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）

2011 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the **"Board"**) and directors ("**Directors**") of Shandong Xinhua Pharmaceutical Company Limited (the "**Company**" or "**Xinhua Pharm**") hereby announce the unaudited consolidated results of the Company and its subsidiaries (the "**Group**") for the half year ended 30 June 2011 (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 2011 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: Mr. Zhang Daiming

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 2011 (Unaudited)**	As at 31 December 2010 (the "**End of Last Year**") (Audited)	**Change as compared to the End of Last Year (%)**
Total assets	**2,852,288,422.28**	2,739,564,533.49	**4.11**
Total equity attributable to equity holders of Company	**1,713,018,725.62**	1,676,523,546.19	**2.18**
Capital	**457,312,830.00**	457,312,830.00	**-**
Net assets per share attributable to equity holders of Company	**3.75**	3.67	**2.18**
	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2010 (the "**Same Period Last Year**") (Unaudited)	**Change as compared to the Same Period Last Year (%)**
Total operating income	**1,522,811,524.54**	1,368,618,869.54	**11.27**
Operating profit	**79,496,686.58**	71,140,908.69	**11.75**
Profit before taxation	**77,517,940.76**	74,980,507.52	**3.38**
Profit attributable to the equity holders of Company	**60,702,135.83**	57,881,893.63	**4.87**
Profit attributable to the equity holders of Company after extraordinary items (Note)	**60,845,003.76**	54,449,164.58	**11.75**
Basic earnings per share	**0.13**	0.13	**-**
Diluted earnings per share	**0.13**	0.13	**-**

Return on equity of weighted average (%)	**3.56**	3.48	**Increase 0.08 points**
Return on equity of weighted average after extraordinary loss (%)	**3.56**	3.27	**Increase 0.29 points**
Net cash flow from operating activities	**27,512,297.58**	136,981,964.64	**(79.92)**
Net cash flow from operating activities per share	**0.06**	0.30	**(80.00)**

Note:

Extraordinary items include:

Item	**Amount (RMB)**	**Notes**
Profit or loss from disposal of non-current assets	(56,741.13)	Loss of disposal of fixed assets
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)	165,500.00	Received government subsidies reckoned into current term
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	1,750,000.00	Dividends from available-for-sale financial assets
Other non-operating income or cost except the above items	(2,087,504.69)	
Non-controlling interests	534.19	
Income tax expense	85,343.70	
Total	(142,867.93)	

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

Consolidated Income Statement

Item	**Six months ended 30 June 2011（Unaudited）**	Six months ended 30 June 2010（Unaudited）
Revenue	**1,509,029**	1,352,583
Profit before taxation	**76,764**	77,126
Income tax expense	**(15,305)**	(13,904)
Profit for the period	**61,459**	63,222
Includes: Profit attributable		

to owners of the Company	**60,061**	60,174
Non-controlling interests	**1,398**	3,048

Consolidated Statement of Financial Position

Item	**As at 30 June 2011 （Unaudited）**	As at 31 December 2010 （Audited）
Total assets	**2,855,598**	2,772,599
Total liabilities	**(1,093,875)**	(1,048,367)
Non-controlling interests	**(39,648)**	(38,010)
Equity attributable to owners of the Company	**1,722,075**	1,686,222

(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 2011**	As at 1 January 2011
Prepared under HKGAAP	**60,061,000.00**	60,174,000.00	**1,722,075,000.00**	1,686,222,000.00
Prepared under PRC accounting standards	**60,702,135.83**	57,881,893.63	**1,713,018,725.62**	1,676,523,546.19
HKGAAP adjustments:				
Deferred taxation	**111,864.17**	145,106.37	**(1,600,725.62)**	(1,711,546.19)
Provision for education fund	**(753,000.00)**	(973,000.00)	**10,657,000.00**	11,410,000.00
Financial award for Energy-saving technological transformation	-	3,120,000.00	-	-
Total of the difference between the PRC accounting standards and HKGAAP	**(641,135.83)**	2,292,106.37	**9,056,274.38**	9,698,453.81

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 2011 provision made for the balance of education fees under the PRC accounting standards was RMB10,657,000 with an amount in education fees of RMB753,000 for this period.

