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 2013

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman of the Board)*
Ms. Wang Zhihua *(resigned on 1 June 2013)*
Ms. Xin Yunxia
Mr. Li Huimin
Ms. Lee Ching Ton Brandelyn
Dr. Wang Zheng Pin *(appointed on 1 June 2013)*

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

Mr. Li Huimin
Ms. Wong Mei Shan

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 People's Republic of China ("PRC")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24, Shedden Road, George Town
Grand Cayman, KY1-1110, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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Wanchai
Hong Kong

PRINCIPAL BANKERS

China Construction Bank (Asia)

The Hongkong and Shanghai Banking Corporation Limited

Bank of China, Zhong Shan Branch
Shijiazhuang, Hebei Province

China Construction Bank,
Luan Cheng Branch,
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 2013, the operating results of the Group were as follows:

- Turnover reached RMB1,059,293,000, an increase of 5.7% from the corresponding period of last year;
- Gross profit margin was 66.7% as compared to 65.1% of the corresponding period of last year;
- Profit for the period amounted to RMB385,401,000, an increase of 8.6% over the corresponding period of last year;
- Earnings per share amounted to RMB47 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 2013, the Group's prescription and over-the-counter ("OTC") medicines accounted for approximately 80.0% and 20.0% 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 2013, approximately 45.8% 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 30.8% and 23.4% 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

- 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

over 60 medicines of the Group are included in the Essential Drug List.

Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 June 2013, the Group recorded a turnover of RMB1,059,293,000, an increase of 5.7% as compared to the corresponding period last year. Sales by product form for the period are set out as follows:

	Sales	Product mix	Growth rate
Injections	RMB625,170,000	59.0%	14.0%
Soft Capsules	RMB232,264,000	21.9%	3.6%
Granules	RMB165,097,000	15.6%	-9.2%
Other product formats	RMB36,762,000	3.5%	-23.3%

The Group's profit attributable to owners of the Company for the period ended 30 June 2013 is RMB385,459,000 representing an increase of 8.6% as compared to the corresponding period of last year. The rise in profit was mainly attributable to the growth of product sale and increase in operating profit.

Injection Products

For the first six months of 2013, the Group sold RMB625,170,000 of injection products, representing a rise of 14.0% from the same period of last year. For the first six months of 2013, injection products accounted for 59.0% of the Group's total turnover as compared to 54.7% for the same period of last year. In the first half of 2013, sales of injection products recorded an increase. This was mainly attributable to the increase in sales of Qing Kai Ling Injection and Shen Mai Injection.

Soft Capsule Products

For the first six months of 2013, the Group recorded RMB232,264,000 on sales of soft capsule products, elevated by 3.6% from the same period of last year. This was mainly due to the sales of Wu Fu Xin Nao Qing Soft Capsule recorded increase as compared to the same period of last year.

Soft capsule products accounted for 21.9% of the Group's turnover for the first six months of 2013, as compared to 22.4% for the same period of last year. 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 2013 had decreased by 9.2% as compared to the same period of last year, amounting RMB165,097,000. This was mainly resulted from the sales decline of pediatric granule series.

Granule products accounted for 15.6% of the Group's turnover for the first six months of 2013 as compared to 18.1% of the same period of 2012. The Group's production capacity of granule products is currently at 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 2013 had decreased by 23.3% as compared to the same period of last year, amounted to RMB36,762,000. The decline was mainly attributable to the decrease in sales of Fufang Gancao Pian and 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 2013 had increased as compared to the corresponding period of last year and is the major contributor to the Group's turnover.

Qing Kai Ling Injection 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 is a famous anti-viral medicine and has been selected as the National Reserved Medicine, also 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 will restrict the overuse of antibacterial 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.

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

For the first six month of 2013, 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 and the Essential Drug List. It is also included in the recommendation of the Ministry of Health of the PRC for treating Avian Flu and the A(H1-N1) 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 share and peneration for Shen Mai Injection to generate further growth in the coming years.

