神威藥業
SHINEWAY

China Shineway Pharmaceutical Group Limited
中 國 神 威 藥 業 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 02877

Leading Modern Chinese Medicine
PROMOTING HEALTH INDUSTRY

INTERIM REPORT **2011**

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman of the Board)*
Ms. Wang Zhihua
Ms. Xin Yunxia
Mr. Li Huimin

Non-executive Director

Mr. Hung, Randy King Kuen
(Appointed on 1 June 2011)

Independent Non-executive Directors

Mr. Ren Dequan
Ms. Cheng Li
Mr. Sun Liutai

Audit Committee

Mr. Sun Liutai *(Committee Chairman)*
Mr. Ren Dequan
Ms. Cheng Li

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Mr. Sun Liutai
Ms. Xin Yunxia

AUTHORIZED REPRESENTATIVES

Ms. Wang Zhihua
Mr. Li Huimin

COMPANY SECRETARY

Ms. Wong Mei Shan

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE

Luan Cheng, Shijiazhuang
Hebei Province, The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 5201, 52/F., Central Plaza
18 Harbour Road, Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609, KY1-1107
Grand Cayman, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Bank of East Asia, Limited

The Hongkong and Shanghai Banking Corporation Limited

Bank of China, Zhong Shan Branch
Shijiazhuang, Hebei Province

Bank of China, Lang Fang Branch
Lang Fang City, Hebei Province

LEGAL ADVISERS

As to Hong Kong Law
Woo Kwan Lee & Lo

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

STOCK CODE

02877 (listed on the Main Board of
The Stock Exchange of Hong Kong Limited)

WEBSITES

www.shineway.com.hk
www.shineway.com

Financial Highlights

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2011, the operating results of the Group were as follows:

– Turnover reached RMB1,048,266,000, an increase of 12% from the corresponding period of last year;

– Gross profit margin was 66.6% as compared to 69.5% of the corresponding period of last year;

– Profit for the period amounted to RMB438,527,000, an increase of 4.2% over the corresponding period of last year;

– Earnings per share amounted to RMB53 cents;

– Declared interim dividend of RMB11 cents per share.

Company Overview

China Shineway Pharmaceutical Group Limited (the "Company" or "China Shineway") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in research and development, production and sales of modern Chinese medicines mainly in injections, soft capsules and granules formats. The Group's products are primarily being sold in the People's Republic of China ("PRC") market.

During the first six months of 2011, the Group's prescription and over-the-counter ("OTC") medicines accounted for approximately 75% and 25% of the Group's turnover respectively. These medicines are primarily applied for the treatments of (i) cardiovascular diseases, respiratory system diseases, colds and fevers, and digestive system diseases that commonly affect the middle and old aged people and/or children; and (ii) anti-viral medicines. For the first six months of 2011, approximately 42.1% of the Group's turnover was derived from the products for the treatment of cardiovascular diseases. The products for anti-viral treatment and other products contributed approximately of 29.8% and 28.1% respectively of the Group's turnover.

The Group's key products are as follows:

- Qing Kai Ling Injection: a widely used anti-viral medicine for treatment of viral diseases, including respiratory tract infection, viral hepatitis, cerebral haemorrhage and cerebral thrombosis
- Shen Mai Injection: for treatment of coronary heart disease, viral myocarditis and pulmonary heart disease
- Shu Xie Ning Injection: cardio-cerebrovascular disease medicine
- Wu Fu Xin Nao Qing Soft Capsule: for prevention and treatment of coronary heart disease and cerebral arteriosclerosis
- Huo Xiang Zheng Qi Soft Capsule: for prevention and treatment of heat stroke, stomachache, nausea and diarrhoea, acclimatization sickness
- Pediatric Qing Fei Hua Tan Granule: for children infected by respiratory related diseases
- Huang Qi Injection: for treatment of viral myocarditis, heart malfunction and hepatitis
- Qing Kai Ling Soft Capsule: for treatment of high fever, viral influenza and respiratory tract infection

over 40 medicines of the Group are included in the Essential Drug List.

Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 June 2011, the Group recorded a turnover of RMB1,048,266,000, an increase of 12%. Sales by product form for the period are set out as follows:

	Sales	Product mix	Growth rate
Injections	RMB591,792,000	56.5%	3.9%
Soft Capsules	RMB238,226,000	22.7%	19.0%
Granules	RMB183,738,000	17.5%	22.2%
Other product formats	RMB34,510,000	3.3%	114.5%

The Group's net profit for the period ended 30 June 2011 is RMB438,527,000 representing an increase of 4.2% as compared to the corresponding period of last year. The percentage of growth in net profit is lower than the percentage of growth in turnover is mainly caused by increase in price of raw materials.

Injection Products

The pharmaceutical market has strong demand for Chinese medicine injections. For the first six months of 2011, the Group sold RMB591,792,000 of injection products, representing an increase of 3.9% from the same period of last year. Amongst these injection products, Shen Mai Injection, recorded growth in sales of 29.9%. For the first six months of 2011, injection products accounted for 56.5% of the Group's total turnover as compared to 60.9% for the same period of last year. In the first half of 2011, injection products only recorded a slight increase. This was due to the large demand for Qing Kai Ling Injection as the influenza A virus subtype H1-N1 ("A (H1-N1) Flu") was commonly experienced all over China in the first half of 2010. In absence of similar influenza breakout to the first half of last year and lost of Essential Drugs bids in some provinces in the PRC, the sales of Qing Kai Ling Injection in the first half of 2011 decreased as compared to the same period last year.

Soft Capsule Products

For the first six months of 2011, the Group recorded RMB238,226,000 on sales of soft capsule products, representing an increase of 19% from the same period of last year. Sales of Huo Xiang Zheng Qi Soft Capsule and Qing Kai Ling Soft Capsule recorded remarkable increase as compared to the same period of last year. On the other hand, Wu Fu Xin Nao Qing Soft Capsule regained its sales momentum in 2011.

