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 2012

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

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

Nomination Committee

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

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 2012, the operating results of the Group were as follows:

– Turnover reached RMB1,002,265,000, a decrease of 4.4% from the corresponding period of last year;

– Gross profit margin was 65.1% as compared to 66.6% of the corresponding period of last year;

– Profit for the period amounted to RMB354,972,000, a decrease of 19.1% over the corresponding period of last year;

– Earnings per share amounted to RMB43 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 2012, the Group's prescription and over-the-counter ("OTC") medicines accounted for approximately 74.5% and 25.5% 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 2012, approximately 42.8% 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 28.3% and 28.9% 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

- Huamoyan Granule: for treatment of both acute and chronic synovitis and treatment after joint surgery

Company Overview

- Shujin Tongluo Granule: for treatment of spondylosis, neck stiffness and symptoms such as pains of neck, shoulder and back

- Jianzhi Tongluo Soft Capsule: for treatment of symptoms such as hyperlipidemia, chest and hypochondrium pain and chest tightness

- Fufang Shexiang Injection: for treatment of stroke and coma induced by nausea and phlegm and is effective in loosening phlegm, tranquillizing and calming the minds of patients

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 2012, the Group recorded a turnover of RMB1,002,265,000, a decrease of 4.4%. Sales by product form for the period are set out as follows:

	Sales	Product mix	Growth rate
Injections	RMB548,447,000	54.7%	–7.3%
Soft Capsules	RMB224,157,000	22.4%	–5.9%
Granules	RMB181,753,000	18.1%	–1.1%
Other product formats	RMB47,908,000	4.8%	38.8%

The Group's profit attributable to owners of the Company for the period ended 30 June 2012 is RMB354,986,000 representing a decrease of 19.1% as compared to the corresponding period of last year. The declines in profit and turnover are mainly caused by price adjustments of certain products and increase in price of raw materials.

Injection Products

For the first six months of 2012, the Group sold RMB548,447,000 of injection products, representing a drop of 7.3% from the same period of last year. For the first six months of 2012, injection products accounted for 54.7% of the Group's total turnover as compared to 56.5% for the same period of last year. In the first half of 2012, injection products only recorded a slide. This was mainly attributable to the decline in sales of Qing Kai Ling Injection.

Soft Capsule Products

For the first six months of 2012, the Group recorded RMB224,157,000 on sales of soft capsule products, representing a decline of 5.9% from the same period of last year. This was mainly due to the sales of Huo Xiang Zheng Qi Soft Capsule and Wu Fu Xin Nao Qing Soft Capsule recorded decrease as compared to the same period of last year.

Soft capsule products accounted for 22.4% of the Group's turnover for the first six months of 2012, as compared to 22.7% 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.

Granule Products

Sales of granule products in the first six months of 2012 had slightly decreased by 1.1% as compared to the same period of last year, amounting RMB181,753,000. This was mainly resulted from the sales decline of pediatric granule series.

Management Discussion and Analysis

Granule products accounted for 18.1% of the Group's turnover for the first six months of 2012 as compared to 17.5% of the same period of 2011. 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 2012 had increased by 38.8% as compared to the same period of last year, amounted to RMB47,908,000. The increase was mainly attributable to the rise in sales of Fufang Gancao Pian and pediatric oral syrup series as compared to the same period last year.

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 2012 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 Antibacterial Medicines issued by the Ministry of Health of the PRC which was implemented on 1 August 2012, will restrict the overuse of antibacterial medicines in clinics and bring new opportunities for development of modern Chinese medicine, 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.

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

For the first six month of 2012, sales of Shen Mai Injection had decreased as compared to the corresponding period of last year.

Management Discussion and Analysis

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

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 2012, 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" 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 2012 of Wu Fu Xin Nao Qing Soft Capsule decreased 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 2012 of Huo Xiang Zheng Qi Soft Capsule declined as compared to the corresponding period of last year.

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.

Management Discussion and Analysis

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 a decrease 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 2012 of Huang Qi Injection had decreased 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. 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 decreased 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.

Huamoyan Granule – for treatment of both acute and chronic synovitis and treatment after joints surgery

Sales of Huamoyan Granule had increased as compared to the same period of last year.

