



SHANDONG XINHUA PHARMACEUTICAL COMPANY LIMITED

(H Share Stock Code: 0719)

(A Share Stock Code: 000756)



2011 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 2011 (the “Reporting Period”) has not been audited.

The chairman (Mr. Zhang Daiming), 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” or “Xinhua Pharm”)
Legal Representative	:	Mr. Zhang Daiming
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

SUMMARY OF FINANCIAL AND OPERATING RESULTS

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

Item	As at 30 June 2011 (Unaudited)	As at 31 December 2010 (The "End of Last Year") (Audited)	Change as compared to the End of Last Year (%)
Total assets	2,852,288,422.28	2,739,564,533.49	4.11
Total equity attributable to equity holders of Company	1,713,018,725.62	1,676,523,546.19	2.18
Capital	457,312,830.00	457,312,830.00	—
Net assets per share attributable to equity holders of Company	3.75	3.67	2.18
Item	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2010 (the "Same Period Last Year") (Unaudited)	Change as compared to the Same Period Last Year (%)
Total operating income	1,522,811,524.54	1,368,618,869.54	11.27
Operating profit	79,496,686.58	71,140,908.69	11.75
Profit before taxation	77,517,940.76	74,980,507.52	3.38
Profit attributable to the equity holders of Company	60,702,135.83	57,881,893.63	4.87
Profit attributable to the equity holders of Company after extraordinary items (Note)	60,845,003.76	54,449,164.58	11.75
Basic earnings per share	0.13	0.13	—
Diluted earnings per share	0.13	0.13	—
Return on equity of weighted average (%)	3.56	3.48	Increase 0.08 points
Return on equity of weighted average after extraordinary loss (%)	3.56	3.27	Increase 0.29 points
Net cash flow from operating activities	27,512,297.58	136,981,964.64	(79.92)
Net cash flow from operating activities per share	0.06	0.30	(80.00)

SUMMARY OF FINANCIAL AND OPERATING RESULTS

Note:

Extraordinary items include:

<i>Item</i>	<i>Amount (RMB)</i>	<i>Notes (if applicable)</i>
<i>Profit or loss from disposal of non-current assets</i>	<i>(56,741.13)</i>	<i>Loss of disposal of fixed assets</i>
<i>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)</i>	<i>165,500.00</i>	<i>Received government subsidies reckoned into current term</i>
<i>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</i>	<i>1,750,000.00</i>	<i>Dividends from available-for-sale financial assets</i>
<i>Other non-operating income or cost except the above items</i>	<i>(2,087,504.69)</i>	—
<i>Non-controlling interests</i>	<i>534.19</i>	—
<i>Income tax expense</i>	<i>85,343.70</i>	—
<i>Total</i>	<i><u>(142,867.93)</u></i>	—

Unit: RMB

Items by fair value

<i>Items</i>	<i>Amount as at 1 January 2011</i>	<i>Change of fair value</i>	<i>Total change of fair value</i>	<i>Provision impairment</i>	<i>Amount as at 30 June 2011</i>
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	168,292,466.44	—	132,119,562.00	—	166,190,786.44
Total of financial assets	168,292,466.44	—	132,119,562.00	—	166,190,786.44
Financial liabilities	—	—	—	—	—
Investment property	—	—	—	—	—
Biological assets	—	—	—	—	—
Others	—	—	—	—	—
Total	<u>168,292,466.44</u>	<u>—</u>	<u>132,119,562.00</u>	<u>—</u>	<u>166,190,786.44</u>

SUMMARY OF FINANCIAL AND OPERATING RESULTS

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 2011 (Unaudited)	Six months ended 30 June 2010 (Unaudited)
Revenue	1,509,029	1,352,583
Profit before taxation	76,764	77,126
Income tax expense	(15,305)	(13,904)
Profit for the period	61,459	63,222
Includes:		
Profit attributable to owners of the Company	60,061	60,174
Non-controlling interests	1,398	3,048

Consolidated Statement of Financial Position

Item	As at 30 June 2011 (Unaudited)	As at 31 December 2010 (Audited)
Total assets	2,855,598	2,772,599
Total liabilities	(1,093,875)	(1,048,367)
Non-controlling interests	(39,648)	(38,010)
Equity attributable to owners of the Company	1,722,075	1,686,222

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	
	the Reporting Period	Same Period Last Year	As at 30 June 2011	As at 1 January 2011
Prepared under HKGAAP	60,061,000.00	60,174,000.00	1,722,075,000.00	1,686,222,000.00
Prepared under PRC accounting standards	60,702,135.83	57,881,893.63	1,713,018,725.62	1,676,523,546.19
HKGAAP adjustments:				
Deferred taxation	111,864.17	145,106.37	(1,600,725.62)	(1,711,546.19)
Provision for education fund	(753,000.00)	(973,000.00)	10,657,000.00	11,410,000.00
Financial award for Energy-saving technological transformation	—	3,120,000.00	—	—
Total of the difference between the PRC accounting standards and HKGAAP	<u>(641,135.83)</u>	<u>2,292,106.37</u>	<u>9,056,274.38</u>	<u>9,698,453.81</u>

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

- Education fees are set out as per the actual circumstances, without the need of provision under HKGAAP. As at 30 June 2011 provision made for the balance of education fees under the PRC accounting standards was RMB10,657,000 with an amount in education fees of RMB753,000 for this period.
- Education fees also led to the difference in the Company's deferred income tax, with the difference in accumulated deferred income tax of RMB1,600,725.62 and that in deferred income tax of the current period of RMB111,864.17.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

1. Share Capital structure

Class of shares	30 Jun 2011		Class of shares	1 Jan 2011	
	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	4,238	0.001%	1. Total number of conditional tradable shares	20,112	0.004%
Stated-owned shares	0	0	Stated-owned shares	0	0
Domestic legal person shares	0	0	Domestic legal person shares	0	0
Conditional tradable senior management A Shares	4,238	0.001%	Conditional tradable senior management A Shares	20,112	0.004%
Others	0	0	Others	0	0
2. Total number of unconditional tradable shares	457,308,592	99.999%	2. Total number of unconditional tradable shares	457,292,718	99.996%
Renminbi ordinary shares (A Shares)	307,308,592	67.199%	Renminbi ordinary shares (A Shares)	307,292,718	67.196%
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%

Note: As at 30 June 2011, a total of 11,250,000 shares held by Qingdao Haowei Investment Development Company Limited in the Company have been charged and frozen.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

2. As at 30 June 2011, the Company had on record a total of 41,032 shareholders, including 58 holders of H Shares and 40,974 holders of A Shares.
3. As at 30 June 2011, 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)
Shandong Xinhua Pharmaceutical Group Company Limited ("SXPGC")	State-owned shareholder, A shares	166,071,838	36.31	0	0
HKSCC(Nominees) Limited	Listed H shares	148,095,998	32.38	0	0
Qingdao Haowei Investment Development Company Limited	Domestic general legal person shares	11,536,143	2.52	0	11,250,000
Zhou Qiuping	Domestic person	1,452,624	0.32	0	0
Wang Cuiping	Domestic person	731,400	0.16	0	0
Zhang Qilin	Domestic person	609,600	0.13	0	0
Zheng Huidan	Domestic person	499,990	0.11	0	0
WANG ZHIHAI	Listed H shares	456,000	0.10	0	0
Huang Wanjun	Domestic person	440,000	0.10	0	0
Shen Ge	Domestic person	435,033	0.10	0	0

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

4. As at 30 June 2011, 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	148,095,998	H Shares
Qingdao Haowei Investment Development Company Limited	11,536,143	A Shares
Zhou Qiuping	1,452,624	A Shares
Wang Cuiping	731,400	A Shares
Zhang Qilin	609,600	A Shares
Zheng Huidan	499,990	A Shares
WANG ZHIHAI	456,000	H Shares
Huang Wanjun	440,000	A Shares
Shen Ge	435,033	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 2011, 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 2011, the number of shares held by the Directors, Supervisors and the Senior Officers were as follows:

Name	Position	As at 1 January 2011 Number of Shares	As at Change Number of Shares	30 June 2011 Number of Shares
Directors:				
Mr. Zhang Daiming	Chairman	Nil	Nil	Nil
Mr. Ren Fulong	Executive Director	Nil	Nil	Nil
Mr. Du Deping	Executive Director, General Manager	Nil	Nil	Nil
Mr. Zhao Songguo	Executive Director, Deputy General Manager & Financial Controller	Nil	Nil	Nil
Mr. Xu Lie	Non-executive Director	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. Li Tianzhong	Chairman of Supervisory Committee	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. Dou Xuejie	Deputy General Manager	Nil	Nil	Nil
Mr. Du Deqing	Deputy General Manager	Nil	Nil	Nil
Mr. He Tongqing	Deputy General Manager	Nil	Nil	Nil
Mr. Cao Changqiu	Company Secretary	1,281	Nil	1,281
Ms. Guo Lei	Company Secretary	Nil	Nil	Nil
Total		5,651	Nil	5,651

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

The number of shares held by the Directors, Supervisors and Senior Officers has no change during this Reporting Period.

So far as the Directors, Senior Officers and Supervisors are aware, save as disclosed above, as at 30 June 2011, 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

During this Reporting Period, there were no changes of Directors, Supervisors and Senior Officers.

CHAIRMAN'S STATEMENT

Dear shareholders,

I am pleased to report the operating results of the Company for the six months ended 30 June 2011.

For the six months ended 30 June 2011, pursuant to the PRC accounting standards, the operating income of the Company and its subsidiaries (collectively referred to as "the **Group**") was RMB1,522,812,000 and net profit attributable to equity holders of the Company was RMB60,702,000, representing an increase of 11.27% and an increase of 4.87% respectively, as compared to that of the same period last year.

The Group had a turnover of RMB1,509,029,000 and the profit attributable to owners of the Company of RMB60,061,000 for the six months ended 30 June 2011 under HKGAAP, representing an increase of 11.57% and a decrease of 0.19% 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 2011.

BUSINESS REVIEW

In the first half of 2011, the Group accomplished the business objectives set at the beginning of the year by taking proactive measures against a series of adverse factors such as the surging price of raw materials and energy, increased pressure on the tender system for domestic pharmaceutical products and on environmental protection, the further tightening monetary policies by the State, and appreciating Renminbi. The Group made the following achievements for the period:

1. Increased efforts to explore markets and strived to increase sales

During the first half of 2011, the Company continued to deepen strategic partnerships with its customers and paid great attention to the development of international markets. Leveraging on its advantages in brand, quality and unique products, the Company consolidated its key markets and key customers and vigorously explored emerging markets. It increased efforts in the building of the third terminal network with focus on clinical marketing teams for high-end hospitals while concentrating on the cultivation of key products and strategic products. As such, for the first half of 2011, the Company recorded a double-digit growth in the sales of preparation products despite many difficulties, a year-on-year increase of 21.37% in its revenue from exports and a year-on-year increase of 100% in the external sales of pharmaceutical intermediates at its Shouguang Park.

2. Aggressively promoted R&D of new products, accelerated the launch of new products, proactively advanced technological progress and managed to reduce costs

The Company accelerated its strategic deployment of new products and construction of R&D platforms, completing the deployment of 49 strategic products and the initiation of 14 new projects in the first half of the year. The Company deepened collaboration among production, academy and research and reached an intent of cooperation with a number of domestic and overseas research universities and institutions.

The Company proactively worked on those technical breakthrough projects set out at the beginning of the year, with progress made in the process improvements of products including Ibuprofen, and the successful commencement of production for two new products, namely amlodipine besylate and sumatriptan succinate. In the first half of 2011, the Company saved a total of approximately RMB9,740,000 worth of raw materials and power consumption, and was granted two invention patents and one new utility model patent.

3. Steadily advanced construction of parks and projects

During the first half of 2011, the Company commenced construction of the phase-1 relocation project for the Hutian Park and completed the civil work on the plants for the aspirin and salicylic acid relocation and renovation projects as well as the initial explosion work for the sewage treatment project. It also commenced construction for the multi-functional workshop project and completed the process design for the Analgin series products.

The capacity expansion and renovation projects of pharmaceutical intermediates at Shouguang Park and the serial development of product projects, either completed or currently under preliminary verification and project design, will be carried out in a stable, progressive and economical manner as planned, and built into the Company's "industrial base for precision chemical engineering". The first half of 2011 also saw Shouguang Park maintain its rapid growth momentum.

4. Improved corporate management and boosted comprehensive competitiveness

The Company considerably enhanced its on-site management levels. In the first half of 2011, the Company successfully passed the audit of its tablets workshop by the British Department of Health, the GMP audit of isopropyl karthikeyan antipyrine by Germany, the on-site inspection into pazufloxacin mesylate and the injection of pazufloxacin mesylate by the State Food and Drug Administration, as well as quality audits by 16 customers including GSK. In particular, the passing of the MHRA audit resulted in the award of a passport for the Company's preparation products to access the European markets.

While adhering to the online tendering and procurement model, the Company cut back on exclusive suppliers and agents, made thorough market forecasts and analyses, and fully utilized both the domestic and overseas markets to lower procurement costs.

5. Steady operation in safety and environment protection and remarkable results in energy conservation and emission reduction

Through implementing standardized work safety on the basis of teams/groups and strengthening efforts in improving production techniques and the application of new environment-friendly technologies, the Company maintained a steady operation in terms of safety and environmental protection and did not have any major safety incidents or environment-related accidents in the first half of the year.

By actively promoting the application of the "Four New" technologies, coupled with the application of its online energy management system, the Company worked intently on energy conservation and emission reduction and recorded a remarkable further 4.47% drop in energy consumption per RMB10,000 production value during the first half of 2011.

CHAIRMAN'S STATEMENT

PLANS FOR THE SECOND HALF OF THE YEAR 2011

In the face of a complex and volatile environment, the Group will take and strictly implement practical countermeasures in the second half of 2011. All in all, the Group will focus on the following:

1. Press ahead with product R&D and sales, and boost the core competitiveness of the Company. The Group will try all means to boost the innovation awareness of all staff, step up scientific research efforts, accelerate industrialization of scientific research results, aggressively drive technological progress, innovation and application, lower manufacturing costs, and boost product quality and yield.

By adapting to the ever-changing external environment, the Group will formulate effective measures, strengthen efforts in product market development, fully leverage its advantage of the international certification of its products, and accelerate exploration of international markets while emphasizing control of operating risks and enhancing economic operation quality.

2. Aim at further developments and plan for the future. In firmly upholding the philosophies of strategic management, investment for greater development, solid and thorough implementation of park and project construction as well as scientific R&D, the Group will summarize and learn from the experience and shortcomings in the first half of 2011. The Group will put in place various tasks for the second half of the year so as to prepare for the deployment next year and facilitate the accomplishment of the "12th Five-year Plan" objectives. By stepping up merger & acquisition efforts, the Company speeded up corporate expansion. Through introducing new products to support corporate growth, the Company aspires to accomplish its business deployment as soon as possible.
3. Increased efforts in scientific research and innovation to sustain growth momentum. In the second half of the year, the Company will continue to deploy 8 to 10 research projects and complete 13 pilot production projects, so as to reinforce potential for the Company's future development. It will, through technical innovation, strive to lower consumption and costs, reduce pollutant discharge and improve product technology and economic benefits while accomplishing the technology projects as planned at the beginning of the year to substantially reduce the production costs of a number of pharmaceutical products. Furthermore, it will step up efforts in promoting the "Four New" technologies and the application of new energy-efficient technologies such as MVR, thus ensuring the fulfillment of its energy conservation targets for the whole year.
4. Vigorously promote management innovation. Viewing reform and innovation as the permanent theme for corporate development and adhering to the principle of trouble shooting in corporate development, the Group will make appropriate adjustments to corporate systems, mechanisms and organizational structure to adapt to ever-changing situations and enhance synergy efficiency.
5. Enhance the overall quality of staff. The Group will optimize the performance assessment system, strengthen the implementation of performance and quantified assessments, enhance the overall quality of mid- and high-level managements, and cultivate a strong and competent team for the further growth of the Company.

By order of the Board
Zhang Daiming
Chairman

22 July 2011
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 2011, the liquidity ratio of the Group was 186.00%, the quick ratio was 128.29%, the turnover ratio of account receivables was 441.61% (turnover ratio of account receivables = turnover / average account receivables and net value of bills x 100%) and the turnover ratio of inventory was 320.65% (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 2011, the total amount of bank loans was approximately RMB594,949,000, which was floating rate loans and was accounted by HIBOR and rates issued by Bank of China. As at 30 June 2011, cash on hand and in bank amounted to approximately RMB371,374,000 (including bank acceptance drafts deposits of approximately RMB13,000,000).

During the Reporting Period, the Group charged the land use rights in Hutianzhen, Zhangdian, to a bank for loans. The book value of the land use rights is RMB 70,306,000. There was no charge on the Group's assets except the above charged assets.

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

As at 30 June 2011, the number of employees of the Group was 5,711. The total salaries for employees in the first half of 2011 amounted to RMB106,414,000.

