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）

2012 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 2012 (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 2012 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: Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, the People's Republic of China (the "PRC")

Office Address: No. 1 Lutai Ave., Hi-tech Industry Development Zone, Zibo City, Shandong Province, the PRC

Postal Code: 255086

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

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 2012 (Unaudited)**	As at 31 December 2011 (the "**End of Last Year**") (Audited)	**Change as compared to the End of Last Year (%)**
Total assets	**3,398,464,127.00**	3,004,190,190.68	13.12
Total equity attributable to equity holders of Company	**1,740,887,172.03**	1,709,932,330.07	1.81
Capital	**457,312,830.00**	457,312,830.00	-
Net assets per share attributable to equity holders of Company	**3.81**	3.74	1.87
Asset-liability ratio (%)	**47.55**	41.76	Increase 5.79 points
	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (the "**Same Period Last Year**") (Unaudited)	**Change as compared to the Same Period Last Year (%)**
Total operating income	1, 537, 930, 023. 23	1, 522, 811, 524. 54	0. 99
Operating profit	25, 524, 759. 04	79, 496, 686. 58	(67. 89)
Profit before taxation	40, 002, 473. 65	77, 517, 940. 76	(48. 40)
Profit attributable to the equity holders of Company	31, 195, 182. 82	60, 702, 135. 83	(48. 61)
Profit attributable to the equity	18, 012, 640. 74	60, 845, 003. 76	(70. 40)

holders of Company after extraordinary items (Note)			
Basic earnings per share	0.07	0.13	(46.50)
Diluted earnings per share	0.07	0.13	(46.15)
Return on equity of weighted average (%)	1.81	3.56	Decrease 1.75 points
Return on equity of weighted average after extraordinary loss (%)	1.04	3.56	Decrease 2.52 points
Net cash flow from operating activities	(42,186,834.32)	27,512,297.58	(253.34)
Net cash flow from operating activities per share	(0.09)	0.06	(250.00)

Note:

Extraordinary items include:

Item	**Amount (RMB)**	**Notes (if applicable)**
Profit or loss from disposal of non-current assets	(6,299,924.27)	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)	22,103,692.89	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	2,571,920.00	Dividends from available-for-sale financial assets
Other non-operating income or cost except the above items	(1,326,054.01)	–
Non-controlling interests	(1,363.19)	–
Income tax expense	(3,865,729.34)	–
Total	13,182,542.08	–

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

Consolidated Income Statement

Item	**Six months ended 30 June 2012 (Unaudited)**	Six months ended 30 June 2011 (Unaudited)

Revenue	1, 525, 008	1, 509, 029
Profit before tax	39, 087	76, 764
Income tax expense	(6, 831)	(15, 305)
Profit for the period	32, 256	61, 459
Includes: Profit attributable to owners of the Company	30, 416	60, 061
Non-controlling interests	1, 840	1, 398

Consolidated Statement of Financial Position

Item	**As at 30 June 2012 （Unaudited）**	As at 31 December 2011 （Audited）
Total assets	3, 406, 428	3, 017, 412
Total liabilities	(1, 616, 786)	(1, 259, 624)
Non-controlling interests	(41, 486)	(39, 807)
Equity attributable to owners of the Company	1, 748, 156	1, 717, 981

(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 2012**	As at 1 January 2012
Prepared under PRC accounting standards	31, 195, 182. 82	60, 702, 135. 83	1, 740, 887, 172. 03	1, 709, 932, 330. 07
HKGAAP adjustments:				
Provision for education fund	(916, 000. 00)	(753, 000. 00)	8, 554, 000. 00	9, 469, 000. 00
Deferred taxation	136, 817. 18	111, 864. 17	(1, 285, 172. 03)	(1, 420, 330. 07)
Total of the difference between the PRC accounting standards and HKGAAP	(779, 182. 82)	(641, 135. 83)	7, 268, 827. 97	8, 048, 669. 93
Prepared under HKGAAP	30, 416, 000. 00	60, 061, 000. 00	1, 748, 156, 000. 00	1, 717, 981, 000. 00

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 2012 provision made for the balance of education fees under the PRC accounting standards was RMB8,554,000 with an amount in education fees of RMB916,000 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 RMB1,285,172.03 and that in deferred income tax of the current period of RMB136,817.18.

