



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 2014

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang (*Chairman of the Board*)
Ms. Xin Yunxia
Mr. Li Huimin
Ms. Lee Ching Ton Brandelyn
Dr. Wang Zheng Pin

Independent Non-executive Directors

Mr. Hung Randy King Kuen
(re-designated on 17 February 2014)
Ms. Cheng Li
Mr. Sun Liutai
Mr. Ren Dequan (resigned on 17 February 2014)

Audit Committee

Mr. Sun Liutai (*Committee Chairman*)
Ms. Cheng Li
Mr. Hung Randy King Kuen
(appointed on 17 February 2014)
Mr. Ren Dequan (resigned on 17 February 2014)

Remuneration Committee

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

Nomination Committee

Mr. Li Zhenjiang (*Committee Chairman*)
Mr. Sun Liutai
Mr. Hung Randy King Kuen
(appointed on 17 February 2014)
Mr. Ren Dequan (resigned on 17 February 2014)

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

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

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

PRINCIPAL BANKERS

China Construction Bank (Asia)

The Hongkong and Shanghai Banking Corporation Limited

Bank of China, Jin Zhu Xi Lu Branch
Lhasa, Xizang

China Construction Bank, Luan Cheng Branch,
Shijiazhuang, 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 2014, the operating results of the Group were as follows:

- Turnover reached RMB1,099,354,000, an increase of 3.8% from the corresponding period of last year;
- Gross profit margin was 65.9% as compared to 66.7% of the corresponding period of last year;
- Profit for the period amounted to RMB404,929,000, an increase of 5.1% over the corresponding period of last year;
- Earnings per share amounted to RMB49 cents; and
- 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 2014, the Group’s prescription and over-the-counter (“OTC”) medicines accounted for approximately 78.5% and 21.5% 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 2014, approximately 44.5% 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 30.5% and 25.0% 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: for treatment of cardio-cerebrovascular disease
- 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 2014, the Group recorded a turnover of RMB1,099,354,000, an increase of 3.8% 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	RMB627,783,000	57.1%	0.4%
Soft Capsules	RMB248,734,000	22.6%	7.1%
Granules	RMB183,449,000	16.7%	11.1%
Other product formats	RMB39,388,000	3.6%	7.1%

The Group's profit attributable to owners of the Company for the period ended 30 June 2014 is RMB404,928,000 representing an increase of 5.1% 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 2014, the Group sold RMB627,783,000 of injection products, representing a rise of 0.4% from the same period of last year. For the first six months of 2014, injection products accounted for 57.1% of the Group's total turnover as compared to 59.0% for the same period of last year. In the first half of 2014, sales of injection products recorded an increase. This was mainly attributable to the increase in sales of Qing Kai Ling Injection, Shu Xie Ning Injection and Dan Shen Injection.

Soft Capsule Products

For the first six months of 2014, the Group recorded RMB248,734,000 on sales of soft capsule products, elevated by 7.1% from the same period of last year. This was mainly due to the sales of Huo Xiang Zheng Qi Soft Capsule, Qing Kai Ling Soft Capsule and Compound Trivitamin and Linolic Acid Soft Capsules I recorded increase as compared to the same period of last year.

Soft capsule products accounted for 22.6% of the Group's turnover for the first six months of 2014, as compared to 21.9% 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.

Management Discussion and Analysis

Granule Products

Sales of granule products in the first six months of 2014 had increased by 11.1% as compared to the same period of last year, amounting RMB183,449,000. This was mainly resulted from the sales increase of Pediatric Qing Fei Hua Tan Granule and Huamoyan Granule.

Granule products accounted for 16.7% of the Group's turnover for the first six months of 2014 as compared to 15.6% of the same period of 2013. 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 2014 had increased by 7.1% as compared to the same period of last year, amounted to RMB39,388,000. The increase was mainly attributable to the increase in sales of our tablet and ointment products 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 2014 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.

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 launched by the Ministry of Health of the PRC in August 2012, 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.

Management Discussion and Analysis

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

For the first six month of 2014, sales of Shen Mai Injection had decreased 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 penetration 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 2014, sales of Shu Xie Ning Injection recorded an increase as compared to the 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 2014 of Wu Fu Xin Nao Qing Soft Capsule increased as compared to the 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 medicines. 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.

Management Discussion and Analysis

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 2014 of Huo Xiang Zheng Qi Soft Capsule increased 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 an increase 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 2014 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.

Management Discussion and Analysis

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

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

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

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 2014 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.

Management Discussion and Analysis

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 2014 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 undergoing pharmaceutical and clinical trials.

