山東新華製藥股份有限公司

Shandong Xinhua Pharmaceutical Company Limited

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

（Stock Code: 0719）

2010 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the **"Board**") 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 year ended 30 June 2010 (the **"Reporting Period"**). 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 2010 interim report (the "**Interim Report")** and investors are advised to read the full text of the interim report for full information.

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

I. COMPANY INFORMATION

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

English Name of the Company: SHANDONG XINHUA PHARMACEUTICAL COMPANY LIMITED

Legal Representative: Ms. Guo Qin

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

Telephone Number: 86-533-2196024

Facsimile Number: 86-533-2287508

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

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

Postal Code: 255005

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

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

PRC newspaper for information disclosure: Securities Times

Website designated by the China Securities Regulatory Commission (the "**CSRC**"): http://www.cninfo.com.cn

Listing Information

H Shares

Stock Exchange: The Stock Exchange of Hong Kong Limited (the "**SEHK**")

Abbreviated Name: Shandong Xinhua

Stock Code: 0719

A Shares

Stock Exchange: Shenzhen Stock Exchange (the "**SZSE**")

Abbreviated Name: Xinhua Pharm

Stock Code: 000756

Ⅱ. SUMMARY OF FINANCIAL RESULTS

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

Item	**As at 30 June 2010 (Unaudited)**	As at 31 December 2009 (the "**End of Last Year**") (Audited)	**Change as compared to the End of Last Year (%)**
Total assets	2,796,099,567.06	2,626,187,060.38	6.47
Total equity attributable to equity holders of Company	1,637,660,330.73	1,633,645,846.35	0.25
Capital	457,312,830.00	457,312,830.00	0.00
Net assets per share attributable to equity holders of Company	3.58	3.57	0.28
	Six months ended 30 June 2010 (Unaudited)	Six months ended 30 June 2009 (the "**Same Period Last Year**") (Unaudited)	**Change as compared to the Same Period Last Year (%)**
Total operating income	1,368,618,869.54	1,196,792,146.64	14.36
Operating profit	71,140,908.69	58,040,612.50	22.57
Profit before taxation	74,980,507.52	50,683,526.89	47.94
Profit attributable to the equity holders of Company	57,881,893.63	39,887,094.33	45.11
Profit attributable to the equity holders of Company after extraordinary items	54,449,164.58	38,401,542.24	41.79
Basic earnings per share	0.13	0.09	44.44
Diluted earnings per share	0.13	0.09	44.44

Return on equity (%)	3.48	2.71	Increase 0.77 points
Net cash flow from operating activities	136,981,964.64	121,733,607.26	12.53
Net cash flow from operating activities per share	0.30	0.27	11.11

Note:

Extraordinary items include:

Item	Amount (RMB)
Profit or loss from disposal of non-current assets	793,794.41
Government subsidies recognised in current profit and loss, (excluding those closely related to the Company's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume)	4,447,696.50
Gains (losses) from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's normal operations	801,498.99
Other non-operating income or cost except the above items	(1,401,892.08)
Non-controlling interests	(25,039.25)
Income tax expense	(1,183,329.52)
Total	3,432,729.05

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

Consolidated Income Statement

Item	**Six months ended 30 June 2010 (Unaudited)**	Six months ended 30 June 2009 (Unaudited)
Revenue	1,352,583	1,179,184
Profit before taxation	77,126	49,776
Income tax expense	(13,904)	(8,701)
Profit for the period	63,222	41,075
Includes: Profit attributable to owners of the Company	60,174	39,115
Non-controlling interests	3,048	1,960

Consolidated Statement of Financial Position

Item	**As at 30 June 2010 (Unaudited)**	As at 31 December 2009 (Audited)
Total assets	2,798,035	2,636,363

Total liabilities	(1, 114, 917)	(955, 542)
Non-controlling interests	(35, 430)	(36, 318)
Equity attributable to owners of the Company	1, 647, 688	1, 644, 503

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

Item	Profit attributable to the equity holders of Company		Total equity attributable to equity holders of Company	
	the Reporting Period	Same Period Last Year	As at 30 June 2010	As at 1 January 2010
Prepared under HKGAAP	60, 174, 000. 00	39, 115, 094. 33	1, 647, 688, 000. 00	1, 644, 503, 000. 00
Prepared under PRC accounting standards	57, 881, 893. 63	39, 887, 094. 33	1, 637, 660, 330. 73	1, 633, 645, 846. 35
HKGAAP adjustments:				
Deferred taxation	145, 106. 37	136, 000. 00	(1, 771, 330. 73)	(1, 914, 846. 35)
Depreciation charges due to revaluation in previous years	–	(204, 000. 00)	(21, 300, 000. 00)	(21, 300, 000. 00)
Provision for education fund	(973, 000. 00)	(704, 000. 00)	11, 799, 000. 00	12, 772, 000. 00
Surplus from revaluation for listing of H Shares	–	–	21, 300, 000. 00	21, 300, 000. 00
Financial award for Energy-saving technological transformation	3, 120, 000. 00	–	–	–
Total of the difference between the PRC accounting standards and HKGAAP	2, 292, 106. 37	(772, 000. 00)	10, 027, 669. 27	10, 857, 153. 65

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

1. Education fees are set out as per the actual circumstances, without the need of provision under HKGAAP. As at 30 June 2010, provision made for the balance of education fees under the PRC accounting standards was RMB11,799,000 with an amount in education fees of RMB973,000 for this period.

2. The Company received financial award for energy-saving technological transformation of cash RMB3,120,000, which should be picked up to current profit of loss under HKGAAP, but which should be picked up to capital reserve under the PRC accounting standards.

3. Aforesaid difference also led to the difference in the Company’s deferred income tax, with the difference in accumulated deferred income tax of RMB1,771,330.73 and that in deferred income tax of the current period of RMB145,106.37.

