



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

Interim Report

2016



Leading
Modern Chinese Medicine
Promoting Health Industry



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang (*Chairman*)
Ms. Xin Yunxia
Mr. Li Huimin
Ms. Lee Ching Ton Brandelyn
Mr. Chen Zhong
Dr. Wang Zheng Pin (resigned on 1 January 2016)

Independent Non-executive Directors

Mr. Hung Randy King Kuen
Ms. Cheng Li
Mr. Sun Liutai

BOARD COMMITTEES

Audit Committee

Mr. Sun Liutai (*Committee Chairman*)
Mr. Hung Randy King Kuen
Ms. Cheng Li

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

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

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18 Harbour Road, Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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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 (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 2016, the operating results of the Group were as follows:

- Turnover reached RMB931,641,000, a decrease of 16.0% as compared to the corresponding period of last year;
- Gross profit margin was 63.9% as compared to 65.8% of the corresponding period of last year;
- Profit for the period amounted to RMB276,466,000, a decrease of 28.3% as compared to the corresponding period of last year;
- Earnings per share amounted to RMB33 cents; and
- Declared interim dividend of RMB11 cents per share.

Company Overview

China Shineway Pharmaceutical Group Limited (the “Company”) 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 2016, the Group’s prescription and over-the-counter (“OTC”) medicines accounted for approximately 78.1% and 21.9% 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) viral diseases. For the first six months of 2016, approximately 43.9% 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 30.0% and 26.1% respectively of the Group’s turnover.

The Group’s key products are as follows:

- Qing Kai Ling Injection: a widely used anti-viral medicine for treatment of viral diseases, including respiratory tract infection, viral hepatitis, cerebral haemorrhage and cerebral thrombosis
- Shen Mai Injection: for treatment of coronary heart disease, viral myocarditis and pulmonary heart disease
- Shu Xie Ning Injection: 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

Company Overview

- Shujin Tongluo Granule: for treatment of spondylosis, neck stiffness and symptoms such as pains of neck, shoulder and back
- Jianzhi Tongluo Soft Capsule: for treatment of symptoms such as hyperlipidemia, chest and hypochondrium pain and chest tightness

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 2016, the Group recorded a turnover of RMB931,641,000, a decrease of 16.0% as compared to the corresponding period of last year. Sales by product form for the period are set out as follows:

	Sales	Product mix	Growth rate
Injections	RMB543,267,000	58.3%	-12.7%
Soft Capsules	RMB173,121,000	18.6%	-31.8%
Granules	RMB163,674,000	17.6%	-15.4%
Other product formats	RMB51,579,000	5.5%	29.1%

The Group's profit attributable to owners of the Company for the period ended 30 June 2016 is RMB276,466,000 representing a decrease of 28.3% as compared to the corresponding period of last year. The decrease in profit was mainly attributable to: (1) the decreases of average selling price and sales volume of the Group's pharmaceutical products as compared with those of the corresponding period in 2015; (2) amortization expense of intangible assets arising from the acquisitions during restructuring of new business areas of the Group caused the overall administrative expenses to increase slightly as compared to the same period of last year and (3) the Group has strengthened the development of new products leading to an increase in research and development costs for the period.

Injection Products

For the first six months of 2016, the Group sold RMB543,267,000 of injection products, representing a decline of 12.7% from the same period of last year. For the first six months of 2016, injection products accounted for 58.3% of the Group's total turnover as compared to 56.1% for the same period of last year. The sales of injection products recorded a decrease which was mainly attributable to the decline in sales of Qing Kai Ling Injection, Shen Mai Injection and Shu Xie Ning Injection.

Soft Capsule Products

For the first six months of 2016, the Group recorded RMB173,121,000 on sales of soft capsule products, declined by 31.8% from the same period of last year. This was mainly due to the sales decrease of Wu Fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule and Qing Kai Ling Soft Capsule.

Soft capsule products accounted for 18.6% of the Group's turnover for the first six months of 2016, as compared to 22.9% for the same period of last year. 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 2016 had decreased by 15.4% as compared to the same period of last year, amounting RMB163,674,000. This was mainly resulted from the sales decrease of Pediatric Qing Fei Hua Tan Granule, Pediatric Hua Tan Zhi Ke Granule and Huamoyan Granule.

Granule products accounted for 17.6% of the Group's turnover for the first six months of 2016 as compared to 17.4% of the same period of last year. 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 2016 had increased by 29.1% as compared to the same period of last year, amounted to RMB51,579,000. The increase was mainly attributable to the increase in sales of Chinese Medicine Prescription Granule and tablet 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

Owing to the price reduction as a result of medicine bidding, sales of our Qing Kai Ling Injection for the first six months of 2016 had declined as compared to the corresponding period of last year and was 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” and the “Essential Drug List”. 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.