PATENT APPLICATIONS

The Group continues to strengthen the protection of its intellectual property rights. As at the date of the Interim Report, the Group has obtained 42 patents for our inventions, and 24 invention patent applications are pending approval.

STATE PROTECTED CHINESE MEDICINES

As at 30 June 2014, the Group had 3 products listed as State Protected Chinese Medicines, including Jianzhi Tongluo Soft Capsule, Xuanmai Ganjie Lozenge and Shujin Tongluo Granule.

PROSPECT

In recent years, medical industry grew steadily, following the extension of medical reform, the coverage of medical insurance expanded significantly, the medicine quality standard system and management were improved constantly, and the relevant policies issued by the State Council accelerated the development of health service industry, all these indicated a prosperous future of the medical industry development. Currently, the medical industry is in a key period during which its structure is transformed and upgraded, such industry will experience a remarkable growth in its innovation ability and a larger breakthrough in its future development.

Management Discussion and Analysis

Following the extension of the new version of Essential Drug List and the supplemental Essential Drug catalogues of provinces, the sales volume in fundamental medical market constantly increases, and the superior growth enterprises with continuous competition will provide a favorable opportunity for its rapid growth. While, the medical industry also faces uncertainties in many aspects including medical insurance payment system reform, drug price reduction and medical tenders, all of which will be the main policy factors unchangeably affect the industry growth and profit margin in the future. Therefore, the medical industry development will be full of opportunities and challenges.

Official implementation of the new version of GMP, especially the coming end of sterile preparation causing the potential elimination of non-compliance enterprises, will lead to a reset in medical industry and an accelerated improvement in industry concentration. It is helpful to the orderly competition and survival of the fittest. All the product lines of SHINEWAY have fully passed the new version of GMP certification, which sets up a leader position in the industry and promotes the improvement of quality regulation system of our enterprise.

SHINEWAY focuses on the main business of modern Chinese medicine, positively copes with policy changes, strengthens the terminal network construction, improves the control of terminals; speeds up R&D and merger matters, adjusts the products structure; accelerates the construction of talents team, improves the professional capacity of employees, creates a positive organizational atmosphere, stimulates the innovation energy of employees; promotes outstanding performance, enhances the operation and management ability. Basing on the brand effectiveness and mature marketing network and scientific research innovation strength, the Group will try to realise a maximization in the efficiency of marketing value chain through making new products available continuously in the market and striving to innovate patterns and improve marketing ability, to ensure the achievement of strategic target of our Group.

GROWTH STRATEGIES

The Group shall consistently implement the following growth strategies, together with our strong management team and our enormous manufacturing capacity to attain higher growth and return:

1. Marketing Strategy

- Study health care system reform policy, cope with market changes, strengthen three terminals – hospital, drug store and grass-root medical institution, improve terminal coverage and enhance the productivity of the target terminals.
- Integrated commercial channel platforms, sufficiently take advantage of the channel, optimize customer structure and strengthen customer management by objectives.

Management Discussion and Analysis

- Seize opportunities of the fundamental pharmaceuticals market, make intensive cultivation for grass-root medical terminals and promote the coverage and sales volume of the fundamental pharmaceutical products.
- Make innovative breakthrough in the high-end hospitals market, implement refined management, intensify the promotion of new products and raise the hospitals terminal market share.
- Build OTC professional sale teams in major cities, develop over ten thousands drug stores, strengthen strategic cooperation with retails in major cities, enhance price management and improve the sales volume of terminals.
- Focus on over one thousand districts and counties, achieve to cover over ten thousands health centers (communities), drug stores and over one thousand county hospitals and raise terminals coverage.
- Strengthen brand construction, integrate media resources, intensify stereo promotion of the online advertisements and implementation of the offline academic and terminal educational activities, comprehensively improve the use efficiency of advertisement resources, and raise the public awareness of our product band and resource utilization.
- Reinforce academic marketing, complete the academic promotion system of full products with academic marketing oriented, and dig the core value of products to improve the strength of our product.

2. 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 has gained its new GMP certification and commenced production. Our new extraction workshop has completed its system testing stage and our extraction capacity will increase from currently 10,000 tons to 20,000 tons.

Management Discussion and Analysis

3. Product Strategies

- Further increase sales contribution and achieve steady growth in 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).
- Continue to nurture emerging products (such as Huang Qi Injection, Qing Kai Ling Soft Capsule, Huamoyan Granule, Shujin Tongluo Granule and Jiangzhi Tongluo Soft Capsule) and promote their sales volume.
- Strengthen the development of new products on the market, focusing on cultivating exclusive new products, increase efforts to promote and enhance the proportion of sales of new products.
- Focus on grassroots, retail and hospital major terminal markets. To deploy product portfolio strategy and implementation of the product development plan.

