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）

2014 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 six months ended 30 June 2014 (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 2014 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 (Renminbi ("RMB"))

Item	**As at 30 June 2014 (Unaudited)**	As at 31 December 2013 (the "**End of Last Year**") (Audited)	**Change as compared to the End of Last Year (%)**
Total assets	3,931,313,448.52	3,849,353,234.20	2.13
Total equity attributable to equity holders of Company	1,787,461,693.61	1,759,529,934.58	1.59
Capital	457,312,830.00	457,312,830.00	–
Net assets per share attributable to equity holders of Company	3.91	3.85	1.56
Asset-liability ratio (%)	53.52	53.32	Increase 0.2 points
	Six months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2013 (the "**Same Period Last Year**") (Unaudited)	**Change as compared to the Same Period Last Year (%)**
Total operating income	1,736,816,836.23	1,617,134,270.43	7.40
Operating profit	23,569,652.27	(13,046,260.32)	280.66
Profit before taxation	52,744,363.41	9,280,671.77	468.32
Profit attributable to the equity holders of Company	39,986,470.06	4,987,774.39	701.69
Profit attributable to the equity holders of Company after extraordinary items (Note)	13,068,682.63	(16,444,797.62)	179.47
Basic earnings per share	0.09	0.01	800.00
Diluted earnings per share	0.09	0.01	800.00
Basic earnings per share after extraordinary loss	0.03	(0.04)	175.00
Return on equity of weighted average (%)	2.25	0.29	Increase 1.96 points
Fully diluted return on equity (%)	2.24	0.29	Increase 1.95 points
Return on equity of weighted average after extraordinary loss (%)	0.74	(0.95)	Increase 1.69 points
Fully diluted return on equity after extraordinary loss (%)	0.73	(0.97)	Increase 1.70 points
Net cash flow from operating activities	119,711,584.97	5,378,264.18	2,125.84
Net cash flow from operating activities per share	0.26	0.01	2,500.00

Note:

Extraordinary items include:

Item	**Amount (RMB)**	**Notes (if applicable)**
Profit or loss from disposal of non-current assets	(446, 948. 98)	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)	33, 214, 639. 11	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, 280, 000. 00	Disposal profit from available-for-sale financial assets
Other non-operating income or cost except the above items	(3, 592, 978. 99)	–
Non-controlling interests	(1, 240. 79)	–
Income tax expense	(4, 535, 682. 92)	–
Total	26, 917, 787. 43	–

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

Consolidated Income Statement

Item	**Six months ended 30 June 2014（Unaudited）**	Six months ended 30 June 2013（Unaudited）
Revenue	1, 712, 012	1, 600, 002
Profit before tax	52, 597	8, 719
Income tax expense	(10, 019)	(3, 086)
Profit for the period	42, 578	5, 633
Includes: Profit attributable to owners of the Company	39, 861	4, 510
Non-controlling interests	2, 717	1, 123

Consolidated Statement of Financial Position

Item	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Total assets	3,930,738	3,858,541
Total liabilities	(2,088,518)	(2,055,934)
Non-controlling interests	(39,951)	(37,290)
Equity attributable to owners of the Company	1,802,269	1,765,317

(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 2014	As at 1 January 2014
Prepared under PRC accounting standards	39,986,470.06	4,987,774.39	1,787,461,693.61	1,759,529,934.58
HKGAAP adjustments:				
Provision for education fund	(147,000.00)	(562,000.00)	6,662,000.00	6,809,000.00
Deferred taxation	21,529.94	84,225.61	(1,000,693.61)	(1,021,934.58)
Dividends payable	–	–	9,146,000.00	–
Total of the difference between the PRC accounting standards and HKGAAP	(125,470.06)	(477,774.39)	14,807,306.39	5,787,065.42
Prepared under HKGAAP	39,861,000.00	4,510,000.00	1,802,269,000.00	1,765,317,000.00

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

1. Education fees are set out as per the actual expenses, without the need of provision under HKGAAP. As at 30 June 2014 provision made for the balance of education fees under the PRC accounting standards was RMB6,662,000 with an amount in education fees of RMB147,000.00 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 RMB1,000,693.61 and that in deferred income tax of the current period of RMB21,529.94.

3. Dividends payable are set out as per the actual expenses, without the need of provision under HKGAAP. As at 30 June 2014 provision made for the dividends payable under the PRC accounting standards was RMB9,146,000.