Soft capsule products accounted for 22.7% of the Group's turnover for the first six months of 2011, as compared to 21.4% for the same period of last year. As a majority of our soft capsule products has attained their market shares, a smooth growth in soft capsule sales is expected in the future. The Group's production capacity for soft capsule products is presently at 3.5 billion capsules per annum. The Group believes that it is currently the largest Chinese medicine soft capsule manufacturer in the PRC in terms of sales volume and production capacity.

Management Discussion and Analysis

Granule Products

Sales of granule products in the first six months of 2011 had increased by 22.2% as compared to the same period of last year, amounting RMB183,738,000. The growth can be attributable to the satisfactory growth of pediatric granule series and the launch of a new product, namely Huamoyan granule.

Granule products accounted for 17.5% of the Group's turnover for the first six months of 2011 as compared to 16.0% of the same period of 2010. Following the completion and operation of our new granule production workshop, the Group's production capacity of granule products now reaches 3.4 billion bags per annum. The Group believes that it is the largest Chinese medicine granule products manufacturer in the PRC in terms of sales volume and production capacity.

Other products

Sales of other products in the first six months of 2011 had increased by 114.5% as compared to the same period of last year, amounted to RMB34,510,000. The increase was mainly attributable to the launch of a new tablet product, namely Fufang Gancao Pian.

Core Products

Qing Kai Ling Injection – a widely used anti-viral medicine for treatment of viral diseases, including respiratory tract infection, viral hepatitis, cerebral haemorrhage and cerebral thrombosis

Sales of our Qing Kai Ling Injection for the first six months of 2011 had decreased as compared to the corresponding period of last year and is the major contributor to the Group's turnover.

Qing Kai Ling Injection is a famous anti-viral medicine and is listed in the "National Catalogues of Medical Insurance and Occupational Injury Insurance". It is designated by the State Administration of Traditional Chinese Medicine as an "Indispensable Chinese Medicine for the Emergency Wards of Chinese Hospitals". It is also recommended by the Ministry of Health of the PRC for treating Human Transmitted Avian Flu and the A(H1-N1) Flu. The product has broad clinical applications. Qing Kai Ling Injection produced by the Group has been named as "Good Quality/Good Price" and "State High-Tech Product" by the authorities.

Qing Kai Ling Injection has been included by the Ministry of Health in the Essential Drug List in 2010. The Group believes with vigorously investment in building the New Rural Cooperative Medical Care System by the State, Urban Resident Basic Medical Insurance and implementing the Essential Drug List by the PRC, as well as the Measures for the Administration on the Clinical Application of Antibacterical Medicines to be issued by the Ministry of Health of the PRC, which will restrict the overuse of antibacterical medicines in clinics, market demand of heat clearing and anti-toxic Chinese medicine, especially for Qing Kai Ling Injection, is expected to grow vastly. The Group believes that it is the largest manufacturer of Qing Kai Ling Injection in the PRC based on sales volume and sales amount. The Group will further enhance market coverage and penetration of end networks, as well as to strengthen marketing and promotion effort at the points of sales. Qing Kai Ling Injection will sustain steady growth.

Management Discussion and Analysis

Shen Mai Injection – for treatment of coronary heart disease, viral myocarditis and pulmonary heart disease

For the first six month of 2011, sales of Shen Mai Injection had increased as compared to the corresponding period of last year.

Shen Mai Injection is included in the National Catalogues of Medical Insurance and Occupational Injury Insurance. It is also included in the recommendation of the Ministry of Health of the PRC for treating Avian Flu and the Essential Drug List.

The Group believes that it is the largest manufacturer of Shen Mai Injection in the PRC based on sales volume. The Group will strive to further expand market coverage for Shen Mai Injection to generate further growth in coming years.

Shu Xie Ning Injection – for treatment of cardio-cerebrovascular disease

For the first six months of 2011, sales of Shu Xie Ning Injection recorded an increase as compared to corresponding period of last year.

Shu Xie Ning Injection is designated as a "Good Qualify/Good Price" and a "State Protected Chinese Medicine" product by the PRC authorities. It is included in the National Catalogues of Medical Insurance and Occupational Injury Insurance. The Group will continue to further enhance market coverage and promotion, foster marketing effort at the points of sales, and look for strategic distributors and rationalize distribution channels to achieve growth for Shu Xie Ning Injection continuously.

Wu Fu Xin Nao Qing Soft Capsule – for prevention and treatment of coronary heart disease and cerebral arteriosclerosis

Sales for the first six months of 2011 of Wu Fu Xin Nao Qing Soft Capsule increased as compared to same period of last year.

Wu Fu Xin Nao Qing Soft Capsule is ranked among the top ten cardiovascular oral Chinese medicines in the country. The "Wu Fu" trademark was certified as a "China Famous Trademark". It is also one of the lowest in cost average daily dosage among similar cardiovascular medicine. The Group will continue to strengthen our effort on promoting the "Wu Fu" brand and deepen our end-user market coverage and exercise more support to our distributors by increasing promotional activities to broaden its sales.

Huo Xiang Zheng Qi Soft Capsule – for prevention and treatment of heat stroke, stomachache, nausea and diarrhoea, acclimatization sickness

Sales for the first six months of 2011 of Huo Xiang Zheng Qi Soft Capsule surged approximately 40% as compared to the corresponding period of last year.

Management Discussion and Analysis

Huo Xiang Zheng Qi Soft Capsule is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. It is also recommended by the Ministry of Health of the PRC for Avian Flu and the A(H1-N1) Flu. Due to its effective efficacy and the high bioavailability of soft capsule, Huo Xiang Zheng Qi Soft Capsule is a very popular OTC Chinese medicine.

The Group is continuing to expand end market coverage. Furthermore, we will expedite partnership with strategic distributors and chain drugstores, and increase promotion to strive for better sale growth of Huo Xiang Zheng Qi Soft Capsule.

Pediatric Qing Fei Hua Tan Granule – for children infected by respiratory related diseases

Sales for the first six months of this year of Pediatric Qing Fei Hua Tan Granule recorded an increase as compared to the same period of last year.

Pediatric Qing Fei Hua Tan Granule is a "State Protected Chinese Medicine". It has superb curative effect and has become a famous brand of children coughing medicine. The Group will continue to increase advertising and joint promotional campaign with chain drugstores to ensure sales growth momentum of this product.

