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山东新华制药股份有限公司

Shandong Xinhua Pharmaceutical Company Limited

(a joint stock limited company established in the People's Republic of China with limited liability)

(Stock Code: 0719)

2009 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the "Board of Directors") and directors ("Directors") of Shandong Xinhua Pharmaceutical Company Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the half of year ended 30 June 2009. The following financial information has been prepared in accordance with Hong Kong Generally Accepted Accounting Principles ("HKGAAP") and PRC accounting standards. This results announcement (the "Announcement") is summarised from the Company's 2009 interim report (the "Interim Report") and investors are advised to read the full text of the interim report for full information.

The Announcement is published in Chinese and English. The Chinese version shall prevail if there are discrepancies between the Chinese version and the English version.

I. COMPANY INFORMATION

Chinese Name of the Company : 山東新華製藥股份有限公司

English Name of the Company: SHANDONG XINHUA PHARMACEUTICAL
COMPANY LIMITED

Legal Representative: Ms. Guo Qin

Company Secretaries: Mr. Cao Changqiu, Ms. Guo Lei

Telephone Number: 86-533-2196024

Facsimile Number: 86-533-2287508

E-mail Address of Company Secretaries: cqcao@xhzy.com, guolei@xhzy.com

Registered Address and Office Address: Chemical Industry Area of Zibo Hi-tech Industry
Development Zone, Zibo City, Shandong Province,
the People's Republic of China (the "PRC")

Postal Code: 255005

Website of the Company: <http://www.xhzy.com>

E-mail Address of the Company: xhzy@xhzy.com

PRC newspaper for information disclosure: Securities Times

Website designated by the China Securities Regulatory Commission (the “CSRC”):
<http://www.cninfo.com.cn>

Listing Information

H Shares

Stock Exchange: The Stock Exchange of Hong Kong Limited (the “SEHK”)

Abbreviated Name: Shandong Xinhua

Stock Code: 0719

A Shares

Stock Exchange: Shenzhen Stock Exchange (the “SZSE”)

Abbreviated Name: Xinhua Pharm

Stock Code: 000756

II. SUMMARY OF FINANCIAL RESULTS

(i) In accordance with PRC accounting standards (RMB)

Item	As at 30 June 2009 (Unaudited)	As at 31 December 2008 (Audited)	Change as compared to the end of last year (%)
Total assets	2,404,611,700.26	2,161,734,318.69	11.24
Total equity attributable to holders of Company	1,554,426,471.55	1,453,252,991.36	6.96
Capital	457,312,830.00	457,312,830.00	0.00
Net assets per share attributable to holders of Company	3.40	3.18	6.92
	Six months ended 30 June 2009 (Unaudited)	Six months ended 30 June 2008 (Unaudited)	Change as compared to the last year (%)
Total operating income	1,196,792,146.64	1,140,652,669.14	4.92
Operating profit	58,040,612.50	31,529,067.36	84.09
Profit before taxation	50,683,526.89	30,568,418.68	65.80
Profit attributable to the equity shareholders of Company	39,887,094.33	20,457,174.27	94.98
Profit attributable to the equity shareholders of Company after extraordinary items	38,401,542.24	19,385,916.65	98.09
Basic earnings per share	0.09	0.04	125.00
Diluted earnings per share	0.09	0.04	125.00
Return on equity (%)	2.57	1.37	Increase 1.20 points

Net cash flow from operating activities	121,733,607.26	43,980,363.32	176.79
Net cash flow from operating activities per share	0.27	0.10	170.00

Note:

Extraordinary items include:

Item	Amount (RMB)
Profit or loss from disposal of non-current assets	(4,897,870.59)
Government subsidies recognized 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)	482,610.20
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	9,148,250.38
Other non-operating income or cost except the above items	(2,941,825.22)
Minority interests	(52,710.97)
Income tax	(252,901.71)
Total	1,485,552.09

(ii) In accordance with HKGAAP (RMB'000)

Consolidated Income Statement

Item	Six months ended 30 June 2009 (Unaudited)	Six months ended 30 June 2008(Unaudited)
Turnover	1, 179, 184	1, 151, 004
Profit before taxation	49, 776	25, 881
Income tax expense	(8, 701)	(7, 995)
Profit for the period	41, 075	17, 886
Includes: Profit attributable to owners of the parent	39, 115	16, 471
Minority interests	1, 960	1, 415

Consolidated Statement of Financial Position

Item	As at 30 June 2009 (Unaudited)	As at 31 December 2008 (Audited)
Total assets	2, 401, 308	2, 159, 424
Total liabilities	(800, 534)	(659, 144)
Minority interests	(33, 707)	(33, 746)

Net assets

1, 567, 067

1, 466, 534

(iii) Reconciliation of accounts prepared in accordance with PRC accounting standards and HKGAAP (RMB) (Unaudited)

Item	Profit attributable to the equity shareholders of Company		Total equity attributable to holders of Company	
	2009.1-6	2008.1-6	As at 30 June 2009	As at 1 January 2009
Prepared under HKGAAP	39,115,094.33	16,471,174.27	1,567,067,471.55	1,466,533,991.36
Prepared under PRC accounting standards	39,887,094.33	20,457,174.27	1,554,426,471.55	1,453,252,991.36
HKGAAP adjustments:				
Deferred taxation	136,000.00	702,000.00	(2,208,000.00)	(2,344,000.00)
Depreciation charges due to revaluation in previous years	(204,000.00)	(204,000.00)	(20,072,000.00)	(19,868,000.00)
Provision for education fund	(704,000.00)	509,000.00	13,489,000.00	14,193,000.00
Provision for welfare expenses	-	(4,993,000.00)	-	-
Surplus from revaluation for listing of H Shares	-	-	21,300,000.00	21,300,000.00
Others	-	-	132, 000. 00	-
Total of the difference between the PRC accounting standards and HKGAAP	(772,000.00)	(3,986,000.00)	12, 641, 000. 00	13,281,000.00