4. Merger, Acquisition and Investment Strategies

- Leverage on the favorable opportunity that the extensive reform in pharmaceutical market and the implementation of new version of GMP speed up the upgrading of the transformation, in virtue of the resource advantage of the Group's brand, sales network and management experiences, rapidly offset the inadequacies in the Group's existing products and production capacity, and integrate the market resources, so as to drive the rapid development of the Group.
- Strengthen and diversify the Chinese medicine product line of the Group, actively seek and merge those Chinese medicine products with market potential, and build series of product groups of tumour medicines, cardiovascular medicines, diabetes medicines, anti-viral medicines and gynecological drugs, etc.
- Seek good strains, diversify chemical drug product chains, realise the development and production of the chemical drug, and gradually expand its sales scale, with expectation of effectively supplement the sales business of our Chinese medicine.
- Extend new areas for prescriptive Chinese medicine granules, we have completed the research work on the preparing technology and quality standard required by the State Administration of Traditional Chinese Medicine for over 400 kinds of prescriptive Chinese medicine granules which are also eligible to be used clinically by medical units above the county level in Hebei Province, and will be a new growth point of our business.

Management Discussion and Analysis

FINANCIAL ANALYSIS

Turnover

For the first six months of 2014, the Group continued to produce modern Chinese medicine products of good efficacy and high quality. The Group's turnover had risen by 3.8% as compared to the same period of last year. Sales of our injection products was up 0.4% to RMB627,783,000, which is equivalent to 57.1% of the Group's total turnover. Sales of soft capsule products was up 7.1% to RMB248,734,000, accounting for 22.6% of the Group's total turnover. Sales of granule products was up 11.1% to RMB183,449,000, accounting for 16.7% of the Group's total turnover. The Group had also sold RMB39,388,000 of medicines in other formats which was about 3.6% 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 44.5% (for the corresponding period of 2013: 45.8%), 30.5% (for the corresponding period of 2013: 30.8%) and 25.0% (for the corresponding period of 2013: 23.4%) of the Group's total turnover.

Sales of prescription and OTC medicines of the Group for the first six months of 2014 were RMB862,903,000 and RMB236,451,000, equal to 78.5% and 21.5% of the Group's turnover respectively.

Cost of Sales

Cost of sales for the first six months of 2014 was RMB375,036,000, equals to 34.1% of turnover. Direct materials, direct labour and other production costs accounted for 69.8%, 10.2% and 20.0% of the total production costs respectively.

Gross Profit Margin

As a result of the increase in labour costs and other manufacturing overhead, the Group's overall gross profit margin for the first six month of 2014 slid slightly to 65.9% as compared to 66.7% of same period of last year.

Other Income

Other income mainly includes government subsidies of RMB19,878,000 (for the corresponding period of 2013: RMB38,509,000). 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 RMB27,254,000 (for the corresponding period of 2013: RMB24,852,000) and RMB39,585,000 (for the corresponding period of 2013: RMB14,523,000) respectively.

Management Discussion and Analysis

Selling and distribution Costs

Selling and distribution costs for the first six months of 2014 declined 9.2% from the corresponding period of last year and were equal to 15.9% of the Group's turnover (for the corresponding period of 2013: 18.1%). The decline was mainly due to the tightened cost control and decrease in advertising expenses and distributor promotion expenses during the period.

Administrative Expenses

Administrative expenses increased by 13.1%, as compared to the first six months of last year. Rise in administrative expenses was mainly due to the new employees' share-based payment expense of approximately RMB19,073,000. Administrative expenses accounted for 11.1% of the Group's turnover (for the corresponding period of 2013: 10.2%).

Net Exchange Loss

The Group posted a net exchange loss of RMB3,495,000 for the first six months of 2014 (for the corresponding period of 2013: RMB538,000), 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 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 2014 and are calculated on the basis of 827,000,000 shares issued as at 29 August 2014 (for the six months ended 30 June 2013: RMB11 cents per share, amounting to approximately RMB90,970,000), which will be paid on 31 October 2014, to the shareholders whose names appear on the Company's register of members on 17 October 2014.

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 10:00 a.m. on 29 August 2014 (RMB1=HK\$1.262). Accordingly, the amount payable on 31 October 2014 will be HK\$0.1388 per share.

