



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)

## 2007 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board of Directors") and directors ("Directors") of Shandong Xinhua Pharmaceutical Company Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007. 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 2007 Annual Report (the "Annual Report") and investors are advised to read the full text of the Annual 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. FINANCIAL SUMMARY

#### (i) In accordance with HKGAAP (Audited)

##### Consolidated Income Statement

Item	2007 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	1,865,568	1,685,367	1,712,102
Profit before taxation	37,364	29,733	13,194
Income tax credit (expense)	400	(7,784)	(13,696)
Profit / (Loss) for the year	37,764	21,949	(502)
Minority interests	5,946	(812)	(1,731)
Profit attributable to the equity holders of the Company	31,818	22,761	1,229

##### Consolidated Balance Sheet

Item	2007 RMB'000	2006 RMB'000	2005 RMB'000
Total assets	2,260,100	1,881,575	2,211,328
Total liabilities	(526,061)	(509,088)	(841,191)
Minority interests	(50,793)	(3,343)	(1,092)
Net assets	1,683,246	1,369,144	1,369,045

**(ii) In accordance with PRC accounting standards (Audited)**

Item	2007 RMB	2006 RMB		Change as compared to the last year (%)	2005 RMB	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Operating income	<b>1,886,978,951.19</b>	1,722,899,961.83	1,722,899,961.83	9.52%	1,739,799,081.86	1,739,799,081.86
Profit before taxation	<b>46,510,493.48</b>	29,306,790.76	29,357,300.80	58.43%	12,459,940.21	12,543,102.85
Profit attributable to the equity shareholders of parent company	<b>32,723,034.60</b>	22,705,557.86	23,567,389.39	38.85%	5,415,850.71	3,640,382.90
Profit attributable to the equity shareholders of parent company after extraordinary	<b>9,959,541.29</b>	16,760,873.31	17,701,666.54	(43.74%)	(9,621,604.75)	(11,397,072.56)
Total assets	<b>2,270,714,981.14</b>	1,880,020,275.73	1,887,769,371.36	20.29%	2,207,053,451.14	2,213,712,724.86
Total equity attributable to holders of parent company	<b>1,665,960,952.04</b>	1,343,336,960.31	1,351,117,628.22	23.30%	1,343,492,616.72	1,350,151,890.44
Net cash flow from operating activities	<b>120,591,043.84</b>	133,303,506.08	133,303,506.08	(9.54%)	178,859,107.49	178,859,107.49
Net cash flow from operating activities per share	<b>0.26</b>	0.29	0.29	(10.34%)	0.39	0.39
Earning per share	<b>0.07</b>	0.05	0.05	40.00%	0.01	0.01
Net assets per share attributable to holders of parent company	<b>3.64</b>	2.94	2.95	23.39%	2.94	2.95
Return on equity (%)	<b>1.96</b>	1.69	1.74	Increase 0.22 points	0.40	0.27

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

<b>Item</b>	<b>Net assets as at 31 December 2007 RMB'000</b>	<b>Profit attributable to equity holders of the Company for the year ended 31 December 2007 RMB'000</b>
Prepared under PRC accounting standards	<b>1,665,961</b>	<b>32,723</b>
HKGAAP adjustments:		
Deferred taxation	(3,036)	8,766
Depreciation charges due to revaluation in previous years	(19,459)	(449)
Provision for education fund	13,407	950
Provision for welfare expenses	4,993	(10,304)
Surplus from revaluation for listing of H Shares	21,300	-
Others	80	132
Prepared under HKGAAP	<b>1,683,246</b>	<b>31,818</b>

## **II. DIVIDENDS**

The Board of Directors has proposed a final dividend for the year ended 31 December 2007 of RMB0.03 per share in the Company (the “Share”) (approximately HK\$0.033 per Share, including income tax of A Shares) on 307,312,830 A Shares and 150,000,000 H Shares in issue. The proposed dividend is subject to approval by the shareholders of the Company at the annual general meeting of the Company for the year 2007.

## **III. MAIN BUSINESS AND FINANCIAL SITUATION**

The Group is mainly engaged in the development, production and sale of bulk pharmaceuticals, preparations, chemical products and other products. The profit of the Group is mainly attributable to its principal operations.

### **Financial and results analysis in accordance with PRC accounting standards**

Total assets of the Group as at 31 December 2007 increased by 20.29% or approximately RMB382,946,000 to approximately RMB2,270,715,000, as compared with the figure at the beginning of the year of approximately RMB1,887,769,000. The increase in total assets was mainly due to the increase of fair value of financial assets available for sale and the profit obtained during this reporting period.

Total equity attributable to the shareholders of the company as at 31 December 2007 increased by approximately RMB314,843,000 or 23.30% from approximately RMB1,351,118,000 at the beginning of the year to approximately RMB1,665,961,000. This increase was mainly attributable to the increase of fair value of financial assets available for sale and the profit obtained during this reporting period.