III. CHANGES IN SHARE CAPITAL STRUCTURE AND INFORMATION ON SHAREHOLDERS

1. Share Capital structure

Class of shares	30 Jun 2010 Number of shares (share)	% of the total share capital	1 Jan 2010 Number of shares (share)	% of the total share capital
1. Total number of conditional tradable shares	16,223	0.004	187,809,725	41.07
Stated-owned shares	0	0	164,207,424	35.91
Domestic legal person shares	0	0	0	0
Conditional tradable senior management A shares	16,223	0.004	23,390	0.01
Others	0	0	23,578,911	5.15
2. Total number of unconditional tradable shares	457,296,607	99.996	269,503,105	58.93
Renminbi ordinary shares (A shares)	307,296,607	67.196	119,503,105	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 2010	Number of unconditional tradable shares between 1 January 2010 to 19 March 2010	Increase in shares subject to conditions of trading between 1 January 2010 to 19 March 2010	Number of shares subject to conditions of trading as at 19 March 2010	Conditions	Date of plan removing the conditions
Shandong Xinhua Pharmaceutical Group Company Limited(“**SXPGC**”)	164,207,424	20,221,594	1,864,414	145,850,244	Special undertaking	19 March 2010
Qingdao Haowei Investment Development Company Limited	15,000,000	1,599,443	(1,864,414)	11,536,143	Compliance with the special undertaking of SXPGC	19 March 2010
Zibo High-Tech Venture Capital Company Limited	6,683,911	813,861	0	5,870,050	Compliance with the special undertaking of SXPGC	19 March 2010
Huludao Bajiazi Mining Industry Company Limited	1,550,000	188,734	0	1,361,266	Compliance with the special undertaking of SXPGC	19 March 2010
Shangrao Daihu Industrial Company	345,000	42,009	0	302,991	Compliance with the	19 March 2010

Limited					special undertaking of SXPGC	

Name of shareholders	Number of shares subject to conditions of trading as at 19 March 2010	Number of unconditional tradable shares between 19 March 2010 to 30 June 2010	Increase in shares subject to conditions of trading between 19 March 2010 to 30 June 2010	Number of shares subject to conditions of trading as at 30 June 2010	Conditions	Date of plan removing the conditions
SXPGC	145,850,244	145,850,244	0	0	Special undertaking	7 June 2010
Qingdao Haowei Investment Development Company Limited	11,536,143	11,536,143	0	0	Compliance with the special undertaking of SXPGC	7 June 2010
Zibo High-Tech Venture Capital Company Limited	5,870,050	5,870,050	0	0	Compliance with the special undertaking of SXPGC	7 June 2010
Huludao Bajiazi Mining Industry Company Limited	1,361,266	1,361,266	0	0	Compliance with the special undertaking of SXPGC	7 June 2010
Shangrao Daihu Industrial Company Limited	302,991	302,991	0	0	Compliance with the special undertaking of SXPGC	7 June 2010

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

Note 2: According to the Shandong Provincial State-owned Assets Supervision and Administration Commission Lu Guozi Kaoping document No. (2007) 60, SXPGC recovered 1,864,414 shares from Qingdao Haowei Investment Development Company Limited through a judicial auction. The transfer procedures were completed in the China Securities Depository and Clearing Corporation Limited Shenzhen Branch on 7 January 2010.

2. As at 30 June 2010, the Company had on record a total of 40,445 shareholders, including 58 holders of H Shares and 40,387 holders of A Shares.

3. As at 30 June 2010, the ten largest shareholders of the Company were as follows:

Unit: share

Number of Shareholder	Types of shareholders	Number of shares held	% of the total share capital	Number of conditional tradable shares held	Number of shares being charged or frozen
SXPGC	State-owned shareholder	166, 071, 838	36. 31	0	0
HKSCC (Nominees) Limited	H shares shareholder	147, 309, 998	32. 21	0	0
Qingdao Haowei Investment Development Company Limited	Domestic general legal person	11, 536, 143	2. 52	0	11, 250, 000
Zibo Hihg-Tech Venture Capital Company Limited	Domestic general legal person	6, 683, 911	1. 46	0	0
China Bank — Jingshun Changcheng Dongli Pingheng Security Investment Fund	Fund	4, 499, 904	0. 98	0	0
Huludao Bajiazi Mining Industry Company Limited	Domestic general legal person	1, 550, 000	0. 34	0	0
Liu Jinhao	Domestic person	1, 020, 055	0. 22	0	0
Chongqing International Trust Company Limited	Domestic general legal person	1, 000, 000	0. 22	0	0
DA ROSA JOSE AUGUSTO MARIA	H shares shareholder	1, 000, 000	0. 22	0	0
GUOSEN-China Merchants Bank – Guoxin Cash financial return swap (multiple strategies) asset management plans	Fund	810, 560	0. 18	0	0

4. As at 30 June 2010, the ten largest shareholders of the unconditional tradable shares of the Company were as follows:

Name of Shareholder	Number of unconditional listed shares (share)	Class of shares
SXPGC	166,071,838	A Shares
HKSCC (Nominees) Limited	147,309,998	H Shares
Qingdao Haowei Investment Development Company Limited	11,536,143	A Shares
Zibo Hihg-Tech Venture Capital Company Limited	6,683,911	A Shares
China Bank — Jingshun Changcheng Dongli Pingheng Security Investment Fund	4,499,904	A Shares
Huludao Bajiazi Mining Industry Company Limited	1,550,000	A Shares
Liu Jinhao	1,020,055	A Shares
Chongqing International Trust Company Limited	1,000,000	A Shares
DA ROSA JOSE AUGUSTO MARIA	1,000,000	H Shares

GUOSEN-China Merchants Bank – Guoxin Cash financial return swap (multiple strategies) asset management plans	810,560	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 the Reporting Period.

4. Save as disclosed above and so far as the Directors are aware, as at 30 June 2010, no other person (other than the Directors, supervisors of the Company (the "**Supervisors**"), chief executives or members of senior management of the Company (the **"Senior Officers"**)) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("**SFO**") and as recorded in the register required to be kept under section 336 of the SFO), or was otherwise a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**")) of the Company.

