



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)

## 2008 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 2008. 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 2008 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 (the "Company")

Legal Representative: Ms. Guo Qin

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

Telephone Number: 86-533-2166666

Facsimile Number: 86-533-2287508

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

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

Postal Code: 255005

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

E-mail Address of the Company: [xhzy@xhzy.com](mailto: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'000)

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

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

**Consolidated Income Statement**

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

**Consolidated Balance Sheet**

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

**(iii) Reconciliation of accounts prepared in accordance with PRC accounting standards and HKGAAP (RMB'000) (Unaudited)**

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

**III. CHANGES IN SHARE CAPITAL STRUCTURE AND INFORMATION ON SHAREHOLDERS**

**1. Share Capital structure**

Class of shares	30 Jun 2008		1 Jan 2008	
	Number of shares (share)	% of the total share capital	Number of shares (share)	% of the total share capital
1. Total number of conditional tradable shares	187,809,202	41.07%	187,816,881	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	22,867	0.01%	30,546	0.01%
Others	24,527,600	5.36%	24,527,600	5.36%
2. Total number of unconditional tradable shares	269,503,628	58.93%	269,495,949	58.93%
Renminbi ordinary shares (A shares)	119,503,628	26.13%	119,495,949	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 2008	Number of unconditional tradable shares in the first half of 2008	Increase in shares subject to conditions of trading	Number of shares subject to conditions of trading as at 30 June 2008	Conditions	Date of removing the conditions
Shandong Xinhua Pharmaceutical Group Company Limited	163,258,735	0	0	163,258,735	Special undertaking	6 June 2009
Qingdao Haowei Investment Development Company Limited	15,000,000	0	0	15,000,000	Compliance with the special undertaking of SXPGC	6 June 2009
Zibo High-Tech Venture Capital Company Limited	7,632,600	0	0	7,632,600	Compliance with the special undertaking of SXPGC	6 June 2009
Huludao Bajiazi Mining Industry Company Limited	1,550,000	0	0	1,550,000	Compliance with the special undertaking of SXPGC	6 June 2009
Shangrao Daihu Industrial Company Limited	345,000	0	0	345,000	Compliance with the special undertaking of SXPGC	6 June 2009

Note : SXPGC has undertaken that between the 36th month and 48th month since the listing of the non-tradable shares of the Company (6 June 2006), it shall not sell 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.

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

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

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 freed
SXPGC	State-owned shareholder	163,258,735	35.70	163,258,735	30,500,000
HKSCC(Nominees) Limited	H shares shareholder	148,767,998	32.53	0	0
Qingdao Haowei Investment Development Company Limited	Others	15,000,000	3.28	15,000,000	0
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
Wei Xiaohua	Domestic person	1,456,973	0.32	0	0
Chen Zhengxu	Domestic person	636,301	0.14	0	0
Shandong Dacheng Pesticide Company Limited	Domestic legal person	499,500	0.11	0	0
Lou Qiankun	Domestic person	453,190	0.10	0	0
Yin Zhong	Domestic person	445,000	0.10	0	0

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

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

Note:

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

The Directors do not know whether there is any association amongst the ten largest shareholders of unconditional tradable shares of the Company, any association between the ten largest shareholders of the Company 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 2008 Number of Shares(share)	Change Number of Shares	As at 30 June 2008 Number of Shares(share)
<b>Directors:</b>				
Ms. Guo Qin	Chairman	12,639	Nil	12,639
Mr. Liu Zhenwen	Non-executive Director	Nil	Nil	Nil
Mr. Ren Fulong	Executive Director, General Manager	Nil	Nil	Nil
Mr. Zhao Songguo	Executive Director, Deputy general manager & Financial Controller	Nil	Nil	Nil
Mr. Li Tianzhong	Non-executive Director (appointed on 26 June 2008)	Nil	Nil	Nil
Mr. Dai Qingjun	Independent non-executive Director	Nil	Nil	Nil
Mr. Mok Chung Kwan, Stephen	Independent non-executive Director (resigned on 16 April 2008)	Nil	Nil	Nil
Mr. Xu Guojun	Independent non-executive Director	Nil	Nil	Nil
Mr. Sun Minggao	Independent non-executive Director	Nil	Nil	Nil
<b>Supervisors:</b>				
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
<b>Senior Officers:</b>				
Mr. Zhang Daiming	Deputy General Manager	Nil	Nil	Nil
Mr. Fu Hengqian	Deputy General Manager	Nil	Nil	Nil
Mr. Gao Xiangyou	Deputy General Manager (resigned on 19 May 2008)	Nil	Nil	Nil
Mr. Cao Changqiu	Company Secretary	3,038	-760	2,278
Ms. Guo Lei	Company Secretary	Nil	Nil	Nil
Total		30,492	-760	29,732