The total liabilities of the Group as at 31 December 2007 were approximately RMB553,961,000, representing an increase of approximately RMB20,590,000 or 3.86%, as compared to approximately RMB533,371,000 at the beginning of the year. The increase was mainly attributable to the increase of deferred tax liability in this year.

Operating profit of the Group for 2007 amounted to approximately RMB35,453,000, representing an increase of 25.33% when compared with that of the previous year; profit attributable to the shareholders of the Company for 2007 amounted to approximately RMB32,723,000, representing an increase of 38.85% when compared with that of the previous year. The increase was mainly due to: (i) the opening up of the market and the continuous expansion of sales; (ii) the strengthening of the budget management and the decline in the cost of sales; and (iii) entering into forward foreign exchange contracts to avoid fluctuations in the foreign exchange rate risk, which resulted in long-term foreign exchange gains.

The Group's net increase in cash and cash equivalents for the year 2007 was approximately RMB66,699,000. Changes in cash and cash equivalents were mainly due to receiving the held-to-maturity investments of the principal amount of RMB117,000,000.

### **Analysis of the Group's performance under HKGAAP**

As at 31 December 2007, the current ratio and the quick ratio of the Group were 177.37% and 117.37% respectively, and the rate of accounts receivable turnover (being turnover/average trade and bill receivables $\times$ 100%) and the rate of stock turnover (being cost of goods sold/average inventories $\times$ 100%) were 775.99% and 615.30% respectively.

The Group's demand for working capital did not have a significant seasonal pattern throughout the year.

The main source of funds for the Group was loans from financial institutions. As at 31 December 2007, the total amount of outstanding bank loans was approximately RMB206,819,000, all of which were unsecured. As at 31 December 2007, cash on hand and in bank amounted to approximately RMB212,258,000 (including pledged bank deposits of approximately RMB12,425,000).

The Group has stringent internal control systems for cash and fund management in order to strengthen its financial management. The Group maintained a good level of liquidity and had a strong debt repayment ability.

During the financial year ended 31 December 2007, the Company made an additional

capital investment of RMB6,000,000 in Shandong Dadi Xinhua Chemical & Industrial Company Limited (“Dadi Xinhua”) (山東大地新華化學有限公司). After the additional investment, the registered capital of Dadi Xinhua was increased to RMB32,000,000, of which the Company holds 58.5625% of the interest of Dadi Xinhua and the Company has a total investment of RMB18,740,000 in Dadi Xinhua. After the Company’s increase in investment, Dadi Xinhua became a subsidiary of the Company. The Company acquired 0.1% equity interest of Sino-USA Zibo Xinhua-perrigo Pharmaceutical Company Limited (“Xinhua-Perrigo”) held by Perrigo International Inc by US\$6,000 (equivalent to approximately RMB46,000). After the acquisition, the Company holds 50.1% of the equity interest of Xinhua-Perrigo, which became a subsidiary of the Company.

During the financial year ended 31 December 2007, the Company disposed of some buildings and land and realised a profit of RMB6,401,000. The percentage ratios of this transaction were below 5%, therefore it was not a disclosable transaction. The Company acquired some buildings and land from Shandong Zibo XinCat pharmaceutical Company Limited, which was valued at RMB3,358,000. An announcement was issued on 10 December 2007 in relation to this connected transaction. Except for the above transactions, there were no other material acquisitions and sales of assets, nor material investments during the reporting period.

As at 31 December 2007, the number of staff employed by the Group was 5,005, and the total amount of their salaries and wages for the year 2007 was approximately RMB110,117,000.

As at 31 December 2007, there was no charge on the Group’s assets.

The Company does not anticipate any significant investment plan in 2008.

The debt-to-capital ratio of the Group was 12.29%. (being total borrowings / share capital & total reserves×100%)

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

For the year ended 31st December 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 and the bills of exchange would be issued to a subsidiary of the Company. 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 31st December 2007, bills of exchange amounting to RMB7,000,000 were issued by the bank and bills of lading amounting to RMB6,500,000 were issued. (2006: Nil)

The assets and liabilities of the Group were mainly recorded in Renminbi. For the year ended 31 December 2007, the revenue from the Group’s exports was approximately US\$122,615,000, which may suffer from the risks associated with fluctuation in exchange rates. Therefore, the Group has taken the following measures to hedge against the risks of fluctuation in exchange rates: (1) the Group has increased the prices of its

exported products to mitigate the risks of fluctuation in exchange rates; (2) the Group has made arrangements with overseas customers when entering into significant export contracts that the risks associated with fluctuation in exchange rates shall be borne by both parties if the fluctuation exceeds the amount agreed by contract parties; and (3) the Group has entered into foreign currency forward contracts with financial institutions to fix exchange rates in order to mitigate risks of fluctuation in exchange rates.