IV. DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

The number of shares held by the Directors, Supervisors and Senior Officers of the Company were as follows:

Name	**Position**	**Number of Shares(share) as at 1 January 2010**	**Change in number of Shares**	**Number of Shares(share) as at 30 June 2010**
Directors:				
Ms. Guo Qin	Chairman	9,479	Nil	**9,479**
Mr. Liu Zhenwen	Non-executive Director	Nil	Nil	**Nil**
Mr. Ren Fulong	Executive Director, General Manager	Nil	Nil	**Nil**
Mr. Zhao Songguo	Executive Director, Deputy general manager & Financial Controller	Nil	Nil	**Nil**
Mr. Li Tianzhong	Non-executive Director	Nil	Nil	**Nil**

	(resigned on 9 April 2010)			
Mr. Xu Lie	Non-executive Director (appointed on 25 June 2010)	Nil	Nil	**Nil**
Mr. Zhao Bin	Non-executive Director	Nil	Nil	**Nil**
Mr. Zhu Baoquan	Independent non-executive Director	Nil	Nil	**Nil**
Mr. Sun Minggao	Independent non-executive Director	Nil	Nil	**Nil**
Mr. Kwong Chi Kit, Victor	Independent non-executive Director	Nil	Nil	**Nil**
Supervisors:				
Mr. Yu Gongfu	Chairman of Supervisory Committee	6,075	Nil	**6,075**
Mr. Li Tianzhong	Supervisor (appointed on 25 June 2010)	Nil	Nil	**Nil**
Mr. Liu Qiang	Supervisor	4,370	Nil	**4,370**
Mr. Zhang Yueshun	Independent Supervisor	Nil	Nil	**Nil**
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil	**Nil**
Senior Officers:				
Mr. Zhang Daiming	Deputy General Manager	Nil	Nil	**Nil**
Mr. Dou Xuejie	Deputy General Manager	Nil	Nil	**Nil**
Mr. Du Deqing	Deputy General Manager	Nil	Nil	**Nil**
Mr. Du Deping	Deputy General Manager	Nil	Nil	**Nil**
Mr. Cao Changqiu	Company Secretary	1,708	(427)	**1,281**
Ms. Guo Lei	Company Secretary	Nil	Nil	**Nil**
Total		21,632	Nil	**21,205**

All shares held by the Directors, Supervisors and Senior Officers are A shares. The changes in the number of shares held by the Directors, Supervisors and Senior Officers were due to the shares sold on the secondary market according to relevant provisions.

So far as the Directors, Senior Officers and Supervisors are aware, save as disclosed above, as at 30 June 2010, no Director, Senior Officer or Supervisor had any interest or short position in the shares, underlying shares and / or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Officer or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

Mr. Li Tianzhong resigned as a non-executive director of the Company with effect from 9 April 2010 due to a change of job.

Mr. Xu Lie was appointed as a non-executive director of the Company and Mr. Li Tianzhong was appointed as a supervisor of the Company in the annual general meeting held on 25 June 2010.

V. CHAIRMAN'S STATEMENT

Dear shareholders,

I am pleased to report the operating results of the Company for the six months ended 30 June 2010.

For the six months ended 30 June 2010, pursuant to the PRC accounting standards, the operating income of the Group was RMB1,368,619,000 and net profit attributable to equity holders of the Company was RMB57,882,000, representing an increase of 14.36% and an increase of 45.11% respectively, as compared to that of the same period last year.

The Group had a turnover of RMB1,352,583,000 and the profit attributable to owners of the Company of RMB60,174,000 for the six months ended 30 June 2010 under HKGAAP, representing an increase of 14.70% and an increase of 53.84% 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 2010.

BUSINESS REVIEW

During the first half of 2010, the Group aggressively made use of opportunities in pharmaceutical market and accomplished the business objectives set at the beginning of the year by overcoming various difficulties, adapting itself to policy changes in the domestic pharmaceutical market. Below is the business review of the Group for the period:

1. Aligning itself to new situations and vigorously exploring domestic and overseas markets

During the first half of 2010, the Company enhanced communications with its key customers (including through customer visits) to deepen cooperation and build up long-term strategic partnerships with them, with an aim to further consolidating and improving the market position of its key and strategic products.

Taking advantage of the selling peak in principal pharmaceutical raw materials, the Company made great efforts to open up the market in the first half of 2010. As a result, the Company's domestic sales and export sales of pharmaceutical raw materials for the period grew rapidly by 23.06% and 17.49% respectively, over the same period last year. In line with new policies and changes with respect to national essential drugs such as "zero mark-up" and provincial tendering, the Company spared no effort in building its sales outlets and marketing teams for its preparation products as well as controlling operational risk. As such, sales of its preparation products increased 4.29% over the same period last year.

2. Steadily pushing forward industrial zone deployment strategy

The Company has adhered to the principle of "centralised planning, staged implementation, project-based advancement and rolling development" in determining the layout for the four industrial zones and pushing forward construction and development of the new parks. During the first half of 2010, the overall planning of Hutian Park was completed, while the Phase I relocation project completed the design work and was under pre-construction preparation. The Company will push forward with the construction of Hutian Park to build it into a "modern industrial base for chemical pharmaceuticals" by the Company.

Aiming at developing a circular economy demonstration zone, Shouguang Park will be built into a "fine chemical industrial base". Following the commencement of the commercial production for various pharmaceutical intermediate projects such as chloro-propionyl chloride and violuric acid last year, the diketene and pyrazolone projects were also put into production in the first half of this year. In addition to satisfying the Company's need for the production of bulk pharmaceuticals, Shouguang Park, leveraging on the Company's brand and quality strengths, also achieved substantial growth in external sales and maintained a healthy growth momentum by actively exploring domestic and overseas markets.