All shares held by the Directors, supervisors and senior officers are A shares.

So far as the Directors, senior officers and supervisors are aware, save as disclosed above, as at 30 June 2008, no Director, Senior Officer or Supervisor of the Company had any interest or short position in the shares, underlying shares and / or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”)) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Officer or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”).

## CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

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

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

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

## V. CHAIRMAN’S STATEMENT

Dear shareholders,

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

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

The Group had a turnover of RMB1,151,004,000 and the profit attributable to shareholders of

RMB16,471,000 for the six months ended 30 June 2008 under HKGAAP, representing an increase of 17.73% and a decrease of 13.96% respectively, as compared with that of the same period last year.

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

## **REVIEW OF OPERATION**

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

### **1. Seizing opportunities, developing new markets and expanding sales**

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

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

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

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

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

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

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

L-380 construction projects were completed efficiently and entered their trial production stage. The main works of the Ibuprofen technological transformation projects were completed successfully and entered the equipment installation stage. Some intermediate pharmaceutical supporting projects



were in a preparatory stage. The completion of these projects will bring new economic growth areas to the Company.

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

## **PLANS FOR THE SECOND HALF OF THE YEAR 2008**

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

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

By order of the Board  
Guo Qin  
Chairman

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

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

The main source of funds for the Group was loans from financial institutions. As at 30 June 2008, the total amount of bank loans was approximately RMB245,144,000, in addition to an export

mortgage of RMB1,185,000; other loans were unsecured. As at 30 June 2008, cash on hand and in bank amounted to approximately RMB205,851,000 (including the pledged deposits for acceptance of bills of exchange by banks and credit amounting to approximately RMB23,884,000).

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

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

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

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

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

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

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

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

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

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

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

The assets and debts of the Group were denominated in Renminbi. However, the Group achieved USD76,989,000 in its export for the first half of 2008. Therefore, there was a greater impact from foreign exchange. The Group adopted the following measures to minimise the foreign exchange fluctuation risk: 1. raising the export price in order to minimise foreign exchange fluctuation risk; and 2. when the Group enters into an export contract involving large quantities of products with other parties, the Group shall seek prior consent from the other party that both parties will bear the

foreign exchange fluctuation risk should the foreign exchange fluctuation exceed the contractual limit as agreed by both parties; and 3. the Group has entered into a long term settlement agreement with financial institutions to fix exchange rates in order to mitigate foreign exchange fluctuation risks.

## 2. RESULTS AND FINANCIAL ANALYSIS UNDER PRC ACCOUNTING STANDARDS

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

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

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

By geographical location of customers	First half of 2008		First half of 2007	
	Total turnover	Costs	Total turnover	Costs
PRC (incl. Hong Kong)	633,963	536,139	516,732	436,094
Europe	147,002	129,950	139,417	114,064
Americas	171,691	155,106	150,953	126,339
Others	166,492	140,289	129,458	99,710
Total	1,119,148	961,484	936,560	776,207

  