#### **IV.BUSINESS REVIEW**

In 2007, the Group took active steps to deal with the issues such as price rises of raw materials, price rises of energy and power, a drop in the price of preparations, growing pressure for environmental protection, appreciation of the RMB and a reduction in the rate of export tax rebates. By means of implementing practicable and feasible measures, the Group achieved the production and operation targets for the year through success in core areas, including structural adjustment, technical innovation, marketing promotion and sales, energy-saving and emission reduction.

1. Speeding up structural adjustment with clear development objectives. In 2007, adhering to the principle of “enhancing efficiency”, the Group proactively launched various projects, resulting in a growth in profit for the year far higher than the growth of income. The sales of preparations tend to account for a more substantial proportion of the Group’s sales turnover, representing an increase of 2.27% as compared to the previous year. The production capacity of pharmaceuticals, tablets and injections such as theophylline and ibuprofen had a considerable increase.

2. Grasping foreign economic and commercial opportunities to explore international markets. During the year 2007, the revenue from the Group’s exports was US\$122,615,000, representing an increase of 22.08% over 2006. As regards international trade, the volume of trades to end users accounted for 60% of the total export volume. Co-operation with external parties was smooth. Preparation processing projects began to operate in a commercial way. The development of subsidiaries such as sino-foreign joint-ventures Xinhua-Perrigo and Zibo Xinhua-Eastwest Pharmaceutical Company Limited were good.

3. Speeding up technology improvement to save energy and reduce consumption. In 2007, the raw materials and energy saved by the Company amounted to more than RMB8 million and RMB10 million respectively; whilst the water recycle rate was over 95%, fulfilling the management assessment objectives of safety, energy-saving and consumption reduction in Zibo. The East Area of the Company had successfully passed the evaluation of clean production by the environmental protection bureau of Shandong Province and was granted the A-grade certificate.

4. Reinforcing corporate management to ensure the effective operation of a quality assurance system. In 2007, three products of the Group, including ibuprofen, were approved in the US FDA examination; six pharmaceutical products, such as ibuprofen, passed the GMP on-site verification and completed over 40 evaluations by customers. The Company also passed the re-evaluations of ISO9001, ISO14001 and ISO10012. With the comprehensive application of the ERP system, the information system of the

Company entered a new stage of development.

## **V. PROSPECTS**

In 2008, China's economy continues to boom rapidly. With national construction projects covering the medical supply security mechanism for urban and rural residents, together with further improvement in a new co-operative medical scheme in villages, full launching of a basic medical insurance system for urban workers and urban residents, along with increasing ageing problems etc., the medicine industry is welcoming a new round of business opportunities.

Given the high prices of major chemical raw materials, surges in the prices of water, electricity and gas, prices of preparations continuing to fall, growing pressure for environmental protection, consistent appreciation of the RMB and other uncertainties, the Group will have to bear the pressure from rising costs and falling prices for part of its products.

The principal operation objectives of the Group for the year 2008 are as follows:

To achieve a double-digit growth in the sales turnover; to lower expenditure rates and trade receivables by more than 2% and 5% respectively; to attain over 100% in the ratio of production to sales and sales to payment

### **1. Speeding up structural optimisation and development**

Aiming at constructing an internationally well-known base for chemical pharmaceuticals, the Company will highlight advantageous products and lengthen the production chain, seeking to expand traditional pharmaceutical products. The Company will enhance the production of pharmaceutical products as well as consistently improving the return rate of its new products.

The Company will seize the opportunity of international cooperation in preparation production, and will fully enhance the production capacity of its new tablet plants. The Company will also produce new products and new forms of medicines. Further, it will enhance its sales capability and strive to elevate the proportion of sales turnover from preparations in the Group's turnover.

The Company will proceed with key projects, including the series of ibuprofen projects with a production capacity of 3,000 tonnes per annum (3,000噸/年布洛芬系列工程), the innovative park project of modern medicine(現代醫藥產業創新園工程] and the multi-functional workshop project (多功能車間工程) for the development of the Company.

### **2. Focusing on development with a view to having a breakthrough in sales**

The Company will focus on exploring new pharmaceutical markets and will proactively

seek for a breakthrough in sales of preparations by continuing to implement multi-preparations along with sales strategies so as to reinforce the tertiary end user market. To achieve the increase in sales of general medicine, the Company will strive to be a designated enterprise for producing medicine as well as bringing more preparations to be listed on the National Essential Medicines Lists. Lastly, the Company will take the initiative to produce various types of preparations with a sales volume over 100 million.

### 3. Increasing investment and accelerating R&D

The Company will take the construction of Xinhua innovative park project of modern medicine (新華現代醫藥產業創新園項目) as an opportunity to further increase the investment in R&D and introduce advanced machinery and equipment in order to improve R&D.

The Company will proactively carry out research and development of new products by adhering to the principle of “integration of long, mid and short term targets”, so as to bring the effect upon the integration of R&D and production into full play. The Company will speed up the introduction and adoption of new products which are cost-effective and have good market potential. The Company will also speed up transforming R&D results into products.