III. CHANGES IN SHARE CAPITAL STRUCTURE AND INFORMATION ON SHAREHOLDERS

1. Share Capital structure

	30 Jun 2012		1 Jan 2012	
Class of shares	**Number of shares (share)**	**% of the total share capital**	**Number of shares (share)**	**% of the total share capital**
1. Total number of conditional tradable shares	961	0	5,331	0
Stated-owned shares	0	0	0	0
Domestic legal person shares	0	0	0	0
Conditional tradable senior management A shares	961	0	5,331	0
Others	0	0	0	0
2. Total number of unconditional tradable shares	457,311,869	100.00	457,307,499	100.00
Renminbi ordinary shares (A shares)	307,311,869	67.20	307,307,499	67.20
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

2. As at 30 June 2012, the Company had on record a total of 39,195 shareholders, including 55 holders of H Shares and 39,140 holders of A Shares.

3. As at 30 June 2012, the ten largest shareholders of the Company were as follows:

Unit: share

Name 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	166,115,720	36.32	0	0
HKSCC (Nominees) Limited	Listed H shares	147,963,998	32.36	0	0
Qingdao Haowei Investment Development Company Limited	Domestic general legal person shares	11,536,143	2.52	0	0
Wang Cuiping	Domestic person	751,400	0.16	0	0
Zeng Xiuling	Domestic person	650,815	0.14	0	0

Zhang Linlin	Domestic person	639,000	0.14	0	0
Liu Shida	Domestic person	591,800	0.13	0	0
Zheng Huidan	Domestic person	499,990	0.11	0	0
China Construction Bank-Morgan Stanley Huaxin multiple factor selection strategy stock type investment securities fund	Fund、A shares	471,768	0.10	0	0
WANG ZHIHAI	Listed H shares	456,000	0.10	0	0

4. As at 30 June 2012, 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	166,115,720	A Shares
HKSCC (Nominees) Limited	147,963,998	H Shares
Qingdao Haowei Investment Development Company Limited	11,536,143	A Shares
Wang Cuiping	751,400	A Shares
Zeng Xiuling	650,815	A Shares
Zhang Linlin	639,000	A Shares
Liu Shida	591,800	A Shares
Zheng Huidan	499,990	A Shares
China Construction Bank-Morgan Stanley Huaxin multiple factor selection strategy stock type investment securities fund	471,768	A Shares
WANG ZHIHAI	456,000	H 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 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".

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 2012, 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 2012**	**Change in number of Shares**	**Number of Shares (share) as at 30 June 2012**
Directors:				
Mr. Zhang Daiming	Chairman	Nil	Nil	**Nil**
Mr. Ren Fulong	Non-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. Bai Huiliang	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. Zhang Yueshun	Independent Supervisor	Nil	Nil	**Nil**
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil	**Nil**
Ms. Hu Yanhua	Employee 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		1,281	Nil	**1,281**

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 2012, 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 2012.

For the six months ended 30 June 2012, pursuant to the PRC accounting standards, the operating income of the Group was RMB1,537,930,000 and net profit attributable to equity holders of the Company was RMB31,195,000, representing an increase of 0.99% and a decrease of 48.61% respectively, as compared to that of the Same Period Last Year.

The Group had a turnover of RMB1,525,008,000 and the profit attributable to owners of the Company of RMB30,416,000 for the six months ended 30 June 2012 under HKGAAP, representing an increase of 1.06% and a decrease of 49.36% 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 2012.

BUSINESS REVIEW

In the first half of 2012, the Group took proactive measures against a series of adverse factors such as weak demand in the pharmaceutical market, increased pressure on the tender system for essential drugs and on environmental protection and the implementation of the new version of GMP. By further carrying out the "Year of Fundamental Management" event, seizing market opportunities, focusing on technological innovation and placing emphasis on energy saving and consumption reduction as well as project construction, with details set out as follows:

1. Seized opportunities and increased efforts to explore markets

During the first half of 2012, by fully leveraging on its comprehensive competitive edges, the Company continued to consolidate its key markets and key customers, and increased its efforts in exploring international emerging markets and developing new domestic pharmaceuticals clients, the Company experienced encouraging growth in sales of strategic products. Upon passing the on-site audit of the Medicines and Healthcare Products Regulatory Agency ("**MHRA**") of the United Kingdom in last year, the amount of preparation products exported to the European Union grew substantially.