Emerging Products

Huang Qi Injection – for treatment of viral myocarditis, heart malfunction and hepatitis

Sales for the first six months of 2011 of Huang Qi Injection had increased as compared to the same period of last year.

Huang Qi Injection is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. It is also named as a "Hi-Tech Product" by the PRC authorities. Viral myocarditis has become more prevalent in recent years. With a proven efficacy on such illness, Huang Qi Injection has strong market potential. The Group will continue to further enhance market coverage and penetration and growth in sales of Huang Qi Injection is expected in coming years.

Qing Kai Ling Soft Capsule – for treatment of high fever, viral influenza and respiratory tract infection

Sales of Qing Kai Ling Soft Capsule had increased as compared to the same period of last year.

Qing Kai Ling Soft Capsule is both a prescription and non-prescription medicine.

The Group will further expedite partnership with strategic distributors and chain drugstores, and increase promotion effort to ensure sales momentum of this product.

Management Discussion and Analysis

RESEARCH AND DEVELOPMENT

The Group has endeavored to research and in developing of new products. Currently, there are several research projects which are either undergoing pharmaceutical and clinical trial or have completed clinical trial.

PATENT APPLICATIONS

The Group continues to apply for intellectual property rights. As at the date of the Interim Report, the Group has obtained 20 patents for our inventions, and 13 invention patent applications are pending approval.

STATE PROTECTED CHINESE MEDICINES

As at 30 June 2011, the Group had 9 medicines listed as State Protected Chinese Medicines including Shu Xie Ning Injection, Guan Xin Ning Injection and Pediatric Qing Fei Hua Tan Granule.

PROSPECT

Given the uncertainties remained in the policy regarding medicine bid, the PRC medicine industry is currently at its most complicated stage, which is expected to last for a period of time. The Anhui Model (安徽模式), which adopts the two-envelope system and the centralized bidding system of essential drugs at provincial level, was successively implemented in various provinces, resulting in a lower chance of successful bid for large-sized enterprises of general medicine (普藥) and continuous decrease in the bid price of essential medicine, which directly affected the sales income and profit of medicine enterprises. It should be noted that the National Development and Reform Commission is in the process of unifying the price of several essential drugs throughout the PRC. Compared the Shanghai Model (上海模式) with the Anhui Model, it complements the inadequacy of Anhui Model by means of enhancing quality. The introduction of these policies will turn around the situation of extremely low price of certain essential drugs and wicked competitions in pricing, thus benefiting large-sized enterprises of general medicine.

Under the synergy of economic growth, new medical reform, population ageing, urbanization, the emerging demands from grassroots and advanced consumption, the PRC medicine industry has stepped into its "Golden Ten Years" featuring rapid development. According to the projection of the Southern Branch of State Food and Drug Administration (國家藥監局南方所), the Compound Annual Growth Rate of the aggregate output value of the PRC medicine industry is expected to reach 22% and that of the PRC medicine market will also hover at approximately 20% in the next decade. The PRC is expected to be the second largest medicine market in the world following the United States by 2020.

The PRC has launched a bundle of policies in relation to the medicine industry in recent two years and more policies are expected to be rolled out along with the advancement of medical reform and the introduction of the Twelfth Five-Year Plan. Policy will be the core factor determining the growth of medicine industry in the short run. Every leading enterprise in different subdivided fields will continue to grow through sharing a relatively speedy expansion in the medicine industry, seizing the market share of eliminated companies and mergers and acquisitions.

During the Twelfth Five-Year Plan period, the PRC government will keep heightening its support for the Chinese medicine industry to facilitate its development into a modern Chinese medicine industry. As an important category of Chinese medicine, Chinese medicine injections are in line with the development direction of modern Chinese medicine and are bound to benefit from the support and attention given by the government to the industry.

Management Discussion and Analysis

The new version of GMP, which took effect from 1 March 2011, provides better guarantee for the quality of modern Chinese medicine. The PRC government has set a transition period for the implementation of the new version of GMP, which is 3 years for risky categories including Chinese medicine injections and 5 years for other categories. The enforcement of the new version of GMP in the coming 3 to 5 years will elevate the competition threshold in the industry and eliminate small pharmaceutical enterprises, which is conducive to resolving the current state where a large number of small and scattered pharmaceutical enterprises coexist and thus enhance the standardized and concentrated development of the industry.

With the rapid economic growth and an increasing per capita income in the PRC, health consciousness has been rising among the general public. Population ageing is also driving up the average level of medicine usage. China Shineway has the capability to capture the opportunities brought by the industrial transformation and reshuffling to expand its sales scale and market share by fully applying industrial policies and conducting mergers, acquisitions and consolidations, so as to seek the maximum benefits and returns for China Shineway and its shareholders.

GROWTH STRATEGIES

With our strong management team, foremost research capabilities and large production capacity, China Shineway is well prepared to achieve better growth by implementing the following growth strategies:

Expanding Manufacturing Capacity

Construct new workshops and make modifications of the existing workshops, expand Chinese medicine extraction capacity of injections and granules. The new granule and tablet workshop located in Shijiazhuang has completed in last year and commenced production in 2011. The new injection and extraction workshops will complete construction by the end of 2011 and by the middle of 2012 respectively. Both workshops will commence production in 2012. On the occasion, our extraction capacity will increase from currently 10,000 tons to 20,000 tons and our injections production capacity will increase from currently 2 billion vials per annum to 3.2 billion vials per annum.