2. Education fees also led to the difference in the Company's deferred income tax, with the difference in accumulated deferred income tax of RMB1,600,725.62 and that in deferred income tax of the current period of RMB111,864.17.

III. CHANGES IN SHARE CAPITAL STRUCTURE AND INFORMATION ON SHAREHOLDERS

1. Share Capital structure

Class of shares	30 Jun 2011 Number of shares (share)	30 Jun 2011 % of the total share capital	1 Jan 2011 Number of shares (share)	1 Jan 2011 % of the total share capital
1. Total number of conditional tradable shares	4,238	0.001	20,112	0.004
Stated-owned shares	0	0	0	0
Domestic legal person shares	0	0	0	0
Conditional tradable senior management A shares	4,238	0.001	20,112	0.004
Others	0	0	0	0
2. Total number of unconditional tradable shares	457,308,592	99.999	457,292,718	99.996
Renminbi ordinary shares (A shares)	307,308,592	67.199	307,292,718	67.196
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

Note: As at 30 June 2011, a total of 11,250,000 shares held by Qingdao Haowei Investment Development Company Limited in the Company have been charged and frozen.

2. As at 30 June 2011, the Company had on record a total of 41,032 shareholders, including 58 holders of H Shares and 40,974 holders of A Shares.

3. As at 30 June 2011, 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
Shandong Xinhua Pharmaceutical Group Company Limited ("SXPGC")	State-owned shareholder, A shares	166,071,838	36.31	0	0
HKSCC (Nominees) Limited	Listed H shares	148,095,998	32.38	0	0
Qingdao Haowei Investment Development Company Limited	Domestic general legal person shares	11,536,143	2.52	0	11,250,000

Zhou Qiuping	Domestic person	1,452,624	0.32	0	0
Wang Cuiping	Domestic person	731,400	0.16	0	0
Zhang Qilin	Domestic person	609,600	0.13	0	0
Zheng Huidan	Domestic person	499,990	0.11	0	0
WANG ZHIHAI	Listed H shares	456,000	0.10	0	0
Huang Wanjun	Domestic person	440,000	0.10	0	0
Shen Ge	Domestic person	435,033	0.10	0	0

4. As at 30 June 2011, 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	148,095,998	H Shares
Qingdao Haowei Investment Development Company Limited	11,536,143	A Shares
Zhou Qiuping	1,452,624	A Shares
Wang Cuiping	731,400	A Shares
Zhang Qilin	609,600	A Shares
Zheng Huidan	499,990	A Shares
WANG ZHIHAI	456,000	H Shares
Huang Wanjun	440,000	A Shares
Shen Ge	435,033	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 2011, 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 2011**	**Change in number of Shares**	**Number of Shares (share) as at 30 June 2011**
Directors:				
Mr. Zhang Daiming	Chairman	Nil	Nil	**Nil**
Mr. Ren Fulong	Executive Director	Nil	Nil	**Nil**
Mr. Du Deping	Executive Director, General Manager	Nil	Nil	**Nil**
Mr. Zhao Songguo	Executive Director, Deputy general manager & Financial Controller	Nil	Nil	**Nil**
Mr. Xu Lie	Non-executive Director	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. Li Tianzhong	Chairman of Supervisory Committee	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. Dou Xuejie	Deputy General Manager	Nil	Nil	**Nil**
Mr. Du Deqing	Deputy General Manager	Nil	Nil	**Nil**
Mr. He Tongqing	Deputy General Manager	Nil	Nil	**Nil**
Mr. Cao Changqiu	Company Secretary	1,281	Nil	**1,281**
Ms. Guo Lei	Company Secretary	Nil	Nil	**Nil**
Total		5,651	Nil	**5,651**

All shares held by the Directors, Supervisors and Senior Officers are A shares. The number of shares held by the Directors, Supervisors and Senior Officers has no change during this Reporting period.

So far as the Directors, Senior Officers and Supervisors are aware, save as disclosed above, as at 30 June 2011, 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

During this Reporting Period, there were no changes of Directors, Supervisors and Senior Offices.

V. CHAIRMAN’S STATEMENT

Dear shareholders,

I am pleased to report the operating results of the Company for the six months ended 30 June 2011.