We insisted on increasing efforts in the building of the terminal marketing teams for hospitals and in market development, while aggressively developed markets for new products and strove to cultivate major products, leading to a significant rise of the sales of new key products such as rabeprazole, glimepiride and aspirin enteric-coated sustained release tablets.

2. Aggressively promoted innovation and accelerated R&D

During the first half of the year, the Company continued to accelerate its strategic deployment of new products and construction of R&D platforms, turning 8 projects into full production and completing mid-scale trial production of 7 pharmaceuticals. Meanwhile, the Company concluded agreements of intent for cooperation with a number of domestic and foreign research institutions and universities.

During the first half of the year, the Company was granted three invention patents and one new utility model patent.

3. Focused on deployment and steadily advanced construction of parks and projects

During the first half of 2012, the phase-1 relocation project for the Hutian Park proceeded smoothly, the commissioning of the salicylic acid and aspirin projects achieved a success with stable technical parameters and remarkable increase in single-pass conversion rate. With the application of new process, new equipment and new materials in the construction of parks a foundation will be established for effective reduction of raw material consumption. The project for construction of the modern chemical pharmaceuticals industrialization center went smoothly; and other projects for product technological renovation proceeded in an orderly way.

During the first half of 2012, Xinhua Pharmaceutical (Gaomi) Co., Ltd. (新華制藥（高密）有限公司) completed the registration of changes, filling the gap of the Company in the area of powder injections.

4. Strengthened quality control to boost corporate comprehensive competitiveness

In the first half of 2012, the Company successfully passed the audit on quality by 53 clients including GSK, Merck and Roche. It also successfully passed the on-site audit on caffeine food additives by the Shandong Bureau of Quality and Technical Supervision, the on-site audit on the production of amlodipine besylate by Shandong Bureau of Food and Drug Administration and the review of the food safety system certification (FSSC) for the food supply chain of caffeine products by SGS of Switzerland.

The Company has formulated the internal control inspection standards about hollow capsules according to the CP2010 version of Pharmaceutical Codex, and has maintained strict compliance of such standards. As such, pharmaceuticals produced by us are in line with the national quality standards. Our products succeeded in withstanding the test of the “poison capsule” incident and were widely praised by different sectors of the society.

We strengthened the control of the production process, and the passing rate of market surveillance checks was 100%.

5. Upgraded technology to focus on energy saving and consumption reduction

We stuck to the “one strategy for one product” approach to make breakthroughs in product technology and saved raw materials of RMB5,430,000 in the first half of 2012.

By actively promoting the application of new energy saving technologies such as MVR, the

Company worked intently on energy conservation and consumption reduction, and recorded 4.26% drop in energy consumption per RMB10,000 production value during the first half of 2012, saving energy amounting to approximately RMB3,880,000.

MAJOR WORKS FOR THE SECOND HALF OF THE YEAR 2012

In the second half of 2012, the Group is still facing the adverse impact of many unfavourable factors, but the two interest cuts in June has eased some pressure on capital. The meticulously planned marketing campaign for the new products of preparations has laid a good foundation for its future sales. The construction of parks has enabled the application of new technologies and equipment to project construction as well as the overall improvement in economic indicators of product technologies and production capacity. The low market price of chemicals is helpful for the reduction in procurement cost. Considering these factors, the Group will focus on the following in the second half of 2012:

1. Ramp up efforts for market expansion and product sales. The Company will take advantage of its comprehensive competitive edges in leading pharmaceuticals, adopt effective sales strategies to increase sales of products; promote the market development for special pharmaceuticals and new products to cultivate new growth points; and focus on the sales of the new products of preparations to enhance profitability.

2. Increase efforts in scientific research and quicken application of scientific research results. The Company will put more resources in R&D to expedite the R&D of new products. We will ensure that 8 projects are turned into full production in the multi-function industrialization center and that one-site audit and production registration are completed for 13 projects. We will strive to complete mid-scale trial production of 20 projects.