The main investment projects in the second half of 2011 will be Hutian Park project and Shouguang Park project.

As at 30 June 2011, the capital debt ratio of the Group was 34.55% (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, projects and research development.

The assets and debts of the Group were denominated in Renminbi. However, the Group achieved USD90,008,000 in its export for the first half of 2011. Therefore, there was a greater impact from foreign exchange. The Group adopted the following measures to minimise the foreign exchange fluctuation risk: 1. raising the export price in order to minimise foreign exchange fluctuation risk; and 2. when the Group enters into an export contract involving large quantities of products with other parties, the Group shall seek prior consent from the other party that both parties will bear the foreign exchange fluctuation risk should the foreign exchange fluctuation exceed the contractual limit as agreed by both parties.

MANAGEMENT DISCUSSION AND ANALYSIS

2. RESULTS AND FINANCIAL ANALYSIS UNDER PRC ACCOUNTING STANDARDS

In the first half of 2011, the Group had achieved a turnover of RMB1,522,812,000, representing an increase of 11.27% as compared to the same period last year. The increase in revenue was mainly attributable to the Company's export sales for the period growing by 21.37% and sales of chemical products posting a twofold year-on-year increase over the same period last year. The decrease in net cash and cash equivalents was RMB9,696,000, while there was an increase of RMB47,131,000 in the same period last year. The main reason for the change was that the decrease in net cash outflow from operating activities was RMB109,470,000 as compared to the same period last year. Operating profit amounted to RMB79,497,000, representing an increase of 11.75% 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 2011 amounted to RMB2,852,288,000, representing an increase of RMB112,723,000 or 4.11% as compared to the figure of RMB2,739,565,000 as at 1 January 2011. This increase was mainly due to an increase in construction in progress during the Reporting Period. The Group's bank loans as at 30 June 2011 was RMB594,949,000, representing an increase of RMB119,421,000 from RMB475,528,000 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 2011 overall increased by RMB36,495,000 or 2.18%, from RMB1,676,524,000 at the beginning of this year to RMB1,713,019,000. This change was mainly attributable to (1) an increase of RMB60,702,000 from the operating profit of the Group during the Reporting Period; and (2) a deduction of RMB22,866,000 for the distribution of 2010 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 2011		First half of 2010	
	Total turnover	Costs	turnover	Costs
PRC (incl. Hong Kong)	927,985	732,016	881,518	721,942
Europe	224,577	184,257	166,175	127,086
Americas	267,315	244,426	243,950	203,246
Others	81,684	70,984	52,749	39,509
Total	<u>1,501,561</u>	<u>1,231,683</u>	<u>1,344,392</u>	<u>1,091,783</u>
By industry and By product		Income from principal operations	Costs of sales of principal operations	Gross profit margin (%)
Bulk pharmaceutical Preparations		805,140	666,022	17.28
Medical commercial logistics		270,361	167,838	37.92
Chemical products and other products		358,687	342,084	4.63
		67,373	55,739	17.27
Total		<u>1,501,561</u>	<u>1,231,683</u>	<u>17.97</u>

MANAGEMENT DISCUSSION AND ANALYSIS

An analysis of profit as compared to 2010 is as follows:

Items	Amount (RMB'000)		% of total profit	
	Jan.–Jun. 2011	2010	Jan.–Jun. 2011	2010
Operating profit	79,497	131,702	102.55	105.25
Profit/Loss from non-operation activities	(1,979)	(6,574)	(2.55)	(5.25)
Profit before taxation	77,518	125,128	100.00	100.00

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 2011, RMB363,319,000 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	888	25,185	33.81%	—
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>888</u>	<u>363,319</u>	—	—

- (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.

REVIEW OF MAJOR EVENTS

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 2011.
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:

During the Reporting Period, 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. 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 2011, 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: Nil
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%	111,950,000.00	1,750,000.00	(2,550,000.00)	Available-for-sale financial assets	Purchase
601328	BANKCOMM	14,225,318.00	0.02%	41,394,880.00	—	448,320.00	Available-for-sale financial assets	Purchase
Total		21,225,318.00	—	153,344,880.00	1,750,000.00	(2,101,680.00)	—	—

12. Index of important information which has been disclosed

The announcement of the “2010 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 21 March 2011.

The announcement of the “The First Quarter Report of 2011” 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 2011.

The announcement of the “The Notice of Annual General Meeting for the 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 12 May 2011.

The announcement of the “Announcement of 2010 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 29 June 2011.

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
24 May 2011	Office address of the Company	Field study	Guosen Securities (HK) Financial Holdings Company Limited	Understand the basic information and the prospect of the Company's development

CORPORATE GOVERNANCE

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 2011. 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 2011.

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 2011, 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 2010 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 2011 (UNAUDITED)**

Consolidated and the Company's Balance Sheet

Unit: RMB

Assets	Notes	2011.6.30		2010.12.31	
		Consolidated	The Company	Consolidated	The Company
Current assets					
Cash and Cash equivalent	8.1	371,374,174.78	286,691,748.85	404,050,284.24	281,700,947.52
Held-for-trade financial assets		—	—	—	—
Notes receivable	8.2	124,497,416.33	97,894,364.25	149,588,501.92	130,697,554.68
Accounts receivable	8.3	252,835,092.12	287,587,736.66	156,803,638.82	233,149,344.13
Advances to suppliers	8.4	36,184,210.04	21,409,722.48	33,202,236.89	12,611,791.04
Interest receivable		—	—	—	—
Dividend receivable		—	—	—	—
Other receivables	8.5	31,463,918.38	127,276,454.85	13,022,646.89	65,349,999.49
Inventories	8.6	370,243,521.89	209,814,038.40	401,543,072.42	273,965,706.99
Non-current assets due within one year		—	—	—	—
Other current assets	8.7	882,090.93	—	1,289,000.13	76,596.25
Sub-Total current assets		1,187,480,424.47	1,030,674,065.49	1,159,499,381.31	997,551,940.10
Non-current assets					
Available-for-sale Financial Assets	8.8	166,190,786.44	166,190,786.44	168,292,466.44	168,292,466.44
Held-to-maturity investment		—	—	—	—
Long-term receivable		—	—	—	—
Long-term equity investment	8.9	21,458,840.75	368,295,388.82	18,301,894.33	365,094,425.76
Investment property	8.10	38,770,586.31	38,770,586.31	35,707,356.91	35,707,356.91
Fixed assets	8.11	986,345,811.72	709,554,075.00	1,005,363,802.93	745,077,549.51
Construction in progress	8.12	222,900,529.59	156,124,686.81	120,260,534.88	93,830,918.22
Construction materials		—	—	—	—
Disposal of fixed assets		—	—	—	—
Biological assets		—	—	—	—
Oil and nature gas		—	—	—	—
Intangible assets	8.13	225,791,866.77	166,137,965.43	228,721,038.46	168,358,277.43
Research & Development cost		—	—	—	—
Goodwill		—	—	—	—
Long-term prepayments		—	—	—	—
Deferred tax assets	8.14	3,349,576.23	—	3,418,058.23	—
Other non-current assets		—	—	—	—
Sub-Total non-current assets		1,664,807,997.81	1,605,073,488.81	1,580,065,152.18	1,576,360,994.27
Total Assets		2,852,288,422.28	2,635,747,554.30	2,739,564,533.49	2,573,912,934.37

FINANCIAL REPORT

(PREPARED UNDER PRC ACCOUNTING STANDARDS)

Unit: RMB

Liabilities & Shareholders' equity	Notes	2011.6.30		2010.12.31	
		Consolidated	The Company	Consolidated	The Company
Current liabilities					
Short-term loans held-for-trade	8.16	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
financial liabilities		—	—	—	—
notes payable	8.17	32,173,000.00	42,003,000.00	115,702,700.00	117,502,700.00
Accounts payable	8.18	257,296,894.42	177,694,413.20	218,541,850.35	153,502,157.54
Advances for customers	8.19	12,530,205.94	2,436,251.62	20,005,241.38	9,868,124.65
Employees' wage payable	8.20	37,811,120.59	37,582,075.91	59,130,449.79	57,034,090.51
Tax payable	8.21	4,794,520.06	2,684,904.97	(22,018,476.34)	(16,753,499.31)
Interest payable	8.22	839,948.28	839,948.28	612,523.04	612,523.04
Dividends payable	8.23	28,174,061.50	28,174,061.50	13,612,011.90	13,612,011.90
Other accounts payable	8.24	71,057,526.55	39,235,329.10	83,457,931.94	56,496,229.41
non-current liabilities					
within one year	8.25	150,000,000.00	150,000,000.00	150,000,000.00	150,000,000.00
other current liabilities	8.26	590,000.00	590,000.00	590,000.00	590,000.00
Sub-Total current liabilities		645,267,277.34	531,239,984.58	689,634,232.06	592,464,337.74
Non-current liabilities					
Long-term borrowings	8.27	394,948,600.00	394,948,600.00	275,527,900.00	275,527,900.00
Bonds payable		—	—	—	—
Long-term payables		—	—	—	—
Specific payables		—	—	—	—
Provisions		—	—	—	—
Deferred tax liabilities	8.28	843,289.05	843,289.05	1,158,541.05	1,158,541.05
Other non-current liabilities	8.29	58,562,387.00	58,562,387.00	58,709,887.00	58,709,887.00
Sub-total of non-current liabilities		454,354,276.05	454,354,276.05	335,396,328.05	335,396,328.05
Total liabilities		1,099,621,553.39	985,594,260.63	1,025,030,560.11	927,860,665.79
Shareholders' equity					
Share capital	8.30	457,312,830.00	457,312,830.00	457,312,830.00	457,312,830.00
Capital reserve	8.31	676,901,435.62	676,420,704.85	678,687,863.62	678,207,132.85
Less: Treasury stock		—	—	—	—
Special reserve		—	—	—	—
Surplus reserve	8.32	183,747,267.43	183,084,726.12	183,747,267.43	183,084,726.12
General Risk Provision		—	—	—	—
Undistributed profits	8.33	394,874,096.02	333,335,032.70	357,037,601.69	327,447,579.61
Exchange difference arising from transaction of financial statements denominated in foreign currencies		183,096.55	—	(262,016.55)	—
Sub-Total shareholders' equity attributable to the parent company		1,713,018,725.62	1,650,153,293.67	1,676,523,546.19	1,646,052,268.58
Minority Interest	8.34	39,648,143.27	—	38,010,427.19	—
Total shareholders' equity		1,752,666,868.89	1,650,153,293.67	1,714,533,973.38	1,646,052,268.58
Total liabilities & shareholders' equity		2,852,288,422.28	2,635,747,554.30	2,739,564,533.49	2,573,912,934.37

Consolidated and the Company's Income Statement

Unit: RMB

Item	Notes	First half of 2011		First half of 2010	
		Consolidated	The Company	Consolidated	The Company
1. Total Operating Income		1,522,811,524.54	957,937,694.81	1,368,618,869.54	919,627,165.93
Operating Income	8.35	1,522,811,524.54	957,937,694.81	1,368,618,869.54	919,627,165.93
2. Total Operating Costs		1,448,271,735.29	928,194,170.01	1,301,110,155.78	868,429,433.07
Including: Operating Costs	8.35	1,254,708,252.89	831,515,794.47	1,117,047,193.39	740,266,357.99
Business taxes and surcharges	8.36	5,697,453.84	3,781,025.98	7,349,609.91	6,390,089.53
Selling and distribution expenses		91,559,028.36	12,187,415.31	89,541,312.71	45,366,864.74
Administrative expenses		78,262,015.08	64,859,815.91	77,263,090.21	65,903,825.12
Financial expenses	8.37	16,245,648.32	15,850,118.34	9,908,949.56	10,502,295.69
Impairment loss of assets	8.38	1,799,336.80	—	—	—
Add: Gain or Loss from changes in fair value		—	—	—	—
Investment gain or loss	8.39	4,956,897.33	4,950,963.06	3,632,194.93	7,173,643.44
Including: Gain or loss from investment in associates and joint ventures		3,200,963.06	3,200,963.06	2,822,345.26	2,822,345.26
Exchange gain		—	—	—	—
3. Operating profit		79,496,686.58	34,694,487.86	71,140,908.69	58,371,376.30
Add: Non-operating income	8.40	778,974.27	756,432.66	5,524,758.33	1,408,050.15
Less: Non-operating expense	8.41	2,757,720.09	2,220,925.97	1,685,159.50	1,591,481.52
Including: Gain or loss on disposal of non-current assets		539,620.93	539,620.93	153,790.74	153,790.74
4. Total profit		77,517,940.76	33,229,994.55	74,980,507.52	58,187,944.93
Less: Income tax expenses	8.42	15,417,765.13	4,476,899.96	14,050,412.21	9,064,482.14
5. Net profit		62,100,175.63	28,753,094.59	60,930,095.31	49,123,462.79
Net profit attributable to equity holder of the company		60,702,135.83	28,753,094.59	57,881,893.63	49,123,462.79
Net profit attributable to minority shareholder		1,398,039.80	—	3,048,201.68	—
6. Earnings per share	8.43				
(1) Basic earning per share		0.13	0.06	0.13	0.11
(2) Diluted earning per share		0.13	0.06	0.13	0.11
7. Other comprehensive income	8.44	(1,101,638.62)	(1,786,428.00)	(31,444,742.13)	(30,179,101.05)
8. Total of comprehensive incomes		60,998,537.01	26,966,666.59	29,485,353.18	18,944,361.74
Total of comprehensive incomes attributable to the owners of the parent company		59,360,820.93	26,966,666.59	26,880,125.88	18,944,361.74
Total comprehensive income attributable to the minority shareholders		1,637,716.08	—	2,605,227.30	—

FINANCIAL REPORT

(PREPARED UNDER PRC ACCOUNTING STANDARDS)

Consolidated and the Company's Cash Flow Statement

Unit: RMB

Item	Notes	First half of 2011		First half of 2010	
		Consolidated	The Company	Consolidated	The Company
1. CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from the sale of goods or rendering of services		960,152,235.93	669,991,099.71	1,045,104,430.78	785,384,816.44
Receipts of tax refunds		12,913,067.31	9,088,439.93	5,702,908.94	3,075,467.81
Other cash receipts relating to operating activities	8.45	33,400,147.66	38,342,139.02	14,656,173.45	17,010,131.75
SUB-TOTAL OF CASH INFLOWS FROM OPERATING		1,006,465,450.90	717,421,678.66	1,065,463,513.17	805,470,416.00
Cash payments for goods purchased and services received		672,258,020.82	482,451,396.43	631,785,467.45	452,911,746.93
Cash paid to and on behalf of employees		143,562,616.80	116,669,255.56	130,207,137.06	104,202,123.07
Payments of all types of taxes		54,380,700.37	32,401,672.67	60,101,050.36	48,228,129.60
Other cash payments relating to operating activities	8.45	108,751,815.33	72,152,738.32	106,387,893.66	81,515,716.43
SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES		978,953,153.32	703,675,062.98	928,481,548.53	686,857,716.03
NET CASH FLOWS FROM OPERATING ACTIVITIES		27,512,297.58	13,746,615.68	136,981,964.64	118,612,699.97
2. CASH FLOWS FROM INVESTING ACTIVITIES					
Cash receipts from disposals of investments		—	—	463,655.00	463,655.00
Cash receipts from returns on investments		1,755,934.27	1,750,000.00	809,849.67	4,308,498.99
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		436,942.30	436,942.30	943,311.65	943,311.65
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		2,192,876.57	2,186,942.30	2,216,816.32	85,715,465.64
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		137,040,203.04	85,755,933.43	129,221,219.59	58,311,167.40
Cash payments to acquire investments		—	—	—	100,000,000.00
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		137,040,203.04	85,755,933.43	129,221,219.59	158,311,167.40
NET CASH FLOWS FROM INVESTING ACTIVITIES		(134,847,326.47)	(83,568,991.13)	(127,004,403.27)	(72,595,701.76)

Unit: RMB

Item	Notes	First half of 2011		First half of 2010	
		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		170,000,000.00	170,000,000.00	130,000,000.00	130,000,000.00
Proceeds from issue of corporate bonds		—	—	—	—
Other cash receipts relating to financing activities		—	—	—	—
SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES		170,000,000.00	170,000,000.00	130,000,000.00	130,000,000.00
Cash repayments of amounts borrowed		50,000,000.00	50,000,000.00	80,000,000.00	80,000,000.00
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		20,636,310.87	20,636,310.87	11,875,596.63	8,382,596.63
Including: Cash payments to the minority shareholders for distribution of dividends or profits		—	—	3,493,000.00	—
Other cash payments relating to financing activities		—	—	—	—
SUB-TOTAL OF CASH OUTFLOWS		70,636,310.87	70,636,310.87	91,875,596.63	88,382,596.63
NET CASH FLOWS FROM FINANCING ACTIVITIES		99,363,689.13	99,363,689.13	38,124,403.37	41,617,403.37
4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(1,724,769.70)	(1,570,512.35)	(970,603.33)	(901,483.37)
5. NET INCREASE IN CASH AND CASH EQUIVALENTS		(9,696,109.46)	27,970,801.33	47,131,361.41	86,732,918.21
Add: Beginning balance of cash and cash equivalents		368,070,284.24	245,720,947.52	364,398,234.64	259,612,925.14
6. ENDING BALANCE OF CASH AND CASH EQUIVALENTS		358,374,174.78	273,691,748.85	411,529,596.05	346,345,843.35

