



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 2017





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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

Independent Non-executive Directors

Ms. Cheng Li
Mr. Sun Liutai
Prof. Luo Guoan (appointed on 16 June 2017)
Mr. Hung Randy King Kuen
(resigned on 30 March 2017)

BOARD COMMITTEES

Audit Committee

Mr. Sun Liutai (*Committee Chairman*)
Ms. Cheng Li
Prof. Luo Guoan (appointed on 16 June 2017)
Mr. Hung Randy King Kuen
(resigned on 30 March 2017)

Remuneration Committee

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

Nomination Committee

Mr. Li Zhenjiang (*Committee Chairman*)
Mr. Sun Liutai
Prof. Luo Guoan (appointed on 16 June 2017)
Mr. Hung Randy King Kuen
(resigned on 30 March 2017)

AUTHORIZED REPRESENTATIVES

Mr. Li Huimin
Mr. Lee Bun Ching, Terence
(appointed on 1 July 2017)
Ms. Wong Mei Shan (resigned on 1 July 2017)

COMPANY SECRETARY

Mr. Lee Bun Ching, Terence
(appointed on 1 July 2017)
Ms. Wong Mei Shan (resigned on 1 July 2017)

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 3109, 31/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



Corporate Information

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 2017, the operating results of the Group were as follows:

- Turnover amounted to RMB811,748,000, a decrease of 12.9% as compared to the corresponding period of last year;
- Gross profit margin amounted to 62.0% as compared to 63.9% of the corresponding period of last year;
- Profit for the period amounted to RMB183,004,000, a decrease of 33.8% as compared to the corresponding period of last year;
- Earnings per share amounted to RMB22 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 2017, the Group’s prescription and over-the-counter (“OTC”) medicines accounted for approximately 74.9% and 25.1% 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 2017, approximately 44.7% 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 20.2% and 35.1% 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 National Essential Medicines List (2012 Edition) released by the Ministry of Health of the PRC.





Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 June 2017, the Group recorded a turnover of RMB811,748,000, a decrease of 12.9% 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	RMB410,592,000	50.6%	-24.4%
Soft Capsules	RMB164,574,000	20.3%	-4.9%
Granules	RMB134,917,000	16.6%	-17.6%
Other product formats (Include Chinese Medicine Prescription Granules)	RMB101,665,000	12.5%	97.1%

Injection Products

For the first six months of 2017, the Group sold RMB410,592,000 of injection products, representing a decline of 24.4% from the same period of last year. Revenue from injection products was lower mainly due to the decline in sales of Qing Kai Ling Injection and Shu Xie Ning Injection. For the first six months of 2017, injection products accounted for 50.6% of the Group's total turnover as compared to 58.3% for the same period of last year.

The new National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance Drug Catalogue (2017 edition) (the "Insurance Catalogue"), issued at the end of February this year, requires 26 kinds of Chinese medicine injections (including Shen Mai Injection, Qing Kai Ling Injection and Shu Xie Ning Injection) to be used at Class II or above medical institutions for prescribed therapeutic purposes to be eligible for the state insurance claim. Accordingly, distributors and grass-root medical institutions have taken a wait-and-see attitude in the short run, and reduced their purchase orders of Chinese medicine injection products. Previously, the 2009 edition of the Insurance Catalogue had already stipulated that Shen Mai Injection and Qing Kai Ling Injection are eligible for state insurance claim only if used in Class II or above medical institutions. A relatively large proportion of the Group's Shen Mai Injection and Shu Xie Ning Injection are indeed being used in Class II or above medical institutions. In addition, although the Group's Qing Kai Ling Injection is mainly used in medical institutions below Class II, the Group believes that a considerable number of patients receiving medical treatment of Chinese medicine injections (including the use of Qing Kai Ling Injection) are not necessarily qualified for state medical insurance and therefore would pay for the drugs without claiming the state medical insurance. The Group's "Comprehensive Quality Control of Traditional Chinese Medicine Injection and Its Application in Qing Kai Ling, Shu Xie Ning, Shen Mai Injection" scientific research project received the "Second Prize of National Science and Technology Advancement Award". Qing Kai Ling Injection is widely use in grass-root medical institutions. The ineligibility for state insurance claim unless it is used in Class II or above medical institutions does not mean that doctors and patients at below Class II medical institutions will stop using the relevant drugs. The Group will increase its terminal sales coverage to those medical institutions ineligible for state medical insurance. The Group is now closely monitoring the development of the market while actively strengthening communication with all relevant parties. Market demand for Chinese medicine injection shall ultimately dictate the direction of its market dynamic.