Management Discussion and Analysis

Capital Structure

For the six months ended 30 June 2014, there was no change in the capital structure and issued share capital of the Group as compared to those on 31 December 2013.

Liquidity and Financial Resources

As at 30 June 2014, bank deposits of the Group, amounting to RMB2,573,490,000 (31 December 2013: RMB2,291,905,000) which comprised of RMB2,505,921,000 (31 December 2013: RMB2,235,932,000), were denominated in Renminbi. Others, being equivalent to RMB56,754,000, RMB10,684,000 and RMB131,000 (31 December 2013: RMB46,109,000, RMB9,727,000 and RMB137,000), were denominated in Hong Kong dollars, Australian dollars and United States dollars respectively.

During the first six months in 2014, the Group did not entered into any derivative instrument investments.

The directors of the Company (the "Directors") 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 2014 decreased by 37.0% and increased by 77.8% respectively from 31 December 2013. Turnover days of bills and trade receivables were 90.9 days and 2.3 days respectively (for the corresponding period of 2013: 79.0 days and 4.0 days respectively).

Inventories

Inventories balance as at 30 June 2014 increased by 2.0% from 31 December 2013. By inventory categories, raw materials, work in progress and finished products respectively accounted for 40.4%, 28.1% and 31.5% of inventories as at 30 June 2014 (31 December 2013: 47.1%, 24.3% and 28.6% respectively).

Turnover days for finished products in the first six months of 2014 were 36.3 days (for the corresponding period of 2013: 37 days).

Property, Plant and Equipment

In the first six months of 2014, the Group acquired buildings of RMB833,000, plant and machinery of RMB55,249,000, office equipment of RMB1,433,000, motor vehicles of RMB244,000 and addition to construction in progress of RMB53,036,000 includes the Modern Chinese Medicine Park projects.

Management Discussion and Analysis

For the six months ended 30 June 2014, depreciation for property, plant and equipment amounted to RMB64,631,000 as compared to RMB48,373,000 during the same period of last year.

Acquisition of a subsidiary

In March 2014, the Group acquired 100% equity interest of Shineway Pharmaceutical Group (Shandong) Company Limited (formerly known as Jinan Quanli Pharmaceutical Company Limited) at an aggregate consideration of RMB8,000,000 and since then it became a subsidiary of the Group. This subsidiary was incorporated in PRC with principal activities in manufacturing and trading of medicine.

Intangible Assets

Intangible assets represent patents and production licenses with finite useful lives. Intangible assets balance as at 30 June 2014 increased by 46.6 times to RMB24,638,000 from 31 December 2013, such increase was mainly attributable to the addition of drugs production licenses via acquisition of Shineway Pharmaceutical Group (Shandong) Company Limited (formerly known as Jinan Quanli Pharmaceutical Company Limited) in 2014.

Goodwill

Goodwill is comprised of the Group's acquisition of the remaining 20% ownership equity interests of Shineway Pharmaceutical Sales Company Limited in 2005, the acquisition of 100% equity interests of Shineway Pharmaceutical (Zhangjiakou) Co., Ltd and Shineway Pharmaceutical (Sichuan) Company Limited in 2010 and the acquisition of 100% equity interest of Shineway Pharmaceutical Group (Shandong) Company Limited (formerly known as Jinan Quanli Pharmaceutical Company Limited) in 2014.

Trade Payables

During the period under review, turnover days of trade payables were 95.9 days (for the corresponding period of 2013: 116 days).

Loans and Bank Borrowings

As at 30 June 2014, the Group had bank borrowings and bills payables amounted to RMB700,000,000 (31 December 2013: 500,000,000) and RMB19,971,000 (31 December 2013: RMB11,427,000) respectively. These liabilities are repayable within one year. Bank deposits of RMB759,048,000 (31 December 2013: RMB538,690,000) were pledged to banks to secure these bank borrowings and bills payables. Hence, the Group's gearing ratio based on interest bearing debt for the period is 15.0% (31 December 2013: 11.3%).

Management Discussion and Analysis

Pledge of Assets

At the time of settlement as at 30 June 2014, the Group secured the bank borrowings of RMB700,000,000 (31 December 2013: 500,000,000) and bills payables of RMB19,971,000 (31 December 2013: RMB11,427,000) by pledging bank deposits amounting RMB759,048,000 (31 December 2013: RMB538,690,000).

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2014 (31 December 2013: 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 2014 was arising from the change in exchange rate between Renminbi and Hong Kong dollars. As at 30 June 2014, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose.