For the six months ended 30 June 2011, pursuant to the PRC accounting standards, the operating income of the Group was RMB1,522,812,000 and net profit attributable to equity holders of the Company was RMB60,702,000, representing an increase of 11.27% and an increase of 4.87% respectively, as compared to that of the same period last year.

The Group had a turnover of RMB1,509,029,000 and the profit attributable to owners of the Company of RMB60,061,000 for the six months ended 30 June 2011under HKGAAP, representing an increase of 11.57% and a decrease of 0.19% 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 2011.

BUSINESS REVIEW

In the first half of 2011, the Group accomplished the business objectives set at the beginning of the year by taking proactive measures against a series of adverse factors such as the surging price of raw materials and energy, increased pressure on the tender system for domestic pharmaceutical products and on environmental protection, the further tightening monetary policies by the State, and appreciating Renminbi. The Group made the following achievements for the period:

1. Increased efforts to explore markets and strived to increase sales

During the first half of 2011, the Company continued to deepen strategic partnerships with its customers and paid great attention to the development of international markets. Leveraging on its advantages in brand, quality and unique products, the Company consolidated its key markets and key customers and vigorously explored emerging markets. It increased efforts in the building of the third terminal network with focus on clinical marketing teams for high-end hospitals while concentrating on the cultivation of key products and strategic products. As such, for the first half of 2011, the Company recorded a double-digit growth in the sales of preparation products despite many difficulties, a year-on-year increase of 21.37% in its revenue from exports and a year-on-year increase of 100% in the external sales of pharmaceutical intermediates at its Shouguang Park.

2. Aggressively promoted R&D of new products, accelerated the launch of new products, proactively advanced technological progress and managed to reduce costs

The Company accelerated its strategic deployment of new products and construction of R&D platforms, completing the deployment of 49 strategic products and the initiation of 14 new projects in the first half of the year. The Company deepened collaboration among production, academy and research and reached an intent of cooperation with a number of domestic and overseas research universities and institutions.

The Company proactively worked on those technical breakthrough projects set out at the beginning of the year, with progress made in the process improvements of products including Ibuprofen, and the successful commencement of production for two new products, namely amlodipine besylate and sumatriptan succinate. In the first half of 2011, the Company saved a total of approximately RMB9,740,000 worth of raw materials and power consumption, and was granted two invention patents and one new utility model patent.

3. Steadily advanced construction of parks and projects

During the first half of 2011, the Company commenced construction of the phase-1 relocation project for the Hutian Park and completed the civil work on the plants for the aspirin and salicylic acid relocation and renovation projects as well as the initial explosion work for the sewage treatment project. It also commenced construction for the multi-functional workshop project and completed the process design for the Analgin series products.

The capacity expansion and renovation projects of pharmaceutical intermediates at Shouguang Park and the serial development of product projects, either completed or currently under preliminary verification and project design, will be carried out in a stable, progressive and economical manner as planed, and built into the Company's "industrial base for precision chemical engineering ". The first half of 2011 also saw Shouguang Park maintain its rapid growth momentum.

4. Improved corporate management and boosted comprehensive competitiveness

The Company considerably enhanced its on-site management levels. In the first half of 2011, the Company successfully passed the audit of its tablets workshop by the British Department of Health, the GMP audit of isopropyl karthikeyan antipyrine by Germany, the on-site inspection into pazufloxacin mesylate and the injection of pazufloxacin mesylate by the State Food and Drug Administration, as well as quality audits by 16 customers including GSK. In particular, the passing of the MHRA audit resulted in the award of a passport for the Company's preparation products to access the European markets.

While adhering to the online tendering and procurement model, the Company cut back on exclusive suppliers and agents, made thorough market forecasts and analyses, and fully utilized both the domestic and overseas markets to lower procurement costs.

5. Steady operation in safety and environment protection and remarkable results in energy conservation and emission reduction

Through implementing standardized work safety on the basis of teams/groups and strengthening efforts in improving production techniques and the application of new environment-friendly technologies, the Company maintained a steady operation in terms of safety and environmental protection and did not have any major safety incidents or environment-related accidents in the first half of the year.