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.

Management Discussion and Analysis

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

Owing to the price reduction as a result of medicine bidding, sales of Shen Mai Injection for the first six months of 2016 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 2016, sales of Shu Xie Ning Injection recorded a decrease as compared to the corresponding period of last year.

Shu Xie Ning Injection 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 2016 of Wu Fu Xin Nao Qing Soft Capsule decreased as compared to the same period of last year.

Wu Fu Xin Nao Qing Soft Capsule is ranked among the top ten cardiovascular 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 of 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 and education to the end-users to broaden its sale.

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 2016 of Huo Xiang Zheng Qi Soft Capsule decreased as compared to the corresponding period of last year.

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

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

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

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

Pediatric Qing Fei Hua Tan Granule has superb curative effect and has become a famous brand of children coughing medicine. The Group will adjust sales strategy and utilize the synergistic advertisement effect of both internet and TV, while continue to increase advertising and joint promotional campaign with chain drug stores at the same time. It is expected the sales of our Pediatric Qing Fei Hua Tan Granule will further increase and the sales of our entire “Shen Miao” series products will be benefited by the synergistic effect of this product.

Emerging Products

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

Sales for the first six months of 2016 of Huang Qi Injection had decreased as compared to the same period of last year.

Huang Qi Injection is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. Viral myocarditis has become more prevalent in recent years. With a proven efficacy on such illness, Huang Qi Injection has strong market potential. The Group will continue to further enhance market coverage and penetration and growth in sales of Huang Qi Injection is expected in the 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 for the first six months of 2016 decreased as compared to the corresponding 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 drug stores, 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 for the first six months of 2016 decreased as compared to the corresponding 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 joint 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 of Shujin Tongluo Granule for the first six months of 2016 decreased as compared to the corresponding 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 the ongoing academic promotion in recent years, Shujin Tongluo Granule has achieved strong market growth. Shujin Tongluo Granule has its own intellectual proprietary, due to its rigorous prescription, rational and clinical efficacy, it was awarded by the State Intellectual Property Office the "China Patent Excellence Award" in 2015.

Management Discussion and Analysis

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

Sales of Jiangzhi Tongluo Soft Capsule for the first six months of 2016 decreased as compared to the corresponding period of last year.

Jiangzhi 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 the revitalisation of blood and “Qi” circulation and for lowering blood cholesterol. Jiangzhi 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.

New Products

Dan Deng Tong Nao Hard Capsule and Soft Capsule – for treatment of stroke caused by congestion, appropriate for treatment and recovery of ischemic infarction

This product is listed in the National Catalogues of Medicine Insurance and Occupational Injury Insurance with nation-wide medical insurance, superior formula, typical material and unique material source. In the formula, salvia miltiorrhiza, as a sovereign drug, is made from little purple salvia miltiorrhiza in Yunnan with erigeron breviscapus, ligusticum wallichii, arrowroot as auxiliary materials, and erigeron breviscapus is a kind of typical medicine material in Yunnan. The Group sees it as a rapid growth product in future.

Yiqi Tongluo Granule – for treatment of qi deficiency and blood stasis during the main and collateral channels (mild to moderate cerebral infarction) recovery period of stroke

This product is based on classic Buyanghuanwu Decoction and mainly contains medicinal materials for activating blood and dissolving stasis to enhance cerebral blood flow. The medicine was developed after years by China PLA General Hospital and the Company and examined in a systematic clinical pesticide effect study and standardized clinical trial with a definite and safe treatment effect. The Group treats it as a large-potential medicine to be developed in future.

RESEARCH AND DEVELOPMENT

The Group has endeavored to research and develop new products. Currently, there are several research projects undergoing pharmaceutical and clinical trials. In the first half of the year, 4 additional approvals for clinical trials of pharmaceutical chemicals: hypotensive drugs – Azilva tablets, antiemetic drugs – Fosaprepitant for injection, Anticancer drugs – Cabazitaxel and Miriplatin were obtained.

Management Discussion and Analysis

We have completed the research work on the preparing technology and quality standard required by the State Administration of Traditional Chinese Medicine for over 600 kinds of prescriptive Chinese medicine granules which are also eligible to be used clinically by medical units above the county level in Hebei Province.

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 53 patents for our inventions, and 46 invention patent applications are pending approval.

STATE PROTECTED CHINESE MEDICINES

As at 30 June 2016, the Group had 4 products listed as State Protected Chinese Medicines, including Lianshen Tonglin Tablet, Jianzhi Tongluo Soft Capsule, Qi Huang Tong Mi Soft Capsule 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 Chinese medical industry development.