III. CHANGES IN SHARE CAPITAL STRUCTURE AND INFORMATION ON SHAREHOLDERS

1. Share Capital structure

Class of shares	30 Jun 2014 Number of shares (share)	30 Jun 2014 % of the total share capital	1 Jan 2014 Number of shares (share)	1 Jan 2014 % of the total share capital
1. Total number of conditional tradable shares	0	0	961	0
Stated-owned shares	0	0	0	0
Domestic legal person shares	0	0	0	0
Conditional tradable senior management A shares	0	0	961	0
Others	0	0	0	0
2. Total number of unconditional tradable shares	457,312,830	100.00	457,311,869	100.00
Renminbi ordinary shares (A shares)	307,312,830	67.20	307,311,869	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 2014, the Company had on record a total of 35,296 shareholders, including 54 holders of H Shares and 35,242 holders of A Shares.

3. As at 30 June 2014, 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	148, 571, 998	32. 49	0	0
Qingdao Haowei Investment Development Company Limited	Domestic general legal person shares	5, 120, 000	1. 12	0	0
Zhou Jichang	Domestic person	1, 005, 000	0. 22	0	0
China Construction Bank- Bosera Yufu CSI300 Index Fund	Fund	855, 459	0. 19	0	0
Dacheng Value Growth Fund	Fund	848, 200	0. 19	0	0
Liu Shida	Domestic person	654, 200	0. 14	0	0
CITIC Trust- CITIC, robust hierarchical collection of securities investment trust plan 1309C	Trust	520, 000	0. 11	0	0
Meng Jie	Domestic person	496, 700	0. 11	0	0
Taikang Life-Dividend-Personal dividend-019L-FH002	Insurance	495, 719	0. 11	0	0

4. As at 30 June 2014, 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	148, 571, 998	H Shares
Qingdao Haowei Investment Development Company Limited	5, 120, 000	A Shares
Zhou Jichang	1, 005, 000	A Shares
China Construction Bank- Bosera Yufu CSI300 Index Fund	855, 459	A Shares
Dacheng Value Growth Fund	848, 200	A Shares
Liu Shida	654, 200	A Shares
CITIC Trust- CITIC, robust hierarchical collection of securities investment trust plan 1309C	520, 000	A Shares
Meng Jie	496, 700	A Shares
Taikang Life-Dividend-Personal dividend-019L-FH002	495, 719	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" ("**CSRC Rules**") 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 defined in the CSRC Rules.

The Directors do not know whether there is any association amongst the ten largest shareholders of unconditional tradable shares of the Company, or any association between ten largest shareholders of unconditional tradable shares and the ten largest shareholders of the Company or if there are any persons acting in concert as defined in the CSRC Rules.

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 2014 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 2014	Change in number of Shares	Number of Shares (share) as at 30 June 2014
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. 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. Liu Hongwei	Independent non-executive Director (has been appointed with effect from 18 March 2014)	Nil	Nil	**Nil**
Mr. Chan Chung Kik, Lewis	Independent non-executive Director (has been appointed with effect from 30 May 2014)	Nil	Nil	**Nil**
Mr. Zhao Songguo	Former Executive Director, Deputy general manager & Financial Controller (resigned with effect from 4 April 2014)	Nil	Nil	**Nil**
Mr. Bai Huiliang	Former independent non-executive Director (resigned with effect from 18 March 2014)	Nil	Nil	**Nil**
Mr. Kwong Chi Kit, Victor	Former independent non-executive Director (resigned with effect from 5 March 2014)	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. Wang Xiaolong	Deputy General Manager (has been appointed with effect from 28 March 2014)	Nil	Nil	**Nil**
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. Hou Ning	Financial Controller (has been appointed with effect from 4 April 2014)	Nil	Nil	**Nil**
Mr. Cao Changqiu	Company Secretary	961	-961	**Nil**
Ms. Guo Lei	Company Secretary	Nil	Nil	**Nil**
Total		961	-961	**Nil**

All shares held by the Directors, Supervisors and Senior Officers are A shares. One Senior Officer sold unconditional A shares of the Company by SZSE trading system through auction during this Reporting period.

So far as the Directors, Senior Officers and Supervisors are aware, save as disclosed above, as at 30 June 2014, 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, details in relation to the changes of Directors, Supervisors and Senior Officers can be referred to the table above.

V. CHAIRMAN'S STATEMENT

I am pleased to report the operating results of the Company for the six months ended 30 June 2014.

For the six months ended 30 June 2014, pursuant to the PRC accounting standards, the operating income of the Group was RMB1,736,817,000 and net profit attributable to equity holders of the Company was RMB39,986,000, representing an increase of 7.40% and an increase of 701.69% respectively, as compared to that of the Same Period Last Year.

The Group had a turnover of RMB1,712,012,000 and profit attributable to owners of the Company of RMB39,861,000 for the six months ended 30 June 2014 under HKGAAP, representing an increase of 7.00% and an increase of 783.84% respectively, as compared with that of the Same Period Last Year.

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2014.