Management Discussion and Analysis

Synovitis is currently a relatively common type of arthropathy which widely affects the mid-aged group, senior citizens, athletes and patients after joints surgeries. Huamoyan Granule produced by the Group is the first innovative medicine approved by the State Food and Drug Administration for the treatment of synovitis. It is an original and self-developed product with proprietary formulations, marking a milestone for the treatment of synovitis and bringing the same to a new height. With the Group's intensified presence in the end market of hospitals and the advancement of the promotion to professionals and academics, this product has obtained sound performance and returns from the market with an on-going momentum for growth.

Shujin Tongluo Granule – for treatment of spondylosis, neck stiffness and symptoms such as pains of neck, shoulder and back

Sales for the first six months of 2012 of Shujin Tongluo Granule had increased as compared to the same period of last year.

The increase in the number of people who tilt down their heads during work has resulted in a growing prevalence of spondylosis nowadays, and the disease has also shown a trend of younger. Shujin Tongluo Granule produced by the Group is currently the only proprietary and multi-target Chinese medicine in the market which addresses both symptoms and root causes to continuously mitigate the symptoms of spondylosis. It also has a noticeable effect on curing both nerve root type and vertebral artery type of spondylosis, hence offering clinical doctors with a new choice for the treatment of spondylosis. After ongoing academic promotion in recent years, Shujin Tongluo Granule has achieved strong market growth.

Jianzhi Tongluo Soft Capsule – for treatment of symptoms such as hyperlipidemia, chest and hypochondrium pain and chest tightness

Sales for the first six months of 2012 of Jianzhi Tongluo Soft Capsule had increased as compared to the same period of last year.

Jianzhi Tongluo Soft Capsule produced by the Group is a national key new product jointly certified by four ministries and commissions, including the Ministry of Science and Technology of the PRC. It is used for revitalization of blood and "Qi" circulation and for lowering blood cholesterol. Jianzhi Tongluo Soft Capsule is superior to the existing blood cholesterol drugs in terms of effectiveness, and its liver protection ability provides what other similar clinical products lack, and is therefore a clear choice for patients undergoing long-term hyperlipidemia treatment. The Group will continue to promote the product to professionals and academics, provide physicians with information regarding the product and increase brand awareness so as to establish it as the best brand among other cholesterol-regulating drugs.

Fufang Shexiang Injection – for treatment of stroke and coma induced by nausea and phlegm and is effective in loosening phlegm, tranquillizing and calming the minds of patients

Sales of Fufang Shexiang Injection had increased as compared to the same period of last year.

Management Discussion and Analysis

Based upon the traditional formula of "Angong Niuhuang Wan", the Group's Fufang Shexiang Injection is a new generation of Chinese medicine widely used in the clinical treatment of various kinds of consciousness disturbance diseases. According to a number of literatures, Fufang Shexiang Injection is effective in easing brain damages as a result of cardiopulmonary resuscitation by treating it from multiple targets and in multiple aspects. This product represents a new approach to the treatment of brain damage caused by cardiopulmonary resuscitation and has a high market potential in the future.

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 21 patents for our inventions, and 19 invention patent applications are pending approval.

STATE PROTECTED CHINESE MEDICINES

As at 30 June 2012, the Group had 6 medicines listed as State Protected Chinese Medicines including Pediatric Qing Fei Hua Tan Granule, Jianzhi Tongluo Soft Capsule, Xuanmai Ganjie Lozenge, Jianyang Tablets, Yin Zhi Huang Injection and Jing Wu Granule.

PROSPECT

2012 is a critical year of refinement of medical reform in the PRC. Many policies related to drugs and medicine including the 2012 version of Essential Drug List, policy regarding medicine bid, the reform of public hospitals and pricing policy of drugs, are anticipated to launch and are closely attended by the market. The first stage of the two-envelope and centralized bidding system of essential drugs at provincial level, was implemented and essentially completed in various provinces, resulting in a lower chance or lower price of successful bid for large-sized enterprises of general medicine (普藥), which directly affected the sales income and profit of medicine enterprises. It should be noted that compared the Shanghai Model (上海模式) with the Anhui Model (安徽模式), it complements the inadequacy of Anhui Model by means of enhancing quality, which echoes with that of the latest Guangdong essential drugs bidding system. The introduction of these policies will turn around the situation of extremely low price of certain essential drugs and wicked competitions in pricing, the drugs' price are in hope to be adjusted to its reasonable level, thus benefiting large-sized enterprises of general medicine.