By actively promoting the application of the "Four New" technologies, coupled with the application of its online energy management system, the Company worked intently on energy conservation and emission reduction and recorded a remarkable further 4.47% drop in energy consumption per RMB10,000 production value during the first half of 2011.

PLANS FOR THE SECOND HALF OF THE YEAR 2011

In the face of a complex and volatile environment, the Group will take and strictly implement practical countermeasures in the second half of 2011. All in all, the Group will focus on the following:

1. Press ahead with product R&D and sales, and boost the core competitiveness of the Company. The Group will try all means to boost the innovation awareness of all staff, step up scientific research efforts, accelerate industrialization of scientific research results, aggressively drive technological progress, innovation and application, lower manufacturing costs, and boost product quality and yield.

By adapting to the ever-changing external environment, the Group will formulate effective measures, strengthen efforts in product market development, fully leverage its advantage of the international certification of its products, and accelerate exploration of international markets while emphasizing control of operating risks and enhancing economic operation quality.

2. Aim at further developments and plan for the future. In firmly upholding the philosophies of strategic management, investment for greater development, solid and thorough implementation of park and project construction as well as scientific R&D, the Group will summarize and learn from the experience and shortcomings in the first half of 2011. The Group will put in place various tasks for the second half of the year so as to prepare for the deployment next year and facilitate the accomplishment of the "12th Five-year Plan" objectives. By stepping up merger & acquisition efforts, the Company speeded up corporate expansion. Through introducing new products to support corporate growth, the Company aspires to accomplish its business deployment as soon as possible.

3. Increased efforts in scientific research and innovation to sustain growth momentum. In the second half of the year, the Company will continue to deploy 8 to 10 research projects and complete 13 pilot production projects, so as to reinforce potential for the Company's future development. It will, through technical innovation, strive to lower consumption and costs, reduce pollutant discharge and improve product technology and economic benefits while accomplishing the technology projects as planned at the beginning of the year to substantially reduce the production costs of a number of pharmaceutical products. Furthermore, it will step up efforts in promoting the “Four New” technologies and the application of new energy-efficient technologies such as MVR, thus ensuring the fulfillment of its energy conservation targets for the whole year.

4. Vigorously promote management innovation. Viewing reform and innovation as the permanent theme for corporate development and adhering to the principle of trouble shooting in corporate development, the Group will make appropriate adjustments to corporate systems, mechanisms and organizational structure to adapt to ever-changing situations and enhance synergy efficiency.

5. Enhance the overall quality of staff. The Group will optimize the performance assessment system, strengthen the implementation of performance and quantified assessments, enhance the overall quality of mid- and high-level managements, and cultivate a strong and competent team for the further growth 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 2011, the liquidity ratio of the Group was 186.00%, the quick ratio was 128.29%, the turnover ratio of account receivables was 441.61% (turnover ratio of account receivables = turnover / average account receivables and net value of bills x 100%) and the turnover ratio of inventory was 320.65% (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 2011, the total amount of bank loans was approximately RMB594,949,000, which was floating rate loans and was accounted by HIBOR and rates issued by Bank of China. As at 30 June 2011, cash on hand and in bank amounted to approximately RMB371,374,000 (including bank acceptance drafts deposits of approximately RMB13,000,000).

During the Reporting Period, the Group charged the land use rights in Hutianzhen, Zhangdian, to a bank for loans. The book value of the land use rights is RMB 70,306,000. There was no charge on the Group's assets except the above charged assets.

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 2011, the number of employees of the Group was 5,711. The total salaries for employees in the first half of 2011 amounted to RMB106,414,000.

The main investment projects in the second half of 2011 will be Hutian Park project and Shouguang Park project.

As at 30 June 2011, the capital debt ratio of the Group was 34.55% (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, projects and research development.

The assets and debts of the Group were denominated in Renminbi. However, the Group achieved USD90,008,000 in its export for the first half of 2011. Therefore, there was a greater impact from foreign exchange. The Group adopted the following measures to minimise the foreign exchange fluctuation risk: 1. raising the export price in order to minimise foreign exchange fluctuation risk; and 2. when the Group enters into an export contract involving large quantities of products with other parties, the Group shall seek prior consent from the other party that both parties will bear the foreign exchange fluctuation risk should the foreign exchange fluctuation exceed the contractual limit as agreed by both parties.