BUSINESS REVIEW

In the first half of 2014, the Company actively responded to the impact brought by the fierce competitions in the pharmaceutical market, the increase in environmental protection costs and the increase in management costs resulting from its relocation. The Company used its best endeavors to engage in marketing, conducted technological research and energy-saving work diligently, continued to implement the strategy of internationalization, and strengthened its basic management to achieve a healthy development of the Company.

1. Made full efforts to engage in marketing

The Company fully took advantage of its edges as a leader of the pharmaceutical raw material market to expand domestic sales and export and step up its development of the markets of new products and featured products. In the first half of the year, the export and domestic sales of pharmaceutical raw material grew 9% and 10% respectively as compared with the corresponding period of last year. The sales of major efficient varieties such as caffeine and levodopa saw significant growth.

The Company also promoted the extensive preparations strategy in a proactive manner. Fully utilizing the advantages of fast coordination of its preparations division, making effort to reduce the production costs of preparation and stressing on the "Two New" developments (i.e. development of new varieties and new markets), the Company boosted the sales of preparations and recorded a growth of 11.5% in the sales of preparation industrial products (製劑產品) in the first half of the year as compared with the corresponding period of last year. Sales of major new preparation products such as glimepiride, Jiening and rabeprazole maintained rapid growth.

In addition, the Company leveraged opportunities, tapped into the potential and increased its output to cater the market demand. In particular, the pharmaceutical intermediates of Shouguang Park gradually took up a larger market share with a significant growth in its profitability.

Xinhua Medical and Trading Company (新華醫貿公司) and Xinhua Drug Store (新華大藥店), both wholly-owned subsidiaries of the Company, had successfully passed the new GSP certification of the PRC, while the online Xinhua Drug Store (網上新華大藥店) had been established and made a trial run in July, which made the Company a pioneer in the pharmaceutical e-marketing sector in the PRC.

2. Stepped up efforts in pursuing technology breakthroughs with an aim to lowering production cost

The Company streamlined its production management, implemented an assessment mechanism with a an aim to reducing costs, and stimulated the initiative of the staff. New technology and techniques were applied to reduce consumption, while energy-saving and consumption reduction initiatives with the use of technology of recycling of waste were adopted. The result was a remarkable success, with consumption of raw materials reduced by RMB12.11 million and consumption of energy reduced by RMB8.34 million. The costs of major bulk pharmaceuticals such as ibuprofen decreased at varying rates.

3. Increased investment in R&D and expedited R&D of new products

The investment in R&D increased and R&D work was emphasized. In the first half of the year, the Company obtained 2 certificates and 2 production approvals of new drugs such as calcium polycarbophil and its tablet. The Company completed dynamic inspection for 8 projects and carried out trial production for 9 new drugs. Periodical results were achieved in the technology breakthrough of new products such as glimepiride, rabeprazole sodium, calcium polycarbophil, carbidopa and fish oil.

4. Continued to implement the global strategy and explored the international upscale market

In the first half of the year, 11 products of the Company including ibuprofen and 3 park areas passed the American site FDA. Following the solid dosage workshop of the Company passed the review of Medicines and Healthcare Products Regulatory Agency of the United Kingdom, the injection workshop of the Company passed the review of IDA (International Dispensary

Association) in January this year, and the Company has become a qualified supplier in compliance with the WHO-GMP standards, which laid a foundation for export of injection products to the regulated international markets. In the first half of the year, international commissioned processing of preparations has maintained a high-speed development, with a year-on-year growth rate of 44%.

5. Implemented human resources reform and incentivized employees' productivity

In the first half of the year, the Company emphasized on effective allocation of staff and improvement of their working performance, actively implemented human resources reform with a focus on post wage, established development, assessment, allotment and incentive mechanism for employees, and further incentivized employees' productivity and creativity, so as to secure talent pipeline for a sustainable and healthy development of the enterprise.

PLANS FOR THE SECOND HALF OF THE YEAR 2014

In the second half of the year 2014, as the situation of domestic overcapacity is not likely to improve in a short term, competition will remain fierce, while the entry requirements of international market will continue to rise with an increment in trade barriers of various forms. Chemical raw materials will see an upward trend in price while the development of preparations which is sensitive to national policies is affected by a lack of a stable market environment.

In the meantime, the PRC government's strengthened support to the real economy, the favorable condition of macro policy, the more reasonable policy of the bidding of basic medicines, and the issue of low-priced medicine catalog provide new opportunities to the development of the Company. The implementation of new GMP has strengthened regulations and is favorable to the development of large-scale pharmaceutical enterprises with good brand reputation and standard operation.

1. Continue to strengthen marketing

The controlling capability in the pharmaceutical raw material market will be reinforced while the marketing of leading varieties and efficient varieties will be strengthened. In the meantime, great efforts will be made to develop in the international emerging market, fill the gap in the domestic market and develop new products, so as to nurture new economic growth points.