3. Further carrying out of the “Year of Fundamental Management” event to enhance the Company’s competitiveness. The Company will continue to carry out technical quality breakthroughs based on the “one strategy for one product” approach, and commit to lower production costs, control expenditure, boost product quality and increase the acceptance rate. We will seek to improve risk control, execution power and enhance the quality of economic functioning, especially striving for the turnaround of our subsidiaries.

4. Accelerate restructuring and cultivate new economic growth points. We will construct parks at high standards, pay attention to industry correlation, steadily press ahead with acquisition and merger of companies, speed up restructuring; vigorously push forward with project construction and relocation, and make good preparation for the certification of the relocation project.

5. Implement international strategies and improve the Company’s development level. We will seek to pass the on-site MHRA reexamination, and continually seek exports expansion, in particular exports of preparations. We will aggressively develop strategic collaborative relations with more international enterprises, expedite overseas product registration and accelerate the building of a R&D platform for international cooperation.

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 2012, the liquidity ratio of the Group was 106.96%, the quick ratio was 71.59%, the turnover ratio of account receivables was 410.15% (turnover ratio of account receivables = turnover / average account receivables and net value of bills x 100%) and the turnover ratio of inventory was 285.05% (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 and funds provided by the medium term note issued by Hualu Holdings Group Limited, the parent company's controlling shareholder. As at 30 June 2012, the total amount of bank loans was RMB480,098,000, which was floating rate loans and was accounted by HIBOR and rates issued by the People's Bank of China, and the total amount of medium term note was RMB500,000,000. As at 30 June 2012, cash on hand and in bank amounted to RMB394,346,000 (including bank acceptance drafts deposits of RMB22,281,000).

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 68,844,000. 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.

During the Reporting period, the Group invested RMB22,000,000 to purchase all the equity of Shandong Tianda Biology Pharmaceutical Company Limited ("Tianda Biological"). As at the time of acquisition, Tianda Biological's registered capital was RMB6,000,000. Its name was changed to Xinhua Pharmaceutical (Gaomi) Company Limited ("Xinhua Gaomi") in April 2012 after the completion of the acquisition. The Company increased its capital in Xinhua Gaomi by RMB13,000,000 in May 2012 and Xinhua Gaomi's registered capital was changed to RMB19,000,000.

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 2012, the number of employees of the Group was 6,033. The total salaries for employees in the first half of 2012 amounted to RMB120,028,000.

The main investment projects in the second half of 2012 will be Hutian Park project and Shouguang Park project.

As at 30 June 2012, the capital debt ratio of the Group was 56.06% (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 USD94,361,000 in its export for the first half of 2012. 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 2012, the Group had achieved a turnover of RMB1,537,930,000, representing an increase of 0.99% as compared to the Same Period Last Year. The increase in revenue was mainly attributable to the slight increase in sales and prices of products. The increase in net cash and cash equivalents was RMB101,099,000, while there was a decrease of RMB9,696,000 in the Same Period Last Year. The main reason for the change was due to the increase in net cash flow of RMB204,870,000 from financing activities as compared to the Same Period Last Year. Operating profit amounted to RMB25,525,000, representing a decrease of 67.89% as compared to the Same Period Last Year. The main reason for the decrease was that the costs recorded a larger increase as compared to the Same Period Last Year.

Total assets of the Group as at 30 June 2012 amounted to RMB3,398,464,000, representing an increase of RMB394,274,000 or 13.12% as compared to the figure of RMB3,004,190,000 as at the beginning of this year. The increase was mainly due to a newly addition of RMB500,000,000 medium term note from Hualu Holdings Group Company Limited during the Reporting Period. The Group's bank loans as at 30 June 2012 was RMB480,098,000, representing a decrease of RMB208,370,000 from RMB688,468,000 at the beginning of this year. Such decrease was mainly attributable to a newly addition of RMB500,000,000 medium term note from Hualu Holdings Group Company Limited during the Reporting Period. As such, we have sufficient capital. Total equity attributable to equity holders of the Company as at 30 June 2012 increased by RMB30,955,000 or 1.81%, from RMB1,709,932,000 at the beginning of this year to RMB1,740,887,000. This increase was mainly attributable to an increase of RMB31,195,000 from the operating profit of the Group during the Reporting Period.