2. RESULTS AND FINANCIAL ANALYSIS UNDER PRC ACCOUNTING STANDARDS

In the first half of 2011, the Group had achieved a turnover of RMB1,522,812,000, representing an increase of 11.27% as compared to the same period last year. The increase in revenue was mainly attributable to the Company's export sales for the period growing by 21.37% and sales of chemical products posting a twofold year-on-year increase over the same period last year. The decrease in net cash and cash equivalents was RMB9,696,000, while there was an increase of RMB47,131,000 in the same period last year. The main reason for the change was that the decrease in net cash outflow from operating activities was RMB109,470,000 as compared to the same period last year. Operating profit amounted to RMB79,497,000, representing an increase of11.75% 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 2011 amounted to RMB2,852,288,000, representing an increase of RMB112,723,000 or 4.11% as compared to the figure of RMB2,739,565,000 as at 1 January 2011. This increase was mainly due to an increase in construction in progress during the Reporting Period. The Group's bank loans as at 30 June 2011 was RMB594,949,000, representing an increase of RMB119,421,000 from RMB475,528,000 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 2011 overall increased by RMB36,495,000 or 2.18%, from RMB1,676,524,000 at the beginning of this year to RMB1,713,019,000. This change was mainly attributable to (1) an increase of RMB60,702,000 from the operating profit of the Group during the Reporting Period; and (2) a deduction of RMB22,866,000 for the distribution of 2010 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 2011**		First half of 2010	
	Total turnover	**Costs**	Total turnover	Costs
PRC (incl. Hong Kong)	927,985	732,016	881,518	721,942
Europe	224,577	184,257	166,175	127,086
Americas	267,315	244,426	243,950	203,246
Others	81,684	70,984	52,749	39,509
Total	1,501,561	1,231,683	1,344,392	1,091,783

By industry and By product	**Income from principal operations**	**Costs of sales of principal operations**	**Gross profit margin(%)**
Bulk pharmaceutical	805,140	666,022	17.28
Preparations	270,361	167,838	37.92
Medical commercial logistics	358,687	342,084	4.63
Chemical products and other products	67,373	55,739	17.27
Total	1,501,561	1,231,683	17.97

An analysis of profit as compared to 2010 is as follows:

Items	**Amount (RMB'000)**		**% of total profit**	
	Jan.-Jun. 2011	2010	**Jan.-Jun. 2011**	2010
Operating profit	79,497	131,702	102.55	105.25

Profit/Loss from non-operation activities	(1,979)	(6,574)	(2.55)	(5.25)
Profit before taxation	77,518	125,128	100.00	100.00

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 2011, RMB363,319,000 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	888	25,185	33.81%	-
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	888	363,319	-	-

(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 principal part of the project of 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 2011.

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:

During the Reporting Period, 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. 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 2011, 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: Nil

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%	111,950,000.00	1,750,000.00	(2,550,000.00)	Available-for-sale financial assets	Purchase
601328	BANKCOMM	14,225,318.00	0.02%	41,394,880.00	-	448,320.00	Available-for-sale financial assets	Purchase
Total		21,225,318.00	-	153,344,880.00	1,750,000.00	(2,101,680.00)		-

11. Index of important information which has been disclosed

The announcement of the "2010 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 21 March 2011.

The announcement of the "The First Quarter Report of 2011" 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 2011.

The announcement of the "The Notice of Annual General Meeting for the 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 12 May 2011.

The announcement of the "Announcement of 2010 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 29 June 2011.

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**
24 May 2011	Office address of the Company	Field study	Guosen Securities (HK) Financial Holdings Company Limited	Understand the basic information and the prospect of the Company's development

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 2011. 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 2011.