Implementation of the greater preparation strategy will be speeded up with a focus on the marketing of preparation strategy varieties, which will enhance the vitality of the development of the Company. Leveraging the opportunities brought by the improvement in the bidding results of the Company, the inclusion of 60 products in the national low-priced medicine catalog, the upcoming launch of the new product calcium polycarbophil, the inclusion of Jiening (介寧) into the local reimbursable drug list, and the implementation of new GMP, the Company will pursue the development of preparations diligently.

2. Deepen efforts in making technology breakthroughs to further reduce cost

The Company will adhere to the plan for cost, technology and quality breakthroughs established at the beginning of the year, so as to ensure more than 10 technology breakthroughs to be made during the year, and endeavor to make another achievement in reducing raw material consumption by promoting and applying advanced technologies. The fundamental management and expense control of workshops will be reinforced to ensure further reduction in the production cost of principal products.

3. Enhance management and risk control

The expense control measures and the rigidity of execution will be further improved by adopting duty-linked policy for person in charge and regular report and appraisal policy, so as to ensure that the three types of expenses for the year will be managed within budget.

The risk control and credit management, especially the management on account receivables, will be strengthened, so as to control the fund employed rate at a rational level and minimize the operational risk.

4. Lay emphasis on reform and innovation

The Company will carefully study the Opinions of Provincial Party Committee and Provincial Government on Deepening State-owned Enterprise Reform to develop and promote employee stock ownership, share option incentive and other reforms, so as to improve staff's sense of responsibility, initiate their enthusiasm and enhance vitality for corporate development.

The Company will actively promote the existing research and development projects while speeding up the technical breakthroughs in the existing products, so as to ensure that the production transformation of 9 products to be completed, the dynamic audit for 8 projects to be completed and more than 10 reception document numbers to be obtained.

Park construction and relocation will be carried out orderly to ensure that obsolete production lines will be closed and new production lines will be put into normal production as scheduled under the construction projects of "Wu An" series products. In the meantime, "Wu An" relocation will be fully completed while efforts will be made in the construction of the ancillary facility project in Hutian Park and the second multi-function industrialization center.

VI. MANAGEMENT DISCUSSION AND ANALYSIS

The Group is mainly engaged in the development, manufacturing and sale of bulk pharmaceuticals, pharmaceutical preparations, chemicals and pharmaceutical commerce. The profit of the Group is mainly attributable to its principal businesses.

1. LIQUIDITY AND ANALYSIS OF FINANCIAL RESOURCES AND CAPITAL STRUCTURE UNDER HKGAAP

As at 30 June 2014, the liquidity ratio of the Group was 158.42%, the quick ratio was 118.06%, the turnover ratio of account receivables was 348.65% (turnover ratio of account receivables = turnover / average account receivables and net value of bills x 100%) and the turnover ratio of inventory was 345.64% (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 sources of funds for the Group were loans from financial institutions and funds provided by the ultimate holding company of the Company. As at 30 June 2014, the total amount of bank loans was RMB660,284,000, which were floating rate loans based on Hong Kong inter-bank offered rates or rates issued by the People's Bank of China, and the total amount of loans from the ultimate holding company was RMB695,350,000. As at 30 June 2014, cash on hand and in bank amounted to RMB253,798,000 (including bank acceptance drafts deposits of RMB2,000,000).

As of 30 June 2014, 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 65,920,000. 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 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 2014, the number of employees of the Group was 6,043. The total salaries for employees in the first half of 2014 amounted to RMB132,688,000.

The main investment projects in the second half of 2014 will be Hutian Park project.

As at 30 June 2014, the capital debt ratio of the Group was 75.22% (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 RMB. However, the Group achieved USD103,132,000 in its export for the first half of 2014. 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 larger export contracts, the Group will seek the prior agreement of the purchaser that both parties shall jointly 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 2014 the Group's operating income was RMB1,736,817,000, representing an increase of 7.40% as compared to the Same Period Last Year. The increase in operating income was mainly attributable to the increase in marketing, leading to a rise in the sales of certain products. Operating profit amounted to RMB23,570,000, whereas there was a operating loss of RMB13,046,000 in the Same Period Last Year. The main reasons for the increase include the Company diligently carried out energy-saving and technological research work, the consumption of raw material and power fell significantly compared to the same period in the previous year, the Company's subsidiary, Xinhua Pharmaceutical (Shouguang) Company Limited, diligently developed its market resulting in a substantial increase in profit

The net decrease in cash and cash equivalents was RMB31,023,000, while there was a net decrease of RMB221,979,000 in the Same Period Last Year. The main reasons for the change include the Group having recovered bank acceptance deposits during the first half of 2014, payment of bank acceptance deposits in the same period last year; having seized the market opportunities, expanded product sales, and product inventory reduction.