Employees

As at 30 June 2014, the Group has 4,473 employees (31 December 2013: 4,260 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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2014, the interests and short positions of the Directors and chief executives of the Company 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 of Hong Kong Limited (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 Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") to be notified to the Company and the Stock Exchange, were as follows:

Name	Name of relevant company	Capacity	Number of shares	Approximate percentage of shareholding in the Company
Li Zhenjiang	Company	Founder of discretionary trust (Note)	533,288,990	64.48%
Lee Ching Ton Brandelyn	Company	Beneficiary owner	835,000	0.10%
Xin Yunxia	Company	Beneficiary owner	498,000	0.06%

Note:

These 533,288,990 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 533,288,990 Shares under the SFO.

Save as disclosed above, as at 30 June 2014, none of the Directors or chief executives 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.

Other Information

SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at 30 June 2014, interest of every person (other than a Director or chief executive of the Company as disclosed in the section “Directors’ and Chief Executives’ 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	Capacity	Number of shares	Approximate percentage of shareholding in the Company
Forway (Notes 1 and 2)	Beneficial owner	533,288,990	64.48%
Fiducia Suisse SA (Notes 1 and 2)	Trustee of discretionary trust	533,288,990	64.48%

Notes:

- (1) Interests of Forway and Fiducia Suisse SA 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 Mr. Li Zhenjiang and the discretionary objects of which are family members of Mr. Li Zhenjiang (excluding Mr. Li Zhenjiang himself).

Save as disclosed above, as at 30 June 2014, 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

MANAGEMENT OPTIONS

On 2 September 2013 and 5 September 2013, 28,000,000 and 500,000 share options were granted respectively to certain grantees (the “Share Option”) under the Scheme, among which 3,600,000 share options were granted to executive Directors. The following share options were outstanding under the Scheme during the period:

Name of grantees	Date of grant	No. of shares comprised in Share Options			As at 30 Jun 2014	Note	Exercise price per share (HK\$)
		As at 1 Jan 2014	Granted during the period	Lapsed during the period			
Ms. Xin Yunxia	2 Sept 2013	1,000,000	–	–	1,000,000	1	11.84
Mr. Li Huimin	2 Sept 2013	300,000	–	–	300,000	1	11.84
Mr. Li Huimin	5 Sept 2013	500,000	–	–	500,000	2	11.84
Ms. Lee Ching Ton	2 Sept 2013	800,000	–	–	800,000	1	11.84
Brandelyn							
Dr. Wang Zheng Pin	2 Sept 2013	1,000,000	–	–	1,000,000	1	11.84
Other Employees	2 Sept 2013	24,900,000	–	(2,050,000)	22,850,000	1	11.84
		28,500,000		(2,050,000)	26,450,000		

Notes:

(1) The options have a validity period of 6 years from the date of grant on 2 September 2013.

The options are exercisable in tranches:

- (i) up to 20% within such period(s) during the year commencing on 2 September 2014 to be designated by the Company;
- (ii) up to 20% within such period(s) during the year commencing on 2 September 2015 to be designated by the Company;
- (iii) up to 20% within such period(s) during the year commencing on 2 September 2016 to be designated by the Company;
- (iv) up to 20% within such period(s) during the year commencing on 2 September 2017 to be designated by the Company; and
- (v) up to 20% within such period(s) during the year commencing on 2 September 2018 to be designated by the Company.

The market price per share immediately before the date on which the options were granted was HK\$11.64.

Other Information

- (2) The options have a validity period of 6 years from the date of grant on 5 September 2013.

The options are exercisable in tranches:

- (i) up to 20% within such period(s) during the year commencing on 5 September 2014 to be designated by the Company;
- (ii) up to 20% within such period(s) during the year commencing on 5 September 2015 to be designated by the Company;
- (iii) up to 20% within such period(s) during the year commencing on 5 September 2016 to be designated by the Company;
- (iv) up to 20% within such period(s) during the year commencing on 5 September 2017 to be designated by the Company; and
- (v) up to 20% within such period(s) during the year commencing on 5 September 2018 to be designated by the Company.

The market price per share immediately before the date on which the options were granted was HK\$11.84.

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.

Other Information

The total number of shares in respect of which options may be granted under the Scheme is 80,000,000 shares, which is equivalent to 10% of the total number of shares of the Company in issue on the date of commencement of dealings in the shares of the Company on the Stock Exchange.

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 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 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, 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 or exercised during the six months ended 30 June 2014 and as at the date of this interim report.