Management Discussion and Analysis

The Group believes that it is currently the largest Chinese medicine injections manufacturer in the PRC in terms of sales volume and production capacity. The Group's injection production capacity is approximately 3.2 billion vials per annum.

Soft Capsule and Granule Products

For the first six months of 2017, the Group recorded RMB164,574,000 on sales of soft capsule products, declined by 4.9% from the same period of last year. This was mainly due to the sales decrease of Wu Fu Xin Nao Qing Soft Capsule. At the same time, sales of granule products had decreased by 17.6% to RMB134,917,000 as compared to the same period of last year, which was mainly resulted from the sales decrease of Pediatric Qing Fei Hua Tan Granule and Pediatric Hua Tan Zhi Ke Granule.

During the first six months of 2017, the Group focused on restructuring our sales channels and rationalizing the retail selling prices for various oral type products. Rather than relying on traditional distributors to promote sales, the Group is turning to our terminal sales team to expand coverage areas and to pull sales momentum at the terminal points. The goal is to create better synergistic effect with the Group's product advantages and our rapidly expanding coverage of retail chains, to better prepare the soft capsule and granule products for future sales growth.

Soft capsule and granule products respectively accounted for 20.3% and 16.6% of the Group's turnover for the first six months of 2017, as compared to 18.6% and 17.6% for the same period of last year. The Group's production capacities of soft capsule and granule products are presently at 3.5 billion capsules per annum and 3.4 billion bags per annum respectively. The Group believes that it is currently the largest Chinese medicine soft capsule and Chinese medicine granule manufacturer in the PRC in terms of sales volume and production capacity.

Other Products

During the first six months of 2017, sales of other products amounted to RMB101,665,000, representing an increase of 97.1% over the same period last year. The main reason for the increase was due to the significant surge in sales of Chinese medicine prescription granules as compared to the same period last year. As the trend in gradually opening up Chinese medicine prescription granules market becomes more visible, the relevant market size should continue to expand. Riding on the strong core competitiveness of the Group, it is expected that Chinese medicine prescription granules will continue to bring a relatively higher growth.

RESEARCH AND DEVELOPMENT

The Group has endeavored to research and develop new products. Currently, there are more than 20 research projects undergoing pharmaceutical and clinical trials. They include 14 research projects on new drugs (including 1 in Australia), 2 national science and technology major projects, and 6 provincial or municipal government supported R&D projects. A total of 15 clinical trials (including 1 in Australia) are in progress.



Management Discussion and Analysis

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 57 patents for our inventions, and 66 invention patent applications are pending approval.

STATE PROTECTED CHINESE MEDICINES

As at 30 June 2017, 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

Affected by changes in state health insurance policy, Chinese medicine injection segment is currently encountering challenges on its market development. Nonetheless, the Group remains optimistic on Chinese medicine injections' long term prospect. Chinese medicine injections deliver rapid curative effect. With vast clinical applications, Chinese medicine injections are widely used in grass-root medical institutions. The clinical needs for Chinese medicine injections remain ample. In recent years, the evolvement of pharmaceutical industry policy for the Chinese medicine injection segment brings both challenges and opportunities. For Chinese medicine injection manufacturers with advanced production knowhow, sounded product research, and stringent quality control, this may be seen as a juncture for the industry to consolidate through the survival of the fittest process and the natural selection mechanism. For a Chinese medicine enterprise with product and brand advantages, this could well become a greater opportunity for advancement.