The total assets of the Group as at 30 June 2014 amounted to RMB3,931,313,000, representing an increase of RMB81,960,000 or 2.13% as compared to that of RMB3,849,353,000 as at the beginning of this year. The increase was mainly due to the operating profit during the Reporting Period. The Group's loan amount as at 30 June 2014 was RMB1,355,634,000, representing a decrease of RMB8,800,000 from RMB1,364,434,000 at the beginning of this year. The total equity attributable to equity holders of the Company as at 30 June 2014 was RMB1,787,462,000, representing an increase of RMB27,932,000 or 1.59% from RMB1,759,530,000 at the beginning of this year. The increase was mainly attributable to the operating profit 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 2014		First half of 2013	
	Total turnover	Costs	Total turnover	Costs
PRC (incl. Hong Kong)	**1,043,126**	**819,928**	949,671	783,290
Europe	**222,350**	**182,136**	249,676	199,817
Americas	**314,946**	**273,717**	291,165	262,985
Others	**140,527**	**122,842**	109,490	97,973
Total	**1,720,949**	**1,398,623**	1,600,002	1,344,065

By industry and By product	Income from principal operations	Costs of sales of principal operations	Gross profit margin(%)
Bulk pharmaceutical	821,203	679,855	17.21
Preparations	353,593	219,912	37.81
Commercial circulations	386,011	365,480	5.32
Chemical products and other products	160,142	133,376	16.71
Total	1,720,949	1,398,623	18.73

An analysis of profit as compared to 2013 is as follows:

Items	Amount (RMB'000)		% of total profit	
	Jan.-Jun. 2014	2013	Jan.-Jun. 2014	2013
Operating profit	**23,570**	(43,862)	**44.69**	(86.83)
Net profit/loss from non-operation activities	**29,174**	94,378	**55.31**	186.83
Profit before taxation	**52,744**	50,516	**100.00**	100.00

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 2014.

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 material trust, subcontract and lease of 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 RMB50,000,000 provided by the Company in favour of Xinhua Pharmaceutical (Shouguang) Company Limited, there has been no other material guarantee was 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 2014, 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 the Company's listed 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%	88,950,000.00	-	(3,700,000.00)	Available-for-sale financial assets	Purchase
601328	BANKCOMM	14,225,318.00	0.02%	31,890,496.00	-	328,768.00	Available-for-sale financial assets	Purchase
	Total	21,225,318.00	-	120,840,496.00	-	(3,371,232.00)	-	-

11. Index of important information which has been disclosed

The announcement of the "The Notice of the First Extraordinary General Meeting for the 2014" was published on the HKExnews, in the Securities Times B20 in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on or about 30 January 2013.

The announcement of the "Announcement of the First Extraordinary General Meeting for the 2014 Resolutions" was published on the HKExnews, in the Securities Times B26 in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on or about 19 March 2014.

The announcement of the "2013 Annual Results Announcement" was published on the HKExnews, in the Securities Times B31 in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on or about 31 March 2014.

The announcement of the "The First Quarter Report of 2014" was published on the HKExnews, in the Securities Times B99 in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on or about 26 April 2014

The announcement of the "The Notice of Annual General Meeting for the 2013" was published on the HKExnews, in the Securities Times B14 in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on or about 14 April 2014.

The announcement of the "Announcement of 2013 Annual General Meeting Resolutions" was published on the HKExnews, in the Securities Times B30 in the PRC, on the website: http://www.cninfo.com.cn and on the Company's website on or about 31 May 2014.

12. Information of reception research, communications and interviews 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 2014. 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 2014.

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 2014, and it has been disclosed fully.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A 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 two with financial management expertise; details of their biographies were set out in the 2013 Annual Report of the Company and the announcements of the Company in relation to the appointment of director dated 18 March 2014 and 30 May 2014.