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

By geographical location of customers	**First half of 2012**		First half of 2011	
	Total turnover	**Costs**	Total turnover	Costs
PRC (incl. Hong Kong)	911,697	733,860	927,985	732,016
Europe	249,443	220,276	224,577	184,257
Americas	256,616	199,318	267,315	244,426
Others	98,985	86,118	81,684	70,984
Total	1,516,741	1,239,572	1,501,561	1,231,683

By industry and By product	**Income from principal operations**	**Costs of sales of principal operations**	**Gross profit margin(%)**
Bulk pharmaceutical	744,897	603,001	19.05
Preparations	290,644	161,785	44.34
Commercial circulations	385,869	372,171	3.55
Chemical products and other products	95,331	102,615	(7.64)
Total	1,516,741	1,239,572	18.27

An analysis of profit as compared to 2011 is as follows:

Items	**Amount (RMB'000)**		**% of total profit**	
	Jan.-Jun. 2012	2011	**Jan.-Jun. 2012**	2011

Operating profit	25,524	71,928	63.81	77.17
Profit/Loss from non-operation activities	14,478	21,284	36.19	22.83
Profit before taxation	40,002	93,212	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 2012, RMB347,238,000 were used in the following projects:

Name of project	Planned investment RMB'000	Actual investment Jan.-Jun. 2012 RMB'000	Accumulated amount of investment RMB'000	% of the investment	Remarks
State-level technical center renovation	74,500	4,149	37,305	50.07%	-
Injection GMP renovation	80,000	-	80,226	100.28%	completed
Caffeine technical renovation	160,000	-	188,201	117.63%	completed
L-350 technical renovation	29,980	-	23,442	78.19%	completed
Analgin GMP renovation	39,800	-	46,265	116.24%	completed
Total	384,280	4,149	375,439	-	-

(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 half year ended 30 June 2012.

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, save and except the guarantee of bank accepted bills of exchange of RMB14,000,000 provided by the Company in favour of Xinhua Pharmaceutical (Shouguang) Company Limited, its wholly-owned subsidiary, no other material guarantee has been 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 in favour of any controlling shareholders, non-legal entities or individuals which were prejudicial to the interests of the Company and its shareholders, in particular the minority shareholders of the Company. As at 30 June 2012, 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 equity in 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%	37,315,168.00	1,750,000.00	493,152.00	Available-for-sale financial assets	Purchase
601328	BANKCOMM	14,225,318.00	0.02%	110,900,000.00	821,920.00	14,850,000.00	Available-for-sale financial assets	Purchase
Total		21,225,318.00	-	148,215,168.00	2,571,920.00	15,343,152.00		-

11. Index of important information which has been disclosed

The announcement of the "2011 Annual Results Announcement" was published on the HKExnews, in the Securities Times C21 in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on 26 March 2012.

The announcement of the "The First Quarter Report of 2012" was published on the HKExnews, in the Securities Times D38 in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on 26 April 2012.

The announcement of the "The Notice of Annual General Meeting for the 2011" was published on the HKExnews, in the Securities Times D27 in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on 10 May 2012.

The announcement of the "Announcement of 2011 Annual General Meeting Resolutions" was published on the HKExnews, in the Securities Times D18 in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on 27 June 2012.

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

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 2012. 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 2012.

