Shandong Xinhua Pharmaceutical (European) GmbH.	Limited company	Germany hamburger	Sales of Pharmaceutical Chemical	Zhang Daiming	—
Zibo Xinhua — Eastwest Pharmaceutical Co., Ltd.	Limited company	Zibo Shandong	Manufacturing of Pharmaceutical Chemical	Guo Qin	779742314
Zibo Xinhua — Perrigo Pharmaceutical Co., Ltd.	Limited company	Zibo Shandong	Manufacturing of Pharmaceutical Chemical	Guo Qin	746569703
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Limited company	Shouguang Shandong	Manufacturing of Pharmaceutical Chemical	Guo Qin	793907875

(2) registered capital of the subsidiaries and their changes

Name of subsidiaries	currency	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the period
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	RMB	48,499	—	—	48,499
Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	RMB	5,000	—	—	5,000
Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	RMB	3,000	—	—	3,000
Zibo Xinhua Drug Store Chain Co., Ltd.	RMB	2,000	—	—	2,000
Shandong Xinhua Pharmaceutical (European) GmbH.	EURO	769	—	—	769
Zibo Xinhua — Eastwest Pharmaceutical Co., Ltd.	USD	1,500	—	—	1,500
Zibo Xinhua — Perrigo Pharmaceutical Co., Ltd.	USD	6,000	—	—	6,000
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	RMB	130,000	100,000	—	230,000



(3) Proportion of shareholding in subsidiaries and their changes

Name of subsidiaries	Amount of shareholding		Proportion of shareholding (%)	
	Balance at the end of the period	Balance at the beginning of the year	Balance at the end of the period	Balance at the beginning of the year
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	48,499	48,499	100.00	100.00
Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	5,000	5,000	100.00	100.00
Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	3,000	3,000	100.00	100.00
Zibo Xinhua Drug Store Chain Co., Ltd.	2,000	2,000	100.00	100.00
Shandong Xinhua Pharmaceutical (European) GmbH.	500	500	65.00	65.00
Zibo Xinhua — Eastwest Pharmaceutical Co., Ltd.	1,125	1,125	75.00	75.00
Zibo Xinhua — Perrigo Pharmaceutical Co., Ltd.	3,006	3,006	50.10	50.10
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	230,000	130,000	100.00	100.00

3. Associates

Name	Type of organization	Place of registration	Principal activities	Legal person	Registered capital	Proportion of shareholding (%)	Code of organization
Shandong Xinhua Longxin Chemical & Industrial Company Limited	Limited company	Zibo Shandong	Manufacturing	Han Zhiqiang	20,000	40	776347140
Shandong Xinhua Changxing Chemical Equipment Company Limited	Limited company	Binzhou Shandong	Manufacturing	Sun Ruifang	22,000	35	788489533
Shandong Zibo XinCat Pharmaceutical Company Limited	Limited company	Zibo Shandong	Manufacturing	Liu Zhenwen	26,929	20	61328152X



4. Other related parties

Name of related party	Relationship	Related transactions with the company	Code of organization
Shandong Xinhua Industry & Trade Company Limited	Under common control of parent company	Sale of power and waste materials, and purchase of raw materials	164113351
Shandong Xinhua Bobang Chemical & Industrial Company Limited	Under common control of parent company	Purchase of materials	75543013X
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Under common control of parent company	Purchase of materials	720705295
Shandong Xinhua Longxin Chemical & Industrial Company Limited	Associate of the Company	Purchase of materials	776347140
Shandong Xinhua Changxing Chemical Equipment Company Limited	Associate of the Company	Sale of equipments, work-in-progress and technology	788489533
Shandong Zibo XinCat Pharmaceutical Company Limited	Under common control of parent company and partially held by the Company	Sale of power and lease of properties	61328152X
Zibo DSM Pharmaceutical Company Limited	Partially held by parent company	Sale of power and purchase of materials	613291664

(2). RELATED PARTY TRANSACTIONS

1. Pricing Policy

The price of sales of products to and purchases of the materials from related parties is determined based on the market price.

2. Purchase of materials

Name of Related Party	Nature of Transaction	Amount of this year		Amount of last year	
		Amount	Proportion (%)	Amount	Proportion (%)
Shandong Xinhua Industry & Trade Company Limited	Chemical materials and others	1,759	0.44	1,917	0.63
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Chemical materials	13,690	3.42	16,994	5.59
Shandong Xinhua Bobang Chemical & Industrial Company Limited	Chemical materials	4,537	1.13	4,159	1.37
Zibo DSM Pharmaceutical Company Limited	Preparation materials	8,446	2.11	19,620	6.46
Shandong Xinhua Longxin Chemical & Industrial Company Limited	Chemical materials	4,824	1.2	1,363	0.45
Shandong XinCat Chemical & Industrial Company Limited	Pharmaceutical	17	0.03	221	—
Total		<u>33,273</u>	<u>—</u>	<u>44,274</u>	<u>—</u>



3. Sale of goods

Name of Related Party	Transaction contents	Amount of this year		Amount of last year	
		Amount	Proportion (%)	Amount	Proportion (%)
Shandong Xinhua Industry & Trade Company Limited	Sale of power and wastes (water, gas, solid)	78	—	858	—
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Sale of power and wastes (water, gas, solid)	3,117	—	1,575	—
Zibo DSM Pharmaceutical Company Limited	Sale of power	2,892	17.56	2,296	16.03
Shandong Zibo XinCat Pharmaceutical Company Limited	Sale of power	399	2.42	712	4.97
Total		<u>6,486</u>	<u>—</u>	<u>5,441</u>	<u>—</u>

4. Acceptance of guarantee

Loan guarantee

The Company entered into a loan contract with Qingdao Branch of Export-Import Bank of China with a loan in the amount of RMB230,000,000, in which RMB150,000,000 will be available for the period from 14 October 2009 to 13 October 2011 and RMB80,000,000 will be available for the period from 26 February 2010 to 25 February 2012. The loan was guaranteed by the holding company of the Company's parent company, Shandong Hualu Holding Group Company Limited.