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 2014		First half of 2013	
	Consolidated	Parent company	Consolidated	Parent company
1.Total operating income	**1,736,816,836.23**	**997,833,917.34**	1,617,134,270.43	951,197,344.70
Includes: Operating income	**1,736,816,836.23**	**997,833,917.34**	1,617,134,270.43	951,197,344.70
2.Total operating costs	**1,717,970,009.37**	**992,901,063.25**	1,631,787,333.60	956,068,458.63
Includes: Operating cost	**1,420,104,715.71**	**849,440,242.75**	1,363,733,658.96	812,783,451.22
Taxes and surcharges	**8,936,674.54**	**4,070,819.70**	10,366,384.78	7,096,493.05
Selling expenses	**141,235,556.60**	**18,400,070.92**	109,963,731.83	14,769,801.49
Administrative expenses	**114,951,602.87**	**89,846,187.63**	101,448,392.30	79,735,424.77
Financial expenses	**30,025,874.43**	**31,143,742.25**	46,275,165.73	41,683,288.10
Assets Impairment loss	**2,715,585.22**	**-**	-	-
Add: Gain or loss from changes in fair value	-	-	-	-
Investment gain or loss	**4,722,825.41**	**4,722,779.39**	1,606,802.85	1,606,802.85
Includes: Investment gain or loss from related ventures and joint ventures	**1,779,386.67**	**1,779,386.67**	1,432,177.85	1,432,177.85
Exchange gain or loss	-	-	-	-
3. Operating profit	**23,569,652.27**	**9,655,633.48**	(13,046,260.32)	(3,264,311.08)
Add: Non-operating income	**33,915,857.57**	**33,734,212.06**	24,778,778.41	8,972,598.86
Less: Non-operating cost	**4,741,146.43**	**2,735,237.73**	2,451,846.32	1,709,409.97
Includes: Loss from the disposal of non-current	**699,391.01**	**699,391.01**	119,826.73	119,826.73

assets				
4. Profit before taxation	**52,744,363.41**	**40,654,607.81**	9,280,671.77	3,998,877.81
Less: Income tax expense	**10,040,955.62**	**5,770,175.19**	3,169,924.91	2,282,582.13
5. Profit after taxation	**42,703,407.79**	**34,884,432.62**	6,110,746.86	1,716,295.68
Includes: Net Profit attributable to the equity holders of the parent company	**39,986,470.06**	**-**	4,987,774.39	-
Minority interest	**2,716,937.73**	**-**	1,122,972.47	-
6. Earnings per share				
1) Basic earnings per share	**0.09**	**0.08**	0.01	0.004
2) Diluted earnings per share	**0.09**	**0.08**	0.01	0.004
7.Other comprehensive income	**(2,964,070.97)**	**(2,865,547.20)**	(34,421,999.76)	(34,000,598.40)
8. Total comprehensive income	**39,739,336.82**	**32,018,885.42**	(28,311,252.90)	(32,284,302.72)
Includes: Total comprehensive income attributable to the equity holders of the parent company	**37,078,015.63**	**-**	(29,322,887.73)	-
Total comprehensive income attributable to the minority interest	**2,661,321.19**	**-**	1,011,634.83	-

NOTES:

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

2. During the Reporting Period, Shandong Xinhua Electrical and Mechanical Engineering Company Limited was added into the scope of consolidated financial statements of the Company.

2. FINANCIAL STATEMENTS PREPARED UNDER HKGAAP

Condensed consolidated statement of profit or loss

	Notes	Six months ended 30 June 2014	2013
		RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue	3	1,712,012	1,600,002
Cost of sales		(1,398,623)	(1,354,431)
Gross profit		313,389	245,571

Investment income		4,458	1,331
Other income		37,526	41,801
Other expenses		(7,356)	(27,468)
Distribution and selling expenses		(141,236)	(109,964)
Administrative expenses		(122,140)	(106,996)
Finance costs		(33,823)	(36,988)
Share of profit of an associate		1,779	1,432
Profit before tax	4	52,597	8,719
Income tax expense	5	(10,019)	(3,086)
Profit for the period		42,578	5,633
Profit for the period attributable to:			
Owners of the Company		39,861	4,510
Non-controlling interests		2,717	1,123
		42,578	5,633
Earnings per share - basic and diluted	6	RMB0.087	RMB0.010

Condensed consolidated statement of profit of loss and other comprehensive income

	Six months ended 30 June	
	2014	2013
	RMB'000 (unaudited)	RMB'000 (unaudited)
Profit for the period	42,578	5,633
Other comprehensive (expense) income:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation	(99)	(421)
Fair value loss on available-for-sale investments	(3,372)	(40,001)
Income tax relating to components of other comprehensive income	506	6,000
Other comprehensive expense for the period, net of tax	(2,965)	(34,422)
Total comprehensive income (expense) for the period	39,613	(28,789)
Total comprehensive income (expense) attributable to:		
Owners of the Company	36,952	(29,801)
Non-controlling interests	2,661	1,012
	39,613	(28,789)