### 4. Using innovative technology and adopting energy-saving and environmental protection policies

The Company will launch an “energy saving and emission reduction campaign” by using innovative technology and taking positive steps to perfect the production process with a view to saving energy and reducing emission. The Company will deal with the sources so as to achieve the targets of energy saving and emission reduction. It will strive to attain a high level of environmental protection and efficient use of resources. And also, it will improve its technology to protect the environment. By doing so, the Company aims to be an energy-saving and environmentally friendly enterprise.

### 5. Finding out solutions to problems and stringently controlling operational risks

The Company will take measures to deal with problems, such as the appreciation of the Renminbi and decrease in export duty returns. Further, the Company will try to perform well in international trade and endeavour to avoid all kinds of risks.

The Company will strengthen its management of the whole enterprise and strengthen its risk management by controlling the sources of risks. It will also perfect the risk management system and internal control system, and conduct auditing work with a view to strengthening the management of the Company.

## **VI.IMPORTANT ISSUES**

### **Staff and Remuneration**



The Group's staff remuneration was determined in accordance with State policies, the Group's profit in the corresponding period and the average income of local residents.

As at 31 December 2007, the number of staff employed by the Group was 5,005, and the total amount of their salaries and wages for the year 2007 was approximately RMB110,117,000.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries had redeemed, purchased or sold any of the Company's listed securities.

### **Connected Transactions**

- (1) Significant connected transactions carried out in the normal course of the Group's business are summarised as follows:

	2007 RMB'000	2006 RMB'000
<b>With immediate holding company</b>		
<b>Shandong Xinhua Pharmaceutical Group Company Limited ("SXPGC") and its subsidiaries</b>		
— Sale of water, electricity, steam and raw materials	14,036	13,160
— Purchase of raw materials	96,730	72,293
— Purchase of property, plant and equipment	3,358	1,499
— Rental income	952	1,438
— Design fees income	10	-
— Payment of annual trademark licence fee	1,100	1,000
— Rental expenses	870	500
<b>With associates</b>		
— Purchase of raw materials	34,768	6,421
— Sale of water, electricity and steam	-	6,766
— Interest income received	-	270
— Sale of technique know-how	-	2,005
— Sale of work in progress	-	4,759
— Sale of property, plant and equipment	-	1,708
— Design fees income	31	-
<b>With minority shareholders</b>		
— Sale of bulk pharmaceuticals and chemical raw materials	175,989	-
— Purchase of chemical raw materials and water, electricity, steam	2,938	-

In the opinion of the Directors (including the Independent Non-Executive Directors), the

above transactions were carried out in the ordinary and usual course of the Group's business. The aggregate amount of the above transactions for the year 2006 did not exceed the annual cap of RMB144,440,000 approved in the extraordinary general meeting held on 29 December 2006. The aggregate amount of the above transactions for the year 2007 exceeds the annual cap of RMB96,320,000 approved in the extraordinary general meeting held on 29 December 2006 due to an unexpected increase in the market prices of raw materials.

The Independent Non-Executive Directors have reviewed the above connected transactions and are of the opinion that the transactions are in the ordinary course of business of the Group and carried out in accordance with the terms of agreements governing these transactions except that some connected transactions between the Company/its subsidiaries and the minority shareholders of the Company (connected persons) were not in compliance with the independent shareholders approval requirements and disclosure requirement according to the rules of The Stock Exchange of Hong Kong Limited.

(2) On 10 December 2007, the Company and Shandong Zibo XinCat Pharmaceutical Company Limited (a PRC limited company of which 80% of its interests is held by SXPGC and 20% held by the Company) ("XinCat") entered into the transfer agreement in relation to the acquisition of XinCat's assets. The asset acquired in the transaction is the workshop and the land use rights. The asset was valued by Shandong Lusheng Land & Real Estate Assessment and Consultation Company Limited at approximately RMB3,358,200 and the valuation report of (Zibo) Lusheng Land & Real Estate (2007) (Gu) No 2460 and Zifang Pinggu (2007) No 162 were issued on 10 December 2007. The asset price was arrived at according to the value stated in the valuation report.

In relation to the above connected transaction, the Company issued an announcement on 10 December 2007.

In the opinion of the Directors (including the Independent Non-Executive Directors), the above connected transaction was carried out in the ordinary and usual course of the Group's business and was entered into on normal commercial terms and the transaction was fair and reasonable to the shareholders of the Company as a whole.

(3) On 22nd January 2007, the Company entered into an agreement with a fellow subsidiary of the Company, Shandong Xinhua Industry & Trade Company Limited ("Xinhua Industry & Trade Company") in relation to the acquisition of 144,000 shares of Bank of Communications in the total consideration of RMB648,000 at RMB4.5 per share. The above connected transaction was a de minimis transaction and therefore no disclosure by announcement was required.