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

1. In preparation for the listing of Company's shares on the Stock Exchange, the Company's property, plant and equipment were valued by Shandong CPA Firm (山東會計師事務所), a registered PRC valuer, based on depreciated replacement cost. Subsequently, such property, plant and equipment were revalued by Chesterton Petty Ltd., an independent valuer, as per the public market value, with the revaluation appreciation of RMB21,300,000. Due to the said difference, there was an increase in depreciation expenses of RMB20,072,000 as at 30 June 2009, of which RMB204,000 was attributable to the period from 1 January 2009 to 30 June 2009;

2. Education fees are set out as per the actual circumstances, without the need of provision under HKGAAP. As at 30 June 2009, provision made for the balance of education fees under the PRC accounting standards was RMB13,489,000 with a decrease in education fees of RMB704,000 for this period.

3. The aforesaid differences also led to the difference in the Company's deferred income tax. The difference in accumulated deferred income tax is RMB2,208,000 and the deferred income tax of the current period of RMB136,000.

4. Other difference of RMB132,000 was employee award extracted by a subsidiary of the Company, of which provisions are not required to be made under HKGAAP.

III. CHANGES IN SHARE CAPITAL STRUCTURE AND INFORMATION ON

SHAREHOLDERS

1. Share Capital structure

Class of shares	30 Jun 2009		1 Jan 2009	
	Number of shares (share)	% of the total share capital	Number of shares (share)	% of the total share capital
1. Total number of conditional tradable shares	187,808,632	41.07	187,809,202	41.07
Stated-owned shares	163,258,735	35.70	163,258,735	35.70
Domestic legal person shares	0	0	0	0
Conditional tradable senior management A shares	22,297	0.01	22,867	0.01
Others	24,527,600	5.36	24,527,600	5.36
2. Total number of unconditional tradable shares	269,504,198	58.93	269,503,628	58.93
Renminbi ordinary shares (A shares)	119,504,198	26.13	119,503,628	26.13
Overseas listed foreign shares (H shares)	150,000,000	32.80	150,000,000	32.80
3. Total number of shares	457,312,830	100.00	457,312,830	100.00

Tradable Schedule of Conditional Listed Tradable Shares is as follows:

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

Industrial
Company
Limited

with the
special
undertaking
of SXPGC

Note 1: SXPGC has undertaken that between the 36th month and 48th month since the listing of the non-tradable shares of the Company (6 June 2006), the shares to be sold through the SZSE shall not exceed 5% of the total share capital of the Company, and it shall not sell any of its shares of the Company on the SZSE at a price less than RMB4.8 per share, (such price will be on an ex-rights basis if there is any declaration of dividends, bonus issues or capitalisation of capital reserve during the period between the day of implementation of the revised share reform of the Company and sale of the shares by SXPGC) being 150% of the average closing price of the listed A Shares as quoted on the SZSE in the thirty (30) trading days prior to the issuance date of the relevant notice of the shareholders' meeting. Should SXPGC breach any of the provisions of this undertaking in the sale of its shares, the proceeds resulting from such sale shall be owned by the Company.

Note 2: As there are disputes between SXPGC and other shareholders who held conditional tradable shares of the Company in relation to the conditional shares it holds, the second trial in the Shandong Provincial Higher People's Court is in progress, the Company will proceed to go through the procedures in relation to the release of trading restrictions on the restricted shares upon the delivery of the formal judgment of the court.

2. As at 30 June 2009, the Company had on record a total of 44,858 shareholders, including 57 holders of H Shares and 44,801 holders of A Shares.

3. As at 30 June 2009, the ten largest shareholders of the Company were as follows:

Number of Shareholder	Types of shareholders	Number of shares held	% of the total share capital	Unit: share	
				Number of conditional tradable shares held	Number of shares being charged or frozen
SXPGC	State-owned shareholder	163,258,735	35.70	163,258,735	28,064,414
HKSCC(Nominees) Limited	H shares shareholder	148,749,998	32.53	0	0
Qingdao Haowei Investment Development Company Limited	Others	15,000,000	3.28	15,000,000	13,114,414
Zibo High-Tech Venture Capital Company Limited	Others	7,632,600	1.67	7,632,600	948,689
Huludao Bajiazi Mining Industry Company Limited	Others	1,550,000	0.34	1,550,000	0
Jiao Xiaohui	Domestic person	669,500	0.15	0	0
Liu Shida	Domestic person	560,000	0.12	0	0
Chen Linhai	Domestic person	514,300	0.11	0	0
Shandong Dacheng Pesticide Company Limited	Domestic legal person	500,000	0.11	0	0
Yin Zhong	Domestic person	445,000	0.10	0	0

4. As at 30 June 2009, the ten largest shareholders of the unconditional tradable shares of the Company were as follows:

Name of Shareholder	Number of unconditional	Class of shares
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	listed shares (share)	
HKSCC(Nominees) Limited	148,749,998	H Shares
Jiao Xiaohui	669,500	A Shares
Liu Shida	560,000	A Shares
Chen Linhai	514,300	A Shares
Shandong Dacheng Pesticide Company Limited	500,000	A Shares
Yin Zhong	445,000	A Shares
Ren Junqiu	371,055	A Shares
HSIA SIU KUN	362,000	H Shares
Zeng Lihui	360,000	A Shares
Zhou Hongbo	348,086	A Shares

Note:

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

The Directors do not know whether there is any association amongst the ten largest shareholders of unconditional tradable shares of the Company, any association between the ten largest shareholders of the Company 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.