Product Pipeline

1. Target on three high growth market segments – the middle and old aged, anti-viral and children medicines

2. Increase sales contribution from core products (namely Qing Kai Ling Injection, Shen Mai Injection, Shu Xie Ning Injection, Wu Fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule and Pediatric Qing Fei Hua Tan Granule)

3. Continue to nurture emerging products (such as Huang Qi Injection and Qing Kai Ling Soft Capsule), so each would have annual sales of over RMB100 million

4. Increase investments in research and development – to form a pipeline of broad span innovative products and to enhance our products portfolio

Management Discussion and Analysis

Market Development

1. Continue to expand personnel covering prescription medicines, OTC and the "Third Point of Sale Zones" (hospitals of factories and mining fields, community clinics and rural healthcare centers) to strengthen sales support at these points of sales

2. Increase in participation of Essential Drugs and Medical Insurance Drugs bidding events, extend the chance of successful bid. Improve the market penetration of China Shineway's existing market and expand new market shares

3. Carry out marketing through refining our marketing strategy and improving the brand awareness of our emerging products

Merger, Acquisition and Investment Strategies

1. Leverage on the re-integration opportunity of the pharmaceutical market brought along with the new healthcare reform, and the Company's brands, sales network and management experience to offset the inadequacies in the Company's existing products, sales and production capacity, integrate the resources in the market and propel the Company into high-speed development

2. Priority is given to products with huge market potential and relatively exclusive strains of medicine.

3. Priority is given to enterprises with proprietary Chinese medicine injections, State Protected Chinese Medicine, patented medicine, exclusive medicine and national medicine.

FINANCIAL ANALYSIS

Turnover

For the first six months of 2011, the Group continued to produce modern Chinese medicine products of good efficacy and high quality and turnover had increased by 12%. Sales of our injection products increased by 3.9% to RMB591,792,000, which is equivalent to 56.5% of the Group's total turnover. Sales of soft capsule products was up 19% to RMB238,226,000, accounting for 22.7% of the Group's total turnover. Sales of granule products was also up 22.2% to RMB183,738,000, accounting for 17.5% of the Group's total turnover. The Group had also sold RMB34,510,000 of medicines in other formats which was about 3.3% of the Group's turnover.

During the period, sales of medicines for treating cardiovascular illness, anti-viral, gastroenterological medicines and medicines for treating other illnesses respectively accounted for 42.1% (for the corresponding period of 2010: 40.3%), 29.8% (for the corresponding period of 2010: 36.1%), 9.7% (for the corresponding period of 2010: 7.7%) and 18.4% (for the corresponding period of 2010: 15.9%) of the Group's total turnover.

Management Discussion and Analysis

Sales of prescription and OTC medicines of the Group for the first six months of 2011 were RMB785,869,000 and RMB262,397,000, equal to 75% and 25% of the Group's turnover respectively.

Cost of Sales

Cost of sales for the first six months of 2011 was RMB350,171,000, equals to 33.4% of turnover. Direct materials, direct labour and other production costs accounted for 76.4%, 5.7% and 17.9% of the total production costs respectively.

Gross Profit Margin

During the first six months of 2011, the Group's overall gross profit margin decreased to 66.6% as compared to 69.5% of same period of last year.

The adjustment of gross profit margin was mainly a result of increase in raw materials, power supply and labour costs.

Other Income

Other income mainly includes government subsidies of RMB65,045,000 (for the corresponding period of 2010: RMB34,374,000). The government subsidies mainly represented incentives received from government for investments in relevant regions in PRC by the Group.

Investment Gain

Investment gain mainly includes interest income from bank deposits of RMB28,164,000 (for the corresponding period of 2010: RMB27,550,000). The growth was mainly due to increase of bank deposits and interests in China.

Distribution Costs

Distribution costs for the first six months of 2011 decreased by 8.4% from the corresponding period of last year and were equal to 11.9% of the Group's turnover (for the corresponding period of 2010: 14.5%). The decrease was mainly due to the decrease of distribution promotion expenses by 36.9%. Distributor promotion expenses which accounted for 3.2% of the Group's turnover (for the corresponding period of 2010: 5.7%), mainly included promotion cost subsidies to distributors with reference to sales growth target for the year.

Administrative Expenses

Administrative expenses increased by 30.8%, as compared to the first six months of last year, which is in line with our growth in business activities. Administrative expenses accounted for 8.1% of the Group's turnover (for the corresponding period of 2010: 6.9%). Administrative expenses also comprised of salaries and wages and non-production depreciation expenses which accounted for 1.5% and 1.2% respectively (for the corresponding period of 2010: 1.4% and 0.7%) of the Group's turnover.

Management Discussion and Analysis

Net Exchange Loss

The Group posted a net exchange loss of RMB1,740,000 for the first six months of 2011 which was mainly resulted from exchange loss arising from change of exchange rate between Hong Kong Dollars and Renminbi.

Taxation

Under the law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to 國稅函 (2009) 203號, the PRC Enterprise Income Tax ("PRC EIT") rate applicable to Shineway Pharmaceutical Co., Ltd., Hebei Shineway Pharmaceutical Co., Ltd. and Shineway Pharmaceutical (Zhangjiakou) Co., Ltd. is 15% on their taxable income for the year.

Pursuant to 藏政發 (2011) 14號, the PRC EIT rate applicable to Xizang Shineway Pharmaceutical Co., Ltd. is 15% from 2011 to 2020.

Interim Dividend

The Board of Directors of the Company (the "Board") resolved to declare an interim dividend of RMB11 cents per share amounting to approximately RMB90,970,000 in respect of the six months ended 30 June 2011 and are calculated on the basis of 827,000,000 shares issued as at 31 August 2011 (for the six months ended 30 June 2010: RMB11 cents per share, amounting to approximately RMB90,970,000), which will be paid on 31 October 2011, to the shareholders whose names appear on the Company's register of members on 20 October 2011.

The above interim dividend will be payable in cash in Hong Kong dollars and will be converted from Renminbi at the telegraphic transfer exchange rates quoted by bank at 10:30 a.m. on 31 August 2011 (RMB1=HK$1.2220). Accordingly, the amount payable on 31 October 2011 will be HK$0.1344 per share.

Capital Structure

For the six months ended 30 June 2011, there was no change in the capital structure and issued share capital of the Group as compared to those on 31 December 2010.

Liquidity and Financial Resources

As at 30 June 2011, bank deposits of the Group, amounting to RMB2,007,876,000 (31 December 2010: RMB2,349,021,000) which comprised of RMB1,956,173,000 (31 December 2010: RMB2,007,405,000), were denominated in Renminbi. Others, being equivalent to RMB51,519,000 and RMB184,000 (31 December 2010: RMB341,435,000 and RMB181,000), were denominated in Hong Kong Dollars and United States Dollars respectively.

During the first six months in 2011, the Group did not entered into any derivative instrument investments.