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

For the first six months of 2013, 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 Quality/Good Price" product by the PRC authorities. It is included in the National Catalogues of Medical Insurance and Occupational Injury Insurance and is one of the first tier medicines for treatment of cardiovascular diseases. The Group will continue to further enhance market coverage and penetration, foster marketing effort at the points of sales, and look for strategic distributors and rationalize distribution channels to achieve continuous growth.

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 2013 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 2013 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 and the Essential Drug List. 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.

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 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. The "Shen Miao" trademark was certified as a "China Famous Trademark".

Emerging Products

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

Sales for the first six months of 2013 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. 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.

Benefited greatly by the synergistic effect of Qing Kai Ling Injection, 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.

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 2013 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 2013 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.

RESEARCH AND DEVELOPMENT

The Group has endeavored to research and in developing of new products. Currently, there are several research projects which are undergoing pharmaceutical and clinical trials.

PATENT APPLICATIONS

The Group continues to apply for intellectual property rights. As at the date of the interim report, the Group has obtained 28 patents for our inventions, and 16 invention patent applications are pending approval.

STATE PROTECTED CHINESE MEDICINES

As at 30 June 2013, the Group had 5 medicines listed as State Protected Chinese Medicines including Jianzhi Tongluo Soft Capsule, Xuanmai Ganjie Lozenge, Jianyang Tablets, Yin Zhi Huang Injection and Shujin Tongluo Granule.

PROSPECT

2013 is a critical year of refinement of medical reform in the PRC, to encourage and support the development of medicine industry will be the trend of future policy guidance with the advance of medical reform and the introduction of related policies of the twelfth Five-Year Plan. The 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 industry, seizing the market share by eliminating companies and merger and acquisitions. In following years, medicine industry will maintain a steady growth, the concentration of the industry will keep increasing, medicine tendering and purchasing will be ruled and adjusted, the government will strengthen the control on medicine price, such that the sale model under the new medical reform will be changed, competition in the pharmaceutical market is getting more and more intensified and the competition pattern would be changed, which will create both opportunities and challenges for enterprises.

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 supports the development of Chinese medicine industry, and 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 Chinese medicine industry.

Accelerated implementation of the new version of GMP could help to establish a more completed system of medicine production and supply, elevate the competition threshold in the industry and eliminate backward productivities, speed up the upgrading of the industry and promote maximum allocation of resources in medicine industry to dominant enterprises. Shineway's all under-processing formulations have obtained the pioneer approval under the new version of GMP, which build the leading position of the Group in the Chinese medicine industry.

Management Discussion and Analysis

With the rapid development of the economy and continuous increasing of per capita income, accelerated construction of the national medical insurance system, further expansion of basic health insurance coverage and continuous push in the implementation of basic medicine in China, the whole pharmaceutical market has been expanded and constantly improved the average medicine consumption level. Shineway made active respond to the changes of the new policy and the competitive landscape of the medical reform by making full use of industrial policy, making innovation in marketing mode, intensifying research and development of new drugs, merging and integrating advantage resources of the industry, strengthening the terminal quality construction and marketing depth, firmly pushing forward the building of grassroots market, expanding the development in the middle to high-end market, and basing on formulation of the two core driving forces, namely, marketing and R&D, increasing scale sales and market share as well as purchasing high efficiency of management and profit through various management methods such as creative operation and lower cost with higher efficiency, which will bring the maximum interest and return for 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:

Sales Strategy

1. Consolidating the existing sales channels: achieve steady growth through refined management; and integrate resources of all business segments through a cross-province management platform.

2. Upgrading the sales of basic medicines at retail level: establish a comprehensive retail sales network of basic medicines in the coming three years by securing over 60,000 targeted outlets in more than 1,000 counties.

3. Making breakthroughs in high-end hospital market: penetrate the high-end hospital market by establishing channels for the launch of newly-developed products; lay a solid foundation for the future sales platform through compliance with government regulations and the building of connections with experts.

4. Making breakthroughs in high-end retail market: accelerate the coverage and sales in high-end retail market targeting over 10,000 retail drug stores in more than 50 major cities.