IV. DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

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

Name	Position	As at 1 January 2009 Number of Shares(share)	Change Number of Shares	As at 30 June 2009 Number of Shares(share)
Directors:				
Ms. Guo Qin	Chairman	12,639	Nil	12,639
Mr. Liu Zhenwen	Non-executive Director	Nil	Nil	Nil
Mr. Ren Fulong	Executive Director, General Manager	Nil	Nil	Nil
Mr. Zhao Songguo	Executive Director, Deputy general manager & Financial Controller	Nil	Nil	Nil

Mr. Li Tianzhong	Non-executive Director	Nil	Nil	Nil
Mr. Zhao Bin	Non-executive Director (appointed on 8 June 2009)	Nil	Nil	Nil
Mr. Zhu Baoquan	Independent non-executive Director	Nil	Nil	Nil
Mr. Xu Guojun	Independent non-executive Director (resigned on 30 April 2009)	Nil	Nil	Nil
Mr. Sun Minggao	Independent non-executive Director	Nil	Nil	Nil
Mr. Kwong Chi Kit, Victor	Independent non-executive Director	Nil	Nil	Nil
Supervisors:				
Mr. Yu Gongfu	Chairman of Supervisory Committee	6,075	Nil	6,075
Mr. Gao Qinggang	Supervisor	4,370	Nil	4,370
Mr. Liu Qiang	Supervisor	4,370	Nil	4,370
Mr. Zhang Yueshun	Independent Supervisor	Nil	Nil	Nil
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil	Nil
Senior Officers:				
Mr. Zhang Daiming	Deputy General Manager	Nil	Nil	Nil
Mr. Dou Xuejie	Deputy General Manager	Nil	Nil	Nil
Mr. Du Deqing	Deputy General Manager	Nil	Nil	Nil
Mr. Du Deping	Deputy General Manager	Nil	Nil	Nil
Mr. Cao Changqiu	Company Secretary	2,278	Nil	2,278
Ms. Guo Lei	Company Secretary	Nil	Nil	Nil
Total		29,732	Nil	29,732

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

So far as the Directors, Senior Officers and Supervisors are aware, save as disclosed above, as at 30 June 2009, no Director, Senior Officer or Supervisor of the Company had any interest or short position in the shares, underlying shares and / or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”)) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Officer or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd. (the “Listing Rules”).

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

Mr. Xu Guojun resigned as an independent non-executive director of the Company with effect from 30 April 2009 due to change of job.

Mr. Zhao Bin was appointed as a non-executive director of the Company in the annual general meeting held on 8 June 2009.

V. CHAIRMAN’S STATEMENT

Dear shareholders,

I am pleased to report the operating results of Shandong Xinhua Pharmaceutical Company Limited (the “Company”) for the six months ended 30 June 2009.

For the six months ended 30 June 2009, pursuant to the PRC accounting standards, the operating income of the Company and its subsidiaries (collectively referred to as “the Group”) was RMB1,196,792,000 and profit attributable to the equity shareholders of the parent company was RMB39,887,000, representing an increase of 4.92% and an increase of 94.98% respectively, as compared to that of the same period last year.

The Group had a turnover of RMB1,179,184,000 and the profit attributable to shareholders of RMB39,115,000 for the six months ended 30 June 2009 under HKGAAP, representing an increase of 2.45% and an increase of 137.48% 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 2009.

BUSINESS REVIEW

As global financial crisis aggravated in the first half of 2009, pharmaceutical enterprises were in a deteriorating operations environment and the exports of pharmaceutical products were decreasing. The prices of water, electricity and gas were persistently high and there was constant pressure on environmental protection. Further, prices of certain pharmaceutical products in the domestic pharmaceutical market fell. These factors were all unfavorable to the Company’s production and operations.

The Group has taken practical steps to expand its market, restructure and consolidate the basis for its development. It strived for technology improvement and cost reduction. It smoothly carried out the construction projects by scientific planning and good organization. During the first half of 2009, the Group has achieved all targets set at the beginning of the year, especially the higher profit growth. Below is the business review of the Group for the first half of 2009:

1. Expanding market, re-structuring business and consolidating development bases

In the light of the decreasing export of medical products, the senior management of the Company took initiatives to visit customers, enhance understanding and communication, and consolidating strategic partnership, which effectively curbed further downturn of export. During the first half of 2009, the export of the Group recorded a revenue of USD68,701,000. Although the revenue had a decrease of 11% over the same period last year, it was already above the average revenue in the PRC.

Based on the principle of "To be an expert of pharmaceutical raw materials and a leading producer of pharmaceutical products", the Group used its best endeavour to market preparations, and adjust product mix, resulting in an increase of 20.06% in the sales of preparations over the same period last year, of which the sales of processed preparations to Bayer Germany has had a growth of over 400%. The sales of preparations accounted for 29.92% of all industrial products of the Company, as compared to 24.93% for the same period last year. The benefit of adjustment of product mix is prominent.

2. Striving for improvement by technology renovation and costs reductions

Through the implementation of the program of "The year of breakthroughs in technology and quality", we saved RMB2,066,000 by reducing raw materials consumption and made technology

breakthroughs in 11 projects, representing 50% of our annual target in the first half of 2009. By reducing energy consumption through strengthening the measures on energy saving and discharge reduction, the Company saved RMB9,870,000 in the first half of 2009.

We implemented our procurement system of "Quality and Price Comparison", put emphasis on analysis and research, and made decisions in a scientific and rational manner. By doing so, we managed to lower our raw material procurement cost significantly during the first half of the year, as compared to that of the same period last year.