5. Lease of Assets

(1) Lease-out assets

Name of Related Party	Nature of Transaction	Transaction period	Amount in this year	Amount in the last year
Shandong Zibo XinCat Pharmaceutical Company Limited	Lease of house	1-6	—	132
Zibo DSM Pharmaceutical Company Limited	Lease of house	1-6	—	2
			<u>—</u>	<u>2</u>

(2) Lease-in assets

Name of Related Party	Nature of Transaction	Transaction period	Amount in this year	Amount in the last year
Shandong Xinhua Pharmaceutical Group Company Limited	Rent of house	1-6	500	500
			<u>500</u>	<u>500</u>



6. Other Transactions

(1) Trademark Using Fee

Name of Related Party	Nature of Transaction	Amount of this the year	Amount of the last year
Shandong Xinhua Pharmaceutical Group Company Limited	Trademark using fee	<u>1,100</u>	<u>1,100</u>

Pursuant to the Trademark License Agreement signed by Shandong Xinhua Pharmaceutical Group Company Limited and the Company on 7 December 1996, the Company was granted the exclusive right to use the trademark “Xinhua” (“Trademark”) by the Shandong Xinhua Pharmaceutical Group Company Limited 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. The terms of the agreement shall continue to have effect during the validity period of the Trademark.

(2) Service of rendering

Name of Related Party	Nature of Transaction	Amount of current the year	Amount of last year
Shandong Xinhua Changxing Chemical Equipment Company Limited	Design	<u>—</u>	<u>11</u>

(3) CURRENT ACCOUNT BALANCES WITH RELATED PARTY

Name of Related Party	Balance at the end of the period	Balance at the beginning of the year
Accounts receivable		
Shandong Xinhua Industry & Trade Company Limited	1,150	1,150
Shandong Zibo XinCat Pharmaceutical Company Limited	294	274
Advances to Suppliers		
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	12,012	10,585
Shandong Xinhua Longxin Chemical & Industrial Company Limited	1,500	1,757
Other Receivable		
Shandong Xinhua Industry & Trade Company Limited	8	8
Accounts Payable		
General Managing Branch of Shandong Xinhua Industrial & Trading Co., Ltd.	535	934
Chemical Reagent Branch of Shandong Xinhua Industrial & Trading Co., Ltd.	89	229
Shandong Xinhua Bobang Chemical & Industrial Company Limited	3,871	2,165
Zibo DSM Pharmaceutical Company Limited	1,324	844
Shandong Xinhua Changxing Chemical Equipment Company Limited	76	76
Shandong Zibo XinCat Pharmaceutical Company Limited	116	116
Other Payable		
Shandong Zibo XinCat Pharmaceutical Company Limited	1	1
Shandong Xinhua Changxing Chemical Equipment Company Limited	<u>500</u>	<u>500</u>



10. CONTINGENCIES

The Company has no significant contingencies as at 30 June 2010.

11. COMMITMENT

1. Contracted for or Agreed-upon large-sum arrangement

Items	Contract Amount	Amount Unpaid
Innovation Zone	121,069	91,596
DK Project	22,003	5,965
Pyrazolone Project	14,775	3,037
Waste Water Treatment Project	9,943	2,427
Sulfuric Acid Project	23,293	5,905
Others	5,112	509
Total	<u>196,195</u>	<u>109,439</u>

2. Other than as disclosed above, the Company has no other material commitments as at 30 June 2010.

12. POST BALANCE SHEET DATE EVENTS

The Company has no significant subsequent events after the post balance sheet date which requires to be disclosed as at 30 June 2010.

13. OTHER IMPORTANT EVENTS

The Company has no significant events to be disclosed as at 30 June 2010.

14. MAIN ITEMS' NOTES OF THE COMPANY'S FINANCIAL STATEMENTS

1. ACCOUNTS RECEIVABLE

- (1) Risk Classification of Accounts Receivable

Items	Balance at the end of the period				Balance at the beginning of the year			
	Amount	proportion %	Bad debts Provision	proportion %	Amount	proportion %	Bad debts Provision	proportion %
Individually significant accounts receivable	182,985	66.23	805	12.40	159,694	65.57	798	12.32
Individually insignificant accounts receivable	93,300	33.77	5,685	87.60	83,854	34.43	5,685	87.68
Total	<u>276,285</u>	<u>100.00</u>	<u>6,490</u>	<u>100.00</u>	<u>243,548</u>	<u>100.00</u>	<u>6,483</u>	<u>100.00</u>

Individually significant accounts receivable referred to as individual accounts receivable with an amount over RMB5,000,000. The provision for bad debts have been made on aging basis as no impairment of individually significant accounts receivable was found after the assessing.



(2) Aging Analysis

Items	Balance at the end of the period			Balance at the beginning of the year		
	Amount	proportion %	Bad debts Provision	Amount	proportion %	Bad debts Provision
Less than one year	270,939	98.07	1,683	237,771	97.62	1,676
1-2 years	616	0.22	209	1,047	0.43	209
2-3 years	329	0.12	197	329	0.14	197
More than 3 years	4,401	1.59	4,401	4,401	1.81	4,401
Total	<u>276,285</u>	<u>100.00</u>	<u>6,490</u>	<u>243,548</u>	<u>100.00</u>	<u>6,483</u>

(3) Please refer to Notes 4.7 for the policy provision bad debts. The accounts receivable, which have been written off in previous year but recovered during this year is RMB7, 000.