3. Transforming growth mode and adjusting development structure

The Company's product mix was optimised and upgraded. After obtaining the GMP certification, the new production line of Ibuprofen actively utilised its production capacity within a short time period and recorded a double year-on-year growth in its domestic sales. The Company's distinctive raw material drugs achieved admirable production and sales results. The levodopa raw material drug, a new product, exceeded its sales target for the first half of 2010.

Shandong Xinhua Pharmaceutical (Europe) GmbH fulfilled its role as being at the forefront of the European market and recorded 136.1% year-on-year growth in revenue. Projects at Shouguang Park were put into production in tandem which will become a new growth driver for the Company.

Calcium polycarbophil, a new drug in category 3, has obtained, and a number of new drugs are in the process of applying for, clinical approval from the State Food and Drug Administration.

The Company's success in processing and producing preparation products for Bayer in Germany resulted in economic benefits and enhancements in quality control and brand imaging. Based on this the Company made progress in seeking new business partners.

4. Enhancing internal management to improve quality and lower cost

We continued to carry out the technical breakthrough campaigns "double growth and double save" and "one tactics for one product" and strived to improve technical and economic indexes of products by optimising craftsmanship and upgrading technology. As a result, the Company's raw material consumption for the first half of 2010 was reduced by RMB6,545,000 from the same period last year.

Quality system and site management were further improved. Various products including Ibuprofen have successfully obtained GMP certification.

We further increased investment in technical renovation in energy saving and emission reduction. The application of "Four New" technologies was promoted, and the energy online management system independently developed by the Company was optimised, including the internal waste water online measurement system. For the first half of 2010, the Company's energy consumption per RMB10,000 production value decreased 9.34% over the same period last year, bringing energy saving of approximately RMB7,052,000 for the Company.

PLANS FOR THE SECOND HALF OF THE YEAR 2010

In the second half of 2010, the Group is facing new challenges arising from the enforcement of the new Pharmacopoeia of the PRC, the new GMP to be promulgated and implemented, changes in the State's pricing policy for pharmaceutical products and rules for tender management, as well as the export tax rebate rate reduction and the fluctuation in the RMB exchange rate as a result of the changes in the macroeconomic policy. The Group will assign staff to study and formulate practical measures and use its best endeavours to put into effect such measures. For the second half of the year, we will focus on the following:

1. Seize opportunities by intensifying efforts to open up the market of our products

In order to expand its sales, the Group will continue to consolidate and strengthen its position in the traditional product market by enhancing its association with customers and actively exploring the emerging markets. Taking advantage of the approval of the bulk pharmaceutical raw material, Ibuprofen and Levodopa by the U.S. FDA, the Group will explore every possible measure to tap into the international market with a view to further cementing the Company's leading position in the antipyretic and analgesic drug markets. The Group will explore its target markets by reinforcing its market position in preparation products, strengthening the terminal network building and team building as well as formulating practical market development measures in accordance with product features and market characteristics.

Moreover, the Group will further improve and strictly implement the risk control system so as to reduce operational risk and optimise economic performance.

2. Further our plans for our industrial zones under which any structural adjustment schemes will be drawn on the basis of the strategy underpinning the industrial zones

The Company will actively press ahead with the construction of the Hutian Park Project with reference to the master plan and the actual condition of the Company, and complete the preparation and construction of the relocation and renovation of the 10,000-tonne Aspirin materials project. It will also continue the production and operation of existing products in Shouguang Park, coordinate any facilities and external distribution in respect thereof and expand the production capacity of Shouguang Park through ''complementation'' and with reference to market demand. Efforts will be made in kick-starting the production of sulfuric acid and other products with an unwavering commitment to a cyclic economy.

3. Finalise the Company's ''12th Five-Year Plan'' to set clear future targets

With more than 6 months of organisation, discussion and preparation, the Company completed the draft of its ''12th Five-Year Plan''. In the second half of the year, the Company will focus on revisiting and finalising its five-year plan to set specific targets and formulate initiatives for the Company's development over the next five years and in the near future.

4. Further initiate ''Let's Improve Quality'' campaign to win market share by quality

To adapt to the enforcement of the new Pharmacopoeia and the promulgation and implementation of new GMP in the PRC, to meet international certification requirements for its products and cater to high-end customers' needs for higher quality products, the Company will further initiate the ''Let's Improve Quality'' campaign in the second half of the year, on top of the related promotional activities launched in early June this year in a bid to enhance the overall quality management of the Company.

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 2010, the liquidity ratio of the Group was 174.70%, the quick ratio was 131.10%, the turnover ratio of account receivables was 424.54% (turnover ratio of account receivables = turnover / average account receivables and net value of bills x 100%) and the turnover ratio of inventory was 336.50% (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 2010, the total amount of bank loans was approximately RMB443,620,000, which was floating rate loans and was accounted by HIBOR and rates issued by Bank of China. As at 30 June 2010, cash on hand and in bank amounted to approximately RMB486,245,000 (including bank acceptance drafts deposits of approximately RMB74,716,000).

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.

The Group did not have any significant investment, acquisitions or asset disposals during this reporting period.

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

As at 30 June 2010, the number of employees of the Group was 5,289. The total salaries for employees in the first half of 2010 amounted to RMB84,588,000.

It is expected that there will be no significant investment projects in the second half of 2010.

As at 30 June 2010, the capital debt ratio of the Group was 26.92% (capital debt ratio = total borrowings / equity attributable to owners of the Company x 100%).

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

The assets and debts of the Group were denominated in Renminbi. However, the Group achieved USD74,164,000 in its export for the first half of 2010. 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; 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. actively striving for using RMB as a currency for settlement with overseas customers.