Expanding Manufacturing Capacity

Construct new workshops and make modifications of the existing workshops, expand Chinese medicine extraction capacity of injections and granules. Our new injection workshop located in Shijiazhuang has gained its new GMP certification and commenced production. Our new extraction workshop has completed its construction and is at its system testing stage, the production of which is expected to commence by the end of 2013. At the appointed time, our extraction capacity will increase from currently 10,000 tons to 20,000 tons.

Product Strategies

1. Regroup and arrange the composition of product lines in a comprehensive manner in respect of products, retail terminals and customers' attributes etc., with the focus on drug market in relation to medicines for the treatment of cardiovascular illness, anti-viral, and the relieve of pediatric and human musculoskeletal conditions.

2. Build product lines of three major categories, namely prescription medicines, medicines with well-known brands and basic medicines for retail terminals; devise marketing plans that center on the profit and loss of products; and implement product strategies in connection with the core products which generate high gross margin.

3. 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).

4. Continue to nurture emerging products (namely Huang Qi Injection, Qing Kai Ling Soft Capsule, Huamoyan Granule, Shujin Tongluo Granule and Jianzhi Tongluo Soft Capsule), so each would have annual sales of over RMB100 million.

5. 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 the "Primary Medical Institutions" (county health centers, clinics and drug stores and city healthcare centers and pharmacists) 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. Step up efforts to nurture drug stores in major cities and middle– to high-end hospital market, intensify clinical research on products, advocate academic education and consumer education, and maximize the utilization of advertisement resources, so as to increase the market presence of Shineway products as well as raise the product output/input ratio and brand influence.

4. Carry out marketing through refining our marketing strategy and improving the brand awareness and fundamental value 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 2013, the Group continued to produce modern Chinese medicine products of good efficacy and high quality. The Group's turnover had risen by 5.7% as compared to the same period of last year. Sales of our injection products was up 14.0% to RMB625,170,000, which is equivalent to 59.0% of the Group's total turnover. Sales of soft capsule products was up 3.6% to RMB232,264,000, accounting for 21.9% of the Group's total turnover. Sales of granule products was down 9.2% to RMB165,097,000, accounting for 15.6% of the Group's total turnover. The Group had also sold RMB36,762,000 of medicines in other formats which was about 3.5% 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 45.8% (for the corresponding period of 2012: 42.8%), 30.8% (for the corresponding period of 2012: 28.3%) and 23.4% (for the corresponding period of 2012: 28.9%) of the Group's total turnover.

Sales of prescription and OTC medicines of the Group for the first six months of 2013 were RMB847,335,000 and RMB211,958,000, equal to 80.0% and 20.0% of the Group's turnover respectively.

Cost of Sales

Cost of sales for the first six months of 2013 was RMB352,667,000, equals to 33.3% of turnover. Direct materials, direct labour and other production costs accounted for 72.1%, 8.9% and 19.0% of the total production costs respectively.

Gross Profit Margin

Benefiting from the altered sales product mix and increase in selling price of certain products, the Group's overall gross profit margin for the first six month of 2013 increased to 66.7% as compared to 65.1% of same period of last year.

Other Income

Other income mainly includes government subsidies of RMB38,509,000 (for the corresponding period of 2012: RMB41,428,000). 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 RMB24,852,000 (for the corresponding period of 2012: RMB10,047,000) and RMB14,523,000 (for the corresponding period of 2012: RMB35,733,000) respectively.

Selling and distribution Costs

Selling and distribution costs for the first six months of 2013 declined 1.7% from the corresponding period of last year and were equal to 18.1% of the Group's turnover (for the corresponding period of 2012: 19.5%). The decline was mainly due to the scale down of advertising expenses by 36.5%. Advertising expenses accounted for 6.7% of the Group's turnover (for the corresponding period of 2012: 11.1%).

Administrative Expenses

Administrative expenses increased by 5.0%, 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 2012: 10.2%). Administrative expenses also comprised of salaries and wages, social security outlay and non-production depreciation expenses which accounted for 3.3%, 2.3% and 1.1% respectively (for the corresponding period of 2012: 2.5%, 1.9% and 1.0%) of the Group's turnover.