Debtors	Amount	Proportion	Bad debts Provision	Amount recovered	Reason for provision made and reversal for this year
Zhejiang Ruixin Pharmaceutical Company Limited	7	100%	7	7	Clear debts
Total	<u>7</u>		<u>7</u>	<u>7</u>	—

(4) At the end of period, accounts receivable do not include receivable from shareholders holding 5% (inclusive) or more of the Company's voting capital.

(5) At the end of period, the balance of accounts receivable due from the top five debtors is RMB155,108,000, accounting for 56.14% of the total balance of accounts receivable, details are as follows:

Name of equity	Relationships	Amount	Aging	Proportion %
Shandong Xinhua Pharmaceutical Tread Co., Ltd.	Wholly-owned subsidiary	116,090	Less than one year	42.02
PEPSICOLA SALES & DISTRIBUTION	Non-related parties	10,787	Less than one year	3.90
NATUREX S.A.	Non-related parties	9,768	Less than one year	3.54
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	Non wholly-owned subsidiaries	9,423	Less than one year	3.41
Shandong Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Wholly-owned subsidiary	9,040	Less than one year	3.27
Total		<u>155,108</u>		<u>56.14</u>



- (6) At the end of period, the balance of accounts receivables due from the related parties is RMB136,596,000, accounting for 49.45% of the total balance of accounts receivable, details as follow:

Name of equity	Relationships	Amount	Aging %
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Wholly-owned subsidiary	116,090	42.02
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	Non wholly-owned subsidiaries	9,423	3.41
Shandong Xinhua-West Pharmaceutical Co., Ltd.	Non wholly-owned subsidiaries	599	0.22
Xinhua Pharmaceutical (Shouguang) Co.,Ltd.	Wholly-owned subsidiary	9,040	3.27
Shandong Zibo XinCat Pharmaceutical Company Limited	Joint venture	294	0.11
Shandong Xinhua Industry & Trade Company Limited*	Other related parties	1,150	0.42
Total		<u>136,596</u>	<u>49.45</u>

* The Company made full provision for bad debts for the amount due from Shandong Xinhua Industry & Trade Co., Ltd.

- (7) The ending balance of accounts receivable denominated in the foreign currencies is as follows:

Item	Balance at the end of the period			Balance at the beginning of year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	<u>17,543</u>	<u>6.7909</u>	<u>119,133</u>	<u>14,136</u>	<u>6.8282</u>	<u>96,523</u>

2 OTHER RECEIVABLES

- (1) Risk Classification of Other Receivable

Items	Balance at the end of the period				Balance at the beginning of the year			
	Bad debts		Bad debts		Bad debts		Bad debts	
	Amount	Proportion %	Provision	Proportion %	Amount	Proportion %	Provision	Proportion %
Individually significant accounts receivable	<u>26,976</u>	<u>75.94</u>	<u>6,196</u>	<u>86.20</u>	<u>97,708</u>	<u>92.27</u>	<u>6,196</u>	<u>86.20</u>
Individually in-significant accounts receivable	<u>8,547</u>	<u>24.06</u>	<u>992</u>	<u>13.80</u>	<u>8,187</u>	<u>7.73</u>	<u>992</u>	<u>13.80</u>
Total	<u>35,523</u>	<u>100.00</u>	<u>7,188</u>	<u>100.00</u>	<u>105,895</u>	<u>100.00</u>	<u>7,188</u>	<u>100.00</u>

Individually significant other receivable referred to as individual other receivable with an amount over RMB5,000,000. The provision for bad debts have been made on aging basis as no impairment of individually significant other receivable was found after the assessing.



(2) Aging Analysis

Items	Balance at the end of the period			Balance at the beginning of the year		
	Amount	Proportion %	Bad debts Provision	Amount	Proportion %	Bad debts Provision
Less than 1 year	15,560	43.80	9	85,932	81.15	9
1 to 2 years	1,974	5.56	2	1,974	1.86	2
2 to 3 years	9,563	26.92	55	9,563	9.03	55
Over 3 years	8,426	23.72	7,122	8,426	7.96	7,122
Total	<u>35,523</u>	<u>100.00</u>	<u>7,188</u>	<u>105,895</u>	<u>100.00</u>	<u>7,188</u>

- (3) Please refer to Notes 4.7 for the policy of provision for bad debts.
- (4) 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.
- (5) At the end of year, the balance of other receivable do not include receivable from shareholders holding 5% or (inclusive) more of the Company's voting capital.
- (6) At the end of period, the balance of other receivable due from the top five debtors is RMB29,475,000, accounting for 82.97% of the total balance of other receivable, details as follow:

Name of equity	Relationships	Amount	Aging	Proportion %	Nature or content
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Wholly-owned subsidiary	11,294	1 to 3 year	31.79	Current amount
Output VAT for exporting before applying to customs	Non-related parties	9,486	Less than one year	26.70	Output VAT for exporting before applying to customs
Rebate of income tax*	Non-related parties	6,196	Less than 3 year	17.44	Rebate of income tax
Shandong Xinhua Pharmaceutical Design Institute Co., Ltd.	Wholly-owned subsidiary	1,605	1 to 3 year	4.52	Current amount
Shandong Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Wholly-owned subsidiary	894	Less than one year	2.52	Pay wages
Total		<u>29,475</u>		<u>82.97</u>	

* All rebate of income tax have been provisioned for bad debts.