2. RESULTS AND FINANCIAL ANALYSIS UNDER PRC ACCOUNTING STANDARDS

In the first half of 2010, the Group had achieved a turnover of RMB1,368,619,000 from its principal business, representing an increase of 14.36% as compared to the same period last year. The increase in revenue from the principal business was mainly attributable to the Company taking advantage of the selling peak in principal pharmaceutical raw materials, the Company made great efforts to open up the market in the first half of 2010 and the Company's domestic sales and export sales of pharmaceutical raw materials for the period grew rapidly by 23.06% and 17.49% respectively, over the same period last year. The increase in net cash and cash equivalents was RMB47,131,000, while there was an increase of RMB60,982,000 in the same period last year. The main reason for the change was that the increase in net cash outflow from investing activities was RMB26,586,000 as compared to the same period last year. Operating profit amounted to RMB71,141,000, representing an increase of 22.57% as compared to the same period last year. The main reason for the increase was that the Group actively expanded new markets and the leading products sales increased. At the same time it controlled purchase costs, reduced the consumption of raw materials and power and increased the product gross profit margin.

Total assets of the Group as at 30 June 2010 amounted to RMB2,796,100,000, representing an increase of RMB169,913,000 or 6.47% as compared to the figure of RMB2,626,187,000 as at 1 January 2010. This increase was mainly due to an increase in cash during the Reporting Period. The

Group's bank loans as at 30 June 2010 was RMB443,620,000, representing an increase of RMB49,596,000 from RMB394,024,000 at the beginning of this year. Such increase was attributable to cash borrowed by the Company from the bank to ensure supply of funds for production and projects construction. The Company has obtained part of the loan during the reporting period. Total equity attributable to equity holders of the Company as at 30 June 2010 overall increased by RMB4,014,000 or 0.25%, from RMB1,633,646,000 at the beginning of this year to RMB1,637,660,000. This change was mainly attributable to (1) an increase of RMB57,882,000 from the operating profit of the Group during the Reporting Period; (2) a decrease of RMB33,299,000 in the fair value of financial assets available for sale of the Group; and (3) a deduction of RMB22,866,000 from the total equity attributable to equity holders of the Company due to the distribution 2009 annual cash dividend.

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

By geographical location of customers	**First half of 2010**		First half of 2009	
	Total turnover	**Costs**	Total turnover	Costs
PRC (incl. Hong Kong)	881, 518	721, 942	790, 429	663, 648
Europe	166, 175	127, 086	119, 181	93, 602
Americas	243, 950	203, 246	148, 959	118, 730
Others	52, 749	39, 509	116, 411	76, 369
Total	1, 344, 392	1, 091, 783	1, 174, 980	952, 349

By industry and By product	**Income from principal operations**	**Costs of sales of principal operations**	**Gross profit margin(%)**
Bulk pharmaceutical	732, 191	579, 643	20. 83
Preparations	255, 126	180, 568	29. 22
Medical commercial logistics	329, 306	312, 121	5. 22
Chemical products and other products	27, 769	19, 451	29. 95
Total	1, 344, 392	1, 091, 783	18. 79

An analysis of profit as compared to 2009 is as follows:

Items	**Amount (RMB'000)**		**% of total profit**	
	Jan.-Jun. 2010	2009	**Jan.-Jun. 2010**	2009
Operating profit	71, 141	135, 909	94. 88	113. 85
Profit/Loss from non-operation activities	3, 840	(16, 535)	5. 12	(13. 85)
Profit before taxation	74, 981	119, 374	100. 00	100. 00

Analysis of the reasons for changes: the percentage of the net non-operation income attributable to the total profit of the Reporting Period has seen a more substantial change because the Company has written off fixed assets of RMB19,606,000 during last year.

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 2010, RMB332,415,000 were used in the following projects:

Name of project	Planned investment RMB'000	Actual investment Jan.-Jun. 2010 RMB'000	Accumulated amount of investment RMB'000	% of the investment	Remarks
State-level technical center renovation	74,500	1,446	22,482	30.18%	-
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	1,446	360,616	–	RMB28,201,000 financed by the Company

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

(2) Caffeine technical renovation did not reach its profit forecast because of the effects of the drop in the price and the export tax rebate rate.

(3) The main project of the renovation of the state-level technical center has been completed.

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

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 2010.

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 the Reporting Period. Similarly, no transactions of such nature occurred during the last reporting period and were carried over to the Reporting Period.

5. During the Reporting Period, there was no trust, subcontract and lease of the assets between the Company and other companies.

6. The independent non-executive directors' special explanation and independent opinions in respect of the use of funds by related parties and external security provided are as follows:

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

During the Reporting Period, there was no material guarantee provided by the Company, nor has there been any obligations that have not been performed in full by the Company. The Company was in strict compliance with the regulations of the notice Zhengjiafa [2003] no. 56 issued by the CSRC and there were no guarantees provided by any controlling shareholders, non-legal entity or individuals which were prejudicial to the interests of the Company and the shareholders, in particular the minority shareholders, of the Company. As at 30 June 2010, the Company had no overdue external guarantee debts and the Company had no liability arising from any guarantee due to the default of a guaranteed party.

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

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

(2) As at 1 January 2006, SXPGC owed the Company the sum of RMB9,507,000 for non-business purposes. SXPGC repaid the capital by 30 June 2006 by way of cash. SXPGC guaranteed not to use any capital of the Company starting from 1 January 2006 for non-business purposes.

8. Purchase, Sales and Redemption of the Company's listed securities

During the Reporting Period, neither the Company nor its subsidiaries purchased, sold or redeemed any of its securities.

9. Management of Funds

During the 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 the Reporting Period.

10. Information about holding other listed companies (RMB)

Stock Code	Abbreviated Name	Initial investment amount	Proportion of equity interest in investee	Book value of end of the Reporting Period	Profit/loss in the Reporting Period	Change of shareholder's equity in the Reporting Period	Accounting courses	Share source

601601	China Pacific Insurance	7,000,000.00	0.06%	113,850,000.00	–	(24,956,480.00)	Available-for-sale financial assets	Purchase
601328	BANKCOMM	14,225,318.00	0.02%	44,906,720.00	747,200.00	(14,250,000.00)	Available-for-sale financial assets	Purchase
600831	BC & TV Network	463,655.00	0.01%	–	54,298.99	31,067.00	Available-for-sale financial assets	Adjudication
Total		21,688,973.00	–	158,756,720.00	801,498.99	(39,175,413.00)	–	–

11. Index of important information which has been disclosed

The announcement of the "2009 Annual Results Announcement" was published on the HKExnews, in the Securities Times in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on 12 April 2010.