FINANCIAL REPORT

(PREPARED UNDER PRC ACCOUNTING STANDARDS)

Consolidated Statement of Changes in Shareholder's Equity in the First Half of 2011

Unit: RMB

Item	Equity attributable to the 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	678,687,863.62	—	—	183,747,267.43	—	357,037,601.69	(262,016.55)	38,010,427.19	1,714,533,973.38
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	678,687,863.62	—	—	183,747,267.43	—	357,037,601.69	(262,016.55)	38,010,427.19	1,714,533,973.38
3. Increase/decreased in the year	—	(1,786,428.00)	—	—	—	—	37,836,494.33	445,113.10	1,637,716.08	38,132,895.51
I Net profit	—	—	—	—	—	—	60,702,135.83	—	1,398,039.80	62,100,175.63
II Other comprehensive income	—	(1,786,428.00)	—	—	—	—	—	445,113.10	239,676.28	(1,101,638.62)
Subtotal of I and II	—	(1,786,428.00)	—	—	—	—	60,702,135.83	445,113.10	1,637,716.08	60,998,537.01
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	—	—	—	—	—	—	—	—	—	—
VII others	—	—	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	676,901,435.62	—	—	183,747,267.43	—	394,874,096.02	183,096.55	39,648,143.27	1,752,666,868.89

Consolidated Statement of Changes in Shareholder's Equity in 2010

Unit: RMB

Item	Equity attributable to the 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	—	—	—	—	—	—	—	—	—	—
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	—	(30,912,737.05)	—	—	6,548,466.70	—	67,842,494.55	(600,524.36)	1,692,734.05	44,570,433.89
I Net profit	—	—	—	—	—	—	97,256,602.75	—	5,509,093.32	102,765,696.07
II Other comprehensive income	—	(36,112,737.05)	—	—	—	—	—	(600,524.36)	(323,359.27)	(37,036,620.68)
Subtotal of I and II	—	(36,112,737.05)	—	—	—	—	97,256,602.75	(600,524.36)	5,185,734.05	65,729,075.39
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	—	—	—	—	6,548,466.70	—	(29,414,108.20)	—	(3,493,000.00)	(26,358,641.50)
a. Transfer to surplus reserves	—	—	—	—	6,548,466.70	—	(6,548,466.70)	—	—	—
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	—	—	—	—	—	—	—	—	—	—
VII Others	—	5,200,000.00	—	—	—	—	—	—	—	5,200,000.00
4. Ending balance of the year	457,312,830.00	678,687,863.62	—	—	183,747,267.43	—	357,037,601.69	(262,016.55)	38,010,427.19	1,714,533,973.38

FINANCIAL REPORT

(PREPARED UNDER PRC ACCOUNTING STANDARDS)

The Company's Statement of Changes in Shareholder's Equity in the First Half of 2011

Unit: RMB

Item	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	678,207,132.85	—	—	183,084,726.12	—	327,447,579.61	1,646,052,268.58
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting error	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	678,207,132.85	—	—	183,084,726.12	—	327,447,579.61	1,646,052,268.58
3. Increase/decreased in the year	—	(1,786,428.00)	—	—	—	—	5,887,453.09	4,101,025.09
I Net profit	—	—	—	—	—	—	28,753,094.59	28,753,094.59
II Other comprehensive income	—	(1,786,428.00)	—	—	—	—	—	(1,786,428.00)
Subtotal of I and II	—	(1,786,428.00)	—	—	—	—	28,753,094.59	26,966,666.59
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	—	—	—	—	—	—	—	—
VII Others	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	676,420,704.85	—	—	183,084,726.12	—	333,335,032.70	1,650,153,293.67

The Company's Statement of Changes in Shareholder's Equity in 2010

Unit: RMB

Item	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	—	—	—	—	—	—	—	—
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	—	(30,912,737.05)	—	—	6,548,466.70	—	36,070,558.77	11,706,288.42
I Net profit	—	—	—	—	—	—	65,484,666.97	65,484,666.97
II Other comprehensive income	—	(36,112,737.05)	—	—	—	—	—	(36,112,737.05)
Subtotal of I and II	—	(36,112,737.05)	—	—	—	—	65,484,666.97	29,371,929.92
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	—	—	—	—	6,548,466.70	—	(29,414,108.20)	(22,865,641.50)
a. Transfer to surplus reserves	—	—	—	—	6,548,466.70	—	(6,548,466.70)	—
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	—	—	—	—	—	—	—	—
VII Others	—	5,200,000.00	—	—	—	—	—	5,200,000.00
4. Ending balance of the year	457,312,830.00	678,207,132.85	—	—	183,084,726.12	—	327,447,579.61	1,646,052,268.58

NOTES TO THE FINANCIAL STATEMENTS

1. BACKGROUND OF THE COMPANY

Shandong Xinhua Pharmaceutical Company Limited (here-in-after referred to the “Company”) was established in 1993, through the reorganisation 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 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 Ministry of Foreign Trade and Economic Cooperation of the People’s Republic China. As approval, the Company issued additional 30 million ordinary A shares and decreased 3 million state-owned shares on September 2001.

The Company’s registered capital at 30 June 2011 is RMB457.313 million, the capital structure is as follow:

Class of shares	Quantity of Shares	The proportion of the total share capital (%)
I. Subtotal of restricted tradable outstanding shares	4	0.001
A share restricted tradable Senior management-held shares	4	0.001
II. Subtotal of no restricted tradable outstanding shares	457,309	99.999
RMB ordinary shares (A share)	307,309	67.199
Overseas foreign shares (H share)	150,000	32.80
III. Total shares	<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 (“ASBEs”) Accounting Standards for Business Enterprises and other related requirements issued by the Ministry of Finance, the financial statement have been prepared based on the Significant Accounting Policies Accountings, Estimates 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 1 January to 31 December 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 recognized 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 occurs. 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 with the financial assets held for 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 their fair value. Transaction cost related to the acquisitions 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.

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 of which changes are measured 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. If available for sale financial assets at fair value has a significant or prolonged decline, the cumulative loss due to decline in fair value which would have otherwise recorded in the shareholder equity would be included in impairment loss.

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 amortized cost.

6.5 Determination method about fair value of Financial assets and Financial liabilities

For the active financial assets or financial liabilities in the market, the quotations will be used for determination of their fair value. In an active market, the company has held financial assets or financial liabilities to be assumed by the current bid price for the corresponding assets or liabilities at fair value; The Company intends to acquire financial assets or financial liabilities have been assumed by the current asking price for the corresponding assets or liabilities at fair value. Financial assets or financial liabilities that have no current bid and ask prices, but if recent economic conditions after the transaction have not changed significantly, then the last traded market price is used to determine the financial assets or financial liabilities at fair value.

For the inactive financial instruments, the company will adopt the evaluation technology to determine their fair value. Evaluation technology refers to the transaction between knowledgeable, willing parties, recent market prices used in transactions and, similar current financial assets at fair value, discounted cash flow analysis and option pricing models.

7. Accounting for provision of bad debt loss

The Company sets the following to be the standards for recognising certain receivables as bad debt losses: when a debtor goes into liquidation or bankruptcy; or the debtor has insufficient assets to distinguish its liabilities; or the debtor has a short fall of cash; or there is a severe natural disaster that leads the debtor to suspend their operations and means they are unable to settle the debts in the foreseeable period; or the debtor allows the debt settlement payments fall overdue; or other evidence showing that the amount will not or probably not be able to be recovered.

Bad debt losses are accounted for using the allowance method, and at the end of the year an impairment test is carried out on the individual bad debt or in combination with other factors. Provisions accounted for bad debts are recognised in current gains or losses. When there is evidence showing that the amount is made to be recovered, it is written off against the allowance accounted for in receivables after the Company's approval procedures has been completed.

(1) Accounts receivable for individually significant and individual provision for bad debts

Determine standard basis amount for individual significant	Individual accounts receivable amount more than RMB5 million seen as a significant receivable
Provision method for amount individually significant and individual provision for bad debt	According to whether the future cash flow is lower than the difference between its book value

- (2) Accounts receivable provision for bad debts according to combination

Determine the basis of combination

Combination with aging	Dividing combination on the basis of aging for the credit risk characteristics
Combination with the relationship between trading partners	Dividing combination on the basis of related party transaction
Combination with special accounts	Mainly including taxes to be deductible, amounts receivable from export tax rebates and other special circumstances

Provision method of provision of bad debts according to combination

Combination with aging	Provision of bad debts according to the aging analysis
Combination with the relationship between trading partners	Provision of bad debts according to other methods
Combination with special accounts	Provision of bad debts according to other methods

- 1) The preparation for provision of bad debts by adopting the aging analysis as following:

Aging	Withdrawal percentage of Accounts receivable (%)	Withdrawal percentage of Other receivable (%)
Within one year	0.5	0.5
1-2 years	20	20
2-3 years	60	60
More than 3 years	100	100

- 2) Other method for provision of bad debts for accounts receivable

Relationship with trading partner	No provision for bad debts for related parties
Combination with special accounts	No provision for bad debts for taxes to be deductible, amounts receivable from export tax rebates and other special circumstances

- 3) Individual accounts receivable amount is not significant but is an individual provision for bad debts

The reason for individual provision of bad debts	Individual accounts receivable amount is not significant, and in accordance with the provision for bad debts the combination does not reflect the risk characteristics
Method for provision of bad debts	Provision of bad debts according to future cash flow being lower than the differences in book value

8. Inventories

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

The company adopts perpetual inventory methods, the purchased inventories shall be accrued at the actual cost; the purchase of warehousing of various inventories in the company are priced based on the actual cost; the low-value consumable products and packing material will be accrued to the cost at on time.

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 of 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 a collective basis.

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 held for production are determined by the estimated selling price of the finished goods less the estimated cost of completion, selling expenses and taxes.

9. Long-term equity Investments

9.1 Classification of Long-term Investments

Long-term Investments mainly include equity investments in investees 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 influences refers to the right to participate in making decisions on the financial and operating policies of an investee, but not to control or exercise joint control together with other parties over the formulation of these policies. The existence of significant influence is mainly based on the fact that directly, or indirectly through subsidiaries the Group held more than 20% (including 20%) and less than 50% in the investee’s voting shares. If there is evidence showing that the Company has no rights to 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.

Apart from the long-term equity investment acquired through a business combination as mentioned above, the initial investment cost of 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 the 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 the company adopts the cost method, the long-term equity investment valuation as its initial investment cost, and when the additional investment or recovers, adjusting the cost of long term equity investment. 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 those attributable to the Company based on its share in the investee. If the first time is held prior to the implementation date of associates and joint ventures in the long-term equity investments, if their existence of an equity investment in the investment-related debit balances, it will be deducted from the original straight-line amortisation of the remaining period of the equity investment debit balance confirmation Investment income.

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 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 can not be measured reliably when the Company has ability to exercise control over the investee due to such reason as increase in investment, the measurement of the investment is charged to apply cost method. For the long-term equity investments over which the Company has gained joint control, but not control, due to such reason as increase in investment or when the Company 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 is reckoned 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 (year)	Estimated residual value rate (%)	Annual depreciation rate (%)
Land use right	Benefit from the transfer of life	—	—
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 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 for 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, transportation equipment, electronic instrument, 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 asset 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 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 (year)	Annual Depreciation rate (%)
House & Buildings	20 Years	4.75
Machinery & equipment	10 Years	9.5
Electronic instrument	5 Years	19
Office equipment and vehicles	5 Years	19

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, once it happens, it will be recognised into current gain or loss.

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 happened shall be treated as changes of accounting estimates.

11.7 When fixed assets are disposed, or through the use or disposal of can not be expected to produce economic benefits, the fixed asset is derecognised. The income of fixed assets sold, transferred, scrapped or destroyed deducts net book value and related taxes reckoning in current profit or loss.

12. Construction-in-progress

12.1 Measurement of construction progress

Construction-in-progress measured at the expenditure 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 constructing 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; expenditure 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. Capitalisation rate confirmed as general borrowing weighted average rate.

Qualifying assets are assets (fixed assets, investment property, inventories) that necessarily take a substantial period of time 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, 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, the rights, software use rights are amortised over 5 years. The amortisation charge shall be recognised as 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. If 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 amortised accordingly.

15. Research and Development

According to the nature of expenditure and the 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 which does not meet all above the 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 intangible asset in subsequent period. The capitalised expenditure in the development phase shall be recognised as an intangible asset when the asset is ready to its intended use.

16. Impairment for Non-financial Assets

The Company assesses at each balance sheet date whether there is any indication of impairment in relation to long-term equity investments, fixed assets, construction-in-progress, intangible assets of finite useful life. If there is any of the following indications, this indicates that an asset might have been impaired, the Company will then carry out an impairment test. Goodwill and any 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 an individual asset, the Company carries out tests on basis 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 recognized as an impairment loss. Once the impairment loss is recognised, it shall not be reversed in subsequent periods. The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flow expected to be derived from the asset.

The following are indications that an asset may be impaired: (a) during the period, the 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) there are significant changes with an adverse effect on the Company have taken place during the period, or will be taken place in the near future, in 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 increase are likely to affect the discount rate used in calculating the present value of an asset's expected future cash flows and decrease the assets recoverable amount materially; (d) evidence is available of obsolescence or physical damage of an asset; (e) an asset has become or is becoming idle, 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, that exceeds the acquirer's interest in the fair value of the investees' or acquirer's identifiable net assets.

Goodwill related to subsidiaries is presented in consolidated financial statements as a separate item. Goodwill related to 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 the termination of an 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, pending litigations or arbitrations, product warranties, redundancy plan, onerous contract, reconstructing, expected disposal of fixed assets, satisfied 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 charge, clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount shall be adjusted to the current best estimate.

20. Revenue

The Company's revenue is mainly from sale of goods, rendering of services and alienating 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 when the following conditions are satisfied, for more details as follows:

20.1 Revenue from the sale of goods is recognised when all of the following conditions are satisfied

(1) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Company retains neither continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow into the Company; and (5) 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; and (c) 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 different accounting years the revenue is recognised as a percentage of completion at the balance sheet date if the outcome of the transaction can be estimated reliably. The percentage of completion shall be determined by the cost incurred and the estimated whole cost.

20.3 Revenue from alienating the rights to use assets

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: 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 every 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 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 control

The assets and liabilities acquired through a business combination involving an 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 an 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 business combination less than the acquirer's identifiable net assets, after reassessment, the difference is included in the profit or loss in the current period.

25. Basis of Preparation of Consolidated Financial Statements

25.1 Scope of Consolidation

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

25.2 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 during January to June 2011.

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 income tax is 15%

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 2% 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 minority shareholders for the year over beginning balance of minority shareholders' equity
Shandong Xinhua Pharmaceutical Trade Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB48,4989 million	Drug sales	RMB48.58 million	—	100	100	YES	—	—
Shandong Xinhua Pharmaceutical Export & Import 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	RMB5.5 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 EUR	Pharmaceutical raw materials and work in process	500,000 EUR	—	65	65	YES	RMB4.38 million	—
Zibo Xinhua-Eastwest Pharmaceutical Company Limited	Control subsidiary	Zibo, Shandong	Turing of Medical Chemical Manufacture	1.5 million us dollars	Production and sales of non-calcium poly Kaposi APIs	1.125 million us dollars	—	75	75	YES	RMB3.53 million	—
Zibo Xinhua-Perigo Pharmaceutical Company Limited	Control subsidiary	Zibo, Shandong	Turing of Medical Chemical Manufacture	6million us dollars	Production and sales of bulk drugs Ibuprofen	3.006 million us dollars	—	50.1	50.1	YES	RMB31.73 millions	—
Xinhua (Shouguang) Pharmaceutical Company Limited	wholly-owned subsidiary	Shouguang, Shandong	Turing of Medical Chemical Manufacture	290millions	Production and sales of chemical equipment and accessories	230.71 million	—	100	100	YES	—	—
Xinhua Zibo Properties Company Limited	wholly-owned subsidiary	Zibo, Shandong	Developing of real estate	20millions	Developing of real estate	20 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. Pharm Trade is a wholly owned subsidiary of the Company.

- 2) Shandong Xinhua Pharmaceutical Export & Import Company Limited (hereafter referred to as “Xinhua Export & Import”) was established on 15 May 2006 with a registered capital of RMB5 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 Export and Import respectively. The principle operation of Xinhua Export& Import 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 Export and Import held by Zibo Xihua Drug Store Chain Company Limited was transferred to the Company at a consideration of RMB149,880.