In the opinion of the Directors (including the Independent Non-Executive Directors), the above connected transaction was carried out in the ordinary and usual course of the Group's business and was entered into on normal commercial terms and the transaction was fair and reasonable to the shareholders of the Company as a whole.

## **Auditors**

The accounts of the Company and the Group for the year 2007 prepared in accordance with HKGAAP and PRC accounting standards have been audited by SHINEWING (HK) CPA Limited and ShineWing, Certified Public Accountant, PRC respectively.

The Company intends to re-appoint SHINEWING (HK) CPA Limited and ShineWing as international auditors and PRC auditors of the Company respectively for the year 2008 at the annual general meeting for the year 2007 to be held in 2008.

## **Code on Corporate Governance Practices**

Save that the Company has exceeded the annual cap of the continuing connected transactions for 2007 and the certain connected transactions between the Company, including its subsidiaries, and the connected persons, have not been approved by the independent shareholders and have not been disclosed. The Directors (including the Independent Non-Executive Directors) are of the opinion that for the year ended 31 December 2007, the Company has complied with all requirements set out in the Code on Corporate Governance Practices including provisions contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **Material Litigation and Arbitration**

The Group was not involved in any material litigation or arbitration and no material litigation or arbitration is pending or threatened or was made against the Group during the reporting period.

## **Sale of Assets**

During the reporting period, there were no material acquisitions and sales of assets, nor any material acquisitions and mergers.

## **Amendments to the Articles**

During the reporting period, there were no amendments to the Articles of Association of the Company.

## **Audit Committee**

The Audit Committee has, together with the management, reviewed the accounting principles, practices and methods adopted by the Group and has discussed the auditing, internal control and financial reporting of the Company. The Audit Committee has convened 4 meetings to review the audited financial statements for 2006, the unaudited quarterly financial statements and the unaudited interim statements for 2007.

The Audit Committee convened a meeting on 17 April 2008 to review the 2007 audited accounts and annual results announcement.

## VII. FINANCIAL REPORTS

The financial reports of the Company and the Group for the financial year ended 31 December 2007 have been audited by SHINEWING (HK) CPA Limited (certified public accountants in Hong Kong) and ShineWing (certified public accountants in the PRC) in accordance with HKGAAP and PRC accounting standards in their respective auditors' reports without any qualified opinion.

### 1. FINANCIAL STATEMENT AND NOTES PREPARED UNDER PRC ACCOUNTING STANDARDS

#### PROFIT AND LOSS ACCOUNT (AUDITED)

Item	Consolidated		Parent company	
	2007 RMB	2006 RMB	2007 RMB	2006 RMB
1. Operating income	1,886,978,951.19	1,722,899,961.83	1,441,720,515.03	1,365,810,053.00
Less: Operating cost	1,602,416,724.99	1,439,645,679.82	1,234,939,353.52	1,100,211,366.84
Operating tax	11,914,322.55	9,233,548.18	11,303,831.39	8,983,784.77
Selling expenses	86,788,904.20	115,767,700.70	37,911,493.16	104,835,371.56
Administrative expenses	129,003,027.18	96,169,249.78	117,570,489.74	91,034,309.26
Financial expenses	20,220,553.65	20,742,820.77	19,103,870.58	20,703,459.09
Assets impairment	15,925,441.13	19,132,768.59	4,444,280.30	19,034,827.05
Add: Fair value change income	15,763,060.17	50,510.04	15,763,060.17	50,510.04
Investment income	(1,019,598.87)	6,029,998.09	(5,256,422.87)	6,498,020.71
Include: Investment income of related ventures and joint ventures	(3,580,329.93)	(698,973.17)	(7,817,153.93)	(230,950.55)
Exchange gains	—	—	—	—
2. Operating profit	35,453,438.79	28,288,702.12	26,953,833.64	27,555,465.18
Add: Non-operating income	18,728,400.05	4,147,643.28	18,607,416.95	4,134,099.37
Less: Non-operating expenses	7,671,345.36	3,079,044.60	10,069,092.28	3,014,376.11
Include: Loss from the disposal of non-current assets	3,989,901.88	541,613.13	7,220,276.92	541,613.13
3. Profit before taxation	46,510,493.48	29,357,300.80	35,492,158.31	28,675,188.44

Less: Income tax	8,366,209.04	6,603,627.32	6,251,405.76	6,360,056.06
4. Profit after taxation	38,144,284.44	22,753,673.48	29,240,752.55	22,315,132.38
Include: Profit attributable to the equity shareholders of the parent company	32,723,034.60	23,567,389.39	29,240,752.55	22,315,132.38
Minority interest	5,421,249.84	(813,715.91)	–	–
5. Earnings per share				
1) Basic earnings per share	0.07	0.05	0.06	0.05
2) Diluted earnings per share	0.07	0.05	0.06	0.05

**NOTES:**

1. The company has applied the Accounting Standards for Business Enterprises (ASBEs) since 1 January 2007, instead of the old Accounting System for Business Enterprises which was promulgated by the Ministry of Finance before 2006, and started to recognise, measure and report the transactions and events in accordance with the ASBEs. The Company shall make retrospective adjustments for the changes of accounting policies arising from the initial adoption of the ASBEs.