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 2011, 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 2010 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 2011**		First half of 2010	
	Consolidated	**Parent company**	Consolidated	Parent company
1.Total operating income	**1,522,811,524.54**	**957,937,694.81**	1,368,618,869.54	919,627,165.93
Includes: Operating income	**1,522,811,524.54**	**957,937,694.81**	1,368,618,869.54	919,627,165.93
2.Total operating costs	**1,448,271,735.29**	**928,194,170.01**	1,301,110,155.78	868,429,433.07
Includes: Operating cost	**1,254,708,252.89**	**831,515,794.47**	1,117,047,193.39	740,266,357.99
Taxes and surcharges	**5,697,453.84**	**3,781,025.98**	7,349,609.91	6,390,089.53
Selling expenses	**91,559,028.36**	**12,187,415.31**	89,541,312.71	45,366,864.74
Administrative expenses	**78,262,015.08**	**64,859,815.91**	77,263,090.21	65,903,825.12
Financial expenses	**16,245,648.32**	**15,850,118.34**	9,908,949.56	10,502,295.69
Assets Impairment loss	**1,799,336.80**	**-**	-	-
Add: Gain or loss from changes in fair value	**-**	**-**	-	-
Investment gain or loss	**4,956,897.33**	**4,950,963.06**	3,632,194.93	7,173,643.44
Includes: Investment gain or loss from related ventures and joint ventures	**3,200,963.06**	**3,200,963.06**	2,822,345.26	2,822,345.26
Exchange gain or loss	**-**	**-**	-	-
3. Operating profit	**79,496,686.58**	**34,694,487.86**	71,140,908.69	58,371,376.30
Add: Non-operating income	**778,974.27**	**756,432.66**	5,524,758.33	1,408,050.15
Less: Non-operating cost	**2,757,720.09**	**2,220,925.97**	1,685,159.50	1,591,481.52
Includes: Loss from the disposal of non-current assets	**539,620.93**	**539,620.93**	153,790.74	153,790.74
4. Profit before taxation	**77,517,940.76**	**33,229,994.55**	74,980,507.52	58,187,944.93

Less: Income tax expense	**15,417,765.13**	**4,476,899.96**	14,050,412.21	9,064,482.14
5. Profit after taxation	**62,100,175.63**	**28,753,094.59**	60,930,095.31	49,123,462.79
Includes: Profit attributable to the equity holders of the parent company	**60,702,135.83**	**28,753,094.59**	57,881,893.63	49,123,462.79
Minority interest	**1,398,039.80**	**-**	3,048,201.68	-
6. Earnings per share				
1) Basic earnings per share	**0.13**	**0.06**	0.13	0.11
2) Diluted earnings per share	**0.13**	**0.06**	0.13	0.11
7.Other comprehensive income	**(1,101,638.62)**	**(1,786,428.00)**	(31,444,742.13)	(30,179,101.05)
8. Total comprehensive income	**60,998,537.01**	**26,966,666.59**	29,485,353.18	18,944,361.74
Includes: Total comprehensive income attributable to the equity holders of the parent company	**59,360,820.93**	**26,966,666.59**	26,880,125.88	18,944,361.74
Total comprehensive income attributable to the minority interest	**1,637,716.08**	**-**	2,605,227.30	-

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 2011	2010
		RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue	3	1,509,029	1,352,583
Cost of sales		(1,237,382)	(1,099,135)
Gross profit		271,647	253,448
Investment income		2,732	1,641
Other income		21,548	10,754
Other gains and losses		(5,426)	(820)
Distribution and selling expenses		(99,027)	(97,732)
Administrative expenses		(82,808)	(79,423)
Other expenses		(23,463)	(5,494)

Share of profit of an associate		3,201	2,822
Finance costs		(11,640)	(8,070)
Profit before tax	4	76,764	77,126
Income tax expense	5	(15,305)	(13,904)
Profit for the half-year		61,459	63,222
Profit for the half-year attributable to:			
Owners of the Company		60,061	60,174
Non-controlling interests		1,398	3,048
		61,459	63,222
Earnings per share - basic and diluted	6	RMB0.131	RMB0.132

Condensed consolidated statement of comprehensive income

	Six months ended 30 June	
	2011	2010
	RMB'000 (unaudited)	RMB'000 (unaudited)
Profit for the half-year	61,459	63,222
Other comprehensive income (expenses):		
Exchange differences arising on translation	685	(1,266)
Fair value loss on available-for-sale financial assets	(2,101)	(39,175)
Income tax relating to components of other comprehensive income	314	5,876
Other comprehensive expenses for the half-year, net of tax	(1,102)	(34,565)
Total comprehensive income for the half-year	60,357	28,657
Total comprehensive income attributable to:		
Owners of the Company	58,719	26,051
Non-controlling interests	1,638	2,606
	60,357	28,657