On 4 January, 2010, the Company entered into an equity transfer contract with Shandong Xinhua Pharmaceutical Trade Company Limited whereby the 98% equity interests in Xinhua Export and Import held by Shandong Xinhua Pharmaceutical Trade Company Limited was transferred to the Company at a consideration of RMB5,350,795.58.

- 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 RMB2,000,000, by the Company and 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 Yuan 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 registered capital of Design Institute was increased to RMB3 million. 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 to the present 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 88% and 12% by the Company and Shandong Xinhua Group. 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 Pharmaceutical Group Co., Ltd; whereby Shandong Xinhua Group transferred its 12% equity interests in Zibo Drug Store to the Company of RMB394,900 and paid related tax RMB4,000. Drug Store is the 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. Lipeng of Germany. The registered capital was EUR1 million. The Company holds 70% of equity interests, while Mr. LIPENG 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 EUR650,000 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. Lipeng, that Lipeng 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, the first general meeting of Xinhua European passed the resolution that LK & K Trading Co, Ltd increases its contribution of EUR 119,000 to Xinhua (European). The fund was received on 20 October, 2009. The verification report was obtained on 10 November, 2009. After the increase in the capital the registered capital of Xinhua European was EUR769,000. The Company paid EUR 500,000 accounting for 65%; LK & K Trading Co., Ltd. invested EUR269,000, accounting for 35%. The registered address of Xinhua European has been changed to Rotterdam, Holland in May 2011.

- 6) Zibo Xinhua-Eastwest Pharmaceutical Company Limited (hereafter referred to as “Xinhua-West”) was established on 15 November 2005 with a registered capital of USD 1.5 million, by the Company and West 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 USD 1.125 million and USD 0.375 million in cash respectively. The paid up capital of Xinhua-West is US1.5 million. The principle operation of Xinhua-West is production and sales of Calcium Polycarboxyl 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 USD 6 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 at pursuant to the amendment Joint Venture. The Company held 50.1% shares of Xinhua-Perrigo as at 31 December 2010.
- 8) Shandong Xinhua Pharmaceutical (Shouguang) Company Limited, originally named as Shandong Dadi Xinhua Chemical & Industrial Company Limited (hereinafter referred to as “Dadi Xinhua”), was established with the registered capital of RMB26,000,000 by the Company and Shandong Dadi Salinisation Group Limited on 12 September 2006. The Company contributed RMB12,740,000, accounting for 49% of the registered capital of Dadi Xinhua. The Company injected additionally RMB6,000,000 in Dadi Xinhua and increased its registered capital to RMB32,000,000 in November 2007. As a result, the Company invested a total of RMB18.74 million in Dadi Xinhua and held 58.5625% of Dadi Xinhua’s shares. In 2008, the Company purchased all the shares of Dadi Xinhua held by Shandong Dadi Salinisation Group Limited at a consideration of RMB13,972,368 and renamed Dadi Xinhua as Shandong Xinhua Pharmaceutical (Shouguang) Company Limited (“Xinhua Shouguang”). The Company then injected an additional capital of RMB48 million in Xinhua Shouguang. After the injection, the registered capital of Xinhua Shouguang was RMB80 million and it became a wholly owned subsidiary of the Company.

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 (Shousheng CPA Yan Zi (2009) No.021).

In 2010 the company added capital of RMB100 million to Shouguang company. The capital increase has been recognised by Shouguang shengcheng Certified Public Accountants by the document of “Shousheng CPA Yan Zi (2010) No. 010” vetification report dated 3 March, 2010, and on 26 August, 2010 Shouguang company get the Enterprise legal person business license after the alternative. After the capital increase, Xinhua Shouguang has registered capital of RMB230 million.

Main business of Xinhua Shouguang is mainly engaged in production and sales of chemical products (excluded dangerous and poisonous chemical).

- 9) Xinhua (Zibo) Properties Company Limited (hereinafter referred to as the “Xinhua Properties”) was established in December 2010, the registered capital of RMB20 million, all of the Xinhua Properties invest in cash by the Company, a wholly owned subsidiary of the Company. Xinhua properties established according to Shandong PuHua Accounting firm capital verification report which issued by the “Price Waterhouse Yan Zi [2010] No. 191” on 14 December 2010. Ended 31 December, 2010, Xinhua Properties has not yet officially open for business.

2. 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 EUR=9.3612 RMB	1 EUR=8.8065 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, 2011, ‘end of the year’ refers to 30 June 2011 . ‘This year’ refers to period from 1 January to 30 June 2011. ‘Previous year’ refers to period from 1 January to 30 June 2010. 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 year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
Cash on Hand	—	—	118	—	—	116
Including: USD	1	6.4716	7	1	6.6227	7
EUR	6	9.3612	54	3	8.8065	23
HKD	18	0.83162	15	20	0.85093	17
JPY	66	0.080243	5	66	0.08126	5
Cash in Bank	—	—	353,506	—	—	365,914
Including: USD	4,585	6.4716	29,670	951	6.6227	6,300
EUR	511	9.3612	4,782	1,080	8.8065	9,515
HKD	2	0.83162	2	2	0.85093	2
Other Fund	—	—	17,750	—	—	38,020
Total	—	—	371,374	—	—	404,050

At the end of the year, the balance of other fund included bank acceptance security deposit of RMB13,000,000, freely-drawn notifying deposit of RMB3,000,000.

2. Notes Receivable

Nature of notes	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance	<u>124,497</u>	<u>149,589</u>

- (1) At the end of the year, the balances of notes receivable are unsecured, and no collateral, no overdue.
- (2) In the end of 30 June 2011, notes which were endorsed to the other party but not yet expire is RMB425,627,000, the details of the largest top five balance are as follows:

Drawer	Date of issue	Date of maturity	Amount
Chongqing Yaoyou Pharmaceutical Co., Ltd.	2011-03-31	2011-09-30	3,000
Shandong Xinkangqi Pharmaceutical Co., Ltd.	2011-04-21	2011-10-21	3,000
Jinzhou Aojie Special Purpose Vehicle Manufacturing Co., Ltd.	2011-03-17	2011-09-17	3,000
Shandong Kanghui Pharmaceutical Co., Ltd.	2011-06-23	2011-12-23	3,000
Shandong Ruizhong Pharmaceutical Co., Ltd.	2011-04-26	2011-10-26	3,000
Total	—	—	<u>15,000</u>

- (3) As at 30 June 2011, the discounted bank acceptance bills which have not yet expired is RMB4,821,000.

3. Accounts Receivable

- (1) Risk Classification of Accounts Receivable

Item	Balance at the end of the year				Balance at the beginning of the year			
	Amount	Proportion (%)	Provision	Proportion (%)	Amount	Proportion (%)	Provision	Proportion (%)
Accounts receivable of individual amount is significant, individually provision for bad debts	—	—	—	—	—	—	—	—
Combination of aging	250,123	97.72	1,984	63.30	153,359	95.89	1,979	63.24
Combination with the relationship between trading partners	4,696	1.83	—	—	1,216	0.76	—	—
Combination for special accounts	—	—	—	—	4,208	2.63	—	—
Subtotal	<u>254,819</u>	<u>99.55</u>	<u>1,984</u>	<u>63.30</u>	<u>158,783</u>	<u>99.28</u>	<u>1,979</u>	<u>63.24</u>
Accounts receivable of individual amount is not significant, but individually provision for bad debts	1,150	0.45	1,150	36.70	1,150	0.72	1,150	36.76
Total	<u>255,969</u>	<u>100.00</u>	<u>3,134</u>	<u>100.00</u>	<u>159,933</u>	<u>100.00</u>	<u>3,129</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.

1) Provision for bad debts according to aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion (%)	Bad debts Provision	Amount	Proportion (%)	Bad debts Provision
Within one year	248,084	99.18	834	150,560	98.18	754
1 to 2 years	930	0.37	186	1,632	1.06	320
2 to 3 years	362	0.14	217	648	0.42	386
More than 3 years	747	0.31	747	519	0.34	519
Total	<u>250,123</u>	<u>100.00</u>	<u>1,984</u>	<u>153,359</u>	<u>100.00</u>	<u>1,979</u>

2) Other method for provision bad debts of accounts receivable

Name of combination	Book balance	Amount for bad debts
Combination with the relationship between trading partners	<u>4,696</u>	<u>—</u>
Total	<u>4,696</u>	<u>—</u>

3) Accounts receivable of individual amount is not significant, but individually provision for bad debts

Clients	Book balance	Amount for bad debts	Ratio (%)	Reason
Shandong Xinhua Industry & Trade Company Limited	<u>1,150</u>	<u>1,150</u>	<u>100.00</u>	Consider the solvency and full provision
Total	<u>1,150</u>	<u>1,150</u>	<u>—</u>	<u>—</u>

- (2) Please refers to Notes 4.7 for the policy of bad debts.
- (3) RMB2,073,000 of accounts receivable aged over 3 years has been written off in this year according to the Company's accounting policy, detail as follows
- (4) At the end of the year, accounts receivable balance do not include receivable due from shareholders holding 5% inclusive or more of the Company's voting capital.

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- (5) At the end of the year, the balance of accounts receivable due from the top five debtors is RMB55,908,000 accounting for 21.84% of the total balance of accounts receivable.

Name of equity	Relationship	Amount	Aging	Proportion (%)
Mitsubishi corporation	Non-related parties	22,328	Less than one year	8.72
PEPSI COLA SALES & DISTRIBUTION	Non-related parties	12,673	Less than one year	4.95
Zibo central Hospital	Non-related parties	10,948	Less than one year	4.28
Aceto cor.	Non-related parties	5,734	Less than one year	2.24
Pepsi-cola manufacturing co. of uruguay s.r.l.	Non-related parties	4,225	Less than one year	1.65
Total		<u>55,908</u>		<u>21.84</u>

- (6) At the end of the year, the balance of accounts receivables due from the related parties of RMB1,318,000, accounting for 0.51% 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	0.45
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	Joint venture	168	0.06
Total		<u>1,318</u>	<u>0.51</u>

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

Name of currency	At the ending of the year			At the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	19,987	6.4716	129,345	12,203	6.6227	80,819
EUR	1,390	9.3612	13,010	1,734	8.8065	15,274
Total	<u>—</u>	<u>—</u>	<u>142,355</u>	<u>—</u>	<u>—</u>	<u>96,093</u>

4. Advances to Suppliers

- (1) Aging of advances to suppliers

Item	Balance at the end of the year		Balance at the beginning of the year	
	Amount	Proportion %	Amount	Proportion %
Less than 1 year	36,117	99.81	33,017	99.45
1 to 2 years	28	0.08	136	0.41
2 to 3 years	35	0.10	18	0.05
More than 3 years	4	0.01	31	0.09
Total	<u>36,184</u>	<u>100.00</u>	<u>33,202</u>	<u>100.00</u>

- (2) At the end of year, the top five balances of advances to suppliers is RMB26,984,000. details as follow:

Name of equity	Relationship	Amount	Aging	Reason for not being settled
Prepaid land premiums	Non-related party	12,952	Less than one year	Land certification is handling
Nanjing Huadong Pharmaceutical Co., Ltd.	Non-related party	8,193	Less than one year	Goods not yet reached
Shandong Xinhua Longxin Chemical Industry Co., Ltd.	Non-related party	3,200	Less than one year	Goods not yet reached
Amano Enzyme Trading (Shanghai) Co., Ltd.	Non-related party	1,995	Less than one year	Goods not yet reached
Jinan Century aineng Technology Co., Ltd.	Non-related party	644	Less than one year	Goods not yet reached
Total		26,984		

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

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

Name of currency	Balance at the end of this the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EUR	14	9.3612	127	84	8.8065	737

5. Other Receivables

- (1) Risk Classification of Other Receivable

Item	Balance at the end of the year				Balance at the beginning of the year			
	Bad debts				Bad debts			
	Amount	Proportion (%)	Provision	Proportion (%)	Amount	Proportion (%)	Provision	Proportion (%)
Other receivable of individual amount is significant, and individually provision for bad debts	11,324	21.93	11,324	56.12	11,324	33.83	11,324	55.37
Combination of aging	22,363	43.31	8,198	40.63	14,887	44.48	8,147	39.83
Combination for transaction partner	8	0.02	—	—	8	0.02	—	—
Combination for special amounts	17,289	33.48	—	—	6,274	18.74	—	—
Subtotal	39,662	76.80	8,198	40.63	21,169	63.24	8,147	39.83
Other receivable of individual amount is not significant, but individually provision for bad debts	657	1.27	657	3.25	982	2.93	982	4.80
Total	51,643	100.00	20,179	100.00	33,475	100.00	20,453	100.00

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.

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- 1) Other receivables of individually significant amount, and individual provision for bad debts

Clients	Book amount	Amounts of		Ratio (%)	Reason
		bad debts			
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	11,324		100.00	Consider of solvency and full provision for bad debts

- 2) Provision for bad debts according to aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion (%)	Bad debts Provision	Amount	Proportion (%)	Bad debts Provision
Less than 1 year	12,792	57.20	64	6,089	40.91	47
1 to 2 years	1,176	5.26	100	832	5.59	165
2 to 3 years	496	2.22	135	78	0.52	47
More than 3 years	7,899	35.32	7,899	7,888	52.98	7,888
Total	22,363	100.00	8,198	14,887	100.00	8,147

- 3) Other method for provision bad debts of accounts receivable

Name of combination	Book balance	Amounts of bad debts
Combination with the relationship between trading partners	8	—
Combination for special accounts	17,289	—
Total	17,289	—

- 4) Other receivables where individual amount is not significant, but individual provision for bad debts

Clients	Book balance	Amount of bad debts	Ratio (%)	Reason
Linyi Mingyao Chemical Co., Ltd.	657	657	100.00	Judgment can not recover, full provision
Total	657	657	—	—

- (2) At the ending of the year, other receivables do not include receivable shareholders holding 5% or more of the Company's voting capital.

- (3) At the end of the year, the top five balances of other receivables are RMB34,809,000, accounting for 67.41% of the total balance of other receivable, details as follows:

Name of equity	Relationships	Amount	Aging	Proportion (%)	Nature or Content
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related party	11,324	Within one year	21.93	Current amounts
Value added tax	Non-related party	10,958	More than three year	21.22	Value added tax
Rebate of income tax	Non-related party	6,196	Less than one year	12.00	Rebate of income tax
Pending deduction of VAT on purchase	Non-related party	4,072	Less than one year	7.89	Pending deduction of VAT on purchase
Rebate of tax	Non-related party	2,259	1 to 2 years	4.37	Rebate of tax
Total		34,809		67.41	

- (4) At the end of the year, the balance of other receivables due from the related parties is RMB11,332,000 accounting for 21.94% of the total balance of other receivables, details as follows:

Name of Company	Relationships	Amount	Proportion (%)
Shandong Xinhua Industry & Trade Co., Ltd.	other-related parties	8	0.02
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	other-related parties	11,324	21.92
Total		11,332	21.94

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

Name of currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EUR	7	9.3612	68	35	8.8065	312

6. Inventories and Provision for decline in value of inventories

(1) Classification of Inventories

Item	Balance at the end of the year			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	60,855	1,324	59,531	58,000	1,324	56,676
Work-in-progress	68,068	—	68,068	56,488	—	56,488
Goods-in-stock	243,040	14,331	228,709	288,147	14,331	273,816
Low-value consumables	12,096	—	12,096	12,724	—	12,724
Special materials for Government	1,840	—	1,840	1,840	—	1,840
Total	385,899	15,655	370,244	417,199	15,655	401,544

(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 year
			Written back	Written off	
Raw material	1,324	—	—	—	1,324
Goods-in-stock	14,331	—	—	—	14,331
Total	15,655	—	—	—	15,655

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	—	—
Goods-in-stock	Book value is less than net realisable value	—	—

7. Other current assets

Items	Balance at the end of the year	Balance at the beginning of the year	Nature
Prepayment income tax of parent company	882	1,289	Prepayment income tax

8. Available-for-sale Financial Assets

Item	Balance at the end of the year	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	41,395	40,947
Shares of Pacific insurance Company Limited	111,950	114,500
Shares of Tiantong Securities Company Limited	30,000	30,000
Shandong Xinhua Longxin Chemical & Industrial Company Limited	9,646	9,646
Shandong Xinhua Changxing Chemical Equipment Company Limited	3,986	3,986
Total	200,177	202,279
Impairment of available-for-sale financial assets Including: Impairment on shares	33,986	33,986
of Tiantong Securities Company Limited	30,000	30,000
Shandong Xinhua Changxing Chemical Equipment Company Limited	3,986	3,986
Net value of available-for-sale financial assets	166,191	168,293

9. Long-term Equity Investment

(1) Long-term Equity Investment

Item	Balance at the end of the year	Balance at the beginning of the year
Using the equity method	21,459	18,302
Total long-term equity investment	21,459	18,302
Less: Impairment loss of Long-term equity investment	—	—
Net amount of Long-term equity investment	21,459	18,302

(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 Zibo XinCat Pharmaceutical Company Limited	20	20	10,414	18,302	3,157	—	21,459	—
Total	—	—	—	18,302	3,157	—	21,459	—

(3) Investment in Joint Ventures and Associates

Name of investee	Proportion of shareholding	Proportion of voting rights	Total assets at the end of the year	Total liabilities at the end of the year	Total net assets at the end of the year	Total operating income during this year	Net profit of this year
Joint Ventures							
Shandong Zibo XinCat Pharmaceutical Company Limited	20	20	172,679	86,588	86,091	139,025	16,004

(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.