The announcement of the "The First Quarter Report of 2010" was published on the HKExnews, in the Securities Times in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on 29 April 2010.

The announcement of the "The Notice of Annual General Meeting for the 2009" was published on the HKExnews, in the Securities Times in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on 10 May 2010.

The announcement of the "Announcement of 2009 Annual General Meeting Resolutions" was published on the HKExnews, in the Securities Times in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on 28 June 2010.

12. Information of reception research, communication and interview during the Reporting Period

Reception time	Reception location	Reception method	Reception objects	Main content of the discussion and the information provided
11 May 2010	Office address of the Company	Field study	Hong Kong VL Asset etc.	Understand the production and operation of the Company
13 May 2010	Office address of the Company	Field study	Chang xin Fund etc.	Understand the production and operation of the Company

VIII. CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors confirmed that the Company was in compliance with the Code on Corporate Governance Practices (the "**Code**") and has not deviated from the Code during the six months ended 30 June 2010. The Code includes the provisions contained in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Company set up the audit committee under the Board in accordance with Rule 3.21 of the Listing Rules.

The audit committee along with the management of the Company has 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 2010.

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 2010, and it has been disclosed fully.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of a sufficient number of independent non-executive directors and at least one independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive directors including one with financial management expertise; details of their biographies were set out in the 2009 Annual Report of the Company.

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

During the Reporting Period, the Company has adopted a code of conduct regarding transactions by Directors on terms no less exacting than the required standards set out in the Model Code. After having made specific enquiries to the Directors and Supervisors, the Company has confirmed that during the Reporting Period, all Directors and Supervisors have complied with the required standard set out in the Model Code in relation to directors' securities transactions and they did not have any non-compliance with the Mode Code.

Ⅸ. FINANCIAL REPORTS

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

Unit: RMB

Item	**First half of 2010**		First half of 2009	
	Consolidated	**Parent company**	Consolidated	Parent company
1.Total operating income	**1,368,618,869.54**	**919,627,165.93**	1,196,792,146.64	784,725,133.18
Includes: Operating income	**1,368,618,869.54**	**919,627,165.93**	1,196,792,146.64	784,725,133.18
2.Total operating costs	**1,301,110,155.78**	**868,429,433.07**	1,151,722,488.27	743,297,685.20
Includes: Operating cost	**1,117,047,193.39**	**740,266,357.99**	976,473,336.24	626,225,077.32
Taxes and surcharges	**7,349,609.91**	**6,390,089.53**	6,933,122.86	5,664,525.82
Selling expenses	**89,541,312.71**	**45,366,864.74**	79,536,761.31	34,821,029.72
Administrative expenses	**77,263,090.21**	**65,903,825.12**	73,492,127.93	61,543,421.68
Financial expenses	**9,908,949.56**	**10,502,295.69**	15,287,139.93	15,043,630.66
Assets Impairment loss	-	-	-	-
Add: Gain or loss from changes in fair	-	-	6,898,720.38	6,687,079.08

value				
Investment gain or loss	**3,632,194.93**	**7,173,643.44**	6,072,233.75	8,075,783.75
Includes: Investment gain or loss from related ventures and joint ventures	**2,822,345.26**	**2,822,345.26**	3,822,703.75	3,822,703.75
Exchange gain or loss	-	-	-	-
3. Operating profit	**71,140,908.69**	**58,371,376.30**	58,040,612.50	56,190,310.81
Add: Non-operating income	**5,524,758.33**	**1,408,050.15**	911,199.91	776,873.19
Less: Non-operating cost	**1,685,159.50**	**1,591,481.52**	8,268,285.52	8,156,158.42
Includes: Loss from the disposal of non-current assets	**153,790.74**	**153,790.74**	5,174,106.18	5,162,269.37
4. Profit before taxation	**74,980,507.52**	**58,187,944.93**	50,683,526.89	48,811,025.58
Less: Income tax expense	**14,050,412.21**	**9,064,482.14**	8,836,807.36	8,334,531.97
5. Profit after taxation	**60,930,095.31**	**49,123,462.79**	41,846,719.53	40,476,493.61
Includes: Profit attributable to the equity holders of the parent company	**57,881,893.63**	**49,123,462.79**	39,887,094.33	40,476,493.61
Minority interest	**3,048,201.68**	-	1,959,625.20	-
6. Earnings per share				
1) Basic earnings per share	**0.13**	**0.11**	0.09	0.09
2) Diluted earnings per share	**0.13**	**0.11**	0.09	0.09
7.Other comprehensive income	**(31,444,742.13)**	**(30,179,101.05)**	75,135,767.43	75,063,089.28
8. Total comprehensive income	**29,485,353.18**	**18,944,361.74**	116,982,486.96	115,539,582.89
Includes: Total comprehensive income attributable to the equity holders of the parent company	**26,880,125.88**	**18,944,361.74**	115,024,394.30	115,539,582.89
Total comprehensive income attributable to the minority interest	**2,605,227.30**	-	1,958,092.66	-

NOTES:

1. During the Reporting Period, there was no change in accounting policies and accounting estimates.

2. During the Reporting Period, there was no change in the scope consolidated financial statements of the Company.

2. FINANCIAL STATEMENTS PREPARED UNDER HKGAAP

Condensed consolidated income statement

	Notes	Six months ended 30 June 2010 RMB'000 (unaudited)	2009 Restated RMB'000 (unaudited)
Revenue	3	1,352,583	1,179,184
Cost of sales		(1,099,135)	(959,486)
Gross profit		253,448	219,698
Investment income		1,641	2,716
Other income		10,754	1,981
Other gains and losses		(820)	(5,489)
Distribution and selling expenses		(97,732)	(83,741)
Administrative expenses		(79,423)	(74,947)
Other expenses		(5,494)	(6,724)
Share of profits of associates		2,822	3,823
Finance costs		(8,070)	(7,541)
Profit before tax	4	77,126	49,776
Income tax expense	5	(13,904)	(8,701)
Profit for the half-year		63,222	41,075
Profit for the half-year attributable to :			
Owners of the Company		60,174	39,115
Non-controlling interests		3,048	1,960
		63,222	41,075
Earnings per share - basic and diluted	6	RMB0.132	RMB0.090

Condensed consolidated statement of comprehensive income

	Six months ended 30 June 2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Profit for the half-year	63,222	41,075
Other comprehensive income:		
Exchange differences arising on translation	(1,266)	(7)
Fair value (loss) gain on available-for-sale financial assets	(39,175)	88,415
Income tax relating to components of other comprehensive income	5,876	(13,273)

Other comprehensive income for the half-year, net of tax	(34,565)	75,135
Total comprehensive income for the half-year	28,657	116,210
Total comprehensive income attributable to:		
Owners of the Company	26,051	114,252
Non-controlling interests	2,606	1,958
	28,657	116,210

Condensed consolidated statement of financial position

	Notes	30 June 2010 RMB'000 (unaudited)	31 December 2009 RMB'000 (audited)
Non-current assets			
Technical know-how		-	117
Property, plant and equipment		961,669	963,747
Construction in progress		156,065	134,356
Prepaid lease payments on land use rights		225,525	193,915
Investment properties		37,034	36,694
Interests in associates		14,182	14,360
Available-for-sale investments		161,957	201,596
Deferred tax assets		3,044	3,044
		1,559,476	1,547,829
Current assets			
Inventories		309,061	344,220
Trade and other receivables	8	415,289	314,353
Prepaid lease payments on land use rights		5,770	4,070
Amount due from immediate holding company		6,378	8,465
Tax recoverable		683	142
Pledged bank deposits		74,716	37,496
Bank balances and cash		411,529	364,398
		1,223,426	1,073,144
Assets classified as held for sale		15,133	15,390
		1,238,559	1,088,534
Current liabilities			
Trade and other payables	9	606,858	491,698
Amount due to an associate		576	498
Tax payable		7,927	7,069
Borrowings		93,620	124,024

	708,981	623,289
Net current assets	529,578	465,245
Total assets less current liabilities	2,089,054	2,013,074
Capital and reserves		
Share capital	457,313	457,313
Reserves	1,190,375	1,164,324
Proposed final dividend	-	22,866
Equity attributable to owners of the Company	1,647,688	1,644,503
Non-controlling interests	35,430	36,318
Total equity	1,683,118	1,680,821
Non-current liability		
Deferred tax liabilities	5,575	11,597
Borrowings	350,000	270,000
Deferred income	50,361	50,656
	405,936	332,253
	2,089,054	2,013,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNDER HKGAAP

1. Basis of preparation

The Group's unaudited condensed interim financial information has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Listing Rules and with Hong Kong Accounting Standard ("**HKAS**") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009.

2. Principal accounting policies

The consolidated condensed interim financial information has been prepared on the historical cost basis except for property, plant and equipments and certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the consolidated condensed interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations ("**Int**") ("**new HKFRSs**") issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2010.

HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters

HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners
Annual Improvements Project	Improvements to HKFRSs 2009

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

HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 9	Financial Instruments[5]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 32 (Amendment)	Classification of Rights Issues[1]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments[2]
Annual Improvements Project	Improvements to HKFRSs 2010[4]

1 Effective for annual periods beginning on or after 1 February 2010.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 January 2011 (unless otherwise specified).
5 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specially, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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

3. Segment information

(a) Description of segments

Management has determined the operating segments based on the internal reports reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The Group's operating and reportable segments are as follows:

Bulk pharmaceuticals:	Development, production and sales of bulk pharmaceuticals

Preparations:	Development, production and sales of preparations (e.g. tablets and injections)
Chemical and other products:	Production and sales of chemical and other products
Commerce circulations:	Trading of pharmaceutical products (including retail and wholesale)

Information regarding the above segments is reported below.

(b) Segment turnover and results

The following is an analysis of the Group's turnover and results by reportable segment.

For the six months ended 30 June 2010（Unaudited）

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

For the six months ended 30 June 2009（Unaudited）

	Bulk pharmaceuticals	Preparations	Chemical and other products	Commerce circulations	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE						
External sales	618,268	244,635	1,899	314,382	-	1,179,184
Inter-segment sales	17,917	163,284	37,575	3,881	(222,657)	-
Total	636,185	407,919	39,474	318,263	(222,657)	1,179,184
Segment profit (loss)	49,386	13,771	(1,272)	(875)		61,010
Investment and other income						4,697
Other gains and losses						(5,489)
Other expenses						(6,724)
Finance costs						(7,541)
Share of profits of associates						3,823
Profit before tax						49,776

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of investment and other income, other gains and losses, other expenses, financial costs and share of profits of associates. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

(c) Segment assets

The following is an analysis of the Group's assets by reportable segment.

At 30 June 2010（Unaudited）

	Bulk pharmaceuticals	Preparations	Chemical and other products	Commerce circulations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,168,819	463,854	321,664	125,877	2,080,214
Unallocated corporate assets					717,821
Consolidated assets					2,798,035

At 31 December 2009（Audited）

	Bulk pharmaceuticals	Preparations	Chemical and other products	Commerce circulations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,214,283	396,322	240,187	112,451	1,963,243
Unallocated corporate assets					673,120
Consolidated assets					2,636,363

For the purposes of monitoring segment performances and allocating resources among segments: all assets are allocated to reportable segments other than deferred tax assets, interests in associates, assets classified as held for sale, available-for-sale investments, investment properties, tax recoverable, pledged bank deposits and bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of revenues earned by individual reportable segments.