- (7) At the end of the period, the balance of other receivable due from the related parties is RMB14,872,000, accounting for 41.86% of the total balance of other receivable, details as follow:

Name of equity	Relationships	Amount	Proportion %
Shandong Xinhua tread Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	11,294	31.79
Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	Wholly-owned subsidiary	76	0.21
Shandong Xinhua Pharmaceutical Design Institute Co., Ltd.	Wholly-owned subsidiary	1,605	4.52
Zibo Xinhua-West Pharmaceutical Co., Ltd.	Non wholly-owned subsidiary	157	0.44
Zibo Xinhua drugstore chain Co., Ltd.	Wholly-owned subsidiary	396	1.11
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Wholly-owned subsidiary	894	2.52
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Non wholly-owned subsidiary	450	1.27
Total		<u>14,872</u>	<u>41.86</u>

3. LONG-TERM EQUITY INVESTMENT

- (1) Long-term equity investment

Items	Balance at the end of the period	Balance at the beginning of year
Using cost method	328,475	223,124
Using equity method	27,814	27,992
Total long-term equity investment	356,289	251,116
Less: provision for impairment loss of Long-term equity investment	—	—
Net amount of Long-term equity investment	<u>356,289</u>	<u>251,116</u>



(2) Using Cost Method and Equity Method

Name of investee	Proportion of shareholding	Proportion of voting	Original amount	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the period	Cash Dividends received in this year
Using cost method								
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	100%	100%	48,582	48,582	—	—	48,582	—
Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	100%	100%	3,038	3,038	—	—	3,038	—
Zibo Xinhua Drug Store Chain Co., Ltd.	100%	100%	2,159	2,159	—	—	2,159	—
Shandong Xinhua Pharmaceutical (Europe) Ltd.	65%	65%	4,597	4,597	—	—	4,597	—
Zibo Xinhua-West Pharmaceutical Co., Ltd.	75%	75%	9,008	9,008	—	—	9,008	—
Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd.	50.10%	50.10%	24,877	24,877	—	—	24,877	3,507
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	100%	100%	230,713	130,713	100,000	—	230,713	—
Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	100%	100%	5,501	150	5,351	—	5,501	43
Subtotal				223,124	105,351	—	328,475	3,550
Using equity method								
Shandong Xinhua Longxin Chemical & Industrial Company Limited	40%	40%	10,000	9,646	—	—	9,646	—
Shandong Xinhua Changxing Chemical Equipment Company Limited	35%	35%	7,700	3,986	—	—	3,986	—
Shandong Zibo XinCat Pharmaceutical Company Limited	20%	20%	10,414	14,360	2,822	3,000	14,182	3,000
Subtotal				27,992	2,822	3,000	27,814	3,000
Total				251,116	108,173	3,000	356,289	6,550

(3) Investment in Joint Ventures and Associates

Name of investee	Corporation type	Place of representative	Legal person	Business scope	Registered capital	Proportion of shareholding (%)	Proportion of voting (%)
Joint Ventures							
Shandong Xinhua Longxin Chemical & Industrial Company Limited	Limited company	Shandong Zibo	Han Zhiqiang	Manufacturing	20,000	40	40
Shandong Xinhua Changxing Chemical Equipment Company Limited	Limited company	Shandong Binzhou	Sun Ruifang	Manufacturing	22,000	35	35
Shandong Zibo XinCat Pharmaceutical Company Limited	Limited company	Shandong Zibo	Liu Zhenwen	Manufacturing	26,929	20	20

(4) No provision for impairment has been made and no evidence indicates any impairment of long-term equity investment of the Company.

**4. OPERATING INCOME AND OPERATING COSTS**

(1) Operating Income and Operating Costs

Item	Amount of this period	Amount of last year
Income for main operation	894,987	764,669
Income for other operation	24,640	20,056
Total	919,627	784,725
Cost for main operation	712,050	601,120
Cost for other operation	28,216	25,105
Total	740,266	626,225

(2) Income and Costs from Main Operation—Classified by Products

Types	Amount of this period		Amount of last year	
	income	cost	income	cost
Bulk Pharmaceuticals	682,035	535,722	573,511	435,375
Including: Export sales	445,685	350,464	380,082	289,166
Preparations	212,903	176,279	191,157	165,744
Chemical and others	49	49	1	1
Total	894,987	712,050	764,669	601,120

(3) Operating Income from top five customers

Name of customers	Amount of this year	Proportion (%)
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	183,119	20.46
Shandong Xinhua pharmaceutical (europe) gmbh	39,059	4.36
Mitsubishi corporation	38,328	4.28
PEPSI COLA SALES & DISTRIBUTION	23,974	2.68
Indukern chemie ag	15,043	1.68
Total	299,523	33.46

5. INVESTMENT GAIN

(1) The source of investment gain or loss

Sources of Investment gain or loss	Amount of this year	Amount of last year
Long-term equity investment	2,822	3,823
income accounted for using equity method		
Investment income from Available-for-sale financial assets during the period of ownership	801	2,249
Dividends from subsidiaries	3,550	2,004
Total	7,173	8,076



(2) Income from long-term equity investments accounted for using equity method

Items	Amount of this year	Amount of last year	The reason for change
Shandong Xinhua longxin Chemical Industry Co., Ltd.	—	570	Net profit changes in the investee
Shandong Xinhua Changxing Chemical Equipment Co., Ltd.	—	690	Net profit changes in the investee
Shandong Zibo XinCat Pharmaceutical Co., Ltd.	2,822	2,563	Net profit changes in the investee
Total	<u>2,822</u>	<u>3,823</u>	

