



FINANCIAL REPORT

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

CONSOLIDATED INCOME STATEMENT

	NOTES	(unaudited) For the six months ended 30 June 2006 RMB'000	(unaudited) For the six months ended 30 June 2005 RMB'000
Turnover	3	869,353	878,716
Cost of sales		(707,045)	(713,365)
Gross profit		162,308	165,351
Other operating income		6,857	6,658
Selling expenses	4	(82,682)	(85,383)
Administrative expenses	4	(57,915)	(51,116)
Other operating expenses	4	(1,646)	(4,273)
Share of results of associates		(713)	(1,516)
Finance costs		(10,704)	(11,175)
Profit before taxation		15,505	18,546
Taxation	5	(3,131)	(5,195)
Profit for the period		12,374	13,351
Attributable to:			
Equity holders of the Company		12,439	13,522
Minority interests		(65)	(171)
		12,374	13,351
Earnings per share - basic	6	RMB0.027	RMB0.0296
Interim dividend	7	—	—

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CONSOLIDATED BALANCE SHEET

		(unaudited) At 30 June 2006 RMB'000	(audited) At 31 December 2005 RMB'000
	NOTES		
Non-current assets			
Technical know-how	8	3,618	4,182
Property, plant and equipment	8	777,783	812,832
Construction-in-progress	8	118,183	90,168
Prepaid lease payments on land use rights	8	87,820	88,985
Interest in an associated company		29,566	30,279
Loan to an associate		4,440	4,440
Available-for-sale investments		140,853	140,777
		<u>1,162,263</u>	<u>1,171,663</u>
Current assets			
Inventories		242,799	274,765
Trade and bills receivables	9	304,863	281,721
Prepaid lease payments on land use rights	8	2,424	2,471
Other receivables, deposits and prepayment		56,312	65,110
Amount due from an immediate holding company		49,331	49,288
Amount due from an associate		3,474	3,035
Pledged bank deposits		53,621	65,149
Derivative financial instruments		—	84
Bank balances and cash		176,324	298,042
		<u>889,148</u>	<u>1,039,665</u>
Current liabilities			
Trade and bills payables	10	264,542	345,620
Other payables and accrued charges		67,135	68,534
Amount due to an associate		—	145
Tax payable		603	3,877
Short-term bank loans, unsecured	11	352,225	418,969
		<u>684,505</u>	<u>837,145</u>
Net current assets		<u>204,643</u>	<u>202,520</u>
Total assets less current liabilities		<u>1,366,906</u>	<u>1,374,183</u>
Capital and reserves			
Share capital	12	457,313	457,313
Reserves		901,517	888,866
Proposed final dividend		—	22,866
Equity attributable to equity holders of the Company		<u>1,358,830</u>	<u>1,369,045</u>
Minority interests		<u>4,030</u>	<u>1,092</u>
		<u>1,362,860</u>	<u>1,370,137</u>
Non-current liabilities			
Deferred tax liabilities		4,046	4,046
		<u>1,366,906</u>	<u>1,374,183</u>



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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(unaudited)										
	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserve	Reserve funds	Asset revaluation reserve	Exchange reserve	Retained earnings	Dividend reserve	Total	Minority interests	Total
	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 2005	457,313	466,618	78,642	159,425	25,850	2,068	179,406	—	1,369,322	4,284	1,373,606
Profit (loss) for the period	—	—	—	—	—	—	13,522	—	13,522	(171)	13,351
At 30 June 2005	457,313	466,618	78,642	159,425	25,850	2,068	192,928	—	1,382,844	4,113	1,386,957
At 1 January 2006	457,313	466,618	78,642	160,326	25,850	444	156,986	22,866	1,369,045	1,092	1,370,137
2005 dividend paid	—	—	—	—	—	—	—	(22,866)	(22,866)	—	(22,866)
Exchange difference arising on translation of overseas operation	—	—	—	—	—	212	—	—	212	—	212
Profit (loss) for the period	—	—	—	—	—	—	12,439	—	12,439	(65)	12,374
Capital contribution by minority shareholder of a subsidiary	—	—	—	—	—	—	—	—	—	3,003	3,003
At 30 June 2006	457,313	466,618	78,642	160,326	25,850	656	169,425	—	1,358,830	4,030	1,362,860

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(unaudited) For the six months ended 30 June 2006 RMB'000	(unaudited) For the six months ended 30 June 2005 RMB'000
Net cash from operating activities	4,929	55,884
Net cash used in investing activities	(29,336)	(57,810)
Net cash (used in) from financing	(97,311)	94,531
	<hr/>	<hr/>
Increase (decrease) in cash and cash equivalents	(121,718)	92,605
Cash and cash equivalents at 1 January	298,042	337,933
	<hr/>	<hr/>
Cash and cash equivalents at 30 June, representing bank balances and cash	<u>176,324</u>	<u>430,538</u>



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and with the Hong Kong Accounting Standard ("HKAS") No.34 "Interim Financial Reporting" which is one of the Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations (hereinafter collectively referred to as "new HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

The accounting policies adopted in the consolidated interim financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In this reporting period, the Group had applied for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting period are prepared and presented.