By industry and By product	Income from principal operations	Costs of sales of principal operations	Gross profit margin(%)
Bulk pharmaceutical	677,674	587,752	13.27
Preparations	203,768	145,742	28.48
Medical commercial logistics	231,913	224,807	3.06
Chemical products and other products	5,793	3,183	45.05
Total	1,119,148	961,484	14.09

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

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

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

### 3. USE OF PROCEEDS

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

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

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

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

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

## 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 2008.
3. The Group was not involved in any material litigation or arbitration, whether pending or threatened during the reporting period.
4. There was no material purchase of assets or disposal of the Company's assets, nor did any material mergers or 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. On 27 July 2007, the Company provided financial guarantees to a bank for the benefits of an independent third party in relation to bills of exchange amounting to RMB14,000,000. The bills of exchange would be issued to a subsidiary of the Company and the term is one year. The Company only guaranteed the difference between the face value of the bills of exchange issued by the bank and the amount on the bills of lading if the bills of exchange were overdue. As at 30 June 2008, bills of exchange amounting to RMB24,000,000 were issued by the bank and bills of lading amounting to RMB18,500,000 were issued, among which bills of exchange amounting to RMB17,000,000 matured.

Apart from the above guarantee, during this reporting period, there was no other material guarantee provided by the Company, nor has any new guarantee been provided by the Company.

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 reasons. 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 reasons.

**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'000)

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
601328	BANKCOMM	14,225	0.02%	55,891	-	(51, 699)
601601	China Pacific Insurance	7,000	0.07%	96,250	-	(128, 350)
	合计	21,225	-	152,141	-	(180, 049)

## 11. Important announced information index

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

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

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

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

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

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

## 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
21 January 2008	Office address of the Company	Field study	Guosen Securities	Understand the production and operation of the Company
23 January 2008	Office address of the	Field study	Boc International (China) Limited	Understand the affect to the Company from macroeconomic policy

20 February 2008	Company Office address of the Company Office	Field study	Industrial Securities	Understand the information about pharmaceutical companies
12 March 2008	Company Office address of the Company Office	Field study	First-Trust Fund, E Fund	Understand development of the Company
18 March 2008	Company Office address of the Company Office	Field study	China Securities	Understand the production and operation of the Company
20 June 2008	Company Office address of the Company Office	Field study	Qilu Securities	Understand the development prospects of the Company

## **VIII. CORPORATE GOVERNANCE**

### **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

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

### **AUDIT COMMITTEE**

The Company established the audit committee in compliance with Rule 3.21 of the Listing Rules.

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

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

### **INDEPENDENT NON-EXECUTIVE DIRECTOR**

The Group has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to 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 2007 Annual Report of the Company.

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

During this reporting period, the Company has adopted a code of conduct regarding transactions by Directors on terms no less exacting than the required standards set out in the Model Code. After

having made specific 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 2008		First half of 2007	
	Consolidated	Parent company	Consolidated	Parent company
1. Operating income	1,140,652,669.14	825,436,481.98	968,877,008.99	762,998,064.26
Less: Operating cost	982,221,701.57	716,170,595.02	807,586,439.74	635,991,628.71
Operating tax	4,878,673.38	4,281,619.43	5,173,686.24	4,876,397.95
Selling expenses	56,196,494.87	20,875,635.22	63,606,834.91	39,546,680.95
Administrative expenses	52,666,864.44	43,796,570.31	54,374,896.95	48,296,380.09
Financial expenses	1,191,844.22	1,259,154.57	10,668,099.17	10,144,995.94
Assets Impairment	19,065.99	-	5,807,587.78	(7,500,000.00)
Add: Fair value change income	(13,634,789.28)	(13,634,789.28)	1,961,740.72	1,961,740.72
Investment income	1,685,831.97	1,207,112.97	2,408,608.83	2,417,892.02
Includes: Investment income of related ventures and joint ventures	556,319.97	556,319.97	604,360.96	604,360.96
Exchange gains	-	-	-	-
2. Operating profit	31,529,067.36	26,625,231.12	26,029,813.75	36,021,613.36
Add: Non-operating income	1,151,488.76	870,984.78	11,066,301.45	11,046,141.45
Less: Non-operating expenses	2,112,137.44	1,556,370.69	7,273,218.05	6,887,825.76
Includes: Loss from the disposal of non-current assets	(455,455.18)	(455,455.18)	(4,746,758.05)	(4,845,837.19)
3. Profit before taxation	30,568,418.68	25,939,845.21	29,822,897.15	40,179,929.05
Less: Income tax	8,696,030.18	7,442,193.75	7,693,740.72	5,953,583.33
4. Profit after taxation	21,872,388.50	18,497,651.46	22,129,156.43	34,226,345.72
Includes: Profit attributable to	20,457,174.27	18,497,651.46	18,935,549.91	34,226,345.72