Condensed consolidated statement of financial position

	Notes	30 June 2011	31 December 2010
		RMB'000 (unaudited)	RMB'000 (audited)

Non-current assets

Technical know-how		-	-
Property, plant and equipment		988,177	1,007,323
Construction in progress		222,900	120,261
Prepaid lease payments on land use rights		219,909	222,703
Investment properties		38,771	35,707
Interest in an associate		19,821	16,620
Available-for-sale investments		156,545	158,646
Deferred tax assets		3,350	3,418
Prepayments for acquisition of land use rights		12,952	9,652
		1,662,425	1,574,330
Current assets			
Inventories		370,243	401,543
Trade and other receivables	8	432,030	375,963
Prepaid lease payments on land use rights		5,690	5,741
Amount due from an associate		108	-
Amounts due from fellow subsidiaries		-	37
Tax recoverable		882	1,289
Pledged bank deposits		13,000	35,980
Bank balances and cash		358,374	368,070
		1,180,327	1,188,623
Assets classified as held for sale		12,846	9,646
		1,193,173	1,198,269
Current liabilities			
Trade and other payables	9	429,927	503,914
Amounts due to fellow subsidiaries		5,538	6,087
Amount due to an associate		-	2
Tax payable		6,019	3,061
Borrowings		200,000	200,000
		641,484	713,064
Liabilities associated with assets classified as held for sale		-	1,166
		641,484	714,230
Net current assets		551,689	484,039
Total assets less current liabilities		2,214,114	2,058,369
Capital and reserves			
Share capital		457,313	457,313
Reserves		1,264,762	1,206,043
Proposed final dividend		-	22,866
Equity attributable to owners of the Company		1,722,075	1,686,222
Non-controlling interests		39,648	38,010

Total equity	1,761,723	1,724,232
Non-current liabilities		
Deferred tax liabilities	2,442	2,871
Borrowings	394,949	275,528
Deferred income	55,000	55,738
	452,391	334,137
	2,214,114	2,058,369

NOTES TO THE CONDENSED 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 2010.

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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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 2010, except as described below.

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("Int") ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28
HKFRS 1 (Amendment)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HK(IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments

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)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]

HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2012.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group does enter into any such transactions in the future, disclosures regarding those transfers may be affected.

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

3. Segment information

(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)
Commerce circulations:	Trading of pharmaceutical products (including retail and wholesale)
Chemical and other products:	Production and sales of chemical and other products

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 2011（Unaudited）

	Bulk pharmaceuticals	Preparations	Commerce circulations	Chemical and other products	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE						
External sales	812,608	270,361	358,687	67,373	-	1,509,029
Inter-segment sales	4,272	160,385	43,388	154,751	(362,796)	-
Total	816,880	430,746	402,075	222,124	(362,796)	1,509,029
Segment profit	59,210	22,109	4,129	4,364		89,812
Investment and other income						24,280
Other gains and losses						(5,426)
Other expenses						(23,463)
Finance costs						(11,640)
Share of profit of an associate						3,201
Profit before tax						76,764

For the six months ended 30 June 2010（Unaudited）

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

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, finance costs and share of profit of an associate. 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 2011（Unaudited）

	Bulk pharmaceuticals	Preparations	Commerce circulations	Chemical and other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,204,768	456,206	168,776	422,259	2,252,009
Unallocated corporate assets					603,589
Consolidated assets					2,855,598

At 31 December 2010（Audited）

	Bulk pharmaceuticals	Preparations	Commerce circulations	Chemical and other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,244,040	428,056	128,777	342,350	2,143,223
Unallocated corporate assets					629,376
Consolidated assets					2,772,599