10. Investment properties

(1) Measured investment properties by cost model

Items	Balance at the beginning of the year	Additions of the year	Reductions of the year	Balance at the end of the year
Original price	44,319	4,692	—	49,011
Buildings	44,319	4,692	—	49,011
Accumulated depreciation & amortization	8,612	1,628	—	10,240
Buildings	8,612	1,628	—	10,240
Book value	35,707	3,064	—	38,771
Buildings	35,707	3,064	—	38,771
Provision for Impairment	—	—	—	—
Buildings	—	—	—	—
Book value	35,707	3,064	—	38,771
Buildings	35,707	3,064	—	38,771

The depreciation and amortisation charge for the year was RMB1,628,000.

11. Fixed Assets

(1) Details of fixed assets

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Original book value				
Including: Buildings	688,554	5,944	572	693,926
Machinery & Equipment	1,266,993	35,026	5,198	1,296,821
Vehicles	19,534	1,433	—	20,967
Office equipment and others	37,168	1,437	416	38,189
Subtotal	<u>2,012,249</u>	<u>43,840</u>	<u>6,186</u>	<u>2,049,903</u>
Accumulated depreciation				
Including: Buildings	260,041	14,156	251	273,946
Machinery & Equipment	711,922	44,255	4,173	752,004
Vehicles	10,401	1,272	—	11,673
Office equipment and others	24,521	1,716	303	25,934
Subtotal	<u>1,006,885</u>	<u>61,399</u>	<u>4,727</u>	<u>1,063,557</u>
Net value of fixed assets				
Including: Buildings	428,513	—	—	419,980
Machinery & Equipment	555,071	—	—	544,817
Vehicles	9,133	—	—	9,294
Office equipment and others	12,647	—	—	12,255
Subtotal	<u>1,005,364</u>	<u>—</u>	<u>—</u>	<u>986,346</u>
Provision for impairment				
Including: Buildings	—	—	—	—
Machinery & Equipment	—	—	—	—
Vehicles	—	—	—	—
Office equipment and others	—	—	—	—
Subtotal	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net currency value of fixed assets				
Including: Buildings	428,513	—	—	419,980
Machinery & Equipment	555,071	—	—	544,817
Vehicles	9,133	—	—	9,294
Office equipment and others	12,647	—	—	12,255
Subtotal	<u>1,005,364</u>	<u>—</u>	<u>—</u>	<u>986,346</u>

During this year, fixed assets transferred from construction in progress was RMB28,510,000. The depreciation charge for the year was RMB61,399,000.

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(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	1,500	At the end of 2011
Warehouse of Xinhua Pharmaceutical Trade Ltd	10,696	7,476	At the end of 2011
Office block of Xinhua Pharmaceutical Trade Ltd	834	573	At the end of 2011
Warehouse of Xinhua Pharmaceutical Trade Ltd	1,500	1,163	At the end of 2011
Xinhua commercial centre	9,500	8,248	At the end of 2011
Warehouse of 3000 ton Bunuofen	26,046	23,175	At the end of 2011
Western Gongqingtuan road Tiandu operating centre	2,189	2,134	At the end of 2011
Warehouse of western park	1,230	1,199	At the end of 2011
Relocation house of theophylline	2,400	2,340	At the end of 2011
Transformation warehouse of GMP	2,220	2,165	At the end of 2011
House of Chloro-propionyl chloride	1,600	1,378	At the end of 2011
Staff quarter	10,010	9,424	At the end of 2011
Warehouse of Formaldehyde	1,617	1,316	At the end of 2011
Warehouse of Dibromo aldehyde	1,500	1,196	At the end of 2011
Warehouse of Violuric acid	6,610	5,921	At the end of 2011
Warehouse of storage	3,563	3,328	At the end of 2011
Warehouse of Dk	8,759	8,294	At the end of 2011
Dining hall	1,500	1,439	At the end of 2011
Analysis Laboratory	1,149	1,106	At the end of 2011
Workshop of calcium polycarbophil	1,784	1,484	At the end of 2011
Total	96,509	84,859	

12. Construction-in-progress

(1) Detailed list of construction in progress

Projects	Balance at the end of the year			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	51,052	—	51,052	40,090	—	40,090
Innovation Park — Annex Building	8,853	—	8,853	6,786	—	6,786
Innovation Park — R & D centre ^{1#}	7,562	—	7,562	6,844	—	6,844
Innovation Park — R & D centre ^{2#}	7,501	—	7,501	7,331	—	7,331
Xinhua Shouguang III East						
Industrial Park Project	80,524	—	80,524	24,360	—	24,360
Project of Hutian	25,939	—	25,939	1,262	—	1,262
Others	41,470	—	41,470	33,588	—	33,588
Total	222,901	—	222,901	120,261	—	120,261

(2) Major changes in construction projects

Projects	Balance at the beginning of the year	Addition	Deduction		Balance at the end of the year
			Transfer to fixed assets	Other deductions	
Innovation Park — Xinhua Building	40,090	10,962	—	—	51,052
Innovation Park — Annex Building	6,786	2,067	—	—	8,853
Innovation Park — R & D ^{1#}	6,844	718	—	—	7,562
Innovation Park — R & D ^{2#}	7,331	170	—	—	7,501
Xinhua Shouguang III East Industrial Park Project	24,360	84,271	28,107	—	80,524
Project of Hutian	1,262	24,677	—	—	25,939
Others	33,588	8,285	403	—	41,470
Total	120,261	131,150	28,510	—	222,901

Projects	Budget	Proportion of construction investment to budget	Progress of project	Acumination amounts of Capitalization interest	Including: Capitalization interest of this year	Capitalization interest ratio (%)	Source of funds
Innovation Park — Annex Building	16,160	54.78	Ongoing	—	—	—	Funds-own
Innovation Park — R & D ^{1#}	16,850	44.88	Ongoing	—	—	—	Proceeds
Innovation Park — R & D ^{2#}	12,900	58.14	Ongoing	—	—	—	Proceeds
Xinhua Shouguang III East Industrial Park Project	182,450	80.00	Ongoing	—	—	—	Funds-own
Project of Hutian	128,000	20.26	Ongoing	1,649	1,649	6.12-6.65	Funds-own, Loads
Total	436,060	—	—	1,649	1,649	—	—

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

13. Intangible Assets

(1) Details of Intangible Assets

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the ending of the year
Total original value	270,547	17	—	270,564
Including: Land use rights	260,445	—	—	260,445
Software use rights	3,544	17	—	3,561
Non-patented technology	6,558	—	—	6,558
Total accumulated amortization	41,826	2,947	—	44,773
Including: Land use rights	32,283	2,845	—	35,128
Software use rights	2,985	102	—	3,087
Non-patented technology	6,558	—	—	6,558
Total net book value of intangible assets	228,721	(2,929)	—	225,792
Including: Land use rights	228,162	(2,844)	—	225,318
Software use rights	559	(85)	—	474
Non-patented technology	—	—	—	—
Total provision for impairment	—	—	—	—
Including: Land use rights	—	—	—	—
Software use rights	—	—	—	—
Non-patented technology	—	—	—	—
Total intangible net carrying value	228,721	(2,929)	—	225,792
Including: Land use rights	228,162	(2,844)	—	225,318
Software use rights	559	(85)	—	474
Non-patented technology	—	—	—	—

The amortisation charge for the year was RMB2,947,000.

(2) Land use right not with title documents were out of acquirement as follows:

Address	Net value
Land of Xinhua Shouguang (East)	11,576
Land of Xinhua Shouguang (West)	1,716
Land use rights of Xinhua Industrial Park, Development Zone (East Park)	2,817
Total	16,109

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

14. Deferred Tax Assets

(1) Recognised deferred tax assets

Items	Balance at the ending of the year	Balance at the beginning of the year
Bad debts of subsidiaries	581	649
Provision for decline in value of inventories of subsidiaries	53	53
Unrealised internal profits on sales and purchase with subsidiaries	2,716	2,716
Total	3,350	3,418

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

Items of deductible temporary difference	Balance at the ending of the year	Balance at the beginning of the year
Bad debts of subsidiary	2,325	2,598
Provision for decline in value of inventories of subsidiaries	210	210
Unrealised internal profits on sales and purchase with subsidiaries	15,347	15,347
Total	17,882	18,155

15. Statement of provision for impairment loss of Assets

Items	Balance at the beginning of the year	Addition		Reduced		Balance at the end of the year
		Provision for the year	Recovery of years bad debts written off in previous years	written back	written off	
Provision for bad debts	23,581	1,799	5	—	2,073	23,312
Provision for decline in value of inventories	15,655	—	—	—	—	15,655
Provision for impairment loss of available-for-sale financial assets	33,986	—	—	—	—	33,986
Total	73,222	1,799	5	—	2,073	72,953

16. Short-term Loans

Types of loans	Balance at the end of the year	Balance at the beginning of the year
Credit loan	50,000	50,000
Total	<u>50,000</u>	<u>50,000</u>

17. Notes Payable

Item	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance	32,173	115,703

The ending balance of notes payable will all get matured on 23 September, 2011.

18. Accounts Payable

(1) Accounts payable

Item	Balance at the end of the year	Balance at the beginning of the year
Accounts payable	257,297	218,542
Including: More than one year	<u>8,907</u>	<u>15,416</u>

Accounts payable aged over one year were unsettled because of purchase of raw materials.

(2) 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.

(3) The ending balance of accounts payable denominated in foreign currencies is as follows:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EUR	<u>—</u>	<u>—</u>	<u>—</u>	1,857	8.8065	16,351

19. Advances from Customers

- (1) Advances from Customers

Item	Balance at the end of the year	Balance at the beginning of the year
Advances from customers	12,530	20,005
Including: More than one Year	<u>828</u>	<u>790</u>

- (2) 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.

- (3) The ending balance of accounts payable denominated in foreign currencies is as follows:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	<u>199</u>	<u>6.4716</u>	<u>1,291</u>	<u>641</u>	<u>6.6227</u>	<u>4,246</u>

20. Employees' wage Payable

Item	Balance at the beginning of the year	Additions	Payment	Balance at the end of the year
Salaries (including bonuses, allowance and subsidies)	—	106,414	106,414	—
Staff welfare	—	7,609	7,609	—
Social securities	—	22,698	22,698	—
Including: 1. Medical insurance	—	5,224	5,224	—
2. Basic pension insurance	—	15,174	15,174	—
3. Unemployment insurance	—	1,122	1,122	—
4. Work injury insurance	—	659	659	—
5. Maternity insurance	—	519	519	—
Housing funds	341	11,604	11,007	938
Union running costs and employee education costs	12,131	1,793	2,548	11,376
Directors' and Supervisors' remuneration	9,353	270	4,888	4,735
Compensation to employee for termination of employment relationship	—	3	3	—
Other	<u>37,305</u>	<u>1,019</u>	<u>17,562</u>	<u>20,762</u>
Total	<u>59,130</u>	<u>151,410</u>	<u>172,729</u>	<u>37,811</u>

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21. Tax Payables

Categories of tax	Balance at the end of the year	Balance at the beginning of the year
Value added tax	(6,320)	(33,171)
Business tax	43	61
Urban maintenance & construction tax	487	1,054
Income tax	6,020	3,061
Corporation individual income tax	358	815
Property tax	1,686	1,135
Land use tax	2,101	4,199
Stamp tax	73	162
Educational surcharges	347	666
	<hr/>	<hr/>
Total	4,795	(22,018)
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22. Interest payable

Items	Balance at the end of the year	Balance at the beginning of the year
Interest on long term loan repayable by instalments	840	613
	<hr/>	<hr/>

23. Dividends Payable

Item	Balance at the end of the year	Balance at the beginning of the year
Dividends for State owned legal person shares	8,304	—
Dividends for other demotic shares	—	—
Others	19,870	13,612
	<hr/>	<hr/>
Total	28,174	13,612
	<hr/> <hr/>	<hr/> <hr/>

24. Other Payables

(1) Other payables

Item	Balance at the end of the year	Balance at the beginning of the year
Other payable	71,058	83,458
More than one year	9,101	9,181
	<hr/>	<hr/>

At the end of the year, the balance of other payables mainly consists of the payment of constructions. Other payable aged over one year in the ending balance was mainly unsettled payment of constructions

(2) At the end of year, 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) Individually significant other payable balances are as follows:

Item	Amount	Ageing	Content
Shandong Zhonghe Thermoelectric Co., Ltd.	4,524	Less than one year	Unsettled thermoelectric cost
Zibo Huantai Construction Co., Ltd.	1,245	Less than one year	Unsettled construction cost
Longkou Qizhong Industry Trade Co., Ltd.	677	Less than one year	Unsettled construction cost
Zibo Xinhua Environmental Engineering Co., Ltd.	662	Less than one year	Unsettled construction cost
Shandong Wahe Construction Co., Ltd.	659	Less than one year	Unsettled construction cost
Total	<u>7,767</u>		

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

Item	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EUR	<u>2</u>	<u>9.3612</u>	<u>21</u>	<u>52</u>	<u>8.8065</u>	<u>458</u>

25. Non-current liabilities within one year

(1) Non-current liabilities within one year

Items	Balance at the end of the year	Balance at the beginning of the year
Long-term loan within one year	<u>150,000</u>	<u>150,000</u>

(2) Classification of non-current liabilities within one year

Types of loan	Balance at the end of the year	Balance at the beginning of the year
Credit loans	<u>150,000</u>	<u>150,000</u>

(3) 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"

(4) Details of long-term loan within one year

Lender	Date of inception	Date of maturity	Currency	Interest rate	Balance at the end of the year	Balance at the beginning of the year
Export-Import Bank of China, Qingdao Branch	2009-10-14	2011-10-13	RMB	Export seller's credit interest rate	150,000	150,000

26. Other current liabilities

Items	Balance at the end of the year	Balance at the beginning of the year
Deferred income carried over in one year	590	590

Deferred income carried over in one year refers to 3,000 ton Bunuofen project grants will be carried over within one year.

27. Long -term borrowings

(1) Classification of long- term borrowings

Types of loan	Balance at the end of the year	Balance at the beginning of the year
Guarantee loans	80,000	80,000
Pledge loans	50,000	—
Credit loans	264,949	195,528
Total	394,949	275,528

(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) The Company charged the land use rights in Hutianzhen, Zhangdian, to a bank for loans

(4) Details of the long-term loans

Lender	Date of inception	Date of maturity	Currency	Interest rate	Balance at the end of the year	Balance at the beginning of the year
Agricultural Bank of China, Zibo Branch	2009-06-08	2012-06-07	RMB	Benchmark lending rate to float downward 5%	30,000	30,000
Agricultural Bank of China, Zibo Branch	2009-06-17	2012-06-16	RMB	Benchmark lending rate to float downward 5%	30,000	30,000
Agricultural Bank of China, Zibo Branch	2011-04-21	2014-04-20	RMB	Benchmark lending rate	20,000	—
China CITIC Bank, Zibo Branch	2009-09-03	2012-09-02	RMB	Benchmark lending rate to float downward 10%	40,000	40,000
Export-Import Bank of China, Qingdao Branch	2010-02-26	2012-02-26	RMB	Export seller's credit interest rate	80,000	80,000
Key project constructions loans	2009-06-30	2017-06-29	RMB	Benchmark lending rate to float downward 10%	20,000	20,000
Nanyang Commercial Bank (China) Co., Ltd. Qingdao Branch	2010-05-11	2013-05-10	HKD	HIBOR(3Months)+1.5	24,949	25,528
Bank of China, Zibo Branch	2010-09-27	2013-09-26	RMB	Benchmark lending rate to float downward 10%	50,000	50,000
Bank of China, Zibo Branch	2011-03-30	2014-03-30	RMB	Benchmark lending rate	50,000	—
Construction Bank of China, Zibo Branch	2011-03-03	2016-03-02	RMB	Benchmark lending rate	50,000	—
Total					394,949	275,528

28. Deferred Tax Liabilities

(1) Components of deferred tax liabilities after netting off

Items	Balance at the end of the year		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	5,621	843	7,722	1,159

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

Items	Temporary differences	Deferred income tax amount for the year
Deferred income tax assets		
Bad debts provision of the Company	20,692	3,104
Provision for decline in value of inventories of the Company	15,402	2,310
Provision for impairment loss of the Company's held-for-sale financial assets	33,987	5,098
Loses on the Company's investment in associates	4,068	610
Unpaid wages and salaries of the parent company	43,062	6,459
The change in fair value of the Company's held-for-sale financial assets	9,288	1,393
Subtotal	<u>126,499</u>	<u>18,974</u>
Deferred income tax liabilities		
The change in fair value of the Company's held-for-sale financial assets	132,120	19,817
Subtotal	<u>132,120</u>	<u>19,817</u>
Net amount	<u><u>5,621</u></u>	<u><u>843</u></u>

29. Other non-current liabilities

(1) Details of other non-current liabilities

Items	Balance at the end of the year	Balance at the beginning of the year
Asset-related government subsidies	55,000	55,148
Authorized reserve fund	3,562	3,562
Total	<u><u>58,562</u></u>	<u><u>58,710</u></u>

(2) Government subsidies

Types of government subsidiaries	Balance in the end of the year		Credited to the profit and loss for the year	Reversal for the year	Reason for reversal
	Amount to other non-current liabilities	Amounts to other current liabilities			
Compensation for relocation	50,576	—	—	—	—
3,000 tons Ibuprofen Project	4,424	590	148	—	—
Total	<u><u>55,000</u></u>	<u><u>590</u></u>	<u><u>148</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

In accorded with “Shandong Province Zibo City Eastern Chemical Area Relocation Plan” issued in September 2008, parts of production of the Company were listed in this relocation plan. In this respect, pursuant to Zibo Financial Bureau grants relocation Zi-Cai Qi(2009) No.29, Zi-Cai-Qi(2009) No.33 & Zi-Cai-Qi (2009) No.55 issued by Finance Bureau of Zibo City, the Company was granted with relocation compensation. In 2010 the company received totally of RMB5,672,000 according to the document Zi-Cai-Qi(2010) No.71 issued by Finance Bureau of Zibo City.