The directors of the Company believe that the financial position of the Group is healthy, with sufficient financial resources to meet the requirement for future development.

Management Discussion and Analysis

Investments in Debt Securities

Investments in debt securities represents investment plans arranged by banks, the underlying investment product was bills issued by banks and the Group is entitled to 100% principal protection. The interest income from the investment plans are determined based on the interest income generated from the underlying product of investment.

The investment plans were stated at amortised cost less impairment loss. They will mature in October 2011 at a fixed interest rate of 4.5% per annum.

Bills and Trade Receivables

Bills and trade receivables as at 30 June 2011 increased by 59.3% and 51.5% respectively from 31 December 2010. Turnover days of bills and trade receivables were 60 days and 2 days respectively (for the corresponding period of 2010: 17 days and 2 days respectively).

Inventories

Inventories balance as at 30 June 2011 increased by 26.6% from 31 December 2010 in anticipation of stronger sales growth in the second half of 2011. By inventory categories, raw materials, work in progress and finished products respectively accounted for 53.0%, 24.1% and 22.9% of inventories as at 30 June 2011 (31 December 2010: 53.3%, 22.9% and 23.8% respectively).

Turnover days for finished products in the first six months of 2011 were 27 days (for the corresponding period of 2010: 29 days).

Property, Plant and Equipment

In the first six months of 2011, the Group has purchased plant and machinery of RMB9,097,000, office equipment of RMB1,773,000, and addition to construction in progress of RMB188,126,000 includes the Shineway Modern Chinese Medicine Park project.

For the six months ended 30 June 2011, depreciation for property, plant and equipment amounted to RMB31,654,000 as compared to RMB24,125,000 during the same period of last year.

Goodwill

Goodwill is comprised of the Group's acquisition of the remaining 20% ownership equity interests of Shineway Pharmaceutical Sales Company Limited in 2005, and the acquisition of 100% equity interests of Zhangjiakou Changcheng Pharmaceutical Limited (subsequently changed name to Shinaway Pharmaceutical (Zhangjiakou) Co., Ltd) and Sichuan Kalituo Pharmaceutical Limited in 2010.

Management Discussion and Analysis

Trade Payables

During the period under review, turnover days of trade payables were 117 days (for the corresponding period of 2010: 103 days).

Loans and Bank Borrowings

The Group did not have any loans or bank borrowings as at 30 June 2011 (31 December 2010: Nil). Accordingly the gearing ratio with reference to interest bearing debt for the period is nil (31 December 2010: Nil).

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2011 (31 December 2010: Nil).

Exposure to Fluctuations in Exchange Rates

Substantially all of the Group's business transactions and liabilities are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and most of its bank deposits are in Renminbi and Hong Kong Dollars. The exchange loss in the first half of 2011 was arising from the change in exchange rate between Renminbi and Hong Kong dollars. As at 30 June 2011, the Group did not have any bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to any material interest and exchange risks.

Employees

As at 30 June 2011, the Group has 3,787 employees (31 December 2010: 3,690 employees). Remuneration is determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provides other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong are also enrolled in the mandatory provident fund scheme.

Other Information

SHARE OPTION SCHEME

The existing share option scheme (the "Scheme"), which was adopted by the Company pursuant to a written resolution of the sole shareholder of the Company passed on 10 November 2004 is for the primary purpose of providing a flexible means of giving incentives to, rewarding, remunerating, compensating and/or providing benefits to the following participants, and for such other purposes as the Board may approve from time to time:

(i) any executive or non-executive director including any independent non-executive director or any employee (whether full-time or part-time) of any member of the Group;

(ii) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or any employee, executive or non-executive director of any member of the Group;

(iii) any consultant, professional and other advisers to any member of the Group;

(iv) any chief executive or substantial shareholder of any member of the Group;

(v) any associate of any director, chief executive or substantial shareholder of any member of the Group; and

(vi) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up Options.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the total number of shares of the Company in issue at any point of time unless otherwise approved by the Company's shareholders.

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme and any other share option scheme (if any) adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue unless otherwise approved by the Company's shareholders. Where any grant of options to a substantial shareholder, an independent non-executive director, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent non-executive director of the Company) would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the shares of the Company in issue; and

(ii) having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant in excess of HK$5 million,

Other Information

such grant of option shall be subject to prior approval of the shareholders of the Company who are not connected persons of the Company as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

An option must be exercised within 10 years from the date of grant or such shorter period as the Board may notify to the grantee.

Option granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Scheme has a life of 10 years and will expire on 9 November 2014 unless otherwise terminated in accordance with the terms of the Scheme.

However, no option was granted, exercised, cancelled or lapsed during the six months ended 30 June 2011 and as at the date of this report since adoption.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2011, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2011, the interests and short positions of the Directors and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") to be notified to the Company and the Stock Exchange, were as follows: Mr. Li Zhenjiang, a Director, is deemed to be interested in 476,374,416 shares of the Company ("Shares") representing approximately 57.60% of the issued share capital of the Company. These 476,374,416 Shares are held by Forway Investment Limited ("Forway"). Forway is owned as to 100% by Trustcorp Limited, a trust company, in its capacity as the trustee of The Li Family 2004 Trust. The Li Family 2004 Trust is a discretionary trust, the founder (as defined in the SFO) of which is Mr. Li Zhenjiang and the discretionary objects of which are family members of Mr. Li Zhenjiang (excluding Mr. Li Zhenjiang himself). Accordingly, Mr. Li Zhenjiang is deemed to be interested in such 476,374,416 Shares under the SFO.