Management Discussion and Analysis

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.

According to the Twelfth Five-Year Plan of Chinese Medicine Enterprise Development, it is believed that a group of renowned Chinese medicine enterprises will be developed via the enlarged investments and the development of a more comprehensive investment safeguard system. 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.

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, expedite the launching of healthcare products, strengthening evolution of terminal markets, emphasis on core momentum of sales and research and development functions and conducting mergers, acquisitions and consolidations, so as to seek the maximum benefits and returns for China Shineway and its shareholders.

Management Discussion and Analysis

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 and commenced production in last year. Our new injection workshop has completed its construction and is at its final testing stage, the production of which is expected to commence before the end of 2012. Our new extraction workshops will complete its construction by the end of 2012 and the production of which is expected to commence in 2013. At the appointed time, 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 Strategies

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

2. Further 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 (namely Huang Qi Injection, Qing Kai Ling Soft Capsule, Huamoyan Granule, Shujin Tongluo Granule, Jianzhi Tongluo Soft Capsule and Fufang Shexiang Injection), so each would have annual sales of over RMB100 million.

4. Increase investments in research and development – to form a pipeline of innovative products manufactured by advanced technology, expand the product cluster of China Shineway.

Marketing Strategies

1. Continue to expand sales covering prescription medicines, OTC medicines and the "Primary Medical Institutions" (hospitals of factories and mining fields, community clinics and rural healthcare centers) to strengthen sales support and management.

2. Increase in participation of Essential Drugs and other 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.

Management Discussion and Analysis

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 2012, the Group continued to produce modern Chinese medicine products of good efficacy and high quality. Due to the price adjustment effect of certain products, the Group's turnover had dropped by 4.4% as compared to the same period of last year. Sales of our injection products was down by 7.3% to RMB548,447,000, which is equivalent to 54.7% of the Group's total turnover. Sales of soft capsule products was down 5.9% to RMB224,157,000, accounting for 22.4% of the Group's total turnover. Sales of granule products was slightly down 1.1% to RMB181,753,000, accounting for 18.1% of the Group's total turnover. The Group had also sold RMB47,908,000 of medicines in other formats which was about 4.8% of the Group's turnover.

During the period, sales of medicines for treating cardiovascular illness, anti-viral and medicines for treating other illnesses respectively accounted for 42.8% (for the corresponding period of 2011: 42.1%), 28.3% (for the corresponding period of 2011: 29.8%) and 28.9% (for the corresponding period of 2011: 28.1%) of the Group's total turnover.

Sales of prescription and OTC medicines of the Group for the first six months of 2012 were RMB746,608,000 and RMB255,657,000, equal to 74.5% and 25.5% of the Group's turnover respectively.

Cost of Sales

Cost of sales for the first six months of 2012 was RMB349,650,000, equals to 34.9% of turnover. Direct materials, direct labour and other production costs accounted for 74.7%, 8.3% and 17.0% of the total production costs respectively.

Gross Profit Margin

During the first six months of 2012, the Group's overall gross profit margin decreased to 65.1% as compared to 66.6% of same period of last year.

Management Discussion and Analysis

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

Other Income

Other income mainly includes government subsidies of RMB41,428,000 (for the corresponding period of 2011: RMB65,045,000). 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 and investments in debt related products of RMB10,047,000 (for the corresponding period of 2011: RMB15,888,000) and RMB35,733,000 (for the corresponding period of 2011: RMB12,276,000) respectively.

Selling and distribution Costs

Selling and distribution costs for the first six months of 2012 soared 56.7% from the corresponding period of last year and were equal to 19.5% of the Group's turnover (for the corresponding period of 2011: 11.9%). The increase was mainly due to the increase of advertising expenses by 164%. Advertising expenses accounted for 11.1% of the Group's turnover (for the corresponding period of 2011: 4.0%).

Administrative Expenses

Administrative expenses increased by 21.7%, as compared to the first six months of last year, which is in line with our growth in business activities. Administrative expenses accounted for 10.2% of the Group's turnover (for the corresponding period of 2011: 8.1%). Administrative expenses also comprised of salaries and wages, social security outlay and non-production depreciation expenses which accounted for 2.5%, 1.9% and 1.0% respectively (for the corresponding period of 2011: 1.5%, 1.4% and 1.2%) of the Group's turnover.