Presently, the Group is actively strengthening our implementation of growth strategy on oral type products. The foundation formed from our restructuring of sales channels and rationalization of retail prices should lead the Group's key oral type products such as Wu fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule, Pediatric Qing Fei Hua Tan Granule and Pediatric Huatan Zhike Keli Granule to deliver better growth in the market. The Group is also expanding our coverage of terminal sales points for oral type products, aiming to spur key potential products such as Huamoyan Granule, Xue Sai Tong Dripping Pill, Dan Deng Tong Nao Soft Capsule, and Qing Kai Ling Soft Capsule etc., to becoming hundred million dollar products more quickly. Huamoyan Granule and Qing Kai Ling Soft Capsule, which are exclusive products of the Group, have just entered into the Insurance Catalogue in the first half of 2017. Sales growth of these two products should gain more momentum.

Management Discussion and Analysis

Chinese medicine prescription granule is an important element to the modernization of Chinese medicine. As the industry unleashes, along side the orderly implementation of relevant supportive government policies, as well as market substitution of traditional Chinese herbal medicine, it is expected that the Chinese medicine prescription granule market will lead to considerable growth in the next five years. It is also seen as one of the fastest growing segments in pharmaceutical industry with vast market potential. The Group's 600 plus Chinese medicine prescription granules are included in the health insurance catalogue of Hebei Province. At present, the Group is expanding the sales coverage of Chinese medicine prescription granules and expediting the nurturing of our point of sales team. The Group looks forward for Chinese medicine prescription granules to becoming another hit product of the Group.

FINANCIAL ANALYSIS

Turnover

For the first six months of 2017, the Group continued to produce modern Chinese medicine products of good efficacy and high quality. The Group's turnover had decreased by 12.9% as compared to the corresponding period of last year. This was mainly due to the decrease of average selling price and sales volume of the Group's pharmaceutical products as compared with those of the corresponding period in 2016. Sales of our injection products had declined by 24.4% to RMB410,592,000, accounted for 50.6% of the Group's total turnover. Sales of soft capsule products had declined by 4.9% to RMB164,574,000, accounted for 20.3% of the Group's total turnover. Sales of granule products had declined by 17.6% to RMB134,917,000, accounted for 16.6% of the Group's total turnover. The Group had also sold RMB101,665,000 of medicines in other formats which accounted for 12.5% of the Group's turnover.

During the period, sales of medicines for treating cardiovascular illness, anti-viral and medicines for treating other illnesses respectively accounted for 44.7% (for the corresponding period of 2016: 43.9%), 20.2% (for the corresponding period of 2016: 30.0%) and 35.1% (for the corresponding period of 2016: 26.1%) of the Group's total turnover.

Sales of prescription and OTC medicines of the Group for the first six months of 2017 were RMB608,053,000. and RMB203,695,000, equal to 74.9% and 25.1% of the Group's turnover, respectively. (For the corresponding period of 2016: 78.1% and 21.9%)



Management Discussion and Analysis

Cost of Sales

Cost of sales for the first six months of 2017 was RMB308,078,000, equals to 38.0% of turnover. Direct materials, direct labour and other production costs accounted for 57.9%, 14.2% and 27.9% of the total production costs respectively. (For the corresponding period of 2016: 61.6%, 13.2% and 25.2%)

Gross Profit Margin

The Group's overall gross profit margin for the first six month of 2017 was 62.0% as compared to 63.9% of the corresponding period of last year. The decrease in gross profit margin was mainly due to decrease of average selling price of certain pharmaceutical products.

Other Income

Other income mainly includes government subsidies of RMB27,028,000 (for the corresponding period of 2016: RMB4,551,000). 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 RMB28,751,000 (for the corresponding period of 2016: RMB42,185,000) and RMB18,968,000 (for the corresponding period of 2016: RMB17,330,000) respectively.