Other Information

Save as disclosed above, as at 30 June 2011, none of the directors of the Company or their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at 30 June 2011, interest of every person (other than a director or chief executive of the Company as disclosed in the section "Directors' Interests in Shares" above) in the shares and underlying shares in the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
Forway	Beneficial owner	476,374,416 (L)	57.60%
Trustcorp Limited (Notes 1 and 2)	Trustee of discretionary trust	476,374,416 (L)	57.60%
Newcorp Limited (Note 1)	Interest in controlled corporation	476,374,416 (L)	57.60%
JPMorgan Chase & Co. (Note 3)	Beneficial owner, investment manager and custodian corporation/ approved lending agent	57,254,056 (L)	6.92%
	Custodian corporation/ approved lending agent	6,470,056 (P)	0.78%
Value Partners Limited (Note 4)	Investment manager	49,678,000 (L)	6.00%
Value Partners Group Limited (Note 4)	Interest in controlled corporation	49,678,000 (L)	6.00%
Cheah Capital Management Limited (Note 4)	Interest in controlled corporation	49,678,000 (L)	6.00%
Cheah Company Limited (Note 4)	Interest in controlled corporation	49,678,000 (L)	6.00%
Hang Seng Bank Trustee International Limited (Note 4)	Trustee	49,678,000 (L)	6.00%
Cheah Cheng Hye (Note 4)	Founder of a discretionary trust	49,678,000 (L)	6.00%
To Hau Yin (Note 4)	Interest of spouse	49,678,000 (L)	6.00%

L denotes long position.
P denotes lending pool.

Other Information

Notes:

(1) Interests of Forway, Trustcorp Limited and Newcorp Limited in the Shares were duplicated.

(2) The entire issued share capital of Forway is owned by Trustcorp Limited in its capacity as the trustee of The Li Family 2004 Trust, a discretionary trust, the founder (as defined in the SFO) of which is Li Zhenjiang and the discretionary objects of which are family members of Li Zhenjiang (excluding Li Zhenjiang himself). Trustcorp Limited is wholly-owned by Newcorp Limited. Accordingly, Trustcorp Limited and Newcorp Limited are deemed to be interested in the 476,374,416 Shares held by Forway under the SFO.

(3) The interest of JPMorgan Chase & Co. was attributed on account through a number of its direct or indirect wholly-owned subsidiaries except China International Fund Management Co Ltd which was held by JPMorgan Chase & Co. as to 49% indirectly.

Amongst the total of 57,254,056 Shares held by JPMorgan Chase & Co., 734,000 Shares were held as beneficial owner, 50,050,000 Shares were held as investment manager, and 6,470,056 shares were held as custodian corporation/approved lending agent.

(4) These Shares are held by Value Partners Limited as investment manager. Value Partners Limited is wholly controlled by Value Partners Group Limited, which in turn is controlled as to 28.69% by Cheah Capital Management Limited. Cheah Capital Management Limited is wholly controlled by Cheah Company Limited, which in turn is wholly controlled by Hang Seng Bank Trustee International Limited (as trustee of The C H Cheah Family Trust). Cheah Cheng Hye is the founder of the said trust and To Hau Yin is the spouse of Cheah Cheng Hye.

Save as disclosed above, as at 30 June 2011, the Company had not been notified by any persons who (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied and complied with the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2011, except for the following deviations:

1. Chairman and chief executive officer

The Code provision A.2.1 of the Code stipulates that the roles of chairman of the board (the "Chairman") and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between Chairman and chief executive officer should be clearly established and set out in writing. The Company does not use the title "Chief Executive Officer". The duty of the chief executive officer has been assumed by the president of the Company (the "President").

Mr. Li Zhenjiang has been both the Chairman and President of the Company. His responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and President in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider appropriate adjustment should suitable circumstance arise.

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2. Effective communication

The Code provision E.1.2 stipulates that the Chairman should attend the annual general meeting ("AGM") of the Company. The Chairman did not attend the 2010 AGM due to other business engagement. An executive director had chaired the 2010 AGM and answered questions from shareholders. The chairman of the Audit and Remuneration Committee was also available to answer questions at the 2010 AGM.

COMPLIANCE WITH THE MODEL CODE

The Company adopts the Model Code in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealing in the Company's securities. The Company made specific enquiries with each Director and each of them confirmed that he or she had complied with the Model Code during the period ended 30 June 2011.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and external auditors the accounting principles and policies adopted by the Group and the Interim Report for the six months ended 30 June 2011.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 19 October 2011 to 20 October 2011 (both days inclusive). In order to qualify for the 2011 interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 18 October 2011.

We are delighted by the trust and support of our shareholders and those who care about the Company. On behalf of the Board, we would like to take this opportunity to thank all of you, as well as our employees who made tremendous efforts to achieve the growth in our results during the period.

By order of the Board
China Shineway Pharmaceutical Group Limited

Li Zhenjiang
Chairman

Hong Kong, 31 August 2011

Report on Review of Interim Financial Information

Deloitte.
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TO THE BOARD OF DIRECTORS OF
CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED
中國神威藥業集團有限公司
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 22 to 36, which comprises the condensed consolidated statement of financial position of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries as of 30 June 2011 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 August 2011

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

		Six months ended 30 June	
		2011	2010
		RMB'000	RMB'000
	NOTES	**(Unaudited)**	(Unaudited)
Turnover	3	**1,048,266**	936,192
Cost of sales		**(350,171)**	(285,159)
Gross profit		**698,095**	651,033
Other income		**65,261**	35,761
Investment income		**28,164**	27,550
Net exchange loss		**(1,740)**	(7,025)
Distribution costs		**(124,644)**	(136,032)
Administrative expenses		**(84,347)**	(64,472)
Research and development costs		**(13,677)**	(6,291)
Profit before taxation		**567,112**	500,524
Taxation	4	**(128,585)**	(79,833)
Profit and total comprehensive income for the period	5	**438,527**	420,691
Profit and total comprehensive income for the period attributable to owners of the Company		**438,527**	420,691
Earnings per share – basic	7	**RMB53 cents**	RMB51 cents

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2011

	NOTES	30.6.2011 RMB'000 (Unaudited)	31.12.2010 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**944,073**	776,781
Prepaid lease payments	9	**152,399**	153,496
Intangible assets		**1,798**	2,165
Goodwill		**91,663**	91,663
Deferred tax assets		**25,129**	6,633
		1,215,062	1,030,738
Current assets			
Inventories		**242,946**	191,925
Trade receivables	10	**10,535**	6,956
Bills receivables	10	**420,096**	263,761
Prepayments, deposits and other receivables		**104,157**	94,670
Investments in debt securities	11	**126,620**	–
Pledged bank deposits		**27,061**	35,068
Bank balances and cash		**2,007,876**	2,349,021
		2,939,291	2,941,401
Current liabilities			
Trade payables	12	**234,057**	167,760
Bills payables	12	**27,061**	35,068
Other payables and accrued expenses		**298,996**	399,367
Amounts due to related companies		**9,009**	9,020
Deferred income		**2,600**	2,600
Tax liabilities		**61,484**	52,943
		633,207	666,758
Net current assets		**2,306,084**	2,274,643
Total assets less current liabilities		**3,521,146**	3,305,381