Other Information

The number of shares available for issue under the Scheme is 26,450,000 shares, representing approximately 3.20% of the total number of shares in issue of the Company as at the date of this interim report.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2014, 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 set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2014, 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.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the full set of the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by Directors. The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group’s senior management and also persons who are privy to price sensitive information of the Group. Based on specific enquiries made by the company secretary of the Company, all Directors confirmed that they had complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions for the six months ended 30 June 2014.

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 2014.

Other Information

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 16 October 2014 to 17 October 2014 (both days inclusive). In order to qualify for the 2014 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 15 October 2014.

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, 29 August 2014

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 28 to 44, which comprise the condensed consolidated statement of financial position as of 30 June 2014 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.

Report on Review of Condensed Consolidated Financial Statements

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

29 August 2014

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	NOTES	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Turnover	3	1,099,354	1,059,293
Cost of sales		(375,036)	(352,667)
Gross profit		724,318	706,626
Other income		23,042	38,730
Investment income		66,839	39,375
Net exchange loss		(3,495)	(538)
Selling and distribution costs		(174,356)	(191,950)
Administrative expenses		(121,829)	(107,751)
Research and development costs		(21,536)	(26,757)
Share of profit of an associate		–	232
Finance costs	4	(9,989)	–
Profit before taxation		482,994	457,967
Taxation	5	(78,065)	(72,566)
Profit and total comprehensive income for the period	6	404,929	385,401
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		404,928	385,459
Non-controlling interests		1	(58)
		404,929	385,401
Earnings per share – basic	8	RMB49 cents	RMB47 cents

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

	NOTES	30.6.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	1,649,012	1,599,242
Prepaid lease payments	10	143,796	144,216
Intangible assets		24,638	518
Goodwill		99,654	91,663
Deferred tax assets		24,856	25,439
		1,941,956	1,861,078
Current assets			
Inventories		249,344	244,484
Trade receivables	11	17,968	10,105
Bills receivables	11	422,365	669,941
Prepayments, deposits and other receivables		100,293	122,091
Pledged bank deposits		759,048	538,690
Bank balances and cash		2,573,490	2,291,905
		4,122,508	3,877,216
Current liabilities			
Trade payables	12	184,992	208,152
Bills payables	12	19,971	11,427
Other payables and accrued expenses		313,752	418,455
Amounts due to related companies		13,695	11,330
Deferred income		4,688	1,140
Tax liabilities		50,560	29,496
Bank borrowings	13	700,000	500,000
		1,287,658	1,180,000
Net current assets		2,834,850	2,697,216
Total assets less current liabilities		4,776,806	4,558,294

Condensed Consolidated Financial Statements

	NOTES	30.6.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		6,978	28,802
Deferred income		98,150	99,876
		<u>105,128</u>	<u>128,678</u>
		<u>4,671,678</u>	<u>4,429,616</u>
Capital and reserves			
Share capital	14	87,662	87,662
Reserves		4,583,493	4,341,432
		<u>4,671,155</u>	<u>4,429,094</u>
Equity attributable to owners of the Company		<u>523</u>	<u>522</u>
Non-controlling interests		<u>4,671,678</u>	<u>4,429,616</u>

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

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	Share options reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014 (audited)	87,662	767,388	83,758	431,017	154,760	13,996	2,890,513	4,429,094	522	4,429,616
Profit and total comprehensive income for the period	-	-	-	-	-	-	404,928	404,928	1	404,929
Transfers	-	-	-	426	-	-	(426)	-	-	-
Dividends paid	-	-	-	-	-	-	(181,940)	(181,940)	-	(181,940)
Recognition of equity-settled share based payments	-	-	-	-	-	19,073	-	19,073	-	19,073
At 30 June 2014 (unaudited)	<u>87,662</u>	<u>767,388</u>	<u>83,758</u>	<u>431,443</u>	<u>154,760</u>	<u>33,069</u>	<u>3,113,075</u>	<u>4,671,155</u>	<u>523</u>	<u>4,671,678</u>
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)	<u>87,662</u>	<u>767,388</u>	<u>83,758</u>	<u>430,511</u>	<u>154,760</u>	<u>-</u>	<u>2,683,801</u>	<u>4,207,880</u>	<u>469</u>	<u>4,208,349</u>