Net Exchange Loss

The Group posted a net exchange loss of RMB2,771,000 for the first six months of 2012 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.

Certain subsidiaries which are operating in the Western China or recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both periods. The tax concessions granted to certain subsidiaries operating in the Western China will expire in 2020. In addition, a subsidiary which is intended to operate in agricultural products business has been granted tax exemption by the local tax bureau.

Management Discussion and Analysis

Interim Dividend

The Board of Directors of the Company (the "Board") resolved to declare an interim dividend of RMB11 cents per share amounting to RMB90,970,000 in respect of the six months ended 30 June 2012 and are calculated on the basis of 827,000,000 shares issued as at 31 August 2012 (for the six months ended 30 June 2011: RMB11 cents per share, amounting to approximately RMB90,970,000), which will be paid on 31 October 2012, to the shareholders whose names appear on the Company's register of members on 18 October 2012.

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 2012 (RMB1=HK$1.222). Accordingly, the amount payable on 31 October 2012 will be HK$0.1344 per share.

Capital Structure

For the six months ended 30 June 2012, there was no change in the capital structure and issued share capital of the Group as compared to those on 31 December 2011.

Liquidity and Financial Resources

As at 30 June 2012, bank deposits of the Group, amounting to RMB2,132,410,000 (31 December 2011: RMB2,172,812,000) which comprised of RMB1,977,932,000 (31 December 2011: RMB2,076,407,000), were denominated in Renminbi. Others, being equivalent to RMB154,337,000 and RMB141,000 (31 December 2011: RMB96,230,000 and RMB175,000), were denominated in Hong Kong Dollars and United States Dollars respectively.

During the first six months in 2012, 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.

Bills and Trade Receivables

Bills and trade receivables as at 30 June 2012 decreased by 3.8% and increased by 94.1% respectively from 31 December 2011. Turnover days of bills and trade receivables were 72 days and 4 days respectively (for the corresponding period of 2011: 60 days and 2 days respectively).

Management Discussion and Analysis

Inventories

Inventories balance as at 30 June 2012 decreased by 20.6% from 31 December 2011. By inventory categories, raw materials, work in progress and finished products respectively accounted for 41.7%, 29.8% and 28.5% of inventories as at 30 June 2012 (31 December 2011: 48.9%, 20.2% and 30.9% respectively).

Turnover days for finished products in the first six months of 2012 were 40 days (for the corresponding period of 2011: 27 days).

Property, Plant and Equipment

In the first six months of 2012, the Group acquired buildings of RMB1,171,000, plant and machinery of RMB12,456,000, office equipment of RMB2,610,000, motor vehicles of RMB44,000 and addition to construction in progress of RMB181,882,000 includes the Modern Chinese Medicine Park projects.

For the six months ended 30 June 2012, depreciation for property, plant and equipment amounted to RMB33,646,000 as compared to RMB31,654,000 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.

Trade Payables

During the period under review, turnover days of trade payables were 129 days (for the corresponding period of 2011: 117 days).

Loans and Bank Borrowings

The Group did not have any loans or bank borrowings as at 30 June 2012 (31 December 2011: Nil). Accordingly the gearing ratio with reference to interest bearing debt for the period is nil (31 December 2011: Nil).

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2012 (31 December 2011: Nil).

Management Discussion and Analysis

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 2012 was arising from the change in exchange rate between Renminbi and Hong Kong dollars. As at 30 June 2012, 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 2012, the Group has 3,837 employees (31 December 2011: 4,063 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, 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 2012 and as at the date of this report since adoption.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2012, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2012, 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 522,363,416 shares of the Company ("Shares") representing approximately 63.16% of the issued share capital of the Company. These 522,363,416 Shares are held by Forway Investment Limited ("Forway"). Forway is owned as to 100% by Fiducia Suisse SA, 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 522,363,416 Shares under the SFO.