Condensed Interim Financial Report

	NOTES	30.6.2011 RMB'000 (Unaudited)	31.12.2010 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		**17,606**	1,138
Deferred income		**74,666**	74,666
		92,272	75,804
		3,428,874	3,229,577
Capital and reserves			
Share capital	13	**87,662**	87,662
Reserves		**3,340,612**	3,141,915
Equity attributable to owners of the Company		**3,428,274**	3,229,577
Non-controlling interests		**600**	–
		3,428,874	3,229,577

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory surplus reserve fund RMB'000	Discretionary surplus reserve fund RMB'000	Accumulated profits RMB'000	Total equity attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011 (audited)	**87,662**	**982,408**	**83,758**	**374,944**	**154,760**	**1,546,045**	**3,229,577**	**–**	**3,229,577**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**438,527**	**438,527**	**–**	**438,527**
Capital contribution from non-controlling interests of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**600**	**600**
Transfers	**–**	**–**	**–**	**13,931**	**–**	**(13,931)**	**–**	**–**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(239,830)**	**(239,830)**	**–**	**(239,830)**
At 30 June 2011 (unaudited)	**87,662**	**982,408**	**83,758**	**388,875**	**154,760**	**1,730,811**	**3,428,274**	**600**	**3,428,874**
At 1 January 2010 (audited)	87,662	982,408	83,758	361,585	154,760	1,051,908	2,722,081	–	2,722,081
Profit and total comprehensive income for the period	–	–	–	–	–	420,691	420,691	–	420,691
Transfers	–	–	–	14,087	28,914	(43,001)	–	–	–
Dividends paid	–	–	–	–	–	(223,290)	(223,290)	–	(223,290)
At 30 June 2010 (unaudited)	87,662	982,408	83,758	375,672	183,674	1,206,308	2,919,482	–	2,919,482

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**189,238**	348,785
Investing activities:		
Interest received	**28,164**	27,550
Purchase of property, plant and equipment and land use rights	**(198,996)**	(110,905)
Investments in debt securities	**(126,620)**	–
Deposit paid for prepaid lease payments	**–**	(73,206)
Acquisition of subsidiaries	**–**	(54,579)
Proceeds from disposal of property, plant and equipment	**34**	–
Purchase of intangible assets	**–**	(80)
Increase in pledged bank deposits	**(27,061)**	(143,001)
Decrease in pledged bank deposits	**35,068**	86,739
Net cash used in investing activities	**(289,411)**	(267,482)
Financing activities:		
Capital contribution from non-controlling interests of a subsidiary	**600**	–
Dividends paid	**(239,830)**	(223,290)
Repayment of loans from staff	**–**	(16,430)
Net cash used in financing activities	**(239,230)**	(239,720)
Net decrease in cash and cash equivalents	**(339,403)**	(158,417)
Cash and cash equivalents at beginning of the period	**2,349,021**	2,318,189
Effect of foreign exchange rate changes	**(1,742)**	(7,024)
Cash and cash equivalents at end of the period, representing bank balances and cash	**2,007,876**	2,152,748

Condensed Interim Financial Report

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

1. GENERAL

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with International Accounting Standard 34 "Interim Financial Reporting" issued by International Accounting Standards Board ("IASB").

The Group's interim financial information is presented in Renminbi ("RMB") which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, a number of new or revised standards, amendments and interpretations ("new or revised IFRSs").

The application of the new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

IFRS 7 (Amendments)	Disclosures – Transfers of financial assets[1]
IFRS 9	Financial instruments[2]
IFRS 10	Consolidated financial statements[2]
IFRS 11	Joint arrangements[2]
IFRS 12	Disclosures of interests in other entities[2]
IFRS 13	Fair value measurement[2]
IAS 1 (Amendments)	Presentation of items of other comprehension income[3]
IAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[4]
IAS 19 (Revised 2011)	Employee benefits[2]
IAS 27 (Revised 2011)	Separate financial statements[2]
IAS 28 (Revised 2011)	Investments in associates and joint ventures[2]

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

The directors of the Company anticipate that the application of these new and revised standards will have no material impact on the results and financial position of the Group.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amount received and receivable from sales of Chinese pharmaceutical products.

The Group's operation was regarded as a single segment, being an enterprise engaged in research and development, manufacture and trading of Chinese pharmaceutical products. The Chairman of the Board of Directors of the Group, being the chief operating decision maker, reviews the revenue and the profit for the year of the Group as a whole for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the chief operating decision maker. Therefore, the operation of the Group constitutes one single reportable segment.

4. TAXATION

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**109,221**	82,239
Underprovision in prior year	**13,892**	–
Withholding tax paid on distributed profits	**7,500**	–
Deferred tax	**(2,028)**	(2,406)
	128,585	79,833

The income tax expense is recognised based on management's best estimated weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual tax rate used is 15% for the periods under review.

Pursuant to the 國稅函(2009) 203號, the PRC EIT rate applicable to Shineway Pharmaceutical Co., Ltd., Hebei Shineway Pharmaceutical Co., Ltd. and Shineway Pharmaceutical (Zhangjiakou) Co., Ltd. is 15% on their taxable income for both periods.

Pursuant to the 藏政發(2008) 78號 and the 藏政發(2011) 14號 the PRC EIT rate applicable to Xizang Shineway Pharmaceutical Co., Ltd. is 15% from 2010 to 2020 on its taxable income.

Included in the current tax amount is an amount of RMB18,667,000 in relation to a government grant received in the prior year. During the current period end, the tax authority imposed tax on the government grant which was recognised as deferred income as at 31 December 2010. A corresponding deferred tax asset has been recognised in the current period which will be reversed to profit or loss when the deferred income is recognised in the profit or loss.