the equity  
shareholders of  
the parent  
company

Minority interest	1,415,214.23	-	3,193,606.52	-
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#### 5. Earnings per share

1) Basic earnings per share	0.04	0.04	0.04	0.07
2) Diluted earnings per share	0.04	0.04	0.04	0.07

#### NOTES:

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

2. During this reporting period, the consolidated financial statements of the Company do not include Weifang Wanyuan Chemical Company Limited (“Weifang Wanyuan”). According to the equity transfer agreement entered into between Shandong Dadi Xinhua Chemical & Industrial Company Limited and Shandong Dadi Stalinisation Group Limited (“Dadi Stalinisation”), Dadi Xinhua transferred a 51% equity interest in Weifang Wanyuan to Dadi Stalinisation for a consideration. The time of the transfer of the equity interest was as of 31 December, 2007. Since 1 January 2008, Dadi Xinhua has not held any equity interest of Weifang Wanyuan. Accordingly, this consolidated financial statement does not include Weifang Wanyuan. Owing to this change, there is a decrease in the total assets of the Company amounting to RMB 35,166,000 and a decrease in liability amounting to RMB 17,777,000.

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

## 2. FINANCIAL STATEMENTS PREPARED UNDER HKGAAP

### CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30th June <u>2008</u> RMB'000 (unaudited)	For the six months ended 30th June <u>2007</u> RMB'000 (unaudited)
	<u>NOTES</u>		
Turnover	3	1,151,004	977,688
Cost of sales		(987,305)	(812,985)
Gross profit		163,699	164,703
Other operating income		3,215	9,662
Selling expenses	4	(66,547)	(72,418)
Administrative expenses	4	(57,150)	(63,263)
Other operating expenses	4	(15,766)	(1,398)

Share of results of associates		556	604
Finance costs		(2,126)	(7,769)
Profit before taxation		25,881	30,121
Income tax expense	5	(7,995)	(7,783)
Profit for the period		17,886	22,338
Attributable to :			
Equity holders of the Company		16,471	19,144
Minority interests		1,415	3,194
		17,886	22,338
Earnings per share - basic	6	RMB0.036	RMB0.042
Interim dividend	10	-	-

## CONDENSED CONSOLIDATED BALANCE SHEET

	<u>NOTES</u>	At 30th June 2008 RMB'000 (unaudited)	At 31st December 2007 RMB'000 (audited)
<b>Non-current assets</b>			
Technical know-how		1,358	1,922
Property, plant and equipment		810,297	857,040
Construction-in-progress		143,208	71,180
Prepaid lease payments on land use rights		95,421	91,266
Interests in associates		24,304	23,748
Available-for-sale investments		155,341	367,162
Deferred tax assets		2,157	2,157
		1,232,086	1,414,475
<b>Current assets</b>			
Inventories		270,273	286,041
Trade and bills receivables	7	294,004	247,321
Prepaid lease payments on land use rights		3,106	2,577
Other receivables, deposits and prepayments		52,257	34,480
Amount due from immediate holding company		26,836	39,347
Amounts due from associates		9,561	7,558
Tax recoverable		-	146
Pledged bank deposits		23,884	12,425
Derivative financial instruments		2,262	15,897
Bank balances and cash		181,967	199,833
		864,150	845,625
<b>Current liabilities</b>			
Trade and bills payables	8	214,813	176,356
Other payables and accrued charges		79,201	93,451
Amount due to an associate		-	125
Tax payable		6,576	-
Unsecured short-term bank loans		245,144	206,819