We were fully and well-prepared for inspections in relation to 9 pharmaceutical raw materials production lines and 3 solid preparations production lines. We have successfully passed the GMP authentication and licence review inspection by the State Food and Drugs Administration of the PRC. Our controlling subsidiaries, Zibo Xinhua Pharmacy Chain Company Limited and Shandong Xinhua Medical Trading Company Limited, have successfully passed the GSP licence review inspection and were given positive comments by relevant experts.

3. Ensuring progress of the construction projects by good organization

We have learnt from our experience and good practices of other enterprises, perfected the project assessment system, strengthened the chain management, and strived to minimize construction costs. The construction project of Xinhua Pharmaceutical (Shouguang) Company Limited, a wholly owned subsidiary of the Company, has had a steady progress during the first half of 2009. Along with the completion of projects and commencement of production, our pharmaceutical intermediates supply was effectively ensured. Therefore, the Company had a competitive edge in the market.

PLANS FOR THE SECOND HALF OF THE YEAR 2009

Although it is expected that prices of chemical raw materials are going to remain at a low level in the second half of 2009, we also expect the pharmaceutical raw materials prices to go down further. In light of the global financial crisis, outlook for medical products export is not optimistic. For the second half of the year, we will focus on the followings:

1. To keep close eyes on the market and policies, pay attention to "Four Changes", that is, changes in pharmaceutical raw material market, changes in customers buying pharmaceutical raw materials, changes in competitors supplying pharmaceutical raw materials, and changes in healthcare reform policies and basic national medicine systems. We will take initiatives to respond to these changes so as to ensure that our annual sales target can be attained. Meanwhile, we will strictly control operating risks and aim at achieving a 100% money return-to-sales ratio.
2. To continue to implement the policy of "enhancing management, expanding market, restructuring business, and promoting development", to focus on solving outstanding problems in operations and management, technology renovation, energy saving and emission reduction, safety and environmental protection, and upgrade our management skills. Internal and onsite management will be enhanced to ensure that we will pass the quality review to be conducted by overseas customers and complete the injection GMP authentication and licence renewal.
3. To carry out project construction in all industrial zones based on the principle of "uniform planning and step-by-step implementation". We will put more efforts in the construction of pharmaceutical intermediates project in Shouguang Park and will speed up its product serialization and standardization. We will relocate part of our products production speedily and stably so as to ensure that there is no delay in the production and relocation.

VI. MANAGEMENT DISCUSSION AND ANALYSIS

The Group is mainly engaged in the development, manufacturing and sale of bulk pharmaceuticals, pharmaceutical preparations, chemicals 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 2009, the liquidity ratio of the Group was 138.61%, quick ratio was 104.64%, the turnover ratio of account receivables was 395.12% (turnover ratio of account receivables = turnover / average account receivables and net value of bills x 100%) and turnover ratio of inventory was 348.72% (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 2009, the total amount of bank loans was approximately RMB339,064,000, in addition to secured loans of RMB17,631,000; other loans were unsecured. As at 30 June 2009, cash on hand and in bank amounted to approximately RMB310,046,000 (including the pledged deposits for acceptance of bills of exchange by banks and credit amounting to approximately RMB65,397,000).

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

During the six months ended 30 June 2009, the Company invested an additional RMB44,000,000 in Xinhua Pharmaceutical (Shouguang) Company Limited, and thus the paid up capital of this company has increased to RMB130,000,000 from RMB86,000,000. The company's development prospect is good.

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

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

As at 30 June 2009, the number of employees of the Group was 4,960. The total salaries for employees in the first half of 2009 amounted to RMB68,492,000.

As at 30 June 2009, in addition to the receivables RMB17,800,000 in relation to the export bill purchase, there were no other charges on the Group's assets.

It is expected that there will be no significant investment projects in the second half of 2009.

As at 30 June 2009, the capital debt ratio of the Group was 21.64% (capital debt ratio = total loans / share capital and total reserve x 100%).

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

The assets and debts of the Group were denominated in Renminbi. However, the Group achieved USD68,701,000 in its export for the first half of 2009. 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.

2. RESULTS AND FINANCIAL ANALYSIS UNDER PRC ACCOUNTING STANDARDS

In the first half of 2009, the Group had achieved a turnover of RMB1,196,792,000 from its principal business, representing an increase of 4.92% as compared to the same period last year. The increase in revenue from the principal business was mainly attributable to the fact that the Group took advantage of the preparation sales market and promoted product structure adjustment, thus preparation product sales increased by 20.06% as compared to the same period last year. The increase in net cash and cash equivalents was RMB60,982,000, while there was a decrease of RMB17,865,000 in the same period last year. The main reason for the change was that the increase in net cash inflows from operating activities was RMB77,753,000 as compared to the same period last year. Operating profit amounted to RMB58,041,000, representing an increase of 84.09% as compared to the same period last year. The main reason for the increase was that the Group lowered raw material procurement costs by strengthening management. At the same time it improved the technology, reduced the consumption of raw materials and power and increased the product gross profit margin.

Total assets of the Group as at 30 June 2009 amounted to RMB2,404,612,000, representing an increase of RMB242,878,000 or 11.24% as compared to the figure of RMB2,161,734,000 as at 1 January 2009. This increase was mainly due to an increase in value of financial assets available for sale during this reporting period. The Group's bank loans as at 30 June 2009 was RMB339,064,000, representing an increase of RMB54,589,000 from RMB284,475,000 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. Shareholders' equity attributable to the Company as at 30 June 2009 increased by RMB101,173,000 or 6.96%, from RMB1,453,253,000 at the beginning of this year to RMB1,554,426,000. This increase was mainly attributable to an increase in the fair value of financial assets available for sale and operating profits of the Group.