The State Council issued the Traditional Chinese Medicine Development Strategy Plan Summary (中醫藥發展戰略規劃綱要) (2016-2030), it was the first time to prepare traditional Chinese medicine development plan in national level, representing that traditional Chinese medicine development has been included in the national development strategy, which will offer better policy environment for the growth of traditional Chinese medicine industry.

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. 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.

The new version of GMP has officially been implemented, causing the potential elimination of non-compliance enterprises in 2016 which 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. This will turn into the increased market share and sales in the future.

Management Discussion and Analysis

SHINEWAY positively copes with policy changes, strengthens the academic education and terminal network construction, improves the control of terminals; 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. The Group will try to realise a maximization in the efficiency of marketing value chain 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

- Focus on three terminals – hospital, drug store and grass-root medical institution, strengthen academic education, improve terminal coverage and enhance the productivity of the target terminals.
- Integrated commercial channel platforms, sufficiently take advantage of the channel, optimize customer structure, strengthen customer management by objectives, focused on channel control and product price control.
- 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.
- Expand our OTC professional sale teams, focus on top-hundred drug chain stores and regional leader KA-based chain stores, carried out display in retail terminals, staff education, consumer interaction and other activities to promote sales of SHINEWAY oral products in the retail terminals.
- Oriented by the Group's sales of the Chinese medicine injection products, achieve to cover terminal markets including major provincial hospitals, village/town health centers, health centers (communities), community clinics etc., strengthen academic promotion at provincial level, focus on targeted terminals and expand their market share and coverage.

Management Discussion and Analysis

2. 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.

3. Merger, Acquisition and Investment Strategies

- Actively involved in identifying acquisition targets, 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.
- 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, orthopedic medicines and pediatric medicines etc.
- Seek good chemical and biopharmaceutical medicine strains to improve the existing product structure, and gradually expand its sales scale, with expectation of effectively supplement the core sales business of our Chinese medicine.
- Extend new areas for prescriptive Chinese medicine granules, and nurture it to be a new growth point of our business.

FINANCIAL ANALYSIS

Turnover

For the first six months of 2016, the Group continued to produce modern Chinese medicine products of good efficacy and high quality. The Group's turnover had decreased by 16.0% as compared to the corresponding period of last year. Sales of our injection products had declined by 12.7% to RMB543,267,000, accounted for 58.3% of the Group's total turnover. Sales of soft capsule products had declined by 31.8% to RMB173,121,000, accounted for 18.6% of the Group's total turnover. Sales of granule products had declined by 15.4% to RMB163,674,000, accounted for 17.6% of the Group's total turnover. The Group had also sold RMB51,579,000 of medicines in other formats which accounted for 5.5% of the Group's turnover.

Management Discussion and Analysis

During the period, sales of medicines for treating cardiovascular illness, anti-viral and medicines for treating other illnesses respectively accounted for 43.9% (for the corresponding period of 2015: 44.3%), 30.0% (for the corresponding period of 2015: 29.0%) and 26.1% (for the corresponding period of 2015: 26.7%) of the Group's total turnover.

Sales of prescription and OTC medicines of the Group for the first six months of 2016 were RMB727,984,000 and RMB203,657,000, equal to 78.1% and 21.9% of the Group's turnover, respectively.

Cost of Sales

Cost of sales for the first six months of 2016 was RMB336,016,000, equals to 36.1% of turnover. Direct materials, direct labour and other production costs accounted for 61.6%, 13.2% and 25.2% of the total production costs respectively.

Gross Profit Margin

The Group's overall gross profit margin for the first six month of 2016 was 63.9% as compared to 65.8% of the corresponding period of last year.

Other Income

Other income mainly includes government subsidies of RMB4,551,000 (for the corresponding period of 2015: RMB13,335,000). The government subsidies mainly represented incentives received from government for investments in relevant regions in the PRC by the Group.

Investment Gain

Investment gain mainly includes interest income from bank deposits and investments in short-term financial products of RMB42,185,000 (for the corresponding period of 2015: RMB21,844,000) and RMB17,330,000 (for the corresponding period of 2015: interest income from investments in short-term financial products and debt related products of RMB31,460,000) respectively.

Selling and Distribution Costs

Selling and distribution costs for the first six months of 2016 decreased 7.5% from the corresponding period of last year and were equal to 16.6% of the Group's turnover (for the corresponding period of 2015: 15.1%). The decrease was mainly due to the implementation of cost control and the advertising expenses and promotion expenses were reduced as compared to same period of last year.

Management Discussion and Analysis

Administrative Expenses and Research and Development Costs

During the first six months of 2016, administrative expenses increased by 2.5% as compared to the corresponding period of last year, representing approximately 15.0% (for the corresponding period of 2015: 12.3%) of the Group's turnover. Rise in administrative expenses was mainly due to the increased amortization expenses of intangible assets as compared to same period of last year. Besides, the Group has strengthened the development of new products leading to increase in research and development costs by 78.2% as compared to the corresponding period of last year. Research and development costs accounted for approximately 3.6% of the Group's turnover (for the corresponding period of 2015: 1.7%).