2. The consolidated financial statements of the Company included Xinhua-Perrigo, Shan dong Dadi Xinhua Chemical & Industry Company Limited and Weifang Wanyuan Chemical Company Limited, which were not included in last year's consolidation. While Zibo Xinhua-sanhe Chemical & Industrial Company Limited was not included as its registration was cancelled in 2007.

**2. FINANCIAL STATEMENTS PREPARED UNDER HKGAAP**

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007**

	<u>NOTES</u>	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Turnover	3	1,865,568	1,685,367
Cost of sales		<u>(1,570,246)</u>	<u>(1,381,010)</u>
Gross profit		295,322	304,357
Other operating income	3	49,736	23,478

Selling expenses		(114,005)	(132,838)
Administrative expenses		(169,096)	(142,382)
Other operating expenses		(8,041)	(1,708)
Share of results of associates		(4,369)	(699)
Finance costs	4	<u>(12,183)</u>	<u>(20,475)</u>
Profit before taxation		37,364	29,733
Income tax credit (expense)	5	<u>400</u>	<u>(7,784)</u>
Profit for the year	6	<u>37,764</u>	<u>21,949</u>
Attributable to :			
Equity holders of the Company		31,818	22,761
Minority interests		<u>5,946</u>	<u>(812)</u>
		<u>37,764</u>	<u>21,949</u>
Dividends	7		
- Proposed final		<u>13,719</u>	<u>9,146</u>
Earnings per share - basic	8	<u>RMB0.070</u>	<u>RMB0.050</u>

**CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2007**

	<u>NOTES</u>	<u>2007</u> RMB'000	<u>2006</u> RMB'000
<b>Non-current assets</b>			
Technical know-how		1,922	3,052
Property, plant and equipment		857,040	779,316
Constructions in progress		71,180	85,922
Prepaid lease payments on land use rights		91,266	86,404
Interests in associates		23,748	42,580
Available-for-sale investments		367,162	23,777
Deferred tax assets		<u>2,157</u>	<u>-</u>
		<u>1,414,475</u>	<u>1,021,051</u>
<b>Current assets</b>			
Inventories		286,041	224,356
Trade and other receivables	9	281,801	283,146
Prepaid lease payments on land use rights		2,577	2,419
Amount due from immediate holding company		39,347	46,874
Amounts due from associates		7,558	19,861
Available-for-sale investments		-	117,000
Tax recoverable		146	-
Pledged bank deposits		12,425	29,401

Derivative financial instruments		15,897	134
Bank balances and cash		199,833	133,134
		<u>845,625</u>	<u>856,325</u>
Assets classified as held for sale		-	4,199
		<u>845,625</u>	<u>860,524</u>
<b>Current liabilities</b>			
Trade and other payables	10	269,807	266,347
Amount due to an associate		125	-
Tax payable		-	3,320
Unsecured short-term bank loans		206,819	235,234
		<u>476,751</u>	<u>504,901</u>
<b>Net current assets</b>		<u>368,874</u>	<u>355,623</u>
<b>Total assets less current liabilities</b>		<u>1,783,349</u>	<u>1,376,674</u>
<b>Capital and reserves</b>			
Share capital		457,313	457,313
Reserves		1,212,214	902,685
Proposed final dividend		13,719	9,146
Equity attributable to equity holders of the Company		<u>1,683,246</u>	<u>1,369,144</u>
Minority interests		50,793	3,343
<b>Total equity</b>		<u>1,734,039</u>	<u>1,372,487</u>
<b>Non-current liability</b>			
Deferred tax liabilities		49,310	4,187
		<u>1,783,349</u>	<u>1,376,674</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNDER HKGAAP

### 1. BASIS OF PREPARATION

The audited consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA which are effective for Group’s financial year beginning 1st January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments : Disclosures
HK(IFRIC)-Interpretation	Applying the Restatement Approach under HKAS 29
(“INT”) 7	Financial Reporting in Hyperinflationary Economies

HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment

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, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Consolidated Financial Statements <sup>5</sup>
HKFRS 2 (Amendment)	Share-based Payment - Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>5</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-INT 11	HKFRS 2 - Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC)-INT 12	Service Concession Arrangements <sup>3</sup>
HK(IFRIC)-INT 13	Customer Loyalty Programmes <sup>4</sup>
HK(IFRIC)-INT 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>3</sup>

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

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

<sup>2</sup> Effective for annual periods beginning on or after 1st March 2007.

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

<sup>4</sup> Effective for annual periods beginning on or after 1st July 2008.