Net Exchange Loss

The Group posted a net exchange loss of RMB538,000 for the first six months of 2013 (for the corresponding period of 2012: RMB2,771,000) which was mainly resulted from exchange loss arising from change of exchange rate between Hong Kong Dollars and Renminbi.

Management Discussion and Analysis

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 or recognised as High and New-tech Enterprise will expire in 2020 and 2014 respectively.

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 2013 and are calculated on the basis of 827,000,000 shares issued as at 30 August 2013 (for the six months ended 30 June 2012: RMB11 cents per share, amounting to approximately RMB90,970,000), which will be paid on 31 October 2013, to the shareholders whose names appear on the Company's register of members on 18 October 2013.

Capital Structure

For the six months ended 30 June 2013, there was no change in the capital structure and issued share capital of the Group as compared to those on 31 December 2012.

Establishment of Subsidiary

In March 2013, the Group has established a new subsidiary namely Australia Shineway Technology PTY Limited, with registered share capital of Australian dollars 1,000. This subsidiary was incorporated in Australia and Shineway owns 100% of its equity interest, the principal activities of which is to perform research and development of Chinese pharmaceutical products.

Liquidity and Financial Resources

As at 30 June 2013, bank deposits of the Group, amounting to RMB2,280,432,000 (31 December 2012: RMB2,212,391,000) which comprised of RMB2,205,905,000 (31 December 2012: RMB2,155,943,000), were denominated in Renminbi. Others, being equivalent to RMB64,491,000, RMB9,906,000 and RMB130,000 (31 December 2012: RMB56,300,000, nil and RMB148,000), were denominated in Hong Kong dollars, Australian dollars and United States dollars respectively.

During the first six months in 2013, 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 2013 decreased by 18.7% and increased by 13.5% respectively from 31 December 2012. Turnover days of bills and trade receivables were 79 days and 4 days respectively (for the corresponding period of 2012: 72 days and 4 days respectively).

Inventories

Inventories balance as at 30 June 2013 decreased by 1.3% from 31 December 2012. By inventory categories, raw materials, work in progress and finished products respectively accounted for 38.2%, 24.0% and 37.8% of inventories as at 30 June 2013 (31 December 2012: 46.3%, 21.7% and 32.0% respectively).

Turnover days for finished products in the first six months of 2013 were 37 days (for the corresponding period of 2012: 40 days).

Property, Plant and Equipment

In the first six months of 2013, the Group acquired buildings of RMB5,738,000, plant and machinery of RMB27,331,000, office equipment of RMB8,235,000, motor vehicles of RMB7,000 and addition to construction in progress of RMB139,454,000 includes the Modern Chinese Medicine Park projects.

For the six months ended 30 June 2013, depreciation for property, plant and equipment amounted to RMB48,373,000 as compared to RMB33,646,000 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 Shineway Pharmaceutical (Zhangjiakou) Co., Ltd) and Sichuan Kalituo Pharmaceutical Limited in 2010.

Trade Payables

During the period under review, turnover days of trade payables were 116 days (for the corresponding period of 2012: 129 days).

Loans and Bank Borrowings

The Group did not have any loans or bank borrowings as at 30 June 2013 (31 December 2012: Nil). Accordingly the gearing ratio with reference to interest bearing debt for the period is nil (31 December 2012: Nil).

Pledge of Assets

At the time of settlement as at 30 June 2013, the Group secured the bills payables of RMB13,942,000 (31 December 2012: RMB19,731,000) by pledging bank deposits amounting RMB14,137,000 (31 December 2012: RMB19,860,000)

Management Discussion and Analysis

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2013 (31 December 2012: Nil).

Exposure to Fluctuations in Exchange Rates

A majority 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 2013 was arising from the change in exchange rate between Renminbi and Hong Kong dollars. As at 30 June 2013, 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 2013, the Group has 4,297 employees (31 December 2012: 3,758 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.

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 2013 and as at the date of this report since adoption.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2013, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2013, 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") as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Name of director	Name of relevant Company	Capacity	Number of shares	Approximate percentage of shareholding in the Company
Li Zhenjiang	Company	Founder of discretionary trust (Note)	526,782,990	63.70%
Lee Ching Ton Brandelyn	Company	Beneficiary owner	835,000	0.10%
Xin Yunxia	Company	Beneficiary owner	498,000	0.06%

Note:

These 526,782,990 shares of the Company ("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 the 526,782,990 Shares under the SFO.