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

6. SUPPLEMENTARY INFORMATION ON THE COMPANY'S CASH FLOW STATEMENT

Item	Amount of this term	Amount of last term
1. Reconciliation of net income to cash flows from operating activities		
Net profit	49,123	40,476
Add: Provisions for impairment loss of assets	—	—
Depreciation of fixed assets	49,473	52,338
Amortization of intangible assets	2,501	2,074
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains is presented in “()”)	154	4,886
Profit or loss from changes in fair value (gains is presented in “()”)	—	(6,687)
Financial expense (gains is presented in “()”)	7,988	7,446
Investment loss (gains is presented in “()”)	(7,174)	(8,076)
Decrease in deferred tax assets (gains is presented in “()”)	—	—
Increase in deferred tax liabilities (decrease is presented in “()”)	(5,876)	14,249
Decrease in inventories (or bracket: increase)	37,386	40,403
Decrease in operating receivables (gains is presented in “()”)	(85,314)	(55,378)
Increase in operating payables (decrease is presented in “()”)	70,352	25,392
Net cash flows from operating activities	118,613	117,123
2. Significant investing and financing activities not involving cash receipt or payment:		
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired on finance lease	—	—
3. Changes in cash and cash equivalents:		
Ending balance of cash	346,346	182,020
Less: beginning balance of cash	259,613	140,632
Add: ending balance of cash equivalents	—	—
Less: beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	<u>86,733</u>	<u>41,388</u>



15. SUPPLEMENTARY INFORMATION

1. STATEMENT OF NON-RECURRING PROFIT AND LOSS

Items	Amount of this year	Notes
1. Gains and losses, including the write-off portion of provision for impairment loss on assets	794	Loss of disposal of fixed assets
2. Government subsidies in profit and loss of the year, but except for the subsidies that are closely related to the Company's normal operations, in line with national policies and regulations, and subsidies in accordance with certain standards of quotas or quantity that the Company continually enjoys	4,448	Received government subsidies reckon into current term
3. Except for the normal operations associated with the Company effective hedging business, gain or loss held-for-trading financial assets, held-for-trading financial liabilities, as well as incomes gains from the disposal of held-for-trading financial assets and financial liabilities and available for sale of financial assets	801	Dividends of held-for sale financial assets
4. In addition to the above ,the non-operating income and expenditure;	(1,402)	
Total	<u>4,641</u>	
Less: Income tax effect	<u>1,183</u>	
Total non-recurring net gain or loss	<u>3,458</u>	
Including: attributable to shareholders of the Company	3,433	

2. ACCOUNTING DATA DIFFERENCES DUE TO THE ACCOUNTING STANDARDS

The differences in net income and net assets in accordance with foreign accounting standards and Chinese accounting standards are details as follow:

Items	Profit attributable to the equity holders of Company		Total equity attributable to equity holders of Company	
	Amount of this period	Amount of last period	As at 30 June 2010	As at 1 January 2010
Prepared under HKGAAP	60,174	39,115	1,647,688	1,644,503
Prepared under PRC accounting standards	57,882	39,887	1,637,660	1,633,646
HKGAAP adjustments:				
Deferred taxation	145	136	(1,771)	(1,915)
Depreciation charges due to revaluation in previous years	—	(204)	(21,300)	(21,300)
Provision for education fund	(973)	(704)	11,799	12,772
Surplus from revaluation for listing of H Shares	—	—	21,300	21,300
Financial award for Energy-saving technological transformation	3,120	—	—	—
Total of the difference between the PRC accounting standards and HKGAAP	<u>2,292</u>	<u>(772)</u>	<u>10,028</u>	<u>10,857</u>



3. RETURN ON EQUITY AND EARNINGS PER SHARE

Profits of the Reporting Period	weighted average Return on equity	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's shareholders	3.48%	0.13	0.13
Net profit after deducting non-recurring gains and losses, attributable to shareholders of the Company	3.27%	<u>0.12</u>	<u>0.12</u>

16. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements have been approved to report by the Board of Directors on 28 July 2010.



CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2010	2009
		RMB'000 (unaudited)	Restated RMB'000 (unaudited)
Revenue	3	1,352,583	1,179,184
Cost of sales		(1,099,135)	(959,486)
Gross profit		253,448	219,698
Investment income		1,641	2,716
Other income		10,754	1,981
Other gains and losses		(820)	(5,489)
Distribution and selling expenses		(97,732)	(83,741)
Administrative expenses		(79,423)	(74,947)
Other expenses		(5,494)	(6,724)
Share of profits of associates		2,822	3,823
Finance costs		(8,070)	(7,541)
Profit before tax	4	77,126	49,776
Income tax expense	5	(13,904)	(8,701)
Profit for the half-year		63,222	41,075
Profit for the half-year attributable to :			
Owners of the Company		60,174	39,115
Non-controlling interests		3,048	1,960
		63,222	41,075
Earnings per share — basic and diluted	6	RMB0.132	RMB0.090



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2010 <i>RMB'000</i> (unaudited)	2009 <i>RMB'000</i> (unaudited)
Profit for the half-year	63,222	41,075
Other comprehensive income:		
Exchange differences arising on translation	(1,266)	(7)
Fair value (loss) gain on available-for-sale financial assets	(39,175)	88,415
Income tax relating to components of other comprehensive income	5,876	(13,273)
Other comprehensive income for the half-year, net of tax	(34,565)	75,135
Total comprehensive income for the half-year	28,657	116,210
Total comprehensive income attributable to:		
Owners of the Company	26,051	114,252
Non-controlling interests	2,606	1,958
	28,657	116,210