<sup>5</sup> Effective for annual periods beginning on or after 1st July 2009.

### 3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION

The Group principally engaged in the development, production and sales of pharmaceutical products including bulk pharmaceutical, preparations (e.g. tablets and injections), chemicals and other products. Revenues recognised during the year are as follows :

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Turnover - Sales of goods	<u>1,865,568</u>	<u>1,685,367</u>
Other operating income		
Bank interest income	2,311	4,411
Increase in fair value of derivative financial instruments	15,763	50
Interest income from loan to an associate	-	270
Interest income from an available-for-sale investment	1,647	6,588
Dividend income from an available-for-sale investment	914	141



Rental income	1,728	1,725
Gain on disposal of assets classified as held for sale	6,401	-
Gain on disposal of property, plant and equipment	-	2,289
Realised gain on derivative financial instruments	4,589	-
Government subsidies	5,479	600
Others	10,904	7,404
	<u>49,736</u>	<u>23,478</u>
Total revenues	<u>1,915,304</u>	<u>1,708,845</u>

Analysis of the Group's segment information for the year by business segment and geographical location of customers is set out as follows :

(i) By business segment

	Pharmaceutical business RMB'000	2007 Other operations RMB'000	Total RMB'000	Pharmaceutical business RMB'000	2006 Other operations RMB'000	Total RMB'000
Segment revenues	1,912,743	2,561	1,915,304	1,702,116	6,729	1,708,845
Segment results	51,355	2,561	53,916	44,178	6,729	50,907
Share of results of associates			(4,369)			(699)
Finance costs			(12,183)			(20,475)
Profit before taxation			37,364			29,733
Income tax credit (expense)			400			(7,784)
Profit for the year			<u>37,764</u>			<u>21,949</u>
	Pharmaceutical business RMB'000	2007 Other operations RMB'000	Total RMB'000	Pharmaceutical business RMB'000	2006 Other operations RMB'000	Total RMB'000
ASSETS						
Segment assets	1,866,887	367,162	2,234,049	1,698,218	140,777	1,838,995
Interests in associates			23,748			42,580
Unallocated corporate assets			2,303			-
Consolidated total assets			<u>2,260,100</u>			<u>1,881,575</u>
LIABILITIES						
Segment liabilities	(269,932)	-	(269,932)	(266,347)	-	(266,347)
Unallocated corporate liabilities			(256,129)			(242,741)
Consolidated total liabilities			<u>(526,061)</u>			<u>(509,088)</u>
OTHER INFORMATION						
Capital expenditure	119,825	-	119,825	72,225	-	72,225
Depreciation and amortisation	107,301	-	107,301	103,216	-	103,216
Loss (gain) on disposal of property, plant and equipment	4,360	-	4,360	(2,289)	-	(2,289)
Gain on disposal of assets classified as held for sale	(6,401)	-	(6,401)	-	-	-
Allowance for inventories	3,026	-	3,026	4,630	-	4,630

Allowance for bad and doubtful debts of trade receivables	6,254	-	6,254	12,131	-	12,131
Allowance for bad and doubtful debts of other receivables	6,646	-	6,646	2,558	-	2,558

(ii) By geographical location of customers

	Segment revenues	
	<u>2007</u>	<u>2006</u>
	RMB'000	RMB'000
PRC (including Hong Kong)	1,082,315	988,706
Europe	268,115	229,080
Americas	378,945	344,901
Others	185,929	146,158
	<u>1,915,304</u>	<u>1,708,845</u>

Over 99% of the Group's assets are located in the PRC and therefore the analysis of segment assets and capital expenditure is not presented.

#### 4. FINANCE COSTS

	<u>2007</u>	<u>2006</u>
	RMB'000	RMB'000
Interest on bank loans	<u>12,183</u>	<u>20,475</u>

#### 5. INCOME TAX (CREDIT) EXPENSE

	<u>2007</u>	<u>2006</u>
	RMB'000	RMB'000
PRC enterprise income tax		
- current	12,202	10,273
- over-provision in prior years	<u>(4,158)</u>	<u>(2,630)</u>
	<u>8,044</u>	<u>7,643</u>
Deferred tax		
- current	(9,613)	141
- attributable to a charge in tax rate	<u>1,169</u>	<u>-</u>
	<u>(8,444)</u>	<u>141</u>
	<u>(400)</u>	<u>7,784</u>

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

(b) The Company and a subsidiary are located in the high-technology economic zone of Zibo City and are entitled to preferential PRC enterprise income tax rate of 15% from year 2002 onwards, according to [1994] Guo Shui Fa No. 151 “The notice of applying favourable tax policies for the new and high technology companies” issued by the State Administration of Taxation. The companies have obtained the relevant approvals from the local tax bureau. From year 2004 onwards, the operating results of the companies derived from business conducted in the high-technology economic zone are subject to a preferential income tax rate of 15% while the business conducted outside the high-technology economic zone are subject to an income tax rate of 33%. This has been filed with the local tax bureau as a record.