For the purposes of monitoring segment performances and allocating resources among segments: all assets are allocated to reportable segments other than deferred tax assets, interest in an associate, 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 2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Interest on borrowings	11,640	8,070
Amortisation of prepaid lease payments on land use rights	2,845	2,891
Amortisation of technical know-how	-	117
Depreciation for property, plant and equipment	61,544	58,733
Depreciation for investment properties	1,628	1,361
Cost of inventories recognised as an expense	1,237,382	1,099,135
Dividends and interest income	(2,732)	(1,641)
Loss (gain) on disposal of property, plant and equipment	57	(794)

5. Income tax expense

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

	Six months ended 30 June 2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Current income tax – PRC Enterprise Income Tax ("EIT")	15,350	14,050
Deferred income tax	(45)	(146)
Income tax expense	15,305	13,904

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 1 January 2008 to 31 December 2010.

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 RMB60,061,000 (2010: RMB60,174,000) and based on the weighted average of 457,312,830 shares (2010 : 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 2011 and 2010 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 2011 (2010: Nil).

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

	Six months ended 30 June 2011 RMB'000 (unaudited)	Six months ended 30 June 2010 RMB'000 (unaudited)
Final dividend in respect of the financial year ended 31 December 2010, approved during the following interim period, of RMB0.05 per share (year ended 31 December 2009: RMB0.05 per share)	22,866	22,866

8. Trade and other receivables

	30 June 2011 RMB'000 (unaudited)	31 December 2010 RMB'000 (audited)
Trade and bills receivables	379,148	308,235
Less : Allowance for doubtful debts of trade receivables	(1,984)	(1,979)
	377,164	306,256
Other receivables, deposits and prepayments	63,721	78,835
Less : Allowance for doubtful debts of other receivables	(8,855)	(9,128)
	54,866	69,707
Total trade and other receivables	432,030	375,963

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 2011 RMB'000 (unaudited)	31 December 2010 RMB'000 (audited)

Within one year	376,274	303,310
More than one year but less than two years	744	2,601
More than two years but less than three years	146	319
Over three years	-	26
	377,164	306,256

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 2011 RMB'000 (unaudited)	31 December 2010 RMB'000 (audited)
Within one year	274,957	311,497
More than one year but less than two years	2,630	6,048
More than two years but less than three years	503	3,630
Over three years	5,774	5,738
	283,864	326,913
Other payables and accrued charges	146,063	177,001
	429,927	503,914

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	
	2011 RMB'000 (unaudited)	2010 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	5,379	6,486
- Purchase of raw materials	25,137	28,449
- Design fee income	110	-
Associates		
- Purchase of raw materials	-	4,824

	Six months ended 30 June 2011	2010
Non-controlling interest shareholders:		
- Sale of bulk pharmaceuticals and chemical raw materials	73,797	67,694
- Purchase of raw materials	309	-

Note:

On 7 December 1996, the Group was granted the exclusive right to use the trademark "Xinhua" ("Trademark") by SXPGC for its existing and future products in and outside the PRC at an initial annual fee of RMB600,000 increasing at the rate of an extra RMB100,000 per year until the annual fee reaches the cap amount of RMB1,100,000, which shall stay as such until the agreement is terminated. The terms of the agreement shall continue to have effect during the validity period of the Trademark, being 28 February 2013, subject to further renewal of the registration of the Trademark. During the six months ended 30 June 2011, the annual fee paid by the Group was RMB1,100,000 (2010 : RMB1,100,000).

(b) As at 30 June 2011, Hualu Holdings Company Limited provide guarantee to the Group amounted to RMB230,000,000 (2010: RMB230,000,000).

(c) Compensation of key management personnel

	Six months ended 30 June 2011	2010
	RMB'000 (unaudited)	RMB'000 (unaudited)
Short-term benefits	898	937
Post-employment benefits	120	117
	1,018	1,054

X. DOCUMENTS FOR INSPECTION AND PLACE FOR INSPECTION

(1) DOCUMENTS FOR INSPECTION

1. The original copy of the Company's 2011 interim report signed by the Chairman of the Board.

2. Financial statements for the six months ended 30 June 2011 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
Zhang Daiming

Chairman

22 July 2011, Zibo, PRC

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

Executive Directors:
Mr. Zhang Daiming (Chairman)
Mr. Ren Fulong
Mr. Du Deping
Mr. Zhao Songguo

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

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