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 2012, 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 2011 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 2012		First half of 2011	
	Consolidated	**Parent company**	Consolidated	Parent company
1.Total operating income	**1,537,930,023.23**	**908,225,960.78**	1,522,811,524.54	957,937,694.81
Includes: Operating income	**1,537,930,023.23**	**908,225,960.78**	1,522,811,524.54	957,937,694.81
2.Total operating costs	**1,516,606,553.73**	**873,375,989.93**	1,448,271,735.29	928,194,170.01
Includes: Operating cost	**1,264,175,647.52**	**752,763,409.61**	1,254,708,252.89	831,515,794.47
Taxes and surcharges	**8,253,025.71**	**5,078,863.76**	5,697,453.84	3,781,025.98
Selling expenses	**117,149,652.76**	**10,309,344.33**	91,559,028.36	12,187,415.31
Administrative expenses	**99,584,460.23**	**77,135,903.56**	78,262,015.08	64,859,815.91
Financial expenses	**27,443,767.51**	**28,088,468.67**	16,245,648.32	15,850,118.34
Assets Impairment loss	-	-	1,799,336.80	-
Add: Gain or loss from changes in fair value	-	-	-	-
Investment gain or loss	**4,201,289.54**	**4,187,410.09**	4,956,897.33	4,950,963.06
Includes: Investment gain or loss from related ventures and joint ventures	**1,615,490.09**	**1,615,490.09**	3,200,963.06	3,200,963.06
Exchange gain or loss	-	-	-	-
3. Operating profit	**25,524,759.04**	**39,037,380.94**	79,496,686.58	34,694,487.86
Add: Non-operating income	**24,632,607.10**	**10,172,180.36**	778,974.27	756,432.66
Less: Non-operating cost	**10,154,892.49**	**8,777,307.26**	2,757,720.09	2,220,925.97
Includes: Loss from the disposal of non-current assets	**6,559,471.22**	**6,559,471.22**	539,620.93	539,620.93
4. Profit before taxation	**40,002,473.65**	**40,432,254.04**	77,517,940.76	33,229,994.55

Less: Income tax expense	**6,967,721.57**	**5,523,789.22**	15,417,765.13	4,476,899.96
5. Profit after taxation	**33,034,752.08**	**34,908,464.82**	62,100,175.63	28,753,094.59
Includes: Net Profit attributable to the equity holders of the parent company	**31,195,182.82**	**34,908,464.82**	60,702,135.83	28,753,094.59
Minority interest	**1,839,569.26**	**-**	1,398,039.80	-
6. Earnings per share				
1) Basic earnings per share	**0.07**	**0.08**	0.13	0.06
2) Diluted earnings per share	**0.07**	**0.08**	0.13	0.06
7.Other comprehensive income	**13,318,667.82**	**13,776,885.60**	(1,101,638.62)	(1,786,428.00)
8. Total comprehensive income	**46,353,419.90**	**48,685,350.42**	60,998,537.01	26,966,666.59
Includes: Total comprehensive income attributable to the equity holders of the parent company	**44,674,226.86**	**48,685,350.42**	59,360,820.93	26,966,666.59
Total comprehensive income attributable to the minority interest	**1,679,193.04**	**-**	1,637,716.08	-

NOTES:

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

2. During the Reporting Period, Xinhua Gaomi was added into the scope of consolidated financial statements of the Company.

2. FINANCIAL STATEMENTS PREPARED UNDER HKGAAP

Condensed consolidated income statement

	Notes	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Revenue	3	1,525,008	1,509,029
Cost of sales		(1,247,825)	(1,237,382)
Gross profit		277,183	271,647
Investment income		4,057	2,732
Other income		46,607	21,548
Distribution and selling expenses		(125,417)	(99,027)
Administrative expenses		(103,989)	(82,808)
Other expenses		(32,823)	(28,889)

	Notes		
Share of profit of an associate		1,615	3,201
Finance costs		(28,146)	(11,640)
Profit before tax	4	39,087	76,764
Income tax expense	5	(6,831)	(15,305)
Profit for the period		32,256	61,459
Profit for the period attributable to:			
Owners of the Company		30,416	60,061
Non-controlling interests		1,840	1,398
		32,256	61,459
Earnings per share - basic and diluted	6	RMB0.067	RMB0.131

Condensed consolidated statement of comprehensive income

	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Profit for the period	32,256	61,459
Other comprehensive income (expenses):		
Exchange differences arising on translation	(460)	685
Fair value gain (loss) on available-for-sale financial assets	15,343	(2,101)
Income tax relating to components of other comprehensive income	(1,566)	314
Other comprehensive income (expenses) for the period, net of tax	13,317	(1,102)
Total comprehensive income for the period	45,573	60,357
Total comprehensive income attributable to:		
Owners of the Company	43,894	58,719
Non-controlling interests	1,679	1,638
	45,573	60,357