In accordance with the relevant regulations of the PRC, two subsidiaries operating in the PRC are entitled to exemption from PRC income tax in the first two years from the first profit-making year, followed by a 50% reduction of PRC income tax for the next three years. Other companies within the Group are subject to income tax rate at 33% on their taxable income for the years ended 31st December 2007 and 2006.

(c) On 16 March 2007, the People’s Republic of China promulgated the Law of the People’s Republic of China on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the People’s Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Pursuant to the New Law and Implementation Regulations, the Enterprise income tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. There will be a transitional period for PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

(d) 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 two years ended 31st December 2007 and 2006.

## 6. PROFIT FOR THE YEAR

	<u>2007</u> RMB’000	<u>2006</u> RMB’000
Profit for the year has been arrived at after charging :		
Advertising and promotion expenses	10,095	42,219
Allowance for bad and doubtful debts of trade receivables	6,254	12,131
Allowance for bad and doubtful debts of other receivables	6,646	2,558
Allowance for inventories	3,026	4,630
Amortisation of prepaid lease payments on land use rights	2,461	2,425
Amortisation of technical know-how	1,130	1,130
Auditors’ remuneration	1,324	1,084
Depreciation	103,710	99,661
Loss on deregistration of a subsidiary (Note)	1,040	-
Loss on disposal of property, plant and equipment	4,360	-
Net exchange loss	13,558	3,835
Operating lease rentals on land and buildings	1,211	1,191
Repairs and maintenance expenses	784	736
Research and development costs	14,371	16,984

Share of tax of associates (included in share of results of associates)	253	101
Staff costs (excluding directors' and supervisors' emoluments)	<u>176,801</u>	<u>138,933</u>

Note: The subsidiary deregistered during the year ended 31st December 2007 had no significant impact on the turnover and results for the Group.

## 7. DIVIDENDS

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Final dividend proposed : RMB0.03 (2006 : RMB0.02) per share on 307,312,830 A shares and 150,000,000 H shares	<u>13,719</u>	<u>9,146</u>

The final dividend of RMB0.03 (2006 : RMB0.02) per share (approximately HK\$0.033 (2006 : HK\$0.0202) per share, including income tax of A shares) on 307,312,830 A shares and 150,000,000 H shares has been proposed by the directors of the Company and is subject to approval by shareholders at the Annual General Meeting and has been included as a dividend reserve in the consolidated financial statements.

## 8. 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 RMB31,818,000 (2006 : RMB22,761,000) and based on the weighted average of 457,312,830 (2006 : 457,312,830) shares in issue during the year.

There was no dilution effect on the basic earnings per share for the two years ended 31st December 2007 and 2006 as there were no dilutive shares outstanding during the two years ended 31st December 2007 and 2006.

## 9. TRADE AND OTHER RECEIVABLES

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Trade and bills receivables	261,506	246,190
Less : Allowance for bad and doubtful debts of trade receivables	<u>(14,185)</u>	<u>(12,691)</u>
	<u>247,321</u>	<u>233,499</u>
Other receivables, deposits and prepayments	42,046	52,423
Less : Allowance for bad and doubtful debts of other receivables	<u>(7,566)</u>	<u>(2,776)</u>
	<u>34,480</u>	<u>49,647</u>

<u>281,801</u>	<u>283,146</u>
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The Group's turnover from export sales is on letter of credit or documents against payment. The Group allows an average credit period of 120 days granted to its trade customers for PRC local sales, except for some particular customers where payment in advance is normally required.

At 31st December 2007, the ageing analysis of the trade and bills receivables, net of allowance for bad and doubtful debts is as follows:

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Within one year	240,537	186,017
More than one year but less than two years	3,530	39,584
More than two years but less than three years	2,688	7,898
Over three years	<u>566</u>	<u>-</u>
	<u>247,321</u>	<u>233,499</u>

## 10. TRADE AND OTHER PAYABLES

At 31st December 2007, the ageing analysis of the trade and bills payables is as follows :

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Within one year	156,140	198,906
More than one year but less than two years	6,528	10,388
More than two years but less than three years	9,233	428
Over three years	<u>4,455</u>	<u>3,358</u>
	176,356	213,080
Other payables and accrued charges	<u>93,451</u>	<u>53,267</u>
	<u>269,807</u>	<u>266,347</u>

As at 31st December 2007, included in other payables and accrued charges amounted to RMB10,646,000 (2006: Nil) are receipt in advance from a minority shareholder.

## 11. COMPARATIVE FIGURES

Certain comparative amounts for the year ended 31st December 2006 have been reclassified to conform with the current year's presentation.

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

18 April 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

Independent non-executive Directors

Mr. Dai Qingjun

Mr. Xu Guojun

Mr. Sun Minggao