Net Exchange Loss

The Group posted a net exchange loss of RMB2,055,000 for the first six months of 2016 (for the corresponding period of 2015: RMB4,319,000), which was mainly resulted from exchange loss arising from change of exchange rate between Australian dollars, Hong Kong dollars and Renminbi.

Taxation

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

A subsidiary which is operating in Western China has been granted tax concession by the local tax bureau and is entitled to PRC EIT at concessionary rate of 9% for the both periods, for which the tax concession will expire in 2017. Certain subsidiaries which are recognised as High and New-tech Enterprises have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both periods, for which the tax concessions will expire in 2017. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

Interim Dividend

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 2016 and are calculated on the basis of 827,000,000 shares issued as at 26 August 2016 (for the six months ended 30 June 2015: RMB11 cents per share, amounting to RMB90,970,000), which will be paid on 28 October 2016, to the shareholders whose names appear on the Company's register of members on 14 October 2016.

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 26 August 2016 (RMB1=HK\$1.1640). Accordingly, the amount payable on 28 October 2016 will be HK\$0.1280 per share.

Management Discussion and Analysis

Capital Structure

For the six months ended 30 June 2016, there was no change in the capital structure and issued share capital of the Group as compared to those on 31 December 2015.

Liquidity and Financial Resources

As at 30 June 2016, bank deposits of the Group, amounting to RMB2,951,986,000 (31 December 2015: RMB2,826,219,000) which comprised of RMB2,880,383,000 (31 December 2015: RMB2,752,246,000), were denominated in Renminbi. Others, being equivalent to RMB3,911,000, RMB64,437,000 and RMB3,255,000 (31 December 2015: RMB8,122,000, RMB65,680,000 and RMB171,000), were denominated in Hong Kong dollars, Australian dollars and United States dollars respectively.

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 2016 decreased by 15.0% and 4.2% respectively from 31 December 2015. Turnover days of bills and trade receivables were 77.4 days and 6.0 days respectively (for the corresponding period of 2015: 82.4 days and 3.9 days respectively).

Inventories

Inventories balance as at 30 June 2016 decreased by 6.2% from 31 December 2015. By inventory categories, raw materials, work in progress and finished products respectively accounted for 34.5%, 22.6% and 42.9% of inventories as at 30 June 2016 (31 December 2015: 36.0%, 25.7% and 38.3% respectively).

Turnover days for finished goods products in the first six months of 2016 were 72.9 days (for the corresponding period of 2015: 46.2 days).

Property, Plant and Equipment

In the first six months of 2016, the Group acquired buildings of RMB515,000, plant and machinery of RMB5,354,000, office equipment of RMB816,000, motor vehicles of RMB711,000 and the new construction works of plants located in Shijiazhuang which comprised the logistic center and various workshop projects amounted to approximately RMB35,866,000 in total.

For the six months ended 30 June 2016, depreciation for property, plant and equipment amounted to RMB75,128,000 as compared to RMB73,137,000 during the same period of last year.

Management Discussion and Analysis

Intangible Assets

Intangible assets represent patents and production licenses with finite useful lives, which mainly include the drugs production licenses via acquisition of Shineway Pharmaceutical Group (Shandong) Company Limited (formerly known as Jinan Quanli Pharmaceutical Company Limited) in 2014 and the drugs production licenses via acquisition of Yunnan Shineway Spirin Pharmaceutical Company Limited and Beijing Wanter Bio-pharmaceutical Company Limited in 2015.

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, the acquisition of 100% equity interest of Shineway Pharmaceutical Group (Shandong) Company Limited in 2014 and the acquisition of 100% equity interest of Yunnan Shineway Spirin Pharmaceutical Company Limited and Beijing Wanter Bio-pharmaceutical Company Limited in 2015.

Trade Payables

During the period under review, turnover days of trade payables were 96.4 days (for the corresponding period of 2015: 89.3 days).

Bills Payables

As at 30 June 2016, the Group had bills payables amounted to RMB50,445,000 (31 December 2015: RMB43,247,000). These liabilities are repayable within one year. Bank deposits of RMB50,445,000 (31 December 2015: RMB43,247,000) were pledged to banks to secure these bills payables.

Pledge of Assets

At the time of settlement as at 30 June 2016, the Group secured bills payables of RMB50,445,000 (31 December 2015: RMB43,247,000) by pledging bank deposits amounting RMB50,445,000 (31 December 2015: RMB43,247,000).