Other Information

Save as disclosed above, as at 30 June 2012, 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 2012, 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	522,363,416	63.16%
Fiducia Suisse SA (Notes 1 and 2)	Trustee of discretionary trust	522,363,416	63.16%
David Henry Christopher HILL (Note 1 and 3)	Interest of controlled corporation	522,363,416	63.16%
Rebecca Ann HILL (Note 1,3 and 4)	Interest of spouse	522,363,416	63.16%

Notes:

(1) Interests of Forway, Fiducia Suisse SA, David Henry Christopher HILL and Rebecca Ann HILL in the Shares were duplicated.

(2) The entire issued share capital of Forway is owned by Fiducia Suisse SA 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).

(3) David Henry Christopher HILL is a controlling shareholder of Fiducia Suisse SA. Accordingly, David Henry Christopher HILL is deemed to be interested in the 522,363,416 Shares held by Forway under the SFO.

(4) This interest is in fact the same block of 522,363,416 Shares as disclosed by David Henry Christopher HILL.

Save as disclosed above, as at 30 June 2012, 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.

Other Information

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "Code") contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2012, except for code provision A.2.1 as described below.

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.

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 2012. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code for six months ended 30 June 2012. No incident of non-compliance with these written guidelines by the relevant employees was noted by the Company.

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 2012.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 17 October 2012 to 18 October 2012 (both days inclusive). In order to qualify for the 2012 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 16 October 2012.

Other Information

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 2012

Report on Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

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 condensed consolidated financial statements of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 40, which comprise the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and 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 these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 these condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 August 2012

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTES	Six months ended 30 June 2012 RMB'000 (Unaudited)	 2011 RMB'000 (Unaudited)
Turnover	3	**1,002,265**	1,048,266
Cost of sales		**(349,650)**	(350,171)
Gross profit		**652,615**	698,095
Other income		**41,783**	65,261
Investment income		**45,780**	28,164
Net exchange loss		**(2,771)**	(1,740)
Selling and distribution costs		**(195,346)**	(124,644)
Administrative expenses		**(102,646)**	(84,347)
Research and development costs		**(20,242)**	(13,677)
Profit before taxation		**419,173**	567,112
Taxation	4	**(64,201)**	(128,585)
Profit and total comprehensive income for the period	5	**354,972**	438,527
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**354,986**	438,527
Non-controlling interests		**(14)**	–
		354,972	438,527
Earnings per share – basic	7	**RMB43 cents**	RMB53 cents

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012

	NOTES	**30.6.2012 RMB'000 (Unaudited)**	31.12.2011 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**1,272,799**	1,108,304
Prepaid lease payments	9	**149,830**	150,449
Intangible assets		**1,063**	1,430
Goodwill		**91,663**	91,663
Deferred tax assets		**25,326**	25,825
		1,540,681	1,377,671
Current assets			
Inventories		**224,502**	282,772
Trade receivables	10	**26,006**	13,397
Bills receivables	10	**389,155**	404,320
Prepayments, deposits and other receivables		**95,717**	98,163
Tax recoverable		**5,324**	–
Pledged bank deposits		**16,292**	27,839
Bank balances and cash		**2,132,410**	2,172,812
		2,889,406	2,999,303
Current liabilities			
Trade payables	11	**230,069**	261,950
Bills payables	11	**14,799**	27,839
Other payables and accrued expenses		**261,610**	303,491
Amount due to a related company		**9,009**	9,009
Deferred income		**3,100**	3,100
Tax liabilities		**40,884**	40,890
		559,471	646,279
Net current assets		**2,329,935**	2,353,024
Total assets less current liabilities		**3,870,616**	3,730,695

Condensed Consolidated Financial Statements

	NOTES	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		**1,045**	1,076
Deferred income		**74,666**	74,666
		75,711	75,742
		3,794,905	3,654,953
Capital and reserves			
Share capital	12	**87,662**	87,662
Reserves		**3,706,681**	3,566,715
Equity attributable to owners of the Company		**3,794,343**	3,654,377
Non-controlling interests		**562**	576
		3,794,905	3,654,953

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	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 RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012 (audited)	**87,662**	**982,408**	**83,758**	**397,778**	**154,760**	**1,948,011**	**3,654,377**	**576**	**3,654,953**
Profit and total comprehensive income for the period	–	–	–	–	–	**354,986**	**354,986**	**(14)**	**354,972**
Transfers	–	–	–	**19,092**	–	**(19,092)**	–	–	–
Dividends paid	–	**(215,020)**	–	–	–	–	**(215,020)**	–	**(215,020)**
At 30 June 2012 (unaudited)	**87,662**	**767,388**	**83,758**	**416,870**	**154,760**	**2,283,905**	**3,794,343**	**562**	**3,794,905**
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