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	NOTE	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Net cash generated from operating activities		524,442	338,465
Investing activities			
Net proceeds from short-term debt related products		39,585	11,170
Interest income received		15,928	16,184
Government grants received		3,600	–
Placement of pledged bank deposits		(220,358)	(14,137)
Purchase of property, plant and equipment		(70,604)	(133,723)
Acquisition of a subsidiary	16	(4,951)	–
Proceeds from redemption of debt related products		–	212,103
Withdrawal of pledged bank deposits		–	19,860
Acquisition of debt related products		–	(208,750)
Net cash used in investing activities		(236,800)	(97,293)
Financing activities			
New bank loan raised		200,000	–
Dividends paid		(181,940)	(173,670)
Repayment of bank loans		(15,000)	–
Interest paid		(9,880)	–
Net cash used in financing activities		(6,820)	(173,670)
Net increase in cash and cash equivalents		280,822	67,502
Cash and cash equivalents at beginning of the period		2,291,905	2,212,391
Effect of foreign exchange rate changes		763	539
Cash and cash equivalents at end of the period, representing bank balances and cash		2,573,490	2,280,432

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

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 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.

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 2014 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2013.

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 IFRS 10, IFRS 12 and IAS 27	Investment entities
Amendments to IAS 32	Offsetting financial assets and financial liabilities
Amendments to IAS 36	Recoverable amount disclosures for non-financial assets
Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting
IFRIC – INT 21	Levies

The application of the above new Interpretation and amendments to IFRSs in the 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.

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. FINANCE COSTS

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Interests on bank borrowings wholly repayable within one year	<u>9,989</u>	<u>–</u>

5. TAXATION

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Current tax:		
PRC Enterprise Income Tax	78,934	71,055
Overprovision in prior years	<u>(1,265)</u>	<u>(5,257)</u>
	<u>77,669</u>	<u>65,798</u>
Deferred tax:		
Current year	396	(732)
Withholding tax on undistributed profits	<u>–</u>	<u>7,500</u>
	<u>396</u>	<u>6,768</u>
	<u>78,065</u>	<u>72,566</u>

Condensed Consolidated Financial Statements

5. TAXATION (Continued)

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%.

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 RMB2,622,457,000 (31.12.2013: RMB2,193,071,000) 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.

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	731	110
Amortisation of prepaid lease payments	1,814	1,816
Depreciation of property, plant and equipment	64,631	48,373
Government subsidies (included in other income) (Note a)	(19,878)	(38,509)
Interest income from bank deposits (included in investment income)	(27,254)	(24,852)
Investment income from debt related products (Note b)	–	(3,353)
Investment income from short-term debt related products (Note c)	(39,585)	(11,170)
Loss on disposal of property, plant and equipment	240	38
Share-based payment expense	19,073	–

Condensed Consolidated Financial Statements

6. 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) RMB18,100,000 (2013: RMB36,009,000) represent incentives received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB1,778,000 (2013: RMB2,500,000) represent recognition of deferred income upon completion of related research activities.
- (b) These debt related products were entered and matured during the six months ended 30 June 2013 with effective interest rate ranged from 4.6% to 5.1% per annum. No debt related products were entered during six months ended 30 June 2014.
- (c) These short-term debt related products carried effective interest rate ranged from 5.5% to 6.6% (2013: 4.9% to 5.0%) 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.

7. DIVIDENDS

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Dividends		
– 2013 final dividend of RMB12 cents (2012: RMB12 cents) per share paid	99,240	99,240
– 2013 special dividend of RMB10 cents (2012: RMB9 cents) per share paid	<u>82,700</u>	<u>74,430</u>
	<u><u>181,940</u></u>	<u><u>173,670</u></u>
– 2014 interim dividend of RMB11 cents (2013: RMB11 cents) per share	<u><u>90,970</u></u>	<u><u>90,970</u></u>

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 29 August 2014, and will be paid on 31 October 2014, to the shareholders of the Company whose names appear in the Company's register of members on 17 October 2014.

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8. 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	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	<u>404,928</u>	<u>385,459</u>

	Six months ended 30 June	
	2014	2013
Number of ordinary shares for the purpose of basic earnings per share	<u>827,000,000</u>	<u>827,000,000</u>

The computation of diluted earnings per share for the period ended 30 June 2014 has not assumed the exercise of the Company's share options because the adjusted exercise prices of the share options (after the adjustment of the fair value of the unvested share options) were higher than the average market price of those shares for the outstanding period during the period ended 30 June 2014.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired buildings at a cost of RMB833,000 (for six months ended 30 June 2013: RMB5,738,000), plant and machinery of RMB55,249,000 (for six months ended 30 June 2013: RMB27,331,000), office equipment of RMB1,433,000 (for six months ended 30 June 2013: RMB8,235,000), motor vehicles of RMB244,000 (for six months ended 30 June 2013: RMB7,000) and made additions to construction in progress of RMB53,036,000 (for six months ended 30 June 2013: RMB139,454,000).