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

By geographical location of customers	First half of 2009		First half of 2008	
	Total turnover	Costs	Total turnover	Costs
PRC (incl. Hong Kong)	790, 429	663, 648	633, 963	536, 139
Europe	119, 181	93, 602	147, 002	129, 950
Americas	148, 959	118, 730	171, 691	155, 106
Others	116, 411	76, 369	166, 492	140, 289
Total	1, 174, 980	952, 349	1, 119, 148	961, 484

By industry and By product	Income from principal operations	Costs of sales of principal operations	Gross profit margin(%)
Bulk pharmaceutical	614, 065	464, 975	24. 28
Preparations	244, 635	179, 124	26. 78
Medical commercial logistics	314, 381	306, 952	2. 36
Chemical products and other products	1, 899	1, 298	31. 65
Total	1, 174, 980	952, 349	18. 95

An analysis of profit as compared to 2008 is as follows:

Items	Amount (RMB'000)		% of total profit	
	Jan.-Jun. 2009	2008	Jan.-Jun. 2009	2008
Operating profit	58,041	36,392	114.52	79.04
Profit/Loss from non-operation activities	(7,357)	9,648	(14.52)	20.96
Profit before taxation	50,684	46,040	100.00	100.00

Analysis of the reasons for changes: the percentage of the net non-operating income attributable to the total profit of this reporting period has seen a more substantial change because the Company received government subsidies of RMB 12,000,000, and the Company has written off fixed assets of RMB 5,100,000 during this reporting period.

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 2009, RMB327,459,000 were used in the following projects:

Name of project	Planned investment RMB'000	Actual investment Jan.-Jun. 2008 RMB'000	Accumulated amount of investment RMB'000	% of the investment	Remarks
State-level technical center renovation	74,500	-	17,526	23.52%	-
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	384,280	-	355,660	-	RMB28,201,000 financed by the Company

(1) Analgin (GMP) renovation project, L-350 technical renovation project reached their profit forecast.

(2) Injection GMP renovation project did not reached its profit forecast due to the decrease in pharmaceutical prices.

(3) Caffeine technical renovation did not reached its profit forecast due to price competition.

(4) The renovation project of the state-level technical center has entered the construction stage.

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

VII. REVIEW OF MAJOR EVENTS

Save as disclosed herein:

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 2009.
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 acquisitions involving the Company occur during this reporting period. Similarly, no transactions of such nature occurred during the last reporting period and carried over to this reporting period.
5. During this reporting period, there was no trust, subcontract and lease of the assets between the Company and other companies.
6. The independent non-executive directors' special explanation and independent opinions in respect of the use of funds by related parties and external security provided are as follows:

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

During this reporting period, there was no material guarantee provided by the Company, nor has there been any obligations that have not been performed in full by the Company. The Company was in strict compliance with the regulations of the notice Zhengjiafa [2003] no. 56 issued by the CSRC and there were no guarantees provided by any controlling shareholders, non-legal entity or individuals which were prejudicial to the interests of the Company and the shareholders, in particular the minority shareholders, of the Company. As at 30 June 2009, 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.

7. The Company and its shareholders holding more than 5% of total number of issued shares of the Company have provided undertakings for information disclosure as follows:

(1) Within the period between the 36th to the 48th month from the listing date of the A Shares of the Company, SXPGC shall not sell any of its A shares of the Company on the SZSE at a price less than RMB4.8 per share (such price will be on an ex-rights basis if there is any declaration of dividends, bonus issues or capitalisation of capital reserve during the period between the day of implementation of the revised share reform of the Company and sale of the shares by SXPGC), being 150% of the average closing price of the listed A Shares as quoted on the SZSE in the thirty (30) trading days prior to the issuance date of the notice of relevant shareholders' meeting. Should SXPGC breach any of the undertakings, the proceeds resulting from such sale shall be transferred to the account of the Company and owned by the Company.

(2) As at 1 January 2006, SXPGC owed the Company the sum of RMB9,507,000 for non-business

purposes. SXPGC repaid the capital by 30 June 2006 by way of cash. SXPGC guaranteed not to use any capital of the Company starting from 1 January 2006 for non-business purposes.

8. 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.

9. Management of Funds

During this reporting period, the Company did not appoint any person to manage the Company's funds. No such appointment was made in the preceding reporting period and carried over to this reporting period.

10. 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 this period	Profit/loss of this period	Change of shareholder's equity of this period
601601	China Pacific Insurance	7,000,000.00	0.07%	111,900,000.00	–	47,855,000.00
601328	BANKCOMM	14,225,318.00	0.02%	67,322,720.00	–	27,119,624.00
600831	BC & TV Network	463,655.00	0.01%	384,196.80	–	88,465.28
600713	Nanjing Medical	568,800.00	0.02%	375,300.00	–	79,312.50
Total		22,257,773.00	–	179,982,216.80	–	75,142,401.78

11. Index of important information which has been disclosed

The announcement of the “2008 Annual Results Announcement” was published on the HKExnews, in the Securities Times in the PRC, on the website: [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) and on the Company's website on 23 March 2009.

The announcement of the “The Notice of Annual General Meeting for the 2008” was published on the HKExnews, in the Securities Times in the PRC, on the website: [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) and on the Company's website on 23 April 2009.

The announcement of the “The First Quarter Report of 2009” was published on the HKExnews, in the Securities Times in the PRC, on the website: [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) and on the Company's website on 29 April 2009.

The announcement of the “Resignation of Independent Non-executive Director” was published on the HKExnews, in the Securities Times in the PRC, on the website: [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) and on the Company's website on 30 April 2009.