Selling and Distribution Costs

Selling and distribution costs for the first six months of 2017 increased 13.7% from the corresponding period of last year and were equal to 21.7% of the Group's turnover (for the corresponding period of 2016: 16.6%). The increase was mainly due to the increased advertising and promotion expenses as compared to same period of last year.

Administrative Expenses and Research and Development Costs

During the first six months of 2017, administrative expenses decreased by 12.0% as compared to the corresponding period of last year, representing approximately 15.2% (for the corresponding period of 2016: 15.0%) of the Group's turnover. Decrease in administrative expenses was mainly due to the implemented cost control measures and overall decrease in number of employees as compared to same period of last year. Besides, research and development costs was decreased by 22.7% as compared to the corresponding period of last year. Research and development costs accounted for approximately 3.2% of the Group's turnover (for the corresponding period of 2016: 3.6%).

Management Discussion and Analysis

Net Exchange Gain/Loss

The Group posted a net exchange gain of RMB1,259,000 for the first six months of 2017 (for the corresponding period of 2016: net exchange loss of RMB2,055,000), which was mainly resulted from exchange gain arising from change of exchange rate between Australian dollars, Hong Kong dollars and Renminbi.

Taxation

Taxation for the first six months ended 30 June 2017 amounted to RMB73,108,000 (for the corresponding period of 2016: RMB52,817,000). The increase in taxation was mainly due to the increased withholding tax related to dividend distribution as compared with that of the corresponding period in 2016.

Interim Dividend

The board of directors of the Company (the "Board") resolved to declare an interim dividend of RMB11 cents per share amounting RMB90,970,000 in respect of the six months ended 30 June 2017 and are calculated on the basis of 827,000,000 shares issued as at 29 August 2017 (for the six months ended 30 June 2016: RMB11 cents per share, amounting RMB90,970,000), which will be paid on 30 October 2017, to the shareholders whose names appear on the Company's register of members on 13 October 2017.

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 2017 (RMB1=HK\$1.1820). Accordingly, the amount payable on 30 October 2017 will be HK\$0.1300 per share.

Capital Structure

For the six months ended 30 June 2017, there was no change in the capital structure and issued share capital of the Group as compared to those on 31 December 2016.



Management Discussion and Analysis

Liquidity and Financial Resources

As at 30 June 2017, bank deposits of the Group, amounting to RMB3,435,822,000 (31 December 2016: RMB3,218,401,000) which comprised of RMB3,405,316,000 (31 December 2016: RMB3,004,983,000), were denominated in Renminbi. Others, being equivalent to RMB22,217,000, RMB5,038,000 and RMB3,251,000 (31 December 2016: RMB44,109,000, RMB5,074,000 and RMB164,235,000), 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 2017 decreased by 50.0% and increased by 41.5% respectively from 31 December 2016. Turnover days of bills and trade receivables were 85.0 days and 13.9 days respectively (for the corresponding period of 2016: 77.4 days and 6.0 days respectively).

Inventories

Inventories balance as at 30 June 2017 increased by 9.5% from 31 December 2016. By inventory categories, raw materials, work in progress and finished products respectively accounted for 27.3%, 20.8% and 51.9% of inventories as at 30 June 2017 (31 December 2016: 31.1%, 27.7% and 41.2% respectively).

Turnover days for finished goods products in the first six months of 2017 were 85.7 days (for the corresponding period of 2016: 72.9 days).

Property, Plant and Equipment

In the first six months of 2017, the Group acquired buildings of RMB516,000, plant and machinery of RMB17,601,000, office equipment of RMB1,294,000, motor vehicles of RMB15,000 and the new construction works of plants located in Shijiazhuang which comprised the logistic center and various workshop projects amounted to approximately RMB52,187,000 in total.

For the six months ended 30 June 2017, depreciation for property, plant and equipment amounted to RMB78,802,000 as compared to RMB75,128,000 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 100.4 days (for the corresponding period of 2016: 96.4 days).