Save as disclosed above, as at 30 June 2013, 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 2013, 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 (Note 1 and 2)	Beneficial owner	526,782,990	63.70%
Fiducia Suisse SA (Note 1 and 2)	Trustee of discretionary trust	526,782,990	63.70%
David Henry Christopher HILL (Note 1 and 3)	Interest of controlled corporation	526,782,990	63.70%
Rebecca Ann HILL (Note 1,3 and 4)	Interest of spouse	526,782,990	63.70%
Schroders Plc	Beneficial owner	42,084,988	5.08%

Other Information

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 526,782,990 Shares held by Forway under the SFO.

(4) This interest is in fact the same block of 526,782,990 Shares as disclosed by David Henry Christopher HILL.

Save as disclosed above, as at 30 June 2013, 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2013, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions in the Corporate Governance Code (effective from 1 April 2012) (the "Code") contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2013, except for code provision A.2.1 as described below.

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. 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.

Other Information

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 dealings 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 2013. Relevant employees who are likely to be in possession of unpublished inside information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code for the six months ended 30 June 2013. No incident of non-compliance with these written guidelines by the relevant employees was noted by the Company.

AUDIT COMMITTEE

The audit committee of the Board 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 2013.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 17 October 2013 to 18 October 2013 (both days inclusive). In order to qualify for the 2013 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 2013.

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, 30 August 2013

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 2013 and the related condensed consolidated statement of profit or loss and other 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") issued by International Accounting Standards Board. 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
30 August 2013

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	NOTES	Six months ended 30 June **2013** **RMB'000** **(Unaudited)**	 2012 RMB'000 (Unaudited)
Turnover	3	**1,059,293**	1,002,265
Cost of sales		**(352,667)**	(349,650)
Gross profit		**706,626**	652,615
Other income		**38,730**	41,783
Investment income		**39,375**	45,780
Net exchange loss		**(538)**	(2,771)
Selling and distribution costs		**(191,950)**	(195,346)
Administrative expenses		**(107,751)**	(102,646)
Research and development costs		**(26,757)**	(20,242)
Share of profit of an associate		**232**	–
Profit before taxation		**457,967**	419,173
Taxation	4	**(72,566)**	(64,201)
Profit and total comprehensive income for the period	5	**385,401**	354,972
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**385,459**	354,986
Non-controlling interests		**(58)**	(14)
		385,401	354,972
Earnings per share – basic	7	**RMB47 cents**	RMB43 cents

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2013

	NOTES	30.6.2013 RMB'000 (Unaudited)	31.12.2012 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**1,530,601**	1,398,248
Prepaid lease payments	9	**146,189**	148,005
Intangible assets		**628**	738
Interest in an associate		**17,245**	17,013
Goodwill		**91,663**	91,663
Deferred tax assets		**26,626**	25,924
		1,812,952	1,681,591
Current assets			
Inventories		**201,410**	203,965
Trade receivables	10	**23,133**	20,385
Bills receivables	10	**407,270**	501,233
Prepayments, deposits and other receivables		**92,342**	103,610
Pledged bank deposits		**14,137**	19,860
Bank balances and cash		**2,280,432**	2,212,391
		3,018,724	3,061,444
Current liabilities			
Trade payables	11	**189,950**	255,071
Bills payables	11	**13,942**	19,731
Other payables and accrued expenses		**273,081**	328,923
Amounts due to related companies		**11,215**	9,009
Deferred income		**4,099**	4,099
Tax liabilities		**34,721**	38,234
		527,008	655,067
Net current assets		**2,491,716**	2,406,377
Total assets less current liabilities		**4,304,668**	4,087,968