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**316,664**	189,238
Investing activities:		
Interest income received	**10,047**	15,888
Net proceeds from short-term debt related products	**29,663**	12,276
Purchase of property, plant and equipment	**(198,163)**	(198,996)
Payment for prepaid lease payments	**(1,210)**	–
Acquisition of debt related products	**(268,020)**	(126,620)
Proceeds from redemption of debt related products	**274,090**	–
Proceeds from disposal of property, plant and equipment	**–**	34
Decrease in pledged bank deposits	**11,547**	8,007
Net cash used in investing activities	**(142,046)**	(289,411)
Financing activities:		
Dividends paid	**(215,020)**	(239,830)
Capital contribution from non-controlling interests of a subsidiary	**–**	600
Net cash used in financing activities	**(215,020)**	(239,230)
Net decrease in cash and cash equivalents	**(40,402)**	(339,403)
Cash and cash equivalents at beginning of the period	**2,172,812**	2,349,021
Effect of foreign exchange rate changes	**–**	(1,742)
Cash and cash equivalents at end of the period, representing bank balances and cash	**2,132,410**	2,007,876

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

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 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 condensed consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements are prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, a number of amendments to the International Financial Reporting Standards ("IFRSs") that are mandatorily effective for the current interim period. The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or 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, amendments and interpretation that have been issued but are not yet effective.

Amendments to IFRSs	Annual improvements to IFRSs 2009 – 2011 cycle[1]
Amendments to IFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
IFRS 9	Financial instruments[2]
IFRS 10	Consolidated financial statements[1]
IFRS 11	Joint arrangements[1]
IFRS 12	Disclosure of interests in other entities[1]
IFRS 13	Fair value measurement[1]
Amendments to IAS 1	Presentation of items of other comprehensive income[3]
IAS 19 (as revised in 2011)	Employee benefits[1]
IAS 27 (as revised in 2011)	Separate financial statements[1]
IAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to IAS 32	Offsetting financial assets and financial liabilities[4]
IFRIC 20	Stripping costs in the production phase of a surface mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.

[2] Effective for annual periods beginning on or after 1 January 2015.

[3] Effective for annual periods beginning on or after 1 July 2012.

[4] Effective for annual periods beginning on or after 1 January 2014.

The directors of the Company anticipate that the application of these new and revised standards, amendments and interpretation 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 period 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	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**66,811**	109,221
(Over)underprovision in prior year	**(10,578)**	13,892
Withholding tax on distributed profits	**7,500**	7,500
Deferred tax	**468**	(2,028)
	64,201	128,585

The provision for PRC Enterprise Income Tax ("PRC EIT") is based on the estimated taxable income for PRC taxation purpose at the rate of taxation applicable for the period.

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 rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

4. TAXATION *(Continued)*

Certain subsidiaries which are operating in the Western China or recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both periods. The tax concessions granted to certain subsidiaries operating in the Western China will expire in 2020. In addition, a subsidiary which is intended to operate in agricultural products business has been granted tax exemption by the local tax bureau.

Included in the current tax amount for the period ended 30 June 2011 is an amount of RMB18,667,000 in relation to a government grant received in 2010 which was recognised as deferred income as at 31 December 2010. During the period ended 30 June 2011, the tax authority imposed tax on the government grant. A corresponding deferred tax asset has been recognised in 2011 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	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**367**	367
Amortisation of prepaid lease payments	**1,812**	1,703
Depreciation of property, plant and equipment	**33,646**	31,654
Government subsidies (included in other income) (Note a)	**(41,428)**	(65,045)
Interest income from bank deposits	**(10,047)**	(15,888)
Investment income from debt related products (Note b)	**(6,070)**	–
Investment income from short-term debt related products (Note c)	**(29,663)**	(12,276)
Loss on disposal of property, plant and equipment	**22**	18

Notes:

(a) The government subsidies represent the amounts received from the local government by the subsidiaries of the Company. In the current period, government subsidies of (a) RMB36,867,000 (2011: RMB65,045,000) represent incentive received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB4,561,000 (2011: nil) represent recognition of deferred income upon completion of related research activities.