30. Share Capital

Name of shareholders	Balance at the beginning of the year	Issue of new share	Change			Balance at the ending of the year	Proportion (%)
			Bonus issue	Capitalisation of reserve	Transfer		
1. Conditional tradable shares							
State-owned shares	—	—	—	—	—	—	—
State-owned legal-person shares	—	—	—	—	—	—	—
Domestic shares	20	—	—	—	(16)	4	0.001
Including: Domestic legal-person held shares	—	—	—	—	—	—	—
Domestic natural person shares	20	—	—	—	(16)	4	0.001
Foreign-funded shares	—	—	—	—	—	—	—
Including: Foreign legal-person shares	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—
Sub-total	20	—	—	—	(16)	4	0.001
2. Unconditional tradable shares							
Domestically listed RMB A shares	307,293	—	—	—	16	307,309	67.199
Domestically listed foreign invested shares	—	—	—	—	—	—	—
Overseas listed foreign invested H shares	150,000	—	—	—	—	150,000	32.80
Others	—	—	—	—	—	—	—
Subtotal	457,293	—	—	—	16	457,309	99.999
Total share	457,313	—	—	—	—	457,313	100.00

31. Capital reserve

Item	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the year
Revaluation of assets surplus	60,910	—	—	60,910
Premium share	496,492	—	—	496,492
Receipt of donation	1,158	—	—	1,158
Other capital reserve	120,128	—	1,787	118,341
Total	678,688	—	1,787	676,901

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32. Surplus Reserves

Item	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the year
Statutory surplus reserves	118,950	—	—	118,950
Discretionary surplus reserve	64,797	—	—	64,797
Total	183,747	—	—	183,747

33. 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 year	Balance at the beginning of the year
Undistributed profit at beginning of the year	357,038	289,195
Add: adjustment to the undistributed profit at beginning of the year	—	—
Add: Net profit of the year	60,702	97,257
Less: Appropriation of statutory surplus reserve	—	6,548
Dividends payable on common stock	22,866	22,866
Undistributed profit at the end of the year	394,874	357,038
Including: proposal cash dividend	—	22,866

On 28 June, 2011, the Company's 2010 Annual General Meeting passed the 2010 annual profit distribution plan, 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).

34. Minority Interests

Name of minority shareholder	Proportion of minority interests (%)	Balance at the end of the year	Balance at the beginning of the year
LI PENG (LK&K Trading Co., Ltd)	35	4,384	3,769
East west United Group, Inc.	25	3,535	3,402
Perrigo Asia Holding Company	49.9	<u>31,729</u>	<u>30,839</u>
Total		<u><u>39,648</u></u>	<u><u>38,010</u></u>

35. Operating Income and Operating Cost

(1) Operating Income and Operating Cost

Item	Amount of the year	Amount of last year
Income from main operation	1,501,561	1,344,392
Income from other operation	<u>21,251</u>	<u>24,227</u>
Sub-total of operation income	<u><u>1,522,812</u></u>	<u><u>1,368,619</u></u>
Cost for main operation	1,231,683	1,091,783
Cost for other operation	<u>23,025</u>	<u>25,264</u>
Sub-total of operation cost	<u><u>1,254,708</u></u>	<u><u>1,117,047</u></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	805,140	666,022	732,191	579,643
Including: Export sales	566,424	496,870	495,841	394,385
Preparations	270,361	167,838	255,126	180,568
Commerce				
circulations	358,687	342,084	329,306	312,121
Chemical and others	<u>67,373</u>	<u>55,739</u>	<u>27,769</u>	<u>19,451</u>
Total	<u><u>1,501,561</u></u>	<u><u>1,231,683</u></u>	<u><u>1,344,392</u></u>	<u><u>1,091,783</u></u>

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(3) Operating Income from top five customers

Name of customers	Amount of this year	Proportion (%)
Mitsubishi corporation	85,878	5.64
Perrigo	66,131	4.34
PEPSI COLA SALES&DISTRIBUTION	40,021	2.63
Shandong Ruizhong Pharmaceutical Co., Ltd.	25,065	1.65
Shandong Xingkangqi Pharmaceutical Co., Ltd.	19,991	1.31
Total	<u>237,086</u>	<u>15.57</u>

36. Business Taxes and Surcharges

Item	Tax rate	Amount of this year	Amount of last year
Business tax	5%	203	188
Urban maintenance & construction tax	7%	3,216	4,558
Educational surcharges	5%	2,278	2,604
Total		<u>5,697</u>	<u>7,350</u>

37. Financial Expenses

Item	Amount of this year	Amount of last year
Interest expenses	11,640	8,070
Less: interest income	976	831
Add: exchange loss	5,369	1,614
Add: others	213	1,056
Total	<u>16,246</u>	<u>9,909</u>

38. Impairment Loss of Assets

Item	Amount of this year	Amount of last year
Provision bad debts	<u>1,799</u>	—
Total	<u><u>1,799</u></u>	<u><u>—</u></u>

39. 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	3,201	2,822
Investment income from Available for sale financial assets during the period of ownership	1,750	801
Investment income from disposal of long-term equity investments		
Others	<u>6</u>	<u>9</u>
Total	<u><u>4,957</u></u>	<u><u>3,362</u></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 Zibo Xincat Pharmaceutical Co., Ltd.	<u>3,201</u>	<u>2,822</u>	Net profit changes of the investee
Total	<u><u>3,201</u></u>	<u><u>2,822</u></u>	

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

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40. Non-operating Income

(1) Details of non-operating income

Item	Amount of this year	Amount of last year	The amount of non-recurring gains and losses reckon into this year
Proceeds from disposal of non-current assets	483	948	483
Including: Proceeds from disposal of fixed assets	483	948	483
Government Subsidies	166	4,448	166
Others	130	129	130
Total	779	5,525	779

(2) Details of Government subsidies

Type of subsidiaries	Amount of this year	Amount of last year	Approval document
Recycling economy and the financial support of sewage treatment	—	4,000	Hou Qu Fa [2010] No.3
Subsidiaries for disposal of old vehicle	18	4	Issued by Finance Bureau of Zibo City
Blue sky blue water action plan	—	120	Zibo Finance Bureau, Environmental Protection Agency issued
3,000 tons of ibuprofen project transferred from deferred income	148	295	LU Cai Jian Zhi [2009] No.157
Rebate of land-use tax	—	9	Hou Zheng Fa [2008] No.28
Postdoctoral innovative funding	—	20	Lu Ren Ban Fa [2008] No.184
Total	166	4,448	

41. Non-operating Expense

Item	Amount of this year	Amount of last year	The amount of non-recurring gains and losses reckon into this year
Loss on disposal of non-current assets	540	154	540
Including: loss on disposal of fixed assets	540	154	540
Donations Overdue fines and penalties	650	106	650
Others	1,568	1,425	1,568
Total	2,758	1,685	2,758

42. Income Tax Expenses

Item	Amount of this year	Amount of last year
Income tax expenses for current period	15,350	14,050
Deferred income tax expenses	68	—
Total	<u>15,418</u>	<u>14,050</u>

43. 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	60,702	57,882
Non-recurring gains and losses attributable to the Company	2	(143)	3,433
The net profit after attributable shareholders of the Company, excluding non-recurring gains and losses	3=1-2	60,845	54,449
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+6×7÷11-8×9÷11-10	457,313	457,313
Basic earnings per share (I)	13=1÷12	0.13	0.13
Basic earnings per share (II)	14=3÷12	0.13	0.12
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)×(1-17)]÷(12+18)	0.13	0.13
Diluted earnings per share (II)	20=[3+(15-16)×(1-17)]÷(12+18)	0.13	0.12

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44. Other comprehensive Income

Items	Amount of this year	Amount of last year
1. The profits generated by Available-for-sale financial assets	(2,102)	(39,206)
less: Income tax impact on Available-for-sale financial assets	(315)	(5,881)
Amount recovered in other comprehensive income in previous period transfer for the year	—	26
Subtotal	(1,787)	(33,299)
2. Translation differences of financial statements denominated in foreign currencies	685	(1,266)
3. Others	—	3,120
Total	<u>(1,102)</u>	<u>(31,445)</u>

45. 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
Interest income	18	7,273
Subsidies income	757	701
Bank acceptance security deposit	22,980	485
Other	9,645	6,197
Total	<u>33,400</u>	<u>14,656</u>

2) Other Cash Payments Relating to Operating Activities

Item	Amount of this year	Amount of last year
Office expenses	1,541	1,572
Travel expenses	6,673	6,530
Annual listing fee, audit fee and Board's fee	1,517	1,930
Sewage discharge fees	712	2,001
Advertising and marketing expenses	48,273	24,863
Freight charges	16,404	14,245
Entertainment expenses	2,239	1,969
Research and development expenses	10,036	7,062
Bank acceptance note, security deposit for secured borrowings	—	37,220
Exchange loss	5,369	—
Others	15,988	8,996
Total	<u>108,752</u>	<u>106,388</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	62,100	60,930
Add: Provisions for impairment loss of assets	1,799	—
Depreciation of fixed assets	61,400	58,473
Amortisation of intangible assets	2,953	3,224
Losses on disposal of fixed assets, intangible assets and other long-term assets (or bracket: gains)	540	154
Profit or loss from changes in fair value (or bracket: gains)	—	—
Financial expense (or bracket: gains)	11,640	8,070
Investment loss (or bracket: gains)	(4,957)	(3,632)
Decrease in deferred tax assets (or bracket: increase)	68	—
Increase in deferred tax liabilities (or bracket: decrease)	(315)	(5,876)
Decrease in inventories (or bracket: increase)	31,300	35,159
Decrease in operating receivables (or bracket: increase)	(69,384)	(107,373)
Increase in operating payables (or bracket: decrease)	(69,632)	87,853
Net cash flows from operating activities	27,512	136,982
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	358,374	411,529
Less: beginning balance of cash	368,070	364,398
Add: ending balance of cash equivalents	—	—
Less: beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	(9,696)	47,131

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

Item	Balance at the end of the year	Balance at the beginning of the year
Cash	358,374	368,070
Including: Cash in hand	118	116
Bank deposit available for payments at any moment	353,506	365,914
Other funds available for payments at any moment	4,750	2,040
Cash equivalents	—	—
Ending balance of cash and equivalents	358,374	368,070
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	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.	Zhang Daiming	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.	Cheng Guanghui	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 year
	Shandong Xinhua Pharmaceutical Group Company Limited			298,500

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

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

2. Subsidiaries

(1) Subsidiaries

Name of subsidiaries	Type of organisation	Place of registration	Principal activities	Legal person	Code of Organization
1. Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Limited company	Zibo Shandong	Sales of Pharmaceutical Chemical	Zhang Daiming	766662729
2. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	Limited company	Zibo Shandon	Sales of Pharmaceutical Chemical	Zhang Daiming	788496661
3. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	Limited company	Zibo Shandon	Engineering Design of Pharmaceutical Chemical	Du Deping	737227162
4. Zibo Xinhua drug store chain Co., Ltd.	Limited company	Zibo Shandon	Sales of Pharmaceutical Chemical	He Tongqing	267196268
5. Shandong Xinhua Pharmaceutical (Europe) GmbH.	Limited company	Germany hamburger	Sales of Pharmaceutical Chemical	Zhang Daiming	—
6. Zibo Xinhua — Eastwest Pharmaceutical Co., Ltd.	Limited company	Zibo Shandon	Manufacturing of Pharmaceutical Chemical	Zhang Daiming	779742314
7. Zibo Xinhua — Perrigo Pharmaceutical Co., Ltd.	Limited company	Zibo Shandong	Manufacturing of Pharmaceutical Chemical	Zhang Daiming	746569703
8. Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Limited company	Shouguang Shandong	Manufacturing of Pharmaceutical Chemical	Du Deping	793907875
9. Xinhua (Zibo) Property Development Co., Ltd.	Limited company	Zibo Shandong	Development of real estate	Zhang Daiming	567705933

(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 year
1. Shandong Xinhua Pharmaceutical Trade Co., Ltd.	RMB	48,499	—	—	48,499
2. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	RMB	5,000	—	—	5,000
3. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	RMB	3,000	—	—	3,000
4. Zibo Xinhua drug store chain Co., Ltd.	RMB	2,000	—	—	2,000
5. Shandong Xinhua Pharmaceutical (Europe) GmbH.	EUR	769	—	—	769
6. Zibo Xinhua — Eastwest Pharmaceutical Co., Ltd.	USD	1,500	—	—	1,500
7. Zibo Xinhua — Perrigo Pharmaceutical Co., Ltd.	USD	6,000	—	—	6,000
8. Xinhua Pharmaceutical (Shouguang) Co., Ltd.	RMB	230,000	—	—	230,000
9. Xinhua (Zibo) Property Development Co., Ltd.	RMB	20,000	—	—	20,000

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(3) Proportion of shareholding in subsidiaries and the changes

Name of subsidiaries	Amount of shareholding holding share		Proportion of shareholding (%)	
	Balance at the end of the year	Balance at the beginning of the year	Balance at the end of the year	Balance at the beginning of the year
1. Shandong Xinhua Pharmaceutical Trade Co., Ltd.	48,499	48,499	100.00	100.00
2. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	5,000	5,000	100.00	100.00
3. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	3,000	3,000	100.00	100.00
4. Zibo Xinhua drug store chain Co., Ltd.	2,000	2,000	100.00	100.00
5. Shandong Xinhua Pharmaceutical (Europe) GmbH.	500	500	65.00	65.00
6. Zibo Xinhua — Eastwest Pharmaceutical Co., Ltd.	1,125	1,125	75.00	75.00
7. Zibo Xinhua — Perrigo Pharmaceutical Co., Ltd.	3,006	3,006	50.10	50.10
8. Xinhua Pharmaceutical (Shouguang) Co., Ltd.	230,000	230,000	100.00	100.00
9. Xinhua (Zibo) Property Development Co., Ltd.	20,000	20,000	100.00	100.00

3. Associates

Name	Type of organisation	Place of registration	Principal activities	Legal person	Registered capital	Proportion of shareholding (%)	Proportion of voting (%)	Code of organisation
Shandong Zibo Xincat Pharmaceutical Company Limited	Limited company	Zibo Shandong	Manufacturing	Li Tianzhong	26,929	20%	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 Zibo Xincat Pharmaceutical Company Limited	Under common control of parent company	Sale of power and lease 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	241	0.05	1,759	0.44
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Chemical materials	17,180	3.62	13,690	3.42
Shandong Xinhua Bobang Chemical & Industrial Company Limited	Chemical materials	—	—	4,537	1.13
Zibo DSM Pharmaceutical Company Limited	Preparation materials	7,626	1.61	8,446	2.11
Shandong Xinhua Longxin Chemical & Industrial Company Limited	Chemical materials	—	—	4,824	1.20
Shandong Xincat Chemical & Industrial Company Limited	Pharmaceutical	90	—	17	0.03
Total		<u>25,137</u>	<u>—</u>	<u>33,273</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	—	—	78	—
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Sale of power, waters	2,774	—	3,117	—
Zibo DSM Pharmaceutical Company Limited	Sale of power	2,306	16.92	2,892	17.56
Shandong Zibo XinCat Pharmaceutical Company Limited	Sale of power	299	2.20	399	2.42
Total		<u>5,379</u>	<u>—</u>	<u>6,486</u>	<u>—</u>

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4. Acceptance of guarantee

(1) Loan guarantee

The Company entered into a loan contract with, Qingdao Branch of Export-Import Bank of China with a contracted amount of RMB150,000,000 for a period from 14 October 2009 to 13 October 2011. The loan was guaranteed by the holding Company of the Company's parent Company, Shandong Hualu Holding Group Company Limited.