Condensed consolidated statement of financial position

	Notes	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Non-current assets			

Technical know-how		16,126	-
Property, plant and equipment		1,103,033	1,065,521
Construction in progress		488,893	363,330
Prepaid lease payments on land use rights		220,605	217,022
Investment properties		35,513	37,142
Interest in an associate		24,926	21,761
Available-for-sale investments		151,415	136,072
Deferred tax assets		17,238	16,588
Prepayments for acquisition of land use rights		22,028	31,787
		2,079,777	1,889,223
Current assets			
Inventories		445,934	423,789
Trade and other receivables	8	471,900	389,356
Prepaid lease payments on land use rights		5,960	5,711
Amount due from an associate		63	-
Amounts due from fellow subsidiaries		7,445	6,600
Tax recoverable		1,003	3,504
Pledged bank deposits		25,281	31,263
Bank balances and cash		369,065	267,966
		1,326,651	1,128,189
Current liabilities			
Trade and other payables	9	550,591	485,119
Dividend payable		19,030	15,111
Amounts due to fellow subsidiaries		1,331	2,835
Amount due to an associate		-	61
Tax payable		-	608
Borrowings		190,000	475,147
		760,952	978,881
Net current assets		565,699	149,308
Total assets less current liabilities		2,645,476	2,038,531
Capital and reserves			
Share capital		457,313	457,313
Reserves		1,290,843	1,246,949
Proposed final dividend		-	13,719
Equity attributable to owners of the Company		1,748,156	1,717,981
Non-controlling interests		41,486	39,807
Total equity		1,789,642	1,757,788
Non-current liabilities			
Deferred tax liabilities		6,999	5,570
Borrowings		290,098	213,321
Loan from ultimate holding company		500,000	-

Deferred income	58,737	61,852
	855,834	280,743
	2,645,476	2,038,531

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION 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 2011.

2. Principal accounting policies

The condensed consolidated 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 2011, except as described below.

In the current interim period, the Group has applied the following amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA.

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[2]
Amendments to HKFRS 1	Government Loans[2]
Amendments to HKFRS 7	Disclosure – offsetting Financial Assets and Financial Liabilities[2]
	Mandatory effective date of HKFRS 9 and Transition Disclosures[4]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in other Entities:

Transition Guidance[2]

HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC) – INT 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 January 2015.

The five new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of the five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements; (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

The amendments to HKAS 1 have been issued to improve the presentation of other comprehensive income. The amendments require entities to group together the items of other comprehensive income that may be reclassified to profit or loss in the future by presenting them separately from those that would never be reclassified to profit or loss.

Other than disclosed above, the directors of the Company anticipate that the application of the new or revised standards and interpretations will have no material impact on the result 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 2012（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	750,812	291,004	387,861	95,331	-	1,525,008
Inter-segment sales	3,758	182,753	1,301	128,972	(316,784)	-
Total	754,570	473,757	389,162	224,303	(316,784)	1,525,008
Segment profit	64,592	4,495	(147)	(21,163)		47,777
Investment and other income						50,664
Other expenses						(32,823)
Finance costs						(28,146)
Share of profits of an associate						1,615
Profit before tax						39,087

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 expenses						(28,889)
Finance costs						(11,640)
Share of profits of an associate						3,201
Profit before tax						76,764

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 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 2012（Unaudited）

	Bulk pharmaceuticals	Preparations	Commerce circulations	Chemical and other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,471,355	527,794	176,026	606,812	2,781,987
Unallocated corporate assets					624,441
Consolidated assets					3,406,428

At 31 December 2011（Audited）

	Bulk pharmaceuticals	Preparations	Commerce circulations	Chemical and other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,300,312	483,372	182,817	536,615	2,503,116
Unallocated corporate assets					514,296
Consolidated assets					3,017,412

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, 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 2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Amortisation of prepaid lease payments on land use rights	2,645	2,845
Amortisation of technical know-how	820	-
Depreciation for property, plant and equipment	82,634	61,544
Depreciation for investment properties	1,629	1,628
Cost of inventories recognised as an expense	1,247,825	1,237,382
Bargain purchase gain in acquisition of a subsidiary	(2,094)	-
Dividends and interest income	(4,057)	(2,732)
Loss on disposal of property, plant and equipment	6,300	57

5. Income tax expense

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

	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Current income tax – PRC Enterprise Income Tax (**"EIT"**)	6,968	15,350
Deferred income tax	(137)	(45)
Income tax expense	6,831	15,305

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% for both periods.