(b) These debt related products were entered and matured during the period ended 30 June 2012 with effective interest rate ranged from 5.5% to 5.6% (2011: nil) per annum.

5. PROFIT FOR THE PERIOD *(Continued)*

(c) These short-term debt related products carried effective interest rate ranged from 4.7% to 6.1% (2011: 3.0% to 5.9%) per annum. In the opinion of the directors of the Company, these short-term debt related products are in large amounts, with quick turnover and short maturities. Accordingly, the cash receipts and payments for these short-term debt related products are presented on a net basis in the condensed consolidated statement of cash flows.

6. DIVIDENDS

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends		
– 2011 final dividend of RMB12 cents (2010: RMB12 cents) per share paid	**99,240**	99,240
– 2011 special dividend of RMB14 cents (2010: RMB17 cents) per share paid	**115,780**	140,590
	215,020	239,830
– 2012 interim dividend of RMB11 cents (2011: RMB11 cents) per share	**90,970**	90,970

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 2012, and will be paid to the shareholders of the Company whose names appear in the Company's register of member on 18 October 2012.

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	
	2012	2011
	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	**354,986**	438,527

	Six months ended 30 June	
	2012	2011
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 buildings at a cost of RMB1,171,000 (2011: nil), plant and machinery of RMB12,456,000 (2011: RMB9,097,000), office equipment of RMB2,610,000 (2011: RMB1,773,000), motor vehicles of RMB44,000 (2011: nil) and made additions to construction in progress of RMB181,882,000 (2011: RMB188,126,000).

9. PREPAID LEASE PAYMENTS

	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (Audited)
At beginning of the period/year	**153,901**	157,509
Additions during the period/year	**1,210**	–
Expense for the period/year	**(1,812)**	(3,608)
At end of the period/year	**153,299**	153,901
Medium-term leasehold land in PRC		
Current portion (included in other receivables)	**3,469**	3,452
Non-current portion	**149,830**	150,449
	153,299	153,901

10. TRADE AND BILLS RECEIVABLES

	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (Audited)
Trade receivables	**26,006**	13,397
Bills receivables	**389,155**	404,320
	415,161	417,717

10. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	30.6.2012 **RMB'000** **(Unaudited)**	31.12.2011 RMB'000 (Audited)
0 – 180 days	**415,161**	417,717

11. TRADE AND BILLS PAYABLES

	30.6.2012 **RMB'000** **(Unaudited)**	31.12.2011 RMB'000 (Audited)
Trade payables	**230,069**	261,950
Bills payables	**14,799**	27,839
	244,868	289,789

11. TRADE AND BILLS PAYABLES *(Continued)*

An aged analysis of the Group's trade and bills payables at 30 June 2012 is as follows:

	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (Audited)
Within 6 months	**192,920**	235,147
Over 6 months but less than 1 year	**20,293**	20,077
Over 1 year but less than 2 years	**20,690**	17,560
Over 2 years	**10,965**	17,005
	244,868	289,789

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.

12. SHARE CAPITAL

	Number of shares '000	**Amount** RMB'000
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2011, 31 December 2011 and 30 June 2012	5,000,000	530,000
Issued and fully paid:		
Balance at 1 January 2011, 31 December 2011 and 30 June 2012	827,000	87,662

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

13. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of goods to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (Note)	**–**	891
Rental expenses paid to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (Note)	**310**	310
Service fee to Shineway Medical (Note)	**3,401**	3,335
Service fee to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note)	**874**	857

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 of the Company. Details of the remuneration paid to them during the period were as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	**2,005**	1,843
Post-employment benefits	**8**	–
	2,013	1,843

14. COMMITMENTS

(a) Operating lease commitments

At 30 June 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2012 RMB'000 (Unaudited)	31.12.2011 RMB'000 (Audited)
Within one year	**1,620**	1,493
In the second to fifth year inclusive	**463**	1,044
	2,083	2,537

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 2012, capital expenditure of RMB592,801,000 (31.12.2011: RMB554,989,000) in respect of acquisition of property, plant and equipment is contracted for but not provided in the condensed consolidated financial statements.