	NOTES	30.6.2013 RMB'000 (Unaudited)	31.12.2012 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		**8,483**	1,014
Deferred income		**87,836**	90,336
		96,319	91,350
		4,208,349	3,996,618
Capital and reserves			
Share capital	12	**87,662**	87,662
Reserves		**4,120,218**	3,908,429
Equity attributable to owners of the Company		**4,207,880**	3,996,091
Non-controlling interests		**469**	527
		4,208,349	3,996,618

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	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 2013 (audited)	**87,662**	**767,388**	**83,758**	**430,166**	**154,760**	**2,472,357**	**3,996,091**	**527**	**3,996,618**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**385,459**	**385,459**	**(58)**	**385,401**
Transfers	**–**	**–**	**–**	**345**	**–**	**(345)**	**–**	**–**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(173,670)**	**(173,670)**	**–**	**(173,670)**
At 30 June 2013 (unaudited)	**87,662**	**767,388**	**83,758**	**430,511**	**154,760**	**2,683,801**	**4,207,880**	**469**	**4,208,349**
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**338,465**	316,664
Investing activities		
Proceeds from redemption of debt related products	**212,103**	274,090
Withdrawal of pledged bank deposits	**19,860**	27,839
Interest income received	**16,184**	10,047
Net proceeds from short-term debt related products	**11,170**	29,663
Acquisition of debt related products	**(208,750)**	(268,020)
Purchase of property, plant and equipment	**(133,723)**	(198,163)
Placement of pledged bank deposits	**(14,137)**	(16,292)
Payment for prepaid lease payments	**–**	(1,210)
Net cash used in investing activities	**(97,293)**	(142,046)
Cash used in financing activity		
Dividends paid	**(173,670)**	(215,020)
Net increase (decrease) in cash and cash equivalents	**67,502**	(40,402)
Cash and cash equivalents at beginning of the period	**2,212,391**	2,172,812
Effect of foreign exchange rate changes	**539**	–
Cash and cash equivalents at end of the period, representing bank balances and cash	**2,280,432**	2,132,410

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

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 and with International Accounting Standard 34 "Interim Financial Reporting" issued by International Accounting Standards Board.

The Group's condensed consolidated financial statements is 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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised International Financial Reporting Standards ("IFRSs"):

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

IFRS 13 "Fair value measurement"

The Group has applied IFRS 13 for the first time in the current interim period. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various IFRSs. Consequential amendments have been made to IAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for "fair value" and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 13.

Amendments to IAS 1 "Presentation of items of other comprehensive income"

The amendments to IAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. In addition, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the statement of comprehensive income has been renamed to reflect the changes.

Except as described above, the application of the other new or revised IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

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 ("CODM"), 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 CODM.

4. TAXATION

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**71,055**	66,811
Overprovision in prior year	**(5,257)**	(10,578)
Withholding tax on distributed profits	**–**	7,500
	65,798	63,733
Deferred tax:		
Current year	**(732)**	468
Withholding tax on undistributed profits	**7,500**	–
	6,768	468
	72,566	64,201

The provision for PRC Enterprise Income Tax ("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 PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

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 or recognised as High and New-tech Enterprise will expire in 2020 and 2014 respectively. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB2,239,791,000 (31.12.2012: RMB1,886,203,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**110**	367
Amortisation of prepaid lease payments	**1,816**	1,812
Depreciation of property, plant and equipment	**48,373**	33,646
Government subsidies (included in other income) (Note a)	**(38,509)**	(41,428)
Interest income from bank deposits (included in investment income)	**(24,852)**	(10,047)
Investment income from debt related products (Note b)	**(3,353)**	(6,070)
Investment income from short-term debt related products (Note c)	**(11,170)**	(29,663)
Loss on disposal of property, plant and equipment	**38**	22

5. PROFIT FOR THE PERIOD *(Continued)*

Notes:

(a) The government subsidies represent the amounts received from the local government by the PRC subsidiaries of the Company. In the current period, government subsidies of (a) RMB36,009,000 (2012: RMB36,867,000) represent incentive received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB2,500,000 (2012: RMB4,561,000) 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 2013 with effective interest rate ranged from 4.6% to 5.1% (2012: 5.5% to 5.6%) per annum.