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 period of three years commencing from 1 January 2011 to 31 December 2013.

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. During the six months ended 30 June 2012, only one subsidiary operating in the PRC is 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 RMB30,416,000 (2011: RMB60,061,000) and based on the weighted average of 457,312,830 shares (2011: 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 2012 and 2011 are the same as there were no dilutive events existed during both periods.

7. Dividends

(a) The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

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

	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)

Final dividend in respect of the financial year ended 31 December 2011, approved during the following interim period, of RMB0.03 per share (year ended 31 December 2010: RMB0.05 per share)	13,719	22,866

8. Trade and other receivables

	30 June 2012	31 December 2011
	RMB'000 (unaudited)	RMB'000 (audited)
Trade and bills receivables	456,706	393,531
Less : Allowance for doubtful debts of trade receivables	(53,267)	(53,328)
	403,439	340,203
Other receivables, deposits and prepayments	77,705	58,397
Less : Allowance for doubtful debts of other receivables	(9,244)	(9,244)
	68,461	49,153
Total trade and other receivables	471,900	389,356

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 2012	31 December 2011
	RMB'000 (unaudited)	RMB'000 (audited)
Within one year	394,796	335,408
More than one year but less than two years	7,372	3,212
More than two years but less than three years	1,210	1,583
Over three years	61	-
	403,439	340,203

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 180 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 2012	31 December 2011
	RMB'000 (unaudited)	RMB'000 (audited)

Within one year	406,956	346,815
More than one year but less than two years	1,801	3,986
More than two years but less than three years	487	601
Over three years	3,865	3,809
	413,109	355,211
Other payables and accrued charges	137,482	129,908
	550,591	485,119

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	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
SXPGC		
- Payment of annual trademark license fee (Note)	3,750	1,100
- Rental expense	500	500
- Acquisition of land use rights	8,399	-
Fellow subsidiaries :		
- Sale of water, electricity, steam and waste materials	6,308	5,379
- Sale of bulk pharmaceuticals and chemical raw Materials	31,963	-
- Purchase of raw materials	29,823	25,137
- Design fee income	6	110
Associates		
- Sale of water, electricity and steam	271	-
- Purchase of raw materials	410	-
Non-controlling interest shareholders:		
- Sale of bulk pharmaceuticals and chemical raw materials	73,205	73,797
- Purchase of raw materials	-	309

Note:

Pursuant to a trademark license agreement dated 7 December 1996 ("**Agreement**"), 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 until 28 February 2013, subject to further renewal of the registration of the Trademark. On 23 March 2012, in order to amend and supplement the Agreement, the Company and SXPGC entered into a supplemental trademark license agreement, pursuant to which the Group was required to pay SXPGC an annual fee of RMB10,000,000 from 1 April 2012 to 31 December 2014. Other terms of the Agreement remain unchanged. During the six months ended 30 June 2012, the annual fee paid by the Group was RMB3,750,000 (2011 : RMB1,100,000).

(b) As at 30 June 2012, Hualu Holdings Company Limited provide guarantee to the Group amounted to RMB230,000,000 (2011: RMB230,000,000).

(c) Compensation of key management personnel

	Six months ended 30 June	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Short-term benefits	916	898
Post-employment benefits	126	120
	1,042	1,018

X. DOCUMENTS FOR INSPECTION AND PLACE FOR INSPECTION

(1) DOCUMENTS FOR INSPECTION

1. The original copy of the Company's 2012 Interim Report signed by the Chairman of the Board.

2. Financial statements for the six months ended 30 June 2012 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

23 August 2012, Zibo, PRC

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

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

Independent Non-executive Directors:
Mr. Zhu Baoquan
Mr. Bai Huiliang
Mr. Kwong Chi Kit, Victor

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