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10. PREPAID LEASE PAYMENTS

	30.6.2014	31.12.2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At beginning of the period/year	147,849	151,482
Acquisition of a subsidiary (note 16)	1,262	–
Expense for the period/year	(1,814)	(3,633)
At end of the period/year	147,297	147,849
Medium-term leasehold land in the PRC		
Current portion (included in other receivables)	3,501	3,633
Non-current portion	143,796	144,216
	147,297	147,849

11. TRADE AND BILLS RECEIVABLES

	30.6.2014	31.12.2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	17,968	10,105
Bills receivables	422,365	669,941
	440,333	680,046

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11. 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:

	30.6.2014	31.12.2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 6 months	440,333	679,992
Over 6 months but less than 1 year	–	54
	440,333	680,046

12. TRADE AND BILLS PAYABLES

	30.6.2014	31.12.2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade payables	184,992	208,152
Bills payables	19,971	11,427
	204,963	219,579

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

	30.6.2014	31.12.2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 6 months	191,273	206,540
Over 6 months but less than 1 year	5,918	1,904
Over 1 year but less than 2 years	2,978	4,279
Over 2 years	4,794	6,856
	204,963	219,579

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.

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13. BANK BORROWINGS

During the current interim period, the Group obtained a new bank loan amounting to RMB200,000,000 (for six months ended 30 June 2013: Nil) and repaid bank loans of RMB15,000,000 (for six months ended 30 June 2013: Nil). The proceeds were used to finance the general working capital of the Group. The loans carry interest at fixed market rate of 2.85% per annum and are repayable within one year. At the end of the reporting period, the Group has pledged certain pledged bank deposits of RMB738,000,000 (31.12.2013: RMB527,000,000) to a bank to secure the bank borrowings granted to the Group.

14. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
Balance at 1 January 2013, 31 December 2013 and 30 June 2014	5,000,000	500,000
Issued and fully paid:		
Balance at 1 January 2013, 31 December 2013 and 30 June 2014	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.

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15. 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.

16. ACQUISITION OF A SUBSIDIARY

In March 2014, the Group acquired 100% equity interest in 神威藥業集團(山東)有限公司 (formerly known as 濟南全力製藥有限公司) (“Shineway Shandong”), which is engaged in the manufacturing and trading of pharmaceutical products and related business in the PRC, at an aggregate consideration of RMB8,000,000. This transaction has been accounted for using the acquisition method.

The net identifiable assets of the subsidiary acquired are as follows:

	Amount recognised at the date of acquisition
	RMB'000
Property, plant and equipment	3,852
Prepaid lease payments	1,262
Intangible asset	24,851
Inventories	208
Bank balances and cash	49
Other payables	(9,000)
Bank borrowings	(15,000)
Deferred tax liabilities	(6,213)
	<u>9</u>
Consideration transferred	8,000
Less: Net assets acquired	<u>(9)</u>
Goodwill arising on acquisition	<u>7,991</u>

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16. ACQUISITION OF A SUBSIDIARY (Continued)

Goodwill arose on the acquisition of Shineway Shandong because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Shineway Shandong. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

	RMB'000
<hr/>	
Net cash outflow arising on acquisition:	
Cash consideration	(8,000)
Amount unpaid and included in other payables	3,000
Bank balances and cash acquired	<u>49</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	<u><u>(4,951)</u></u>

During the period, Shineway Shandong contributed RMB551,000 to the Group's turnover and made a profit of RMB33,000 for the period between the date of acquisition and the end of the reporting period.

Had the acquisition of Shineway Shandong been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2014 would have been RMB1,100,193,000, and the amount of the profit for the interim period would have been RMB404,360,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

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17. 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	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Rental expenses paid to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (Note)	1,736	1,736
Rental expenses paid to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note)	465	465
Service fee to Shineway Medical (Note)	3,985	3,645
Service fee to Shineway Lang Fang (Note)	1,148	1,063

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	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Short-term benefits	3,222	2,808
Post-employment benefits	36	30
	3,258	2,838

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18. COMMITMENTS

(a) Operating lease commitments

At 30 June 2014, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
Within one year	4,571	6,648
In the second to fifth year inclusive	2,527	4,053
	7,098	10,701

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:

	30.6.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
Within one year	2,067	4,133

(b) Capital commitments

At 30 June 2014, capital expenditure of RMB326,138,000 (31.12.2013: RMB390,988,200) in respect of acquisition of property, plant and equipment is contracted for but not provided in the condensed consolidated financial statements.