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2016 (31 December 2015: Nil).

Management Discussion and Analysis

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, Hong Kong dollars and Australian dollars. The exchange loss in the first half of 2016 arose from the change in exchange rate between Hong Kong dollars, Australian dollars and Renminbi. As at 30 June 2016, 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 2016, the Group has 4,110 employees (31 December 2015: 4,644 employees). Remuneration was determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provided other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong were also enrolled in the Mandatory Provident Fund Scheme.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2016, 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 ("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)	543,477,990	65.72%
Lee Ching Ton Brandelyn	Company	Beneficiary owner	835,000	0.10%
Xin Yunxia	Company	Beneficiary owner	540,000	0.07%
Chen Zhong	Company	Beneficiary owner	180,000	0.02%
	Company	Interests of spouse	100,000	0.01%

Note: These 543,477,990 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 543,477,990 Shares under the SFO.

Certain Directors have been granted share options under the 2014 Scheme (details are set out in the section headed "Share Option Scheme" below). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Save as disclosed above, as at 30 June 2016, 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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share Option Scheme" below, at no time during the period was the Company, its holding companies, fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at 30 June 2016, 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 of shareholder	Capacity	Number of shares	Approximate percentage of shareholding in the Company
Forway (Notes 1 and 2)	Beneficial owner	543,477,990	65.72%
Fiducia Suisse SA (Notes 1 and 2)	Trustee of discretionary trust	543,477,990	65.72%
Schroders Plc	Beneficial owner	41,873,988	5.06%

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 2016, 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

SHARE OPTION SCHEME

The Company adopted a share option scheme on 10 November 2004 and was expired on 9 November 2014 (the “2004 Scheme”). All outstanding options granted under the 2004 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2004 Scheme. The Company adopted a new share option scheme at an extraordinary general meeting of the Company held on 29 May 2015 (the “2015 Scheme”). The purpose of the 2015 Scheme is to provide the Company with a flexible means of incentivizing, rewarding, remunerating, compensating and/or providing benefits to the participants, and for such other purposes as the Board may approve from time to time. The 2015 Scheme has a life of 10 years and will expire on 28 May 2025.

Details of options granted, exercised, cancelled/lapsed and outstanding under the 2004 Scheme during the review period are as follows:

Name of grantees	Date of grant	No. of shares comprised in share options				Note	Exercise price per share (HK\$)
		As at 1 Jan 2016	Granted during the period	Lapsed during the period	As at 30 Jun 2016		
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 Brandelyn	2 Sept 2013	800,000	-	-	800,000	1	11.84
Mr. Chen Zhong	2 Sept 2013	1,000,000	-	-	1,000,000	1	11.84
Other Employees	2 Sept 2013	19,400,000	-	(1,150,000)	18,250,000	1	11.84
Other Employees	7 Nov 2014	2,000,000	-	-	2,000,000	3	14.12
		25,000,000	-	(1,150,000)	23,850,000		

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;

Other Information

- (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 closing price per share immediately before the date on which the options were granted was HK\$11.64.

- (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 closing price per share immediately before the date on which the options were granted was HK\$11.84.

- (3) The options have a validity period of 6 years from the date of grant on 7 November 2014.

The options are exercisable in tranches:

- (i) up to 20% within such period(s) during the year commencing on 7 November 2015 to be designated by the Company;
- (ii) up to 20% within such period(s) during the year commencing on 7 November 2016 to be designated by the Company;
- (iii) up to 20% within such period(s) during the year commencing on 7 November 2017 to be designated by the Company;
- (iv) up to 20% within such period(s) during the year commencing on 7 November 2018 to be designated by the Company; and
- (v) up to 20% within such period(s) during the year commencing on 7 November 2019 to be designated by the Company.

The closing price per share immediately before the date on which the options were granted was HK\$13.54.

Other Information

Details of options granted, exercised, cancelled/lapsed and outstanding under the 2015 Scheme during the review period are as follows:

Name of grantees	Date of grant	No. of shares comprised in share options			As at 30 Jun 2016	Note	Exercise price per share (HK\$)
		As at 1 Jan 2016	Granted during the period	Lapsed during the period			
Other Employees	1 Jun 2016	-	1,000,000	-	1,000,000	4	8.39

Notes:

(4) The options have a validity period of 6 years from the date of grant on 1 June 2016.

The options are exercisable in tranches:

- (i) up to 20% within such period(s) during the year commencing on 1 June 2017 to be designated by the Company;
- (ii) up to 20% within such period(s) during the year commencing on 1 June 2018 to be designated by the Company;
- (iii) up to 20% within such period(s) during the year commencing on 1 June 2019 to be designated by the Company;
- (iv) up to 20% within such period(s) during the year commencing on 1 June 2020 to be designated by the Company; and
- (v) up to 20% within such period(s) during the year commencing on 1 June 2021 to be designated by the Company.