Condensed consolidated statement of financial position

	Notes	30 June 2014	31 December 2013
		RMB'000 (unaudited)	RMB'000 (audited)
Non-current assets			
Intangible assets		11,539	13,248
Property, plant and equipment		1,748,849	1,409,625
Construction in progress		290,488	540,030
Prepaid lease payments on land use rights		246,027	249,532
Investment properties		61,436	63,926
Interest in an associate		26,689	24,910
Available-for-sale investments		124,040	127,412
Deferred tax assets		20,485	18,705
Goodwill		-	2,716
Prepayments for acquisition of land use rights		21,065	15,400
		2,550,618	2,465,504
Current assets			
Inventories		351,610	457,676
Properties under development		74,326	74,316
Trade and other receivables	8	686,709	460,425
Prepaid lease payments on land use rights		6,421	6,363
Amounts due from fellow subsidiaries		3,792	9,717
Tax recoverable		3,464	3,817
Restricted bank balances		2,000	97,901
Bank balances and cash		251,798	282,822
		1,380,120	1,393,037
Current liabilities			
Trade and other payables	9	568,082	540,533
Dividend payables		5,311	5,311
Amounts due to fellow subsidiaries		3,731	4,607
Amount due to an associate		140	25
Tax payable		6,414	1,190
Borrowings		287,516	475,666
		871,194	1,027,332
Net current assets		508,926	365,705
Total assets less current liabilities		3,059,544	2,831,209
Capital and reserves			
Share capital		457,313	457,313
Reserves		1,335,810	1,298,858
Proposed final dividend		9,146	9,146

Equity attributable to owners of the Company	1,802,269	1,765,317
Non-controlling interests	39,951	37,290
Total equity	1,842,220	1,802,607
Non-current liabilities		
Deferred tax liabilities	6,128	7,034
Loan from ultimate holding company	695,350	694,300
Borrowings	372,768	194,467
Deferred income	143,078	132,801
	1,217,324	1,028,602
	3,059,544	2,831,209

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION UNDER HKGAAP

1. Basis of preparation

Shandong Xinhua Pharmaceutical Company Limited (the "Company") is a joint stock limited company established in the People's Republic of China (the "PRC") with limited liability. The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in December 1996 and its A shares were listed on Shenzhen Stock Exchange in July 1997.

The directors of the Company regard Hualu Holdings Company Limited, a state-owned limited liability company established in the PRC, as the ultimate holding company and Shandong Xinhua Pharmaceutical Group Company Limited ("SXPGC"), a wholly state-owned limited liability company established in the PRC, as the immediate holding company.

The addresses of the registered office and principal place of business of the Company are disclosed in the "Company Information" section to the interim report.

The unaudited condensed interim financial information are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its principal subsidiaries.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the development, production and sales of bulk pharmaceuticals, preparations, chemical and other products, and commerce circulations.

The Group's unaudited condensed interim financial information has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2013.

2. Principal accounting policies

The condensed consolidated interim financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Except as described below, the accounting policies and methods of calculation used in the condensed consolidated interim financial information for the six months ended 30 June 2014 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

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 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

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 2010-2012 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[1]
HKFRS 9	Financial Instruments[2]
HKFRS 14	Regulatory Deferral Accounts[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
Amendments to HKFRS 11	Accounting for Acquisition of interests in joint Operations[3]
HKFRS 15	Revenue from Contracts with Customers[4]
Amendments to HKAS 19	Defined Benefit Plans - Employee Contributions[1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptance Methods of Depreciation and Amortisation[3]

[1] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
[2] HKFRS 9, as amended in December 2013, amended the mandatory effective date of HKFRS 9. The mandatory effective date is not specified in HKFRS 9 but will be determined when the outstanding phases are finalised. However, application of HKFRS 9 is permitted.
[3] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HAKS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010-2012 Cycle will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and
(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2011-2013 Cycle will have a material effect on the Group's consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated at fair value through profit or loss, HKFRS 9 requires that 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 presented 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future will not have significant impact on amounts currently reported in respect of the Group’s financial assets and financial liabilities.

Other than disclosed above, the directors of the Company anticipated that the application of other new and revised standards, amendments or interpretation would have no material impact on the results and the financial position of the Group.

3. Segment information

(a) Description of segments

The Group’s operating segments, based on information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods supplied. The principal types of goods supplied are bulk pharmaceuticals, preparations, chemical and other products and commerce circulations. The Group’s reportable segments under HKFRS 8 are as follows:

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

Information regarding the above segments is reported below.