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2010 RMB'000 (unaudited)	31 December 2009 RMB'000 (audited)
Non-current assets			
Technical know-how	8	—	117
Property, plant and equipment	8	961,669	963,747
Construction in progress	8	156,065	134,356
Prepaid lease payments on land use rights	8	225,525	193,915
Investment properties		37,034	36,694
Interests in associates		14,182	14,360
Available-for-sale investments		161,957	201,596
Deferred tax assets		3,044	3,044
		1,559,476	1,547,829
Current assets			
Inventories		309,061	344,220
Trade and other receivables	9	415,289	314,353
Prepaid lease payments on land use rights	8	5,770	4,070
Amount due from immediate holding company		6,378	8,465
Tax recoverable		683	142
Pledged bank deposits		74,716	37,496
Bank balances and cash		411,529	364,398
		1,223,426	1,073,144
Assets classified as held for sale		15,133	15,390
		1,238,559	1,088,534
Current liabilities			
Trade and other payables	10	606,858	491,698
Amount due to an associate		576	498
Tax payable		7,927	7,069
Borrowings		93,620	124,024
		708,981	623,289
Net current assets		529,578	465,245
Total assets less current liabilities		2,089,054	2,013,074
Capital and reserves			
Share capital	11	457,313	457,313
Reserves		1,190,375	1,164,324
Proposed final dividend		—	22,866
Equity attributable to owners of the Company		1,647,688	1,644,503
Non-controlling interests		35,430	36,318
Total equity		1,683,118	1,680,821
Non-current liability			
Deferred tax liabilities		5,575	11,597
Borrowings		350,000	270,000
Deferred income		50,361	50,656
		405,936	332,253
		2,089,054	2,013,074



(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company												Non-controlling interests	Total
	Share capital	Share premium	Capital reserve	Reserve funds	Asset revaluation reserve	Available-for-sale investment reserve	Other reserve	Exchange reserve	Retained earnings	Dividend reserve	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	457,313	466,618	78,642	177,317	25,850	150,201	481	340	264,875	22,866	1,644,503	36,318	1,680,821	
Total comprehensive income for the half-year	—	—	—	—	—	(33,299)	—	(824)	60,174	—	26,051	2,606	28,657	
Payment of dividends	—	—	—	—	—	—	—	—	—	(22,866)	(22,866)	—	(22,866)	
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(3,494)	(3,494)	
At 30 June 2010 (unaudited)	457,313	466,618	78,642	177,317	25,850	116,902	481	(484)	325,049	—	1,647,688	35,430	1,683,118	
At 1 January 2009	457,313	466,618	78,642	167,428	25,850	58,943	(359)	437	197,943	13,719	1,466,534	33,746	1,500,280	
Total comprehensive income for the half-year	—	—	—	—	—	75,142	—	(5)	39,115	—	114,252	1,958	116,210	
Payment of dividends	—	—	—	—	—	—	—	—	—	(13,719)	(13,719)	—	(13,719)	
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(1,997)	(1,997)	
At 30 June 2009 (unaudited)	457,313	466,618	78,642	167,428	25,850	134,085	(359)	432	237,058	—	1,567,067	33,707	1,600,774	



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Cash generated from operations	170,446	133,642
Income tax paid	(13,733)	(1,840)
Net cash from operating activities	156,713	131,802
Net cash used in investing activities	(147,587)	(102,153)
Net cash from financing activities	38,005	31,333
Net increase in cash and cash equivalents	47,131	60,982
Cash and cash equivalents at 1 January	364,398	183,667
Cash and cash equivalents at 30 June, represented by bank balances and cash	411,529	244,649



NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

1. Basis of preparation

The Group's unaudited condensed interim financial information has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009.

2. Principal accounting policies

The consolidated condensed interim financial information has been prepared on the historical cost basis except for property, plant and equipments and certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the consolidated condensed interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations ("Int") ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2010.

HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners
Annual Improvements Project	Improvements to HKFRSs 2009

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ²
HKFRS 9	Financial Instruments ⁵
HKAS 24 (Revised)	Related Party Disclosures ³
HKAS 32 (Amendment)	Classification of Rights Issues ¹
HK(IFRIC) — INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement ³
HK(IFRIC) — INT 19	Extinguishing Financial Liabilities with Equity Instruments ²
Annual Improvements Project	Improvements to HKFRSs 2010 ⁴

¹ Effective for annual periods beginning on or after 1 February 2010.

² Effective for annual periods beginning on or after 1 July 2010.

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 January 2011 (unless otherwise specified).

⁵ Effective for annual periods beginning on or after 1 January 2013.



HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specially, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. Segment information

(a) Description of segments

Management has determined the operating segments based on the internal reports reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The Group's operating and reportable segments are as follows:

Bulk pharmaceuticals	Development, production and sales of bulk pharmaceuticals
Preparations	Development, production and sales of preparations (e.g. tablets and injections)
Chemical and other products	Production and sales of chemical and other products
Commerce circulations	Trading of pharmaceutical products (including retail and wholesale)

Information regarding the above segments is reported below:

(b) Segment turnover and results

The following is an analysis of the Group's turnover and results by reportable segment.

For the six months ended 30 June 2010 (Unaudited)

	Bulk pharmaceuticals RMB'000	Preparations RMB'000	Chemical and other products RMB'000	Commerce circulations RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	740,382	255,126	27,769	329,306	—	1,352,583
Inter-segment sales	2,034	183,119	90,752	42,832	(318,737)	—
Total	<u>742,416</u>	<u>438,245</u>	<u>118,521</u>	<u>372,138</u>	<u>(318,737)</u>	<u>1,352,583</u>
Segment profit	<u>47,489</u>	<u>19,972</u>	<u>3,116</u>	<u>5,716</u>		76,293
Investment and other income						12,395
Other gains and losses						(820)
Other expenses						(5,494)
Finance costs						(8,070)
Share of profits of associates						2,822
Profit before tax						<u>77,126</u>



(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

For the six months ended 30 June 2009 (Unaudited)

	Bulk pharmaceuticals RMB'000	Preparations RMB'000	Chemical and other products RMB'000	Commerce circulations RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	618,268	244,635	1,899	314,382	—	1,179,184
Inter-segment sales	17,917	163,284	37,575	3,881	(222,657)	—
Total	<u>636,185</u>	<u>407,919</u>	<u>39,474</u>	<u>318,263</u>	<u>(222,657)</u>	<u>1,179,184</u>
Segment profit (loss)	<u>49,386</u>	<u>13,771</u>	<u>(1,272)</u>	<u>(875)</u>		61,010
Investment and other income						4,697
Other gains and losses						(5,489)
Other expenses						(6,724)
Finance costs						(7,541)
Share of profits of associates						3,823
Profit before tax						<u>49,776</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of investment and other income, other gains and losses, other expenses, finance costs and share of profits of associates. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

(c) Segment assets

The following is an analysis of the Group's assets by reportable segment.