The announcement of the “Announcement of 2008 Annual General Meeting Resolutions” and the announcement of the “Profit Prediction” were published on the HKExnews, in the Securities Times in the PRC, on the website: [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) and on the

Company's website on 9 June 2009.

12. Information of reception research, communication and interview

Reception time	Reception location	Reception method	Reception objects	Main content of the discussion and the information provided
9 April 2009	Office address of the Company	Field study	Gao Hua Securities	Understand the production and operation of the Company
27 May 2009	Office address of the Company	Field study	Southern Fund	Understand the production and operation of the Company

VIII. 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") set out in Appendix 14 to the Listing Rules and has not deviated from the Code during the six months ended 30 June 2009.

AUDIT COMMITTEE

The Company set up 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 2009.

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 2009, and it has been disclosed fully.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Group has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to 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 2008 Annual Report of the Company.

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

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

IX. FINANCIAL REPORTS

1. Profit and loss account prepared in conformity with PRC accounting standards (Unaudited)

Unit: RMB

Item	First half of 2009		First half of 2008	
	Consolidated	Parent company	Consolidated	Parent company
1.Total operating income	1, 196, 792, 146. 64	784, 725, 133. 18	1, 140, 652, 669. 14	825, 436, 481. 98
Includes: Operating income	1, 196, 792, 146. 64	784, 725, 133. 18	1, 140, 652, 669. 14	825, 436, 481. 98
2.Total operating costs	1, 151, 722, 488. 27	743, 297, 685. 20	1, 097, 174, 644. 47	786, 383, 574. 55
Includes: Operating cost	976, 473, 336. 24	626, 225, 077. 32	982, 221, 701. 57	716, 170, 595. 02
Taxes and surcharges	6, 933, 122. 86	5, 664, 525. 82	4, 878, 673. 38	4, 281, 619. 43
Selling expenses	79, 536, 761. 31	34, 821, 029. 72	56, 196, 494. 87	20, 875, 635. 22
Administrative expenses	73, 492, 127. 93	61, 543, 421. 68	52, 666, 864. 44	43, 796, 570. 31
Financial expenses	15, 287, 139. 93	15, 043, 630. 66	1, 191, 844. 22	1, 259, 154. 57
Assets Impairment loss	–	–	19, 065. 99	–
Add: Gain or loss from changes in fair value	6, 898, 720. 38	6, 687, 079. 08	(13, 634, 789. 28)	(13, 634, 789. 28)
Investment gain or loss	6, 072, 233. 75	8, 075, 783. 75	1, 685, 831. 97	1, 207, 112. 97
Includes: Investment gain or loss from related ventures and joint ventures	3, 822, 703. 75	3, 822, 703. 75	556, 319. 97	556, 319. 97
Exchange gain or loss	–	–	–	–
3. Operating profit	58, 040, 612. 50	56, 190, 310. 81	31, 529, 067. 36	26, 625, 231. 12
Add: Non-operating income	911, 199. 91	776, 873. 19	1, 151, 488. 76	870, 984. 78
Less: Non-operating cost	8, 268, 285. 52	8, 156, 158. 42	2, 112, 137. 44	1, 556, 370. 69
Includes: Loss from the disposal of non-current assets	5, 174, 106. 18	5, 162, 269. 37	146, 667. 12	146, 667. 12
4. Profit before taxation	50, 683, 526. 89	48, 811, 025. 58	30, 568, 418. 68	25, 939, 845. 21
Less: Income tax expense	8, 836, 807. 36	8, 334, 531. 97	8, 696, 030. 18	7, 442, 193. 75
5. Profit after taxation	41, 846, 719. 53	40, 476, 493. 61	21, 872, 388. 50	18, 497, 651. 46
Includes: Profit attributable to the equity shareholders of the parent company	39, 887, 094. 33	–	20, 457, 174. 27	–
Minority interest	1, 959, 625. 20	–	1, 415, 214. 23	–
6. Earnings per share				

1) Basic earnings per share	0.09	0.09	0.04	0.04
2) Diluted earnings per share	0.09	0.09	0.04	0.04
7. Other comprehensive income	75,135,767.43	75,063,089.28	(180,010,676.87)	(180,048,768.00)
8. Total comprehensive income	116,982,486.96	115,539,582.89	(158,138,288.37)	(161,551,116.54)
Includes: Total comprehensive income attributable to the equity shareholders of the parent company	115,024,394.30	–	(159,562,301.65)	–
Total comprehensive income attributable to the minority interest	1,958,092.66	–	1,424,013.28	–

NOTES:

1. During this reporting period, there was no change in accounting policies and accounting estimates.

2. During this reporting period, there was no change in the scope consolidated financial statements of the Company.

2. FINANCIAL STATEMENTS PREPARED UNDER HKGAAP

Condensed consolidated income statement

		Six months ended 30 June	
		<u>2009</u>	<u>2008</u>
	<u>Notes</u>	RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue	3	1,179,184	1,151,004
Cost of sales		<u>(959,486)</u>	<u>(987,305)</u>
Gross profit		219,698	163,699
Other income	3	8,242	3,215
Selling and distribution costs	4	(83,741)	(66,547)
Administrative expenses	4	(82,409)	(57,150)
Other expenses	4	(8,296)	(15,766)
Finance costs		(7,541)	(2,126)
Share of results of associates		<u>3,823</u>	<u>556</u>
Profit before tax		49,776	25,881
Income tax expense	5	<u>(8,701)</u>	<u>(7,995)</u>
Profit for the period		<u>41,075</u>	<u>17,886</u>
Attributable to :			
Owners of the parent		39,115	16,471
Minority interests		<u>1,960</u>	<u>1,415</u>

		41,075	17,886
Earnings per share - basic	6	RMB0.090	RMB0.036
Interim dividend	10	-	-