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Allowance for doubtful debts	**–**	2,203
Amortisation of prepaid lease payments	**1,703**	749
Depreciation of property, plant and equipment	**31,654**	24,125
Government subsidies (included in other income) (Note)	**(65,045)**	(34,374)
Interest income from bank deposits	**(28,164)**	(27,550)
Loss on disposal of property, plant and equipment	**18**	27

Note: The government grants represent incentives received from the local government of the PRC by the subsidiaries in relation to business development and expansion in relevant regions in the PRC.

6. DIVIDENDS

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends		
– 2010 final dividend of RMB12 cents (2009: RMB12 cents) per share paid	**99,240**	99,240
– 2010 special dividend of RMB17 cents (2009: RMB15 cents) per share paid	**140,590**	124,050
	239,830	223,290
– 2011 interim dividend of RMB11 cents (2010: RMB11 cents) per share	**90,970**	90,970

6. DIVIDENDS *(Continued)*

Dividend declared

The interim dividend of RMB11 cents per share which was proposed by the directors of the Company for the period has been calculated on the basis of 827,000,000 shares in issue as at 31 August 2011.

7. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	**438,527**	420,691

	Six months ended 30 June	
	2011	2010
Number of ordinary shares for the purpose of basic earnings per share	**827,000,000**	827,000,000

No diluted earnings per share has been presented as there were no dilutive potential ordinary shares for both periods.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired plant and machinery of RMB9,097,000 (2010: RMB6,514,000), office equipment of RMB1,773,000 (2010: RMB1,968,000), motor vehicles of Nil (2010: RMB976,000) and made additions to construction in progress of RMB188,126,000 (2010: RMB101,447,000).

9. PREPAID LEASE PAYMENTS

	30.6.2011 RMB'000 (Unaudited)	31.12.2010 RMB'000 (Audited)
At beginning of the period/year	**157,509**	63,345
Acquired on acquisition of subsidiaries	**–**	22,800
Additions during the period/year	**–**	74,666
Expense for the period/year	**(1,703)**	(3,302)
At end of the period/year	**155,806**	157,509
Medium-term leasehold land in PRC		
Current portion (included in other receivables)	**3,407**	4,013
Non-current portion	**152,399**	153,496
	155,806	157,509

10. OTHER FINANCIAL ASSETS

	30.6.2011 RMB'000 (Unaudited)	31.12.2010 RMB'000 (Audited)
Trade receivables	**10,535**	6,956
Bills receivables	**420,096**	263,761
	430,631	270,717

The Group allows credit periods normally ranging from six months to one year to its trade customers. An aged analysis of the bills and trade receivables based on the invoice date is as follows:

	30.6.2011 RMB'000 (Unaudited)	31.12.2010 RMB'000 (Audited)
0 – 180 days	**430,631**	270,717

11. INVESTMENTS IN DEBT SECURITIES

	30.6.2011	31.12.2010
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Investment in debt securities represented:		
Investment plans	**126,620**	–

As at 30 June 2011, the amount represented unlisted investment plans arranged by the bank for investment in various debt securities. The underlying debt securities invested by the bank are unlisted corporate entities' bills receivables.

The Group is entitled to a 100% principal protection clause for the investment plans of the unlisted corporate entities' bills receivables. The interest income from the investment plans are determined based on the interest income generated from the underlying debt securities.

The investment plans were stated at amortised cost less any impairment loss. They will mature in October 2011 at a fixed interest rate of 4.5% per annum.

12. OTHER FINANCIAL LIABILITIES

	30.6.2011	31.12.2010
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade payables	**234,057**	167,760
Bills payables	**27,061**	35,068
	261,118	202,828

12. OTHER FINANCIAL LIABILITIES *(Continued)*

An aged analysis of the Group's trade and bills payables at 30 June 2011 is as follows:

	30.6.2011	31.12.2010
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 6 months	**215,718**	175,947
Over 6 months but less than 1 year	**32,819**	5,521
Over 1 year but less than 2 years	**1,321**	12,828
Over 2 years	**11,260**	8,532
	261,118	202,828

Trade and bills payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases range from two months to six months.

13. SHARE CAPITAL

	Number of shares	**Amount**
	'000	RMB'000
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2010, 31 December 2010 and 30 June 2011	5,000,000	530,000
Issued and fully paid:		
Balance at 1 January 2010, 31 December 2010 and 30 June 2011	827,000	87,662

There were no changes in the Company's authorised, issued and fully paid share capital during the period.

14. ACQUISITION OF SUBSIDIARIES

In April 2010, the Group acquired a 100% equity interest in Shineway Pharmaceutical (Zhangjiakou) Company Limited and a 100% equity interest in Sichuan Kalituo Pharmaceutical Limited. The details of the acquisitions have been disclosed in the annual report of the Group for the year ended 31 December 2010.

15. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with related parties:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of goods to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (Note)	**891**	105
Rental expenses paid to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (Note)	**310**	310
Service fee to Shineway Medical (Note)	**3,335**	3,269
Service fee to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note)	**857**	839

Note: Shineway Drugstores, Shineway Medical and Shineway Lang Fang are all ultimately controlled by the controlling shareholder of the Company.

Compensation of key management personnel

The key management personnel are Directors. Details of the remuneration paid to them during the period were as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	**1,843**	2,253
Post-employment benefits	**–**	5
	1,843	2,258

16. COMMITMENTS

(a) Operating lease commitments

At 30 June 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2011 **RMB'000** **(Unaudited)**	31.12.2010 RMB'000 (Audited)
Within one year	**1,622**	2,007
In the second to fifth year inclusive	**1,899**	2,235
	3,521	4,242

Operating lease payments represent rentals payable by the Group for certain of its warehouse, staff quarters and offices. Leases are negotiated for terms ranging from one to three years with fixed rental.

(b) Capital commitments

At 30 June 2011, capital expenditure of RMB436,603,000 (31.12.2010: RMB505,822,000) in respect of acquisition of property, plant and equipment is contracted for but not provided in the condensed consolidated financial statements.