The Company entered into a loan contract with, Qingdao Branch of Export-Import Bank of China with a contracted amount of RMB80,000,000 for a period from 26 February 2010 to 26 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-in assets

Name of Related Party	Nature of Transaction	Transaction period	Amount of current year	Amount of last year
Shandong Xinhua Pharmaceutical Group Company Limited	Rent of house	Jan.–Jun.	500	500

6. Other Transactions

(1) Trademark Using Fee

Name of Related Party	Nature of Transaction	Amount of current the year	Amount of last year
Shandong Xinhua Pharmaceutical Group Company Limited	Trademark using fee	1,100	1,100

Pursuant to the Trademark License Agreement signed by the 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, which shall stay as such until the agreement is terminated.

(2) Service of rendering

Name of Related Party	Nature of Transaction	Amount of current the year	Amount of last year
Zibo DSM Pharmaceutical Company Limited	Design	102	—
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Design	8	—

(3) Current Account Balances with Related Party

1. Related party transactions balance of assets classes

Name of Related Party	Balance at the end of the year		Balance at the beginning of the year	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable				
Shandong Xinhua Industry & Trade Company Limited	1,150	1,150	1,150	1,150
Shandong Zibo XinCat Pharmaceutical Company Limited	168	—	138	—
Total	<u>1,318</u>	<u>1,150</u>	<u>1,288</u>	<u>1,150</u>
Advances to Suppliers				
Shandong Xinhua Industry & Trade Company Limited	—	—	29	—
Total	<u>—</u>	<u>—</u>	<u>29</u>	<u>—</u>
Other Receivable				
Shandong Xinhua Industry & Trade Company Limited	8	—	8	—
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	11,324	11,324	11,324
Total	<u>11,332</u>	<u>11,324</u>	<u>11,332</u>	<u>11,324</u>

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2. Related party transactions balance of liabilities classes

Name of Related Party	Balance at the end of the year	Balance at the beginning of the year
Accounts Payable		
General managing branch of Shandong Xinhua industrial & trading Co., Ltd.	189	—
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	2,218	1,918
Zibo DSM Pharmaceutical Company Limited	3,138	4,109
Shandong Zibo XinCat Pharmaceutical Company Limited	60	139
Total	<u>5,605</u>	<u>6,166</u>
Advances to Customers		
Zibo DSM Pharmaceutical Company Limited	—	60
Other Payable		
Shandong Zibo XinCat Pharmaceutical Company Limited	—	1

10. CONTINGENCIES

The Company has no significant contingencies as at 30 June 2011.

11. COMMITMENT

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

Items	Contract Amount	Amount Unpaid
Innovation Zone	47,879	26,360
Hutian park	47,902	29,119
DK Project	31,694	8,817
Pyrazolone Project	16,801	4,329
Waste Water Treatment Project	28,278	9,010
Sulfuric acid project	19,019	3,599
Others	96,215	47,579
Total	<u>287,788</u>	<u>128,813</u>

2. Other than as disclosed above, the Company has no other capital commitments as at 30 June 2011.

12. POST BALANCE SHEET DATE EVENTS

The Company has no significant subsequent events to be disclosed at 30 June 2011.

13. OTHER IMPORTANT EVENTS

The Company has no significant other events to be disclosed at 30 June 2011.

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

1. Accounts Receivable

(1) Classification of Accounts Receivable

Item	Balance at the end of the year				Balance at the beginning of the year			
	Amount	Proportion%	Bad debts Provision	Proportion%	Amount	Proportion%	Bad debts Provision	Proportion%
Accounts receivable of individual amount is significant, individually provision for bad debts	—	—	—	—	—	—	—	—
Subtotal of aging combination	143,505	49.55	889	43.60	89,878	38.21	889	43.60
Combination with the relationship between trading partners	144,972	50.05	—	—	144,161	61.30	—	—
Combination for special accounts	—	—	—	—	—	—	—	—
Subtotal	288,477	99.60	889	43.60	234,039	99.51	889	43.60
Accounts receivable of individual amount is not significant, but individually provision for bad debts	1,150	0.40	1,150	56.40	1,150	0.49	1,150	56.40
Total	289,627	100.00	2,039	100.00	235,189	100.00	2,039	100.00

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.

1) Provision for bad debts according to aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion (%)	Bad debts Provision	Amount	Proportion (%)	Bad debts Provision
Within one year	142,899	99.58	543	88,673	98.66	445
1 to 2 years	223	0.16	45	841	0.94	168
2 to 3 years	204	0.14	122	220	0.24	132
More than 3 years	179	0.12	179	144	0.16	144
Total	143,505	100.00	889	89,878	100.00	889

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- 2) Accounts receivable adopt other method for provision for bad debts

Clients	Book balance	Amount for bad debts	Ratio (%)	Reason
Combination with the relationship between trading partners	144,972	—	—	—

- (2) Please refers to Notes 4.7 for the policy of bad debts.
- (3) At the end of the year, accounts receivable balance do not include receivable due from shareholders holding 5% inclusive or more of the Company's voting capital.
- (4) At the end of the year, the balance of accounts receivable due from the top five debtors is RMB218,507,000 accounting for 75.44% of the total balance of accounts receivable.

Name of equity	Relationship	Amount	Aging	Proportion (%)
Shandong Xinhua Pharmaceutical Trade Company Limited	wholly-owned subsidiary	155,509	Within one year	53.69
Mitsubishi Corporation	Non-related parties	22,326	Within one year	7.71
Shandong Xinhua Pharmaceutical (European) GmbH	Control subsidiary	19,100	Within one year	6.59
PEPSI COLA SALES&DISTRIBUTION	Non-related parties	12,674	Within one year	4.38
Xinhua Pharmaceutical (Shouguang) Company Limited	wholly-owned subsidiary	8,898	1 to 2 years	3.07
Total		<u>218,507</u>		<u>75.44</u>

- (5) At the end of the year, the balance of accounts receivables due from the related parties of RMB186,123,000 accounting for 64.26% of the total balance of accounts receivable, details as follows:

Name of equity	Relationship	Amount	Proportion (%)
Shandong Xinhua Pharmaceutical Trade Company Limited	wholly-owned subsidiary	155,509	53.69
Shandong Xinhua-Eastwest Pharmaceutical Company Limited	Control subsidiary	1,298	0.45
Shandong Xinhua (Shouguang) Pharmaceutical Company Limited	wholly-owned subsidiary	8,898	3.07
Shandong Xinhua Pharmaceutical (European) GmbH	Control subsidiary	19,100	6.59
Shandong Xinhua Industry & Trade Company Limited	Other related parties	1,150	0.40
Shandong Zibo XinCat Pharmaceutical Company Limited	Associates	168	0.06
Total		<u>186,123</u>	<u>64.26</u>

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

Name of currency	At the ending of the year			At the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	<u>19,287</u>	<u>6.4716</u>	<u>124,817</u>	<u>11,257</u>	<u>6.6227</u>	<u>74,552</u>

2. Other Receivables

(1) Classification of Other Receivable

Item	Balance at the end of the year				Balance at the beginning of the year			
	Amount	Proportion (%)	Bad debts Provision	Proportion (%)	Amount	Proportion (%)	Bad debts Provision	Proportion (%)
Other receivable of individual amount is significant, and individually provision for bad debts	11,324	7.76	11,324	60.71	11,324	13.48	11,324	60.71
Combination of aging	10,097	6.92	7,328	39.29	8,849	10.53	7,328	39.29
Combination for transaction partner	113,550	77.81	—	—	62,079	73.91	—	—
Combination for special amounts	10,958	7.51	—	—	1,750	2.08	—	—
Subtotal	<u>134,605</u>	<u>92.24</u>	<u>7,328</u>	<u>39.29</u>	<u>72,678</u>	<u>86.52</u>	<u>7,328</u>	<u>39.29</u>
Accounts receivable of individual amount is not significant, but individually provision for bad debts	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>145,929</u>	<u>100.00</u>	<u>18,652</u>	<u>100.00</u>	<u>84,002</u>	<u>100.00</u>	<u>18,652</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.

1) Other receivables where of individual amount is significant, and individual provision for bad debts

Clients	Book amount	Amounts of bad debts	Ratio (%)	Reason
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	11,324	100.00	Consider of solvency and full provision for bad debts

2) Provision for bad debts according to aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion (%)	Bad debts Provision	Amount	Proportion (%)	Bad debts Provision
Less than 1 year	1,818	1.24	91	991	11.20	4
1 to 2 years	1,131	2.21	162	668	7.55	134
2 to 3 years	182	1.49	109	—	—	—
More than 3 years	6,966	95.06	6,966	7,190	81.25	7,190
Total	10,097	100.00	7,328	8,849	100.00	7,328

3) Other method for provision bad debts of accounts receivable

Name of combination	Book balance	Amounts of bad debts
Combination with the relationship between trading partners	113,550	—
Combination for special accounts	10,958	—
Total	124,508	—

(2) At the ending of the year, other receivables do not include receivable shareholders holding 5% or more of the Company's voting capital.

(3) At the end of the year, the top five balances of other receivables are RMB140,425,000 accounting for 96.23% of the total balance of other receivable, details as follows:

Name of equity	Relationships	Amount	Aging	Proportion (%)	Nature or Content
Xinhua Pharmaceutical (Shouguang) Company Limited	wholly-owned subsidiary	100,000	Within one year	68.52	Borrowings
Shandong Xinhua Pharmaceutical Trade Company Limited	wholly-owned subsidiary	11,947	1-3 years	8.19	Current amounts
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related parties	11,324	Within one year	7.76	Current amounts
Output VAT for exporting before applying to customs	Non-related party	10,958	1-3 years	7.51	Output VAT for exporting before applying to customs
Rebate of income tax	Non-related party wholly-owned	6,196	More than 3 years	4.25	Rebate of income tax
Total		140,425		96.23	

- (4) At the end of the year, the balance of other receivable due from the related parties is RMB124,729,000 accounting for 85.52% of the total balance of other receivable, details as follows:

Name of Company	Relationships	Amount	Proportion (%)
Shandong Xinhua Pharmaceutical Trade Company Limited	wholly-owned subsidiary	11,947	8.19
Shandong Xinhua Pharmaceutical Export & Import Company Limited	wholly-owned subsidiary	27	0.02
Zibo Xinhua Drug Store Chain Company Limited	wholly-owned subsidiary	1,327	0.91
Zibo Xinhua Pharmaceutical Design Institute Company Limited	wholly-owned subsidiary	5	0.01
Zibo Xinhua — Eastwest Pharmaceutical Company Limited	Control subsidiary	162	0.11
Xinhua Pharmaceutical (Shouguang) Company Limited	wholly-owned subsidiary	100,000	68.52
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	other-related parties	11,324	7.76
Total		124,792	85.52

3. Long-term equity investment

- (1) Long-term equity investment

Items	Balance at the end of the term	Balance at the beginning of year
Using cost method	348,475	348,475
Using equity method	19,821	16,620
Total long-term equity investment	368,296	365,095
Less: provision for impairment loss of Long-term equity investment	—	—
Net amount of Long-term equity investment	368,296	365,095

(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 year	Cash Dividends received in the year
Using cost method								
1. Shandong Xinhua Pharmaceutical Trade Co., Ltd.	100%	100%	48,582	48,582	—	—	48,582	—
2. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	100%	100%	3,038	3,038	—	—	3,038	—
3. Zibo Xinhua drug store chain Co., Ltd.	100%	100%	2,159	2,159	—	—	2,159	—
4. Shandong Xinhua Pharmaceutical (Europe) GmbH.	65%	65%	4,597	4,597	—	—	4,597	—
5. Zibo Xinhua - Eastwest Pharmaceutical Co., Ltd.	75%	75%	9,008	9,008	—	—	9,008	—
6. Zibo Xinhua — Perrigo Pharmaceutical Co., Ltd.	50.10%	50.10%	24,877	24,877	—	—	24,877	—
7. Xinhua Pharmaceutical (Shouguang) Co., Ltd.	100%	100%	230,713	230,713	—	—	230,713	—
8. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	100%	100%	5,501	5,501	—	—	5,501	—
9. Xinhua (Zibo) property development Co., Ltd	100%	100%	20,000	20,000	—	—	20,000	—
Subtotal	—	—	—	348,475	—	—	348,475	—
Using equity method								
Shandong Zibo XinCat Pharmaceutical Company Limited	20%	20%	10,413	16,620	3,201	—	19,821	—
Subtotal	—	—	—	16,620	3,201	—	19,821	—
Total	—	—	—	365,095	3,201	—	368,296	—

(3) Investment in Joint Ventures and Associates

Name of investee	Proportion of shareholding (%)	Proportion of voting (%)	Total assets at the end of the year	Total liabilities at the end of the year	Total net assets at the end of the year	Total operation income of the year	Net profit of the year
Joint Ventures							
Shandong Zibo XinCat Pharmaceutical Company Limited	20	20	172,679	86,588	86,091	139,025	16,004

(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 year	Amount of last year
Income for main operation	932,504	894,987
Income for other operation	25,434	24,640
Total	957,938	919,627
Cost for main operation	801,522	712,050
Cost for other operation	29,994	28,216
Total	831,516	740,266

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

Types	Amount of this year		Amount of last year	
	income	cost	income	cost
Bulk Pharmaceuticals	752,417	636,910	682,035	535,722
Including: Export sales	513,700	435,875	445,685	350,464
Preparations	180,087	164,612	212,903	176,279
Chemical and others	—	—	49	49
Total	932,504	801,522	894,987	712,050

FINANCIAL REPORT

(PREPARED UNDER PRC ACCOUNTING STANDARDS)

(3) Operating Income from top five customers

Name of customers	Amount of this year	Proportion (%)
Shandong Xinhua Pharmaceutical Trade Company Limited	160,385	16.74
Mitsubishi Corporation	85,878	8.96
Shandong Xinhua Pharmaceutical (Europe) GmbH	45,028	4.70
PEPSI COLA SALES & DISTRIBUTION	40,021	4.18
Caribbean Refrescos	23,697	2.47
Total	<u>355,009</u>	<u>37.05</u>

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 income accounted for using equity method	3,201	2,822
Investment income from Available-for-sale financial assets during the period of ownership	1,750	801
Dividends from subsidiaries	—	3,550
Total	<u>4,951</u>	<u>7,173</u>

(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 Zibo Xincat Pharmaceutical Co., Ltd.	3,201	2,822	Net profit changes in the investee
Total	<u>3,201</u>	<u>2,822</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 year	Amount of last year
1. Reconciliation of net income to cash flows from operating activities:		
Net profit	28,753	49,123
Add: Provisions for impairment loss of assets	—	—
Depreciation of fixed assets	48,370	49,473
Amortisation of intangible assets	2,220	2,501
Losses on disposal of fixed assets, intangible assets and other long-term assets (or bracket: gains)	540	154
Profit or loss from changes in fair value (or bracket: gains)	—	—
Financial expense (or bracket: gains)	11,461	7,988
Investment loss (or bracket: gains)	(4,951)	(7,174)
Decrease in deferred tax assets (or bracket: increase)	—	—
Increase in deferred tax liabilities (or bracket: decrease)	(315)	(5,876)
Decrease in inventories (or bracket: increase)	64,152	37,386
Decrease in operating receivables (or bracket: increase)	(69,380)	(85,314)
Increase in operating payables (or bracket: decrease)	(67,103)	70,352
Net cash flows from operating activities	13,747	118,613
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	273,692	346,346
Less: beginning balance of cash	245,721	259,613
Add: ending balance of cash equivalents	—	—
Less: beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	27,971	86,733

15. SUPPLEMENTARY INFORMATION

1. Statement of Non-recurring profit and loss

According to China Securities Regulatory Commission, “public offering of securities of the Company Disclosure interpretative bulletin No. 1 — Extraordinary (2008)” requirement, the company in Jan.–Jun. 2011 non-operating gains and losses as follow:

Items	Amount of this year	Amount of last year	Notes
(1) Gains and losses, including the write-off portion of provision for impairment loss on assets	(57)	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	166	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	1,750	801	Change in fair value foreign exchange forward contracts & dividends of held-for sale financial assets
(4) In addition to the above ,the non-operating income and expenditure;	(2,088)	(1,402)	—
Total	<u>(229)</u>	<u>4,641</u>	—
Less: Income tax effect	<u>(85)</u>	<u>1,183</u>	—
Total non-recurring net gain or loss	<u>(144)</u>	<u>3,458</u>	—
Including: attributable to shareholders of the Company	(143)	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	Net profit		Net assets	
	Amount of this year	Amount of last year	Amount of this year	Amount of last year
According to foreign accounting standards Adjustments	60,061	60,174	1,722,075	1,686,222
Prepared under PRC accounting standards HKGAAP adjustments	60,702	57,882	1,713,019	1,676,524
Deferred taxation	112	145	(1,601)	(1,712)
Education provision	(753)	(973)	10,657	11,410
Financial award for Energy-Saving technological transformation	—	3,120	—	—
Total of the difference between accounting standards and HKGAAP	<u>(641)</u>	<u>2,292</u>	<u>9,056</u>	<u>9,698</u>

3. Return on equity and earnings per share

According to China Securities Regulatory Commission, “public offering of securities of the company Information Disclosure Rule No. 9 — ROE and earnings per share calculation and disclosure (2010 Amendment)” requirement, the first half of 2011, the weighted average net Company Return on assets, basic earnings per share and diluted earnings per share are as follows:

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 of the Company shareholders	3.56%	0.13	0.13
Net profit after deducting non-recurring gains and losses, attributable to shareholders of the Company	<u>3.56%</u>	<u>0.13</u>	<u>0.13</u>

16. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements have been approved to report by the Board of Directors on 22 July 2011.