(c) These short-term debt related products carried effective interest rate ranged from 4.9% to 5.0% (2012: 4.7% to 6.1%) per annum. In the opinion of the directors of the Company, these short-term debt related products are large in 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	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends		
– 2012 final dividend of RMB12 cents		
(2011: RMB12 cents) per share paid	**99,240**	99,240
– 2012 special dividend of RMB9 cents		
(2011: RMB14 cents) per share paid	**74,430**	115,780
	173,670	215,020
– 2013 interim dividend of RMB11 cents		
(2012: 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 30 August 2013, and will be paid on 31 October 2013, to the shareholders of the Company whose names appear in the Company's register of member on 18 October 2013.

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	
	2013	2012
	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	**385,459**	354,986

	Six months ended 30 June	
	2013	2012
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 RMB5,738,000 (2012: RMB1,171,000), plant and machinery of RMB27,331,000 (2012: RMB12,456,000), office equipment of RMB8,235,000 (2012: RMB2,610,000), motor vehicles of RMB7,000 (2012: RMB44,000) and made additions to construction in progress of RMB139,454,000 (2012: RMB181,882,000).

9. PREPAID LEASE PAYMENTS

	30.6.2013 RMB'000 (Unaudited)	31.12.2012 RMB'000 (Audited)
At beginning of the period/year	**151,482**	153,901
Additions during the period/year	**–**	1,210
Expensed for the period/year	**(1,816)**	(3,629)
At end of the period/year	**149,666**	151,482
Medium-term leasehold land in PRC		
Current portion (included in other receivables)	**3,477**	3,477
Non-current portion	**146,189**	148,005
	149,666	151,482

10. TRADE AND BILLS RECEIVABLES

	30.6.2013 RMB'000 (Unaudited)	31.12.2012 RMB'000 (Audited)
Trade receivables	**23,133**	20,385
Bills receivables	**407,270**	501,233
	430,403	521,618

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, which approximated the revenue recognition date is as follows:

	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 6 months	**430,211**	521,556
Over 6 months but less than 1 year	**192**	62
	430,403	521,618

11. TRADE AND BILLS PAYABLES

	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade payables	**189,950**	255,071
Bills payables	**13,942**	19,731
	203,892	274,802

11. TRADE AND BILLS PAYABLES *(Continued)*

An aged analysis of the Group's trade and bills payables based on the invoice date is as follows:

	30.6.2013 **RMB'000** **(Unaudited)**	31.12.2012 RMB'000 (Audited)
Within 6 months	**171,293**	234,446
Over 6 months but less than 1 year	**17,825**	12,630
Over 1 year but less than 2 years	**9,932**	15,793
Over 2 years	**4,842**	11,933
	203,892	274,802

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** HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2012, 31 December 2012 and 30 June 2013	5,000,000	500,000
Issued and fully paid:		
Balance at 1 January 2012, 31 December 2012 and 30 June 2013	827,000	82,700
		RMB'000
Shown in the financial statements as		87,662

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

13. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

14. RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in the condensed consolidation financial statements, the Group had the following significant transactions with related parties during the period:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Rental expenses paid to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (Note)	**1,736**	310
Rental expenses paid to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note)	**465**	–
Service fee to Shineway Medical (Note)	**3,645**	3,401
Service fee to Shineway Lang Fang (Note)	**1,063**	874

Note: Shineway Medical and Shineway Lang Fang are 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	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	**2,808**	2,005
Post-employment benefits	**30**	8
	2,838	2,013

15. COMMITMENTS

(a) *Operating lease commitments*

At 30 June 2013, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	**2,624**	1,205
In the second to fifth year inclusive	**4,573**	–
	7,197	1,205

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.

Included in the above, the Group had future aggregate minimum lease payments under non-cancellable operating leases with related parties which are ultimately controlled by the controlling shareholder of the Company as follows:

	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	**2,067**	–
In the second to fifth year inclusive	**4,133**	–
	6,200	–

(b) *Capital commitments*

At 30 June 2013, capital expenditure of RMB522,432,000 (31.12.2012: RMB625,653,000) in respect of acquisition of property, plant and equipment is contracted for but not provided in the condensed consolidated financial statements.