	545,734	476,751
<b>Net current assets</b>	318,416	368,874
<b>Total assets less current liabilities</b>	1,550,502	1,783,349
<b>Capital and reserves</b>		
Share capital	457,313	457,313
Reserves	1,048,665	1,212,214
Proposed final dividend	-	13,719
<b>Equity attributable to equity holders of the Company</b>	1,505,978	1,683,246
<b>Minority interests</b>	29,733	50,793
<b>Total equity</b>	1,535,711	1,734,039
<b>Non-current liability</b>		
Deferred tax liabilities	14,791	49,310
	1,550,502	1,783,349

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNDER HKGAAP

### 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

Group prepared and presented.

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008.

### 3. SEGMENT INFORMATION

The Group is principally engaged in the development, production and sales of pharmaceutical products, preparations, chemicals and other products. Its major place of operation is in the Peoples' Republic of China (the "PRC").

(i) By business segments:

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

(i) By business segment: (Continued)

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

(ii) By geographical location of customers:

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

#### 4. EXPENSES

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

	Six months ended 30 June 2008	Six months ended 30 June 2007
	RMB'000 (unaudited)	RMB'000 (unaudited)
Depreciation	54,250	60,062
Amortisation of prepaid lease payments on land use rights	1,553	1,224

Amortisation of technical know-how	564	564
Staff costs (excluding emoluments of directors and supervisors)	84,283	79,526
Contributions to retirement scheme for the staff	12,627	10,551
Loss (gain) on disposal of property, plant and equipment	<u>167</u>	<u>(4,747)</u>

## 5. INCOME TAX EXPENSE

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

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

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

## 6. EARNINGS PER SHARE - BASIC

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

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

## 7. TRADE AND BILLS RECEIVABLES

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

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

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

## 8. TRADE AND BILLS PAYABLES

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

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

## 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 30th June 2008	Six months ended 30th June 2007
	RMB'000 (unaudited)	RMB'000 (unaudited)
SXPGC and its subsidiaries		
- Sale of water, electricity and steam and raw materials	6,499	7,371
- Purchase of raw materials	68,450	40,948
- Design income received	24	-
- Rental expense	500	500

- Purchase of land and building	9,500	-
- Rental income	-	300
- Payment of annual trademark license fee (Note)	1,100	1,100

#### Associates

- Purchase of raw materials	5,445	14,488
- Design income received	12	-

#### Minority shareholder:

- Sale of bulk pharmaceuticals and chemical materials	108,346	80,792
- Purchase of chemical materials, water, electricity and stream	16,621	-

#### Note:

On 7 December 1996, the Group was granted the exclusive right to use the trademark “Xinhua” (“Trademark”) by SXP GC 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 (can be extended), subject to further renewal of the registration of the Trademark. During the period ended 30 June 2008, the annual fee paid by the Group was RMB1,100,000 (2007 : 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 2008 (2007 : Nil).

## X. DOCUMENTS FOR INSPECTION AND PLACE FOR INSPECTION

### (1) DOCUMENTS FOR INSPECTION

1. The original copy of the Company’s 2008 interim report signed by the Chairman of the Board.
2. Financial statements for the six months ended 30 June 2008 signed by the Chairman of the Board, the financial controller and the chief of 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*

25 July 2008, Zibo, PRC

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



Directors

Ms. Guo Qin (Chairman)

Mr. Liu Zhenwen

Mr. Ren Fulong

Mr. Zhao Songguo

Mr. Li Tianzhong

Independent non-executive Directors

Mr. Dai Qingjun

Mr. Xu Guojun

Mr. Sun Minggao