FINANCIAL REPORT

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Six months ended 30 June	
		2011	2010
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	1,509,029	1,352,583
Cost of sales		(1,237,382)	(1,099,135)
Gross profit		271,647	253,448
Investment income		2,732	1,641
Other income		21,548	10,754
Other gains and losses		(5,426)	(820)
Distribution and selling expenses		(99,027)	(97,732)
Administrative expenses		(82,808)	(79,423)
Other expenses		(23,463)	(5,494)
Share of profit of an associate		3,201	2,822
Finance costs		(11,640)	(8,070)
Profit before tax	4	76,764	77,126
Income tax expense	5	(15,305)	(13,904)
Profit for the half-year		61,459	63,222
Profit for the half-year attributable to:			
Owners of the Company		60,061	60,174
Non-controlling interests		1,398	3,048
		61,459	63,222
Earnings per share - basic and diluted	6	RMB0.131	RMB0.132

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Profit for the half-year	<u>61,459</u>	<u>63,222</u>
Other comprehensive income (expenses):		
Exchange differences arising on translation	685	(1,266)
Fair value loss on available-for-sale financial assets	(2,101)	(39,175)
Income tax relating to components of other comprehensive income	<u>314</u>	<u>5,876</u>
Other comprehensive expenses for the half-year, net of tax	<u>(1,102)</u>	<u>(34,565)</u>
Total comprehensive income for the half-year	<u>60,357</u>	<u>28,657</u>
Total comprehensive income attributable to:		
Owners of the Company	58,719	26,051
Non-controlling interests	<u>1,638</u>	<u>2,606</u>
	<u>60,357</u>	<u>28,657</u>

FINANCIAL REPORT

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2011 <i>RMB'000</i> (unaudited)	31 December 2010 <i>RMB'000</i> (audited)
Non-current assets			
Technical know-how	8	—	—
Property, plant and equipment	8	988,177	1,007,323
Construction in progress	8	222,900	120,261
Prepaid lease payments on land use rights	8	219,909	222,703
Investment properties	8	38,771	35,707
Interest in an associate		19,821	16,620
Available-for-sale investments		156,545	158,646
Deferred tax assets		3,350	3,418
Prepayments for acquisition of land use rights		12,952	9,652
		1,662,425	1,574,330
Current assets			
Inventories		370,243	401,543
Trade and other receivables	9	432,030	375,963
Prepaid lease payments on land use rights	8	5,690	5,741
Amount due from an associate		108	—
Amounts due from fellow subsidiaries		—	37
Tax recoverable		882	1,289
Pledged bank deposits		13,000	35,980
Bank balances and cash		358,374	368,070
		1,180,327	1,188,623
Assets classified as held for sale		12,846	9,646
		1,193,173	1,198,269
Current liabilities			
Trade and other payables	10	429,927	503,914
Amounts due to fellow subsidiaries		5,538	6,087
Amount due to an associate		—	2
Tax payable		6,019	3,061
Borrowings		200,000	200,000
		641,484	713,064
Liabilities associated with assets classified as held for sale		—	1,166
		641,484	714,230
Net current assets		551,689	484,039
Total assets less current liabilities		2,214,114	2,058,369

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2011 <i>RMB'000</i> (unaudited)	31 December 2010 <i>RMB'000</i> (audited)
Capital and reserves			
Share capital	11	457,313	457,313
Reserves		1,264,762	1,206,043
Proposed final dividend		—	22,866
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,722,075	1,686,222
Non-controlling interests		39,648	38,010
		<hr/>	<hr/>
Total equity		1,761,723	1,724,232
		<hr/>	<hr/>
Non-current liabilities			
Deferred tax liabilities		2,442	2,871
Borrowings		394,949	275,528
Deferred income		55,000	55,738
		<hr/>	<hr/>
		452,391	334,137
		<hr/>	<hr/>
		2,214,114	2,058,369
		<hr/> <hr/>	<hr/> <hr/>

FINANCIAL REPORT

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company												
	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	Non-controlling interests	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
At 1 January 2011	457,313	466,618	78,642	183,865	25,850	114,088	481	(261)	336,760	22,866	1,686,222	38,010	1,724,232
Profit for the half-year	—	—	—	—	—	—	—	—	60,061	—	60,061	1,398	61,459
Other comprehensive (expenses) income	—	—	—	—	—	(1,787)	—	445	—	—	(1,342)	240	(1,102)
Total comprehensive income for the half-year	—	—	—	—	—	(1,787)	—	445	60,061	—	58,719	1,638	60,357
Payment of dividends	—	—	—	—	—	—	—	—	—	(22,866)	(22,866)	—	(22,866)
At 30 June 2011 (unaudited)	<u>457,313</u>	<u>466,618</u>	<u>78,642</u>	<u>183,865</u>	<u>25,850</u>	<u>112,301</u>	<u>481</u>	<u>184</u>	<u>396,821</u>	<u>—</u>	<u>1,722,075</u>	<u>39,648</u>	<u>1,761,723</u>
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
Profit for the half-year	—	—	—	—	—	—	—	—	60,174	—	60,174	3,048	63,222
Other comprehensive (expenses) income	—	—	—	—	—	(33,299)	—	(824)	—	—	(34,123)	(442)	(34,565)
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)	<u>457,313</u>	<u>466,618</u>	<u>78,642</u>	<u>177,317</u>	<u>25,850</u>	<u>116,902</u>	<u>481</u>	<u>(484)</u>	<u>325,049</u>	<u>—</u>	<u>1,647,688</u>	<u>35,430</u>	<u>1,683,118</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Cash generated from operations	39,500	170,446
Income tax paid	(11,988)	(13,733)
Net cash from operating activities	27,512	156,713
Net cash used in investing activities	(134,847)	(147,587)
Net cash from financing activities	97,639	38,005
Net (decrease) increase in cash and cash equivalents	(9,696)	47,131
Cash and cash equivalents at 1 January	368,070	364,398
Cash and cash equivalents at 30 June, represented by bank balances and cash	358,374	411,529

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 2010.

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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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 2010, except as described below.

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("Int") ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28
HKFRS 1 (Amendment)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

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)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets ¹
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosure of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
HKAS 1 (Revised)	Presentation of Financial Statements ³
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (2011)	Employee Benefits ⁴
HKAS 27 (2011)	Separate Financial Statements ⁴
HKAS 28 (2011)	Investments in Associates and Joint Ventures ⁴

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2012.

³ Effective for annual periods beginning on or after 1 July 2012.

⁴ Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures — Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group does enter into any such transactions in the future, disclosures regarding those transfers may be affected.

The directors of the Company anticipate that the application of other new and revise standards, amendments or interpretations will have no material impact on the results and the 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)
Commerce circulations:	Trading of pharmaceutical products (including retail and wholesale)
Chemical and other products:	Production and sales of chemical and other products

FINANCIAL REPORT

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

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 2011(Unaudited)

	Bulk pharmaceuticals RMB'000	Preparations RMB'000	Commerce circulations RMB'000	Chemical and other products RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	812,608	270,361	358,687	67,373	—	1,509,029
Inter-segment sales	4,272	160,385	43,388	154,751	(362,796)	—
Total	<u>816,880</u>	<u>430,746</u>	<u>402,075</u>	<u>222,124</u>	<u>(362,796)</u>	<u>1,509,029</u>
Segment profit	<u>59,210</u>	<u>22,109</u>	<u>4,129</u>	<u>4,364</u>		89,812
Investment and other income						24,280
Other gains and losses						(5,426)
Other expenses						(23,463)
Finance costs						(11,640)
Share of profit of an associate						3,201
Profit before tax						<u>76,764</u>

For the six months ended 30 June 2010 (Unaudited)

	Bulk pharmaceuticals RMB'000	Preparations RMB'000	Commerce circulations RMB'000	Chemical and other products RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	740,382	255,126	329,306	27,769	—	1,352,583
Inter-segment sales	2,034	183,119	42,832	90,752	(318,737)	—
Total	<u>742,416</u>	<u>438,245</u>	<u>372,138</u>	<u>118,521</u>	<u>(318,737)</u>	<u>1,352,583</u>
Segment profit	<u>47,489</u>	<u>19,972</u>	<u>5,716</u>	<u>3,116</u>		76,293
Investment and other income						12,395
Other gains and losses						(820)
Other expenses						(5,494)
Finance costs						(8,070)
Share of profit of an associate						2,822
Profit before tax						<u>77,126</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 profit of an associate. 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 2011(Unaudited)

	Bulk pharmaceuticals <i>RMB'000</i>	Preparations <i>RMB'000</i>	Commerce circulations <i>RMB'000</i>	Chemical and other products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	1,204,768	456,206	168,776	422,259	2,252,009
Unallocated corporate assets					<u>603,589</u>
Consolidated assets					<u><u>2,855,598</u></u>

At 31 December 2010 (Audited)

	Bulk pharmaceuticals <i>RMB'000</i>	Preparations <i>RMB'000</i>	Commerce circulations <i>RMB'000</i>	Chemical and other products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	1,244,040	428,056	128,777	342,350	2,143,223
Unallocated corporate assets					<u>629,376</u>
Consolidated assets					<u><u>2,772,599</u></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, interest in an associate, 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	
	2011 <i>RMB'000</i> (unaudited)	2010 <i>RMB'000</i> (unaudited)
Interest on borrowings	11,640	8,070
Amortisation of prepaid lease payments on land use rights	2,845	2,891
Amortisation of technical know-how	—	117
Depreciation for property, plant and equipment	61,544	58,733
Depreciation for investment properties	1,628	1,361
Cost of inventories recognised as an expense	1,237,382	1,099,135
Dividends and interest income	(2,732)	(1,641)
Loss (gain) on disposal of property, plant and equipment	57	(794)
	<u><u>1,288,214</u></u>	<u><u>1,266,292</u></u>

5. Income tax expense

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current income tax — PRC Enterprise Income Tax (“EIT”)	15,350	14,050
Deferred income tax	(45)	(146)
Income tax expense	<u>15,305</u>	<u>13,904</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 1 January 2008 to 31 December 2010.

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 RMB60,061,000 (2010: RMB60,174,000) and based on the weighted average of 457,312,830 shares (2010 : 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 2011 and 2010 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 2011 (2010: Nil).
- (b) Dividends attributable to the previous financial year, approved during the interim period.

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Final dividend in respect of the financial year ended 31 December 2010, approved during the following interim period, of RMB0.05 per share (year ended 31 December 2009: RMB0.05 per share)	<u>22,866</u>	<u>22,866</u>

8. Capital expenditures

	Prepaid lease payments on land use rights RMB'000	Technical know-how RMB'000	Property, plant and equipment RMB'000	Construction in progress RMB'000	Investment properties RMB'000	Total RMB'000
Net carrying values at 1 January 2011	228,444	—	1,007,323	120,261	35,707	1,391,735
Additions	—	—	15,347	131,149	4,692	151,188
Disposals	—	—	(1,459)	—	—	(1,459)
Transfers	—	—	28,510	(28,510)	—	—
Depreciation and amortisation	(2,845)	—	(61,544)	—	(1,628)	(66,017)
Net carrying values at 30 June 2011 (unaudited)	<u>225,599</u>	<u>—</u>	<u>988,177</u>	<u>222,900</u>	<u>38,771</u>	<u>1,475,447</u>
Representing:						
Non-current portion	<u>219,909</u>	<u>—</u>	<u>988,177</u>	<u>222,900</u>	<u>38,771</u>	<u>1,469,757</u>
Current portion	<u>5,690</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,690</u>
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)	<u>231,295</u>	<u>—</u>	<u>961,669</u>	<u>156,065</u>	<u>37,034</u>	<u>1,386,063</u>
Representing:						
Non-current portion	<u>225,525</u>	<u>—</u>	<u>961,669</u>	<u>156,065</u>	<u>37,034</u>	<u>1,380,293</u>
Current portion	<u>5,770</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,770</u>

FINANCIAL REPORT

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

9. Trade and other receivables

	30 June 2011 <i>RMB'000</i> (unaudited)	31 December 2010 <i>RMB'000</i> (audited)
Trade and bills receivables	379,148	308,235
Less : Allowance for doubtful debts of trade receivables	(1,984)	(1,979)
	<u>377,164</u>	<u>306,256</u>
Other receivables, deposits and prepayments	63,721	78,835
Less : Allowance for doubtful debts of other receivables	(8,855)	(9,128)
	<u>54,866</u>	<u>69,707</u>
Total trade and other receivables	<u><u>432,030</u></u>	<u><u>375,963</u></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 2011 <i>RMB'000</i> (unaudited)	31 December 2010 <i>RMB'000</i> (audited)
Within one year	376,274	303,310
More than one year but less than two years	744	2,601
More than two years but less than three years	146	319
Over three years	—	26
	<u>377,164</u>	<u>306,256</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 2011 <i>RMB'000</i> (unaudited)	31 December 2010 <i>RMB'000</i> (audited)
Within one year	274,957	311,497
More than one year but less than two years	2,630	6,048
More than two years but less than three years	503	3,630
Over three years	5,774	5,738
	<u>283,864</u>	<u>326,913</u>
Other payables and accrued charges	146,063	177,001
	<u><u>429,927</u></u>	<u><u>503,914</u></u>

11. Share capital

	30 June 2011		31 December 2010	
	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	166,072	166,072	164,207	164,207
Transfer from PRC legal person shares	—	—	1,865	1,865
At the end of period/year	166,072	166,072	166,072	166,072
PRC legal person shares of RMB 1 each				
At the beginning of the period/year	21,714	21,714	23,579	23,579
Transfer to ordinary shares	(8,487)	(8,487)	—	—
Transfer to state-owned shares	—	—	(1,865)	(1,865)
At the end of period/year	13,227	13,227	21,714	21,714
Restricted senior management shares of RMB1 each				
At the beginning of the period/year	20	20	23	23
Transfer to ordinary shares	(16)	(16)	(3)	(3)
At the end of period/year	4	4	20	20
RMB ordinary shares (A Shares) of RMB1 each				
At the beginning of the period/year	119,507	119,507	119,504	119,504
Transfer from PRC legal person shares	8,487	8,487	—	—
Transfer from restricted senior management shares	16	16	3	3
At the end of period/year	128,010	128,010	119,507	119,507
Overseas listed foreign invested shares (H Shares) of RMB 1 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 2011, 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 2011 <i>RMB'000</i> (unaudited)	31 December 2010 <i>RMB'000</i> (audited)
Contracted but not provided for	128,813	132,258
Authorised but not contracted for	642,000	642,000
	770,813	774,258

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 2011 <i>RMB'000</i> (unaudited)	31 December 2010 <i>RMB'000</i> (audited)
Within one year	963	170
In the second to fifth year inclusive	1,520	230
	2,483	400

The Group as lessor

The Group leases certain of its properties under operating lease arrangements. The properties are expected to generate rental yields of 9.31% (2010: 3.83%) 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 2011 <i>RMB'000</i> (unaudited)	31 December 2010 <i>RMB'000</i> (audited)
Within one year	750	1,549
In the second to fifth year inclusive	3,150	4,048
After five years	3,450	3,238
	7,350	8,835

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	
	2011 RMB'000 (unaudited)	2010 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	5,379	6,486
— Purchase of raw materials	25,137	28,449
— Design fee income	110	—
Associates		
— Purchase of raw materials	—	4,824
Non-controlling interest shareholders:		
— Sale of bulk pharmaceuticals and chemical raw materials	73,797	67,694
— Purchase of raw materials	309	—
	309	—

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 2011, the annual fee paid by the Group was RMB1,100,000 (2010 : RMB1,100,000).

- (b) As at 30 June 2011, Hualu Holdings Company Limited provide guarantee to the Group amounted to RMB230,000,000 (2010: RMB230,000,000).
- (c) Compensation of key management personnel

	Six months ended 30 June	
	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Short-term benefits	898	937
Post-employment benefits	120	117
	1,018	1,054

(1) DOCUMENTS FOR INSPECTION

- (1) The original copy of the Company's 2011 Interim Report signed by the Chairman of the Board.
- (2) Financial statements for the six months ended 30 June 2011 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:

Mr. Zhang Daiming
Mr. Ren Fulong;
Mr. Du Deping;
Mr. Zhao Songguo;

the following non-executive directors:

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

22 July 2011