Condensed consolidated statement of comprehensive income

	Six months ended 30 June	
	<u>2009</u> RMB'000 (unaudited)	<u>2008</u> RMB'000 (unaudited)
Profit for the period	41,075	17,886
Exchange difference on translation of foreign operations	(7)	38
Net gain/ (loss) on available-for-sale financial assets	88,415	(211,822)
Income tax	(13,273)	31,773
	75,142	(180,049)
Total comprehensive income (loss) for the period, net of tax	116,210	(162,125)
Attributable to :		
Owners of the parent	114,252	(163,549)
Minority interests	1,958	1,424
	116,210	(162,125)

Condensed consolidated statement of financial position

	<u>Notes</u>	30 June 2009 RMB'000 (unaudited)	31 December 2008 RMB'000 (audited)
Non-current assets			
Technical know-how		292	792
Property, plant and equipment		968,777	959,882
Construction in progress		113,785	88,206
Prepaid lease payments on land use rights		104,672	105,061
Interests in associates		26,860	25,632
Available-for-sale investments		183,182	94,767
Deferred tax asset		1,004	1,031
		1,398,572	1,275,371
Current assets			
Inventories		245,777	304,515

Trade and bills receivables	7	346,781	250,092
Prepaid lease payments on land use rights		3,024	4,146
Other receivables, deposits and prepayment		53,480	39,903
Amount due from immediate holding company		42,535	43,091
Amounts due from associates		1,093	1,482
Tax recoverable		-	2,700
Pledged bank deposits		65,397	54,457
Bank balances and cash		244,649	183,667
		<u>1,002,736</u>	<u>884,053</u>
Current liabilities			
Trade and bills payables	8	294,399	250,628
Other payables and accrued charges		144,196	111,190
Amount due to an associate		674	1,805
Tax payable		4,401	462
Derivative financial instruments		692	7,591
Short-term bank loans		279,064	284,474
		<u>723,426</u>	<u>656,150</u>
Net current assets		<u>279,310</u>	<u>227,903</u>
Total assets less current liabilities		<u>1,677,882</u>	<u>1,503,274</u>
Non-current liability			
Long-term bank loans		60,000	-
Deferred tax liability		17,108	2,994
		<u>77,108</u>	<u>2,994</u>
Net assets		<u>1,600,774</u>	<u>1,500,280</u>
Equity attributable to owners of the parent			
Share capital		457,313	457,313
Reserves		1,109,754	995,502
Proposed final dividend		-	13,719
		<u>1,567,067</u>	<u>1,466,534</u>
Minority interests		<u>33,707</u>	<u>33,746</u>
Total equity		<u>1,600,774</u>	<u>1,500,280</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNDER HKGAAP

1. Basis of preparation

The 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”).

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 financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the consolidated condensed interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008 except as described below.

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretation ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2009.

HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations
 HKFRS 7 Financial Instruments: Disclosures
 HKFRS 8 Operating Segments
 HKAS 1 Revised Presentation of Financial Statements
 HKAS 23 Borrowing Costs (Revised)
 HKAS 32 Financial Instruments: Presentation and HKAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
 HK(IFRIC) 13 Customer Loyalty Programmes
 HK(IFRIC) 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement
 HK(IFRIC) 16 Hedges of a Net Investment in a Foreign Operation
 Improvements to HKFRSs May 2008
 Improvements to HKFRSs April 2009

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs May 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs April 2009 ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 39 (Amendment)	Eligible hedged items ³
HKFRS 1 (Revised)	First-time Adoption of HKFRSs ³
HKFRS 3 (Revised)	Business Combinations ³
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Embedded Derivatives ⁴
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners ³
HK(IFRIC) – Int 18	Transfers of Assets from Customers ⁵

1 Amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate.

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

4 Effective for annual periods ending on or after 30 June 2009.

5 Effective for transfers of assets from customers received on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009, HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating segments as follows:

- Pharmaceutical business segment develops, produces and sells pharmaceutical products including bulk pharmaceutical, preparations (e.g. tablets and injections), chemicals and other products.
- Other operations segment manages the available-for-sale investment held by the Group.

No operating segments have been aggregated to form the above reportable operating segments.

Operating segments

The following tables present information of revenue and profit before tax on the basis of the Group's operating segments for the six months ended 30 June 2009 and 2008, respectively.

Six months ended 30 June 2009 (unaudited)	Pharmaceuti cal business RMB'000	Other operations RMB'000	Adjustment s and elimination RMB'000	Total RMB'000
Revenue	<u>1,185,177</u>	<u>2,249</u>	<u>-</u>	<u>1,187,426</u>
Results				
Segments profit before tax	<u>51,245</u>	<u>2,249</u>	<u>^a (3,718)</u>	<u>49,776</u>

- a. The profit for each operating segment does not include finance costs RMB7,541,000 and share of results of associates RMB3,823,000.

Six months ended 30 June 2008 (unaudited)	Pharmaceuti cal business RMB'000	Other operations RMB'000	Adjustment s and elimination RMB'000	Total RMB'000
Revenue	<u>1,153,089</u>	<u>1,130</u>	<u>-</u>	<u>1,154,219</u>
Results				
Segments profit before tax	<u>39,879</u>	<u>(12,428)</u>	<u>^a (1,570)</u>	<u>25,881</u>

- a. The profit for each operating segment does not include finance costs RMB2,126,000 and share of results of associates RMB556,000.