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group:

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments : Disclosures ¹
HK(IFRIC) - Int - 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) - Int - 8	Scope of HKFRS 2 ³
HK(IFRIC) - Int - 9	Reassessment of embedded derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

3. SEGMENT INFORMATION

The Group is principally engaged in the development, production and sales of pharmaceutical products including bulk pharmaceuticals, preparations (e.g. tablets and injections), chemicals and other products. Its major place of operation is in the PRC.

(i) By business segments:

	(unaudited) For the six months ended 30 June 2006			(unaudited) For the six months ended 30 June 2005		
	Pharmaceutical business RMB'000	Other operations RMB'000	Total RMB'000	Pharmaceutical business RMB'000	Other operations RMB'000	Total RMB'000
Segment revenue	866,203	3,150	869,353	875,466	3,250	878,716
Segment results	23,772	3,150	26,922	28,499	2,738	31,237
Finance costs			(10,704)			(11,175)
Share of results of associates			(713)			(1,516)
Profit before taxation			15,505			18,546
Taxation			(3,131)			(5,195)
Profit for the period			12,374			13,351
Capital expenditure	43,130	—	43,130	42,316	—	42,316
Depreciation and amortisation	51,326	—	51,326	47,876	—	47,876
Amortisation of technical know-how	564	—	564	388	—	388

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	(unaudited) For the six months ended 30 June 2006			(audited) Ended 31 December 2005		
	Pharmaceutical business RMB'000	Other operations RMB'000	Total RMB'000	Pharmaceutical business RMB'000	Other operations RMB'000	Total RMB'000
Segment assets	1,880,992	140,853	2,021,845	2,040,272	140,777	2,181,049
Interests in associates	29,566	—	29,566	30,279	—	30,279
Total assets			<u>2,051,411</u>			<u>2,211,328</u>
Segment liabilities	(683,902)	—	(683,902)	(833,268)	—	(833,268)
Unallocated liabilities	—	—	(4,649)	—	—	(7,923)
Total liabilities			<u>(688,551)</u>			<u>(841,191)</u>

(ii) By geographical location of customers:

	(unaudited) Segment revenue		(unaudited) Segment results	
	Six months ended 30 June 2006 RMB'000	Six months ended 30 June 2005 RMB'000	Six months ended 30 June 2006 RMB'000	Six months ended 30 June 2005 RMB'000
PRC (including Hong Kong)	516,260	625,808	99,630	119,320
Europe	130,971	123,210	21,246	18,121
America	169,326	78,074	21,766	8,643
Others	52,796	51,624	16,316	18,378
	<u>869,353</u>	<u>878,716</u>	<u>158,958</u>	<u>164,462</u>
Unallocated costs			<u>(132,036)</u>	<u>(133,225)</u>
Operating profit			<u>26,922</u>	<u>31,237</u>

4. EXPENSES BY NATURE

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

	(unaudited) Six months ended 30 June 2006 RMB'000	(unaudited) Six months ended 30 June 2005 RMB'000
Depreciation	50,114	46,644
Amortisation of prepaid lease payments on land use rights	1,212	1,232
Amortisation of technical know-how	564	388
Staff costs (excluding emoluments of directors and supervisors)	60,297	54,086
Contributions to retirement scheme for the staff	9,181	8,982
Gain on disposal of fixed assets	<u>(50)</u>	<u>(824)</u>



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5. TAXATION

The amount of taxation charged to the consolidated income statement represents :

	(unaudited) Six months ended 30 June 2006 RMB'000	(unaudited) Six months ended 30 June 2005 RMB'000
PRC enterprise income tax	3,131	4,918
Deferred taxation	—	277
	<u>3,131</u>	<u>5,195</u>

- (a) The Company and one of its subsidiaries are located in the high-technology economic zone of Zibo City and are entitled to preferential PRC enterprise income tax rate of 15% from year 2002, according to Guo Shui Fa No.151 "The notice of applying favourable tax policies for the new and high technology companies" issued by the State Administration of Taxation. The companies have obtained the relevant approvals from the local tax bureau. From year 2004, the operating results of the companies derived from business conducted in the high-technology economic zone are subject to a preferential income tax rate of 15% while the business conducted outside the high-technology economic zone are subject to an income tax rate of 33%. This has been filed with the local tax bureau as record.

Other subsidiaries within the Group are subject to income tax at the rate of 33% on their taxable income for the six months ended 30 June 2005 and 2006.

- (b) No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group's taxable income neither arises in nor is derived from, Hong Kong for the six months ended 30 June 2006 and 2005.

6. EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share is based on the Group's profits attributable to equity holders of the Company of RMB12,439,000 (2005 : RMB13,522,000) and based on the weighted average of 457,312,830 shares (2005 : 457,312,830 shares) in issue during the period.

There was no dilution effect on the basic earnings per share for the six months ended 30 June 2006 and 2005 as there were no dilutive shares outstanding during the six months ended 30 June 2006 and 2005.

7. INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005 : Nil).

8. CAPITAL EXPENDITURES

	Prepaid lease payments on land use rights RMB'000	Technical know-how RMB'000	(unaudited) At 30 June 2006 Property, plant and equipment RMB'000	Construction- in-progress RMB'000	Total RMB'000
Net book value at 1 January 2006	91,456	4,182	812,832	90,168	998,638
Additions	—	—	15,115	28,015	43,130
Disposals	—	—	(50)	—	(50)
Depreciation and amortisation	(1,212)	(564)	(50,114)	—	(51,890)
Net book value at 30 June 2006	<u>90,244</u>	<u>3,618</u>	<u>777,783</u>	<u>118,183</u>	<u>989,828</u>
Representing:					
Non-current portion	<u>87,820</u>	<u>3,618</u>	<u>777,783</u>	<u>118,183</u>	<u>987,404</u>
Current portion	<u>2,424</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,424</u>

9. TRADE AND BILLS RECEIVABLES

At 30 June 2006, the ageing analysis of the trade and bills receivables were as follows :

	(unaudited) At 30 June 2006 RMB'000	(audited) At 31 December 2005 RMB'000
Within one year	290,973	262,759
One to two years	10,084	15,247
Two to three years	3,806	3,715
Total	<u>304,863</u>	<u>281,721</u>

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

10. TRADE AND BILLS PAYABLES

At 30 June 2006, the ageing analysis of the trade and bills payables were as follows :

	(unaudited) At 30 June 2006 RMB'000	(audited) At 31 December 2005 RMB'000
Within one year	256,620	340,858
One to two years	4,081	1,038
Two to three years	146	412
Over three years	3,695	3,312
Total	<u>264,542</u>	<u>345,620</u>

11. SHORT-TERM BANK LOANS, UNSECURED

At 30 June 2006, the Group's short-term bank loans were repayable as follows :

	(unaudited) At 30 June 2006 RMB'000	(audited) At 31 December 2005 RMB'000
Within one year	<u>352,225</u>	<u>418,969</u>



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12. SHARE CAPITAL

	(unaudited) At 30 June 2006		(audited) At 31 December 2005	
	Number of shares'000	RMB'000	Number of shares'000	RMB'000
Issued and fully paid:				
State-owned shares of RMB 1 each				
At the beginning of the period / year	214,440	214,440	214,440	214,440
Decrease as a result of Revised Share Reform	(26,654)	(26,654)	—	—
At the end of period / year	187,786	187,786	214,440	214,440
Promoters' shares of RMB 1 each				
At the beginning and at the end of the period / year	16,720	16,720	16,720	16,720
Senior management shares of RMB 1 each				
At the beginning of the period / year	40	40	40	40
Increase as a result of Revised Share Reform	14	14	—	—
At the end of period / year	54	54	40	40
RMB ordinary shares (A Shares) of RMB 1 each				
At the beginning of the period / year	76,113	76,113	76,113	76,113
Increase as a result of Revised Share Reform	26,640	26,640	—	—
At the end of period / year	102,753	102,753	76,113	76,113
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
	<u>457,313</u>	<u>457,313</u>	<u>457,313</u>	<u>457,313</u>

In accordance with the revised share reform of the Company for the conversion of non-tradable A shares to tradable A shares ("Revised Share Reform"), the holder of the non-tradable A shares, Shandong Xinhua Pharmaceutical Group Company Limited ("SXPGC"), which was also an immediate holding company of the Company, offered as consideration, 3.5 shares of non-tradable A shares of the Company for every 10 tradable A Shares held by A share shareholders as registered on the registration date in respect of the implementation of the Revised Share Reform. Upon the completion of the proposal, SXPGC offered 26,653,665 non-tradable A shares as condition to have trading right in the A share market.

13. CAPITAL COMMITMENTS

At 30 June 2006, 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 accounts:

	(unaudited) At 30 June 2006 RMB'000	(audited) At 31 December 2005 RMB'000
Contracted but not provided for	17,862	9,668
Authorised but not contracted for	133,300	133,300
	<u>151,162</u>	<u>142,968</u>

14. RELATED PARTY TRANSACTIONS

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

	(unaudited) Six months ended 30 June 2006 RMB'000	(unaudited) Six months ended 30 June 2005 RMB'000
SXPGC and its subsidiaries		
– Sale of finished goods and raw materials	9,028	11,281
– Purchase of raw materials	21,244	26,578
– Rental income	700	800
– Purchase of machineries	1,499	—
– Payment of annual trademark license fee	1,000	—
Associated Companies		
– Sale of water, electricity and steam	1,285	117
– Purchase of raw materials	4,111	—
– Interest income received	<u>135</u>	<u>—</u>

During the six months ended 30 June 2006, the Company had not paid any expenses on behalf of its immediate holding company (2005: RMB11,666,000). As at 30 June 2006, there was no amount due from the immediate holding company in connection with such transactions (2005: RMB25,619,000).

15. CONTINGENT LIABILITIES

The Group has no significant contingent liabilities as at 30 June 2006.

16. EVENTS AFTER BALANCE SHEET DATE

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