The closing price per share immediately before the date on which the options were granted was HK\$8.39.

Save as disclosed above, no option was granted, exercised, cancelled or lapsed during the period and as at the date of this interim report since adoption. For details of the nature and terms of the 2015 Scheme, please refer to the circular of the Company dated 8 May 2015.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2016, the Company or its subsidiaries did not purchase, sell or redeem any securities 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 2016, 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 should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing. The Company does not use the title “Chief Executive”. The duty of the chief executive 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 any appropriate adjustments should new circumstances arise.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard set out in the Model Code. 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. Having made specific enquiry, all directors of the Company confirmed that they had complied with the required standard set out in the Model Code regarding securities transactions of the directors of the Company for the six months ended 30 June 2016.

CHANGES IN DIRECTOR’S INFORMATION

On 23 May 2016, Mr. Hung Randy King Kuen, an independent non-executive director of the Company, was appointed as the independent non-executive director of IPE Group Limited (a company listed on the Stock Exchange with stock code 929). Save as disclosed above, there are no other issues required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Other Information

AUDIT COMMITTEE

The audit committee of the Company 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 2016.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 13 October 2016 to 14 October 2016 (both days inclusive). In order to qualify for the 2016 interim dividend, all transfer documents accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, 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 12 October 2016.

By order of the Board
China Shineway Pharmaceutical Group Limited

Li Zhenjiang
Chairman

Hong Kong, 26 August 2016

Report on Review of Condensed Consolidated Financial Statements



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 29 to 44, which comprise the condensed consolidated statement of financial position as of 30 June 2016 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
26 August 2016

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Turnover	3	931,641	1,109,306
Cost of sales		(336,016)	(379,613)
Gross profit		595,625	729,693
Other income		4,963	18,300
Investment income		59,515	53,304
Net exchange loss		(2,055)	(4,319)
Selling and distribution costs		(154,732)	(167,193)
Administrative expenses		(140,149)	(136,705)
Research and development costs		(33,884)	(19,017)
Finance costs	4	–	(61)
Profit before taxation		329,283	474,002
Taxation	5	(52,817)	(88,380)
Profit and total comprehensive income for the period	6	276,466	385,622
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		276,466	385,493
Non-controlling interests		–	129
		276,466	385,622
Earnings per share – basic	8	RMB33 cents	RMB47 cents

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	1,497,039	1,529,020
Prepaid lease payments	10	152,474	154,495
Intangible assets		368,550	388,744
Goodwill		159,291	159,291
Deposit for acquisition of intangible assets		58,000	58,000
Deferred tax assets		21,932	23,061
		2,257,286	2,312,611
Current assets			
Inventories		319,601	340,858
Trade receivables	11	29,756	31,046
Bills receivables	11	362,288	426,277
Prepayments, deposits and other receivables		130,512	170,901
Amount due from a related company		6	1,943
Pledged bank deposits		50,445	43,247
Bank balances and cash		2,951,986	2,826,219
		3,844,594	3,840,491
Current liabilities			
Trade payables	12	172,998	180,879
Bills payables	12	50,445	43,247
Other payables and accrued expenses		298,131	452,065
Amounts due to related companies		6,002	3,292
Deferred income		8,381	4,648
Tax liabilities		10,567	17,477
		546,524	701,608
Net current assets		3,298,070	3,138,883
Total assets less current liabilities		5,555,356	5,451,494

Condensed Consolidated Financial Statements

	NOTES	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		63,941	62,952
Deferred income		86,971	92,571
		<u>150,912</u>	<u>155,523</u>
Net assets		<u>5,404,444</u>	<u>5,295,971</u>
Capital and reserves			
Share capital	13	87,662	87,662
Reserves		5,316,782	5,208,309
Total equity		<u>5,404,444</u>	<u>5,295,971</u>