4. Profits before tax

Profit before tax has been arrived at after charging (crediting):

	Six months ended 30 June 2010	2009
	RMB'000 (unaudited)	RMB'000 (unaudited)
Interest on borrowings	8,070	7,541
Amortisation of prepaid lease payments on land use rights	2,891	1,511
Amortisation of technical know-how	117	500
Depreciation for property, plant and equipment	58,733	58,501

Depreciation for investment properties	1,361	-
Cost of inventories recognised as an expense	1,099,135	959,486
Dividends and interest income	(1,641)	(2,716)
(Gain) loss on disposal of property, plant and equipment	(794)	1,424

5. Income tax expense

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

	Six months ended 30 June 2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Current income tax – PRC Enterprise Income Tax ("**EIT**")	14,050	7,834
Deferred income tax	(146)	867
Income tax expense	13,904	8,701

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, the Company was accredited as a high-tech enterprise. The accreditation is valid for three years. The Company is entitled to the preferential tax rate of 15% for a three-year period commencing from 2008.

Pursuant to the relevant laws and regulations in the PRC, two subsidiaries operating in the PRC are entitled to exemption from the PRC income tax in the first two years from the first profit-making year, followed by a 50% reduction of the PRC income tax for the next three years.

6. Earnings per share

The calculation of the basic earnings per share is based on the Group's profit attributable to the owners of the Company of RMB60,174,000 (2009: RMB39,115,000) and based on the weighted average of 457,312,830 shares (2009 : 457,312,830 shares) in issue during the period.

Basic earnings per share and diluted earnings per share for the six months ended 30 June 2010 and 2009 are the same as there were no dilutive events existed during both periods.

7. Dividends

(a) The board of the directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

(b) Dividends attributable to the previous financial year, approved during the interim period.

	Six months ended 30 June 2010	2009
	RMB'000	RMB'000
	(unaudited)	(unaudited)

Final dividend in respect of the financial year ended 31 December 2009, approved during the following interim period, of RMB0.05 per share (year ended 31 December 2008: RMB0.03 per share)	22,866	13,719

8. Trade and other receivables

	30 June 2010	31 December 2009
	RMB'000 (unaudited)	RMB'000 (audited)
Trade and bills receivables	372,321	280,080
Less : Allowance for doubtful debts of trade receivables	(7,603)	(7,603)
	364,718	272,477
Other receivables, deposits and prepayments	58,409	49,714
Less : Allowance for doubtful debts of other receivables	(7,838)	(7,838)
	50,571	41,876
Total trade and other receivables	415,289	314,353

Included in the trade and bills receivables are debtors and bills receivables, net of allowance for bad debt and doubtful debts, with the following ageing analysis:

	30 June 2010	31 December 2009
	RMB'000 (unaudited)	RMB'000 (audited)
Within one year	362,199	270,571
More than one year but less than two years	2,171	1,503
More than two years but less than three years	348	403
	364,718	272,477

The Group's revenue from export sales is on letter of credit or documents against payment. The credit period is agreed upon in the sales contract. Except for some particular customers where payment in advance is normally required, the Group allows an average credit period of 30 days to its local trade customers and 90 days for local hospital customers.

9. Trade and other payables

The following is an aged analysis of accounts payable presented based on the invoice date at the end of the reporting period.

	30 June 2010	31 December 2009
	RMB'000 (unaudited)	RMB'000 (audited)

Within one year	382,667	269,164
More than one year but less than two years	1,214	4,987
More than two years but less than three years	758	747
Over three years	5,182	5,436
	389,821	280,334
Other payables and accrued charges	217,037	211,364
	606,858	491,698

10. Related party transaction

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

	Six months ended 30 June	
	2010	2009
	RMB'000 (unaudited)	RMB'000 (unaudited)
SXPGC		
- Payment of annual trademark license fee (Note)	1,100	1,100
- Rental expense	500	500
Fellow subsidiaries :		
- Sale of water, electricity, steam and waste materials	6,486	5,441
- Purchase of raw materials	28,449	42,690
- Rental income	-	2
Associates		
- Purchase of raw materials	4,824	1,584
- Rental income	-	132
- Design fee income	-	11
Minority shareholder:		
- Sale of bulk pharmaceuticals and chemical raw materials	67,694	71,620

Note:

On 7 December 1996, the Group was granted the exclusive right to use the trademark "Xinhua" ("**Trademark**") by Shandong Xinhua Pharmaceutical Group Company Limited ("**SXPGC**") for its existing and future products in and outside the PRC at an initial annual fee of RMB600,000 increasing at the rate of an extra RMB100,000 per year until the annual fee reaches the cap amount of RMB1,100,000, which shall stay as such until the agreement is terminated. The terms of the agreement shall continue to have effect during the validity period of the Trademark, being 28 February 2013, subject to further renewal of the registration of the Trademark. During the six months ended 30 June 2010, the annual fee paid by the Group was RMB1,100,000 (2009 : RMB1,100,000).

(b) As at 30 June 2010, Hualu Holdings Company Limited provide guarantee to the Group amounted to RMB230,000,000 (2009: RMB150,000,000).

(c) Compensation of key management personnel

	Six months ended 30 June 2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Short-term benefits	937	1,016
Post-employment benefits	117	117
	1,054	1,133

X. DOCUMENTS FOR INSPECTION AND PLACE FOR INSPECTION

(1) DOCUMENTS FOR INSPECTION

1. The original copy of the Company's 2010 interim report signed by the Chairman of the Board.

2. Financial statements for the six months ended 30 June 2010 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

28 July 2010, Zibo, PRC

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

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

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

Non-executive Directors:
Mr. Liu Zhenwen
Mr. Xu Lie
Mr. Zhao Bin