At 30 June 2010 (Unaudited)

	Bulk pharmaceuticals RMB'000	Preparations RMB'000	Chemical and other products RMB'000	Commerce circulations RMB'000	Total RMB'000
Segment assets	1,168,819	463,854	321,664	125,877	2,080,214
Unallocated corporate assets					<u>717,821</u>
Consolidated assets					<u>2,798,035</u>

At 31 December 2009 (Audited)

	Bulk pharmaceuticals RMB'000	Preparations RMB'000	Chemical and other products RMB'000	Commerce circulations RMB'000	Total RMB'000
Segment assets	1,214,283	396,322	240,187	112,451	1,963,243
Unallocated corporate assets					<u>673,120</u>
Consolidated assets					<u>2,636,363</u>

For the purposes of monitoring segment performances and allocating resources among segments, all assets are allocated to reportable segments other than deferred tax assets, interests in associates, assets classified as held for sale, available-for-sale investments, investment properties, tax recoverable, pledged bank deposits and bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of revenues earned by individual reportable segments.



4. Profits before tax

Profit before tax has been arrived at after charging (crediting):

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Interest on borrowings	8,070	7,541
Amortisation of prepaid lease payments on land use rights	2,891	1,511
Amortisation of technical know-how	117	500
Depreciation for property, plant and equipment	58,733	58,501
Depreciation for investment properties	1,361	—
Cost of inventories recognised as an expense	1,099,135	959,486
Dividends and interest income	(1,641)	(2,716)
(Gain) loss on disposal of property, plant and equipment	(794)	1,424
	<u> </u>	<u> </u>

5. Income tax expense

The major components of income tax expense in the condensed income statement are:

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Current income tax — PRC Enterprise Income Tax (“EIT”)	14,050	7,834
Deferred income tax	(146)	867
	<u> </u>	<u> </u>
Income tax expense	<u>13,904</u>	<u>8,701</u>

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, the Company was accredited as a high-tech enterprise. The accreditation is valid for three years. The Company is entitled to the preferential tax rate of 15% for a three-year period commencing from 2008.

Pursuant to the relevant laws and regulations in the PRC, two subsidiaries operating in the PRC are entitled to exemption from the PRC income tax in the first two years from the first profit-making year, followed by a 50% reduction of the PRC income tax for the next three years.

6. Earnings per share

The calculation of the basic earnings per share is based on the Group’s profit attributable to the owners of the Company of RMB60,174,000 (2009: RMB39,115,000) and based on the weighted average of 457,312,830 shares (2009 : 457,312,830 shares) in issue during the period.

Basic earnings per share and diluted earnings per share for the six months ended 30 June 2010 and 2009 are the same as there were no dilutive events existed during both periods.



7. Dividends

- (a) The board of the directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).
- (b) Dividends attributable to the previous financial year, approved during the interim period.

	Six months ended 30 June	
	2010 <i>RMB'000</i> (unaudited)	2009 <i>RMB'000</i> (unaudited)
Final dividend in respect of the financial year ended 31 December 2009, approved during the following interim period, of RMB0.05 per share (year ended 31 December 2008: RMB0.03 per share)	22,866	13,719

8. Capital expenditures

	Prepaid lease payments on land use rights <i>RMB'000</i>	Technical know-how <i>RMB'000</i>	Property, plant and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Total <i>RMB'000</i>
Net carrying values at 1 January 2010	197,985	117	963,747	134,356	36,694	1,332,899
Additions	36,201	—	18,205	73,492	1,701	129,599
Disposals	—	—	(13,333)	—	—	(13,333)
Transfers	—	—	51,783	(51,783)	—	—
Depreciation and amortisation	(2,891)	(117)	(58,733)	—	(1,361)	(63,102)
Net carrying values at 30 June 2010 (unaudited)	231,295	—	961,669	156,065	37,034	1,386,063
Representing:						
Non-current portion	225,525	—	961,669	156,065	37,034	1,380,293
Current portion	5,770	—	—	—	—	5,770
Net carrying values at 1 January 2009	109,207	792	959,882	88,206	—	1,158,087
Additions	—	—	22,345	74,455	—	96,800
Disposals	—	—	(1,547)	(2,278)	—	(3,825)
Transfers	—	—	46,598	(46,598)	—	—
Depreciation and amortisation	(1,511)	(500)	(58,501)	—	—	(60,512)
Net carrying values at 30 June 2009 (unaudited)	107,696	292	968,777	113,785	—	1,190,550
Representing:						
Non-current portion	104,672	292	968,777	113,785	—	1,187,526
Current portion	3,024	—	—	—	—	3,024



FINANCIAL REPORT

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

9. Trade and other receivables

	30 June 2010 <i>RMB'000</i> (unaudited)	31 December 2009 <i>RMB'000</i> (audited)
Trade and bills receivables	372,321	280,080
Less : Allowance for doubtful debts of trade receivables	<u>(7,603)</u>	<u>(7,603)</u>
	364,718	272,477
Other receivables, deposits and prepayments	58,409	49,714
Less : Allowance for doubtful debts of other receivables	<u>(7,838)</u>	<u>(7,838)</u>
	50,571	41,876
Total trade and other receivables	<u>415,289</u>	<u>314,353</u>

Included in the trade and bills receivables are debtors and bills receivables, net of allowance for bad debt and doubtful debts, with the following ageing analysis:

	30 June 2010 <i>RMB'000</i> (unaudited)	31 December 2009 <i>RMB'000</i> (audited)
Within one year	362,199	270,571
More than one year but less than two years	2,171	1,503
More than two years but less than three years	<u>348</u>	<u>403</u>
	<u>364,718</u>	<u>272,477</u>

The Group's revenue from export sales is on letter of credit or documents against payment. The credit period is agreed upon in the sales contract. Except for some particular customers where payment in advance is normally required, the Group allows an average credit period of 30 days to its local trade customers and 90 days for local hospital customers.