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company									
	Share capital	Share premium	Merger reserve	Statutory surplus reserve fund	Discretionary surplus reserve fund	Share options reserve	Accumulated profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016 (audited)	87,662	767,388	83,758	434,774	154,760	63,261	3,704,368	5,295,971	-	5,295,971
Profit and total comprehensive income for the period	-	-	-	-	-	-	276,466	276,466	-	276,466
Dividends paid	-	-	-	-	-	-	(173,670)	(173,670)	-	(173,670)
Recognition of equity-settled share based payments	-	-	-	-	-	5,677	-	5,677	-	5,677
Lapse of share options	-	-	-	-	-	(1,666)	1,666	-	-	-
At 30 June 2016 (unaudited)	<u>87,662</u>	<u>767,388</u>	<u>83,758</u>	<u>434,774</u>	<u>154,760</u>	<u>67,272</u>	<u>3,808,830</u>	<u>5,404,444</u>	<u>-</u>	<u>5,404,444</u>
At 1 January 2015 (audited)	87,662	767,388	83,758	432,179	154,760	45,508	3,321,216	4,892,471	437	4,892,908
Profit and total comprehensive income for the period	-	-	-	-	-	-	385,493	385,493	129	385,622
Transfers	-	-	-	411	-	-	(411)	-	-	-
Dividends paid	-	-	-	-	-	-	(181,940)	(181,940)	-	(181,940)
Recognition of equity-settled share based payments	-	-	-	-	-	10,581	-	10,581	-	10,581
Acquisition of additional interest of a subsidiary	-	-	-	-	-	-	(34)	(34)	(566)	(600)
At 30 June 2015 (unaudited)	<u>87,662</u>	<u>767,388</u>	<u>83,758</u>	<u>432,590</u>	<u>154,760</u>	<u>56,089</u>	<u>3,524,324</u>	<u>5,106,571</u>	<u>-</u>	<u>5,106,571</u>

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Net cash generated from operating activities	392,292	452,493
Investing activities		
Withdrawal of pledged bank deposits	43,247	240,410
Interest income received	33,614	18,549
Net proceeds from short-term financial products	17,330	23,827
Payment for acquisition of a subsidiary in prior year	(78,360)	–
Purchase of property, plant and equipment	(60,577)	(52,195)
Placement of pledged bank deposits	(50,445)	(26,720)
Proceeds from redemption of debt related products	–	307,633
Proceeds from disposal of property, plant and equipment	–	4,787
Government grants received	–	1,441
Acquisition of debt related products	–	(300,000)
Purchase of land use right	–	(14,792)
Deposits for intangible assets	–	(6,000)
Net cash (used in) from investing activities	(95,191)	196,940
Financing activities		
Dividends paid	(173,670)	(181,940)
Repayment of bank loans	–	(200,000)
Acquisition of additional interest in a subsidiary	–	(600)
Interest paid	–	(219)
Net cash used in financing activities	(173,670)	(382,759)
Net increase in cash and cash equivalents	123,431	266,674
Cash and cash equivalents at beginning of the period	2,826,219	2,688,148
Effect of foreign exchange rate changes	2,336	(747)
Cash and cash equivalents at end of the period, representing bank balances and cash	2,951,986	2,954,075

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and International Accounting Standard (“IAS”) 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 have been 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 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board that are mandatorily effective for the current interim period.

Amendments to IFRSs	Annual improvements to IFRSs 2012 – 2014 cycle
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IAS 1	Disclosure initiative
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts and/or disclosures reported 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 is regarded as a single segment, being an enterprise engaged in research and development, manufacturing 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	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Interests on bank borrowings	–	61

5. TAXATION

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Current tax:		
People's Republic of China (the "PRC") Enterprise Income Tax	53,932	70,541
(Over)underprovision in prior years	(3,233)	4,949
Withholding tax paid on distributed profits	–	25,500
	<u>50,699</u>	<u>100,990</u>
Deferred tax:		
Current year	(2,132)	390
Withholding tax on undistributed profits	4,250	(13,000)
	<u>2,118</u>	<u>(12,610)</u>
	<u>52,817</u>	<u>88,380</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%.

A subsidiary which is operating in Western China has been granted tax concession by the local tax bureau and is entitled to PRC EIT at concessionary rate of 9% for both periods, for which the tax concession will expire in 2017. Certain subsidiaries which are recognised as High and New-tech Enterprises have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both periods, for which the tax concessions will expire in 2017. 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, 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 RMB3,595,992,000 (31.12.2015: RMB3,333,562,000) 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 be reversed in the foreseeable future.

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	20,194	1,253
Amortisation of prepaid lease payments	2,018	1,853
Depreciation of property, plant and equipment	75,128	73,137
Government subsidies (included in other income) (Note a)	(4,551)	(13,335)
Interest income from bank deposits (included in investment income)	(42,185)	(21,844)
Investment income from debt related products (Note b)	–	(7,633)
Investment income from short-term financial products (Note c)	(17,330)	(23,827)
Loss (gain) on disposal of property, plant and equipment	115	(2,697)
Share-based payment expense	5,677	10,581

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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) RMB2,684,000 (2015: RMB7,539,000) represent incentives received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB1,867,000 (2015: RMB5,796,000) 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 2015 with effective interest rate ranged from 5.3% to 5.4% per annum. No debt related products were entered into during the six months ended 30 June 2016.
- (c) These short-term financial products, which are related to debt and equity instruments and foreign currencies, carried effective interest rate ranged from 3.7% to 4.4% (2015: 5.4% to 5.6%) per annum. In the opinion of the directors of the Company, these short-term financial products are large in amounts, with quick turnover and short maturities. Accordingly, the cash receipts and payments for these short-term financial products are presented on a net basis in the condensed consolidated statement of cash flows.