The following table presents segment assets of the Group's operating segments as at 30 June 2009 and 31 December 2008:

Segment assets	Pharmaceuti cal business RMB'000	Other operations RMB'000	Adjustment s and elimination RMB'000	Total RMB'000
Segment assets				

At 30 June 2009	<u>1,880,216</u>	<u>183,182</u>	<u>^a 337,910</u>	<u>2,401,308</u>
At 31 December 2008	<u>1,797,170</u>	<u>94,767</u>	<u>^b 267,487</u>	<u>2,159,424</u>

a. Segment assets does not include deferred tax RMB1,004,000, interests in associates RMB26,860,000, pledged bank deposits RMB65,397,000 and bank balance and cash RMB244,649,000.

b. Segment assets does not include deferred tax RMB1,031,000, interests in associates RMB25,632,000, tax recoverable 2,700,000, pledged bank deposits RMB54,457,000 and bank balance and cash RMB183,667,000.

4. Profits before tax

Profit before tax is arrived at after charging :

	Six months ended 30 June	
	2009	2008
	RMB'000 (unaudited)	RMB'000 (unaudited)
Interest on borrowings	<u>7,541</u>	<u>2,126</u>
Amortisation of prepaid lease payments on land use rights	1,511	1,553
Amortisation of technical know-how	500	564
Depreciation	58,501	54,250
Staff costs (excluding emoluments of directors and supervisors)	68,492	84,283
Contributions to retirement scheme for the staff	20,168	12,627
Dividends and interest income	2,716	1,585
Loss on disposal of property, plant and equipment	<u>1,424</u>	<u>167</u>

5. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2009	2008
	RMB'000 (unaudited)	RMB'000 (unaudited)
Current income tax		
Current income tax charge	7,834	6,576
Deferred income tax		
Relating to origination and reversal of temporary differences	<u>867</u>	<u>1,419</u>
Income tax expense	<u>8,701</u>	<u>7,995</u>

(a) PRC enterprise income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

(b) No provision for Hong Kong Profits Tax has been made as the Group's income neither

arises in, nor is derived from, Hong Kong for the six months ended 30 June 2009 and 2008.

6. EARNINGS PER SHARE - BASIC

The calculation of the basic earnings per share is based on the Group's profit attributable to the owners of the parent of RMB39,115,000 (2008: RMB16,471,000) and based on the weighted average of 457,312,830 shares (2008: 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 2009 and 2008 as there were no dilutive shares outstanding during the six months ended 30 June 2009 and 2008.

7. TRADE AND BILLS RECEIVABLES

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 2009	31 December 2008
	RMB'000 (unaudited)	RMB'000 (audited)
Within one year	342,888	246,965
More than one year but less than two years	3,310	2,264
More than two years but less than three years	-	588
Over three years	583	275
	<u>346,781</u>	<u>250,092</u>

The Group's turnover 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.

8. TRADE AND BILLS PAYABLES

Included in trade and bills payables are creditors and bill payables with the following ageing analysis:

	30 June 2009	31 December 2008
	RMB'000 (unaudited)	RMB'000 (audited)
Within one year	286,538	242,426
More than one year but less than two years	1,746	2,151
More than two years but less than three years	1,703	966
Over three years	4,412	5,085
	<u>294,399</u>	<u>250,628</u>

9. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
SXPGC and its subsidiaries		
- Sale of water, electricity and steam and raw materials	5,441	6,499
- Purchase of raw materials	42,690	68,450
- Design income received	-	24
- Rental income	2	-
- Rental expense	500	500
- Purchase of land and building	-	9,500
- Payment of annual trademark license fee (Note)	1,100	1,100
Associates		
- Design income received	11	12
- Purchase of raw materials	1,584	5,445
- Rental income	132	-
Minority shareholder:		
- Sale of bulk pharmaceuticals and chemical materials	71,620	108,346
- Purchase of chemical materials, water, electricity and stream	-	16,621

Note:

On 7 December 1996, the Group was granted the exclusive right to use the trademark "Xinhua" ("Trademark") by SXPGC for its existing and future products in and outside the PRC at an initial annual fee of RMB600,000 increasing at the rate of an extra RMB100,000 per year until the annual fee reaches the cap amount of RMB1,100,000, which shall stay as such until the agreement is terminated. The terms of the agreement shall continue to have effect during the validity period of the Trademark, being 28 February 2013, subject to further renewal of the registration of the Trademark. During the period ended 30 June 2009, the annual fee paid by the Group was RMB1,100,000 (2008 : RMB1,100,000).

10. INTERIM DIVIDEND

- The board of directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2009 (2008: Nil).
- Dividends attributable to the previous financial year, approved and paid during the interim period.

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)

Final dividend in respect of the financial year ended 31 December 2008, approved and paid during the following interim period, of RMB0.03 per share (year ended 31 December 2007: RMB0.03 per share)	<u>13,719</u>	<u>13,719</u>
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X. DOCUMENTS FOR INSPECTION AND PLACE FOR INSPECTION

(1) DOCUMENTS FOR INSPECTION

1. The original copy of the Company's 2009 interim report signed by the Chairman of the Board.
2. Financial statements for the six months ended 30 June 2009 signed by the Chairman of the Board, the financial controller and the chief of the accounting department of the Company.

(2) PLACE FOR INSPECTION

Office of the Secretary to the Board of the Company.

By Order of the Board
Shandong Xinhua Pharmaceutical Company Limited
Guo Qin
Chairman

24 July 2009, Zibo, PRC

As at the date of this announcement, the Board comprises:

Executive Directors:
Ms. Guo Qin (Chairman)
Mr. Ren Fulong
Mr. Zhao Songguo

Independent Non-executive Directors:
Mr. Zhu Baoquan
Mr. Sun Minggao
Mr. Kwong Chi Kit, Victor

Non-executive Directors:
Mr. Liu Zhenwen
Mr. Li Tianzhong
Mr. Zhao Bin