10. Trade and other payables

The following is an aged analysis of accounts payable presented based on the invoice date at the end of the Reporting Period.

	30 June 2010 <i>RMB'000</i> (unaudited)	31 December 2009 <i>RMB'000</i> (audited)
Within one year	382,667	269,164
More than one year but less than two years	1,214	4,987
More than two years but less than three years	758	747
Over three years	<u>5,182</u>	<u>5,436</u>
	389,821	280,334
Other payables and accrued charges	<u>217,037</u>	<u>211,364</u>
	<u>606,858</u>	<u>491,698</u>



11. Share capital

	30 June 2010		31 December 2009	
	Number of shares '000 (unaudited)	RMB'000 (unaudited)	Number of shares '000 (audited)	RMB'000 (audited)
Issued and fully paid:				
State-owned legal person shares of RMB1 each				
At the beginning of the period/year	164,207	164,207	163,259	163,259
Transfer from PRC legal person shares	1,865	1,865	948	948
At the end of period/year	166,072	166,072	164,207	164,207
PRC legal person shares of RMB1 each				
At the beginning of the period/year	23,579	23,579	24,527	24,527
Transfer to state-owned shares	(1,865)	(1,865)	(948)	(948)
At the end of period/year	21,714	21,714	23,579	23,579
Restricted senior management shares of RMB1 each				
At the beginning of the period/year	23	23	23	23
Transfer to ordinary shares	(7)	(7)	—	—
At the end of period/year	16	16	23	23
RMB ordinary shares (A Shares) of RMB1 each				
At the beginning of the period/year	119,504	119,504	119,504	119,504
Transfer from restricted senior management shares	7	7	—	—
At the end of period/year	119,511	119,511	119,504	119,504
Overseas listed foreign invested shares (H Shares) of RMB1 each				
At the beginning and the end of the period/year	150,000	150,000	150,000	150,000
	457,313	457,313	457,313	457,313



12. Commitments

Capital commitments

At 30 June 2010, 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:

	30 June 2010 <i>RMB'000</i> (unaudited)	31 December 2009 <i>RMB'000</i> (audited)
Contracted but not provided for	109,439	119,632
Authorised but not contracted for	640,600	640,600
	750,039	760,232

Commitments under operating leases

The Group as lessee

The Group leases certain of its retail shops under operating lease arrangements. Lease for properties are negotiated for a term ranging from one to five years and rentals are under fixed rate.

At the end of the Reporting Period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2010 <i>RMB'000</i> (unaudited)	31 December 2009 <i>RMB'000</i> (audited)
Within one year	115	302

The Group as lessor

The Group leases certain of its properties under operating lease arrangements. The properties are expected to generate rental yields of 6.83% (2009: 6.96%) on an ongoing basis. Lease for properties are negotiated for a term of ten years.

At the end of the Reporting Period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2010 <i>RMB'000</i> (unaudited)	31 December 2009 <i>RMB'000</i> (audited)
Within one year	770	770
In the second to fifth year inclusive	3,138	3,113
After five years	3,650	4,050
	7,558	7,933



13. Related party transaction

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

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
SXPGC		
— Payment of annual trademark license fee (<i>Note</i>)	1,100	1,100
— Rental expense	500	500
Fellow subsidiaries :		
— Sale of water, electricity, steam and waste materials	6,486	5,441
— Purchase of raw materials	28,449	42,690
— Rental income	—	2
Associates		
— Purchase of raw materials	4,824	1,584
— Rental income	—	132
— Design fee income	—	11
Minority shareholder:		
— Sale of bulk pharmaceuticals and chemical raw materials	67,694	71,620

Note:

On 7 December 1996, the Group was granted the exclusive right to use the trademark "Xinhua" ("Trademark") by Shandong Xinhua Pharmaceutical Group Company Limited ("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 28 February 2013, subject to further renewal of the registration of the Trademark. During the six months ended 30 June 2010, the annual fee paid by the Group was RMB1,100,000 (2009 : RMB1,100,000).

- (b) As at 30 June 2010, Hualu Holdings Company Limited provide guarantee to the Group amounted to RMB230,000,000 (2009: RMB150,000,000).
- (c) Compensation of key management personnel

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Short-term benefits	937	1,016
Post-employment benefits	117	117
	1,054	1,133

14. Comparative figures

Reclassifications of comparative figures have been made in respect of investment income, other income, other gains and losses and other expenses. Exchange loss arising from operating activities and changes in fair value of derivative financial instruments were reclassified from administrative expenses to other gains and losses while loss on disposal of property, plant and equipment was reclassified from other expenses to other gains and losses to conform with the current period presentation.



(1) DOCUMENTS FOR INSPECTION

- (1) The original copy of the Company's 2010 Interim Report signed by the Chairman of the Board.
- (2) Financial statements for the six months ended 30 June 2010 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 executive directors:

Ms. Guo Qin;
Mr. Ren Fulong;
Mr. Zhao Songguo;

the following non-executive directors:

Mr. Liu Zhenwen;
Mr. Xu Lie;
Mr. Zhao Bin;

and the following independent non-executive directors:

Mr. Zhu Baoquan;
Mr. Sun Minggao;
Mr. Kwong Chi Kit, Victor.

Shandong Xinhua Pharmaceutical Company Limited

28 July 2010