7. DIVIDENDS

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Dividends		
– 2015 final dividend of RMB12 cents (2015: 2014 final dividend of RMB12 cents) per share paid	99,240	99,240
– 2015 special dividend of RMB9 cents (2015: 2014 special dividend of RMB10 cents) per share paid	<u>74,430</u>	<u>82,700</u>
	<u>173,670</u>	<u>181,940</u>
– 2016 interim dividend of RMB11 cents (2015: RMB11 cents) per share	<u>90,970</u>	<u>90,970</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 26 August 2016 and will be paid on 28 October 2016, to the shareholders of the Company whose names appear in the Company's register of members on 14 October 2016.

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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	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	<u>276,466</u>	<u>385,493</u>

	Six months ended 30 June	
	2016	2015
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 2016 and 2015 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 2016 and 2015.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired buildings at a cost of RMB515,000 (for the six months ended 30 June 2015: RMB588,000), plant and machinery of RMB5,354,000 (for the six months ended 30 June 2015: RMB5,953,000), office equipment of RMB816,000 (for the six months ended 30 June 2015: RMB3,136,000), motor vehicles of RMB711,000 (for the six months ended 30 June 2015: RMB239,000) and made additions to construction in progress of RMB35,866,000 (for the six months ended 30 June 2015: RMB27,568,000).

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10. PREPAID LEASE PAYMENTS

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
At beginning of the period/year	158,528	145,466
Addition during the period/year	–	14,793
Acquisition of subsidiaries	–	2,129
Expense for the period/year	(2,018)	(3,860)
At end of the period/year	156,510	158,528
Leasehold land in the PRC		
Current portion (included in other receivables)	4,036	4,033
Non-current portion	152,474	154,495
	156,510	158,528

11. TRADE AND BILLS RECEIVABLES

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Trade receivables	29,756	31,046
Bills receivables	362,288	426,277
	392,044	457,323

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:

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Within 6 months	391,482	456,704
Over 6 months but less than 1 year	562	619
	392,044	457,323

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12. TRADE AND BILLS PAYABLES

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Trade payables	172,998	180,879
Bills payables	50,445	43,247
	223,443	224,126

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

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Within 6 months	192,370	211,678
Over 6 months but less than 1 year	25,296	1,131
Over 1 year but less than 2 years	1,576	4,055
Over 2 years	4,201	7,262
	223,443	224,126

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

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13. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
Balance at 1 January 2015, 31 December 2015 and 30 June 2016	<u>5,000,000</u>	<u>500,000</u>
Issued and fully paid:		
Balance at 1 January 2015, 31 December 2015 and 30 June 2016	<u>827,000</u>	<u>82,700</u>
		RMB'000
Shown in the financial statements as		<u>87,662</u>

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

14. 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.

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15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Rental expenses to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (Note)	639	1,790
Rental expenses to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note)	506	506
Service fee to Shineway Medical (Note)	4,314	4,169
Service fee to Shineway Lang Fang (Note)	1,237	1,198
Sale of Chinese pharmaceutical products to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (Note)	36	8,701

Note: Shineway Medical, Shineway Lang Fang and Shineway Drugstores 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	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Short-term benefits	6,153	7,272
Post-employment benefits	39	45
	<u>6,192</u>	<u>7,317</u>

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16. COMMITMENTS

(a) Operating lease commitments

At 30 June 2016, the Group had future aggregate minimum lease payments under operating leases as follows:

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Within one year	3,111	6,372
In the second to fifth year inclusive	1,224	4,800
	4,335	11,172

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 operating leases with related parties which are ultimately controlled by the controlling shareholder of the Company as follows:

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Within one year	2,290	4,592
In the second to fifth year inclusive	1,145	4,592
	3,435	9,184

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16. COMMITMENTS (Continued)

(b) Capital commitments

	30.6.2016	31.12.2015
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements		
– in respect of acquisition of property, plant and equipment	272,116	364,152
– in respect of acquisition of intangible assets	84,000	84,000

17. EVENT AFTER THE REPORTING PERIOD

On 1 July 2016, the Group entered into a sale and purchase agreement with Shineway Medical to dispose of the entire equity interests in Jing Li Yuan Biotechnology Limited 精力源生物科技有限公司, a wholly-owned subsidiary of the Group, at a cash consideration of RMB80,000,000. It is expected that the Group will not have any gain or loss on the disposal. Details of the disposal are set out in the Company's announcement dated 4 July 2016.