(b) Segment turnover and results

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

For the six months ended 30 June 2014 (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	817,707	349,819	385,907	158,579	-	1,712,012
Inter-segment sales	306	149,448	62,328	171,539	(383,621)	-

Total	818,013	499,267	448,235	330,118	(383,621)	1,712,012
Segment profit	35,627	5,945	2,323	13,306		57,201
Unallocated income						34,796
Unallocated expenses						(7,356)
Finance costs						(33,823)
Share of profits of an associate						1,779
Profit before tax						52,597

For the six months ended 30 June 2013 (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	781,091	303,471	411,502	103,938	-	1,600,002
Inter-segment sales	6,006	151,648	9,642	142,785	(310,081)	-
Total	787,097	455,119	421,144	246,723	(310,081)	1,600,002
Segment profit (loss)	43,510	17,669	3,222	(9,500)		54,901
Unallocated income						19,333
Unallocated expenses						(29,959)
Finance costs						(36,988)
Share of profits of an associate						1,432
Profit before tax						8,719

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 (excluding government grants), other expenses, deprecation for investment properties, 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 2014 (Unaudited)

	Bulk pharmaceuticals	Preparations	Commerce circulations	Chemical and other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	2,073,059	394,508	242,794	730,400	3,440,761
Unallocated corporate assets					489,977
Consolidated assets					3,930,738

At 31 December 2013 (Audited)

	Bulk pharmaceuticals	Preparations	Commerce circulations	Chemical and other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,689,688	594,002	189,506	765,852	3,239,048
Unallocated corporate assets					619,493
Consolidated assets					3,858,541

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, restricted bank balances and bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of revenues earned by individual reportable segments.

4. Profit before tax

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

	Six months ended 30 June 2014	2013
	RMB'000 (unaudited)	RMB'000 (unaudited)
Depreciation for property, plant and equipment	82,275	80,870
Depreciation for investment properties	2,490	2,490
Amortisation of prepaid lease payments on land use rights	3,447	3,359
Amortisation of intangible assets	1,709	1,440
Total depreciation and amortisation	89,921	88,159
Cost of inventories recognised as an expense	1,398,623	1,354,431
Dividends and interest income	(6,237)	(2,763)
Loss on disposal of property, plant and equipment	447	120
Impairment losses recognised in respect of trade and other receivables	27	-
Impairment losses reversed	(5)	-
Impairment recognised in respect of goodwill	2,716	-

5. Income tax expense

The major components of income tax expense in the condensed consolidated statement of profit or loss are:

	Six months ended 30 June 2014	2013
	RMB'000 (unaudited)	RMB'000 (unaudited)
Current income tax – PRC Enterprise Income Tax ("EIT")	12,705	3,628
Deferred income tax	(2,686)	(542)

Income tax expense	10,019	3,086

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 and is entitled to the preferential tax rate of 15% during the period.

6. Earnings per share

The calculation of the basic earnings per share is based on the Group's profit for the period attributable to the owners of the Company of RMB39,861,000 (2013: RMB4,510,000) and based on the weighted average of 457,312,830 shares (2013: 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 2014 and 2013 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 2014 (2013: nil).

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

	Six months ended 30 June	
	2014	2013
	RMB'000 (unaudited)	RMB'000 (unaudited)
Final dividend in respect of the financial year ended 31 December 2013, approved during the following interim period, of RMB 0.02 per share (year ended 31 December 2012: RMB0.01 per share)	9,146	4,573

8. Trade and other receivables

	30 June 2014	31 December 2013
	RMB'000 (unaudited)	RMB'000 (audited)
Trade and bills receivables	657,115	448,272
Less : Allowance for doubtful debts of trade receivables	(61,654)	(61,649)
	595,461	386,623
Other receivables, deposits and prepayments	90,010	69,587
VAT recoverable	7,369	10,329
Consideration receivable on disposal of land	8,000	8,000
Less : Allowance for doubtful debts of other receivables	(14,131)	(14,114)

	91,248	73,802
Total trade and other receivables	686,709	460,425

The Group's revenue from export sales is on letter of credit. The credit period is agreed upon and stipulated 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.

The following is an aged analysis of the trade and bills receivables net of allowance for doubtful debts presented based on the invoice date, which approximated to the revenue recognition dates, at the end of the reporting period.

	30 June 2014	31 December 2013
	RMB'000 (unaudited)	RMB'000 (audited)
Within one year	592,945	384,847
More than one year but within two years	1,982	952
More than two years but within three years	534	824
	595,461	386,623

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 2014	31 December 2013
	RMB'000 (unaudited)	RMB'000 (audited)
Within one year	354,475	344,789
More than one year but less than two years	7,926	3,396
More than two years but less than three years	1,318	2,098
Over three years	2,246	2,745
	365,965	353,028
Other payables and accrued charges	202,117	187,505
	568,082	540,533

Ⅹ. DOCUMENTS FOR INSPECTION AND PLACE FOR INSPECTION

(1) DOCUMENTS FOR INSPECTION

1. The original copy of the Company's 2014 Interim Report signed by the Chairman of the Board.

2. Financial statements for the six months ended 30 June 2014 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

31 July 2014, Zibo, PRC

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

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

Independent Non-executive Directors:
Mr. Zhu Baoquan
Mr. Liu Hongwei
Mr. Chan Chung Kik, Lewis

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