Bills Payables

As at 30 June 2017, the Group had bills payables amounted to RMB52,498,000 (31 December 2016: RMB54,506,000). These liabilities are repayable within one year. Bank deposits of RMB52,498,000 (31 December 2016: RMB54,506,000) were pledged to banks to secure these bills payables.

Pledge of Assets

At the time of settlement as at 30 June 2017, the Group secured bills payables of RMB52,498,000 (31 December 2016: RMB54,506,000) by pledging bank deposits amounting RMB52,498,000 (31 December 2016: RMB54,506,000).



Management Discussion and Analysis

Employees

As at 30 June 2017, the Group has 3,628 employees (31 December 2016: 3,867 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.

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 gain in the first half of 2017 arose from the change in exchange rate between Hong Kong dollars, Australian dollars and Renminbi. As at 30 June 2017, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose.

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2017 (31 December 2016: Nil).

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2017, 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	280,000	0.03%

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 2017, 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 2017, 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%

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 2017, 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 2017	Granted during the period	Lapsed during the period	As at 30 Jun 2017		
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	17,550,000	–	(600,000)	16,950,000	1	11.84
		21,150,000	–	(600,000)	20,550,000		

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.

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				Note	Exercise price per share (HK\$)
		As at 1 Jan 2017	Granted during the period	Lapsed during the period	As at 30 Jun 2017		
Other Employees	1 Jun 2016	1,000,000	–	–	1,000,000	3	8.39

Notes:

(3) 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.



Other Information

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2017, 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 2017, except for code provisions A.2.1 and A.5.1 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.

Code provision A.5.1 of the Code stipulates that the nomination committee should comprise a majority of independent non-executive directors. Upon the resignation of Mr. Hung Randy King Kuen (“Mr. Hung”) as an independent non-executive director (the “INED”) and a member of the nomination committee of the Company (the “Nomination Committee”) on 30 March 2017, the Nomination Committee comprised of Mr. Li Zhenjiang (an executive Director) and Mr. Sun Liutai (an INED). Accordingly, the Company failed to meet code provision A.5.1. After the appointment of Professor Luo Guoan (“Prof. Luo”) as an INED and a member of the Nomination Committee on 16 June 2017, the Company fully complies with the code provision A.5.1.

Other Information

OTHER INFORMATION

Following the resignation of Mr. Hung as an INED and a member of the audit committee of the Company on 30 March 2017, the Company was not in compliance with the following Listing Rules (i) Rule 3.10(1), which stipulates that the Board must include at least three independent non-executive directors; (ii) Rule 3.10A, which stipulates that the number of independent non-executive directors shall represent at least one-third of the board; and (iii) Rule 3.21, which stipulates that the audit committee shall comprise of at least three members. After the appointment of Prof. Luo as an INED and a member of the Audit Committee of the Company on 16 June 2017, the Company fully complies with the requirements of Rules 3.10(1), 3.10A and 3.21 of the Listing Rules. The Directors will review the Company's corporate governance policies and compliance with the Code Provisions from time to time.

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 for the six months ended 30 June 2017.

CHANGES IN DIRECTOR'S INFORMATION

Mr. Hung has resigned as an INED, a member of the Audit Committee and a member of the Nomination Committee of the Company with effect from 30 March 2017.

Prof. Luo has been appointed as an INED, a member of the Audit Committee and a member of the Nomination Committee of the Company with effect from 16 June 2017. Details of Prof. Luo's appointment and biography information were disclosed in the announcement of the Company dated 16 June 2017.

Save as disclosed above, there are no other issues related to the directors of the Company is 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 2017.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 12 October 2017 to 13 October 2017 (both days inclusive). In order to qualify for the 2017 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 11 October 2017.

By order of the Board

China Shineway Pharmaceutical Group Limited

Li Zhenjiang

Chairman

Hong Kong, 29 August 2017

Report on Review of Condensed Consolidated Financial Statements

Deloitte.

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TO THE BOARD OF DIRECTORS OF
CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED

中國神威藥業集團有限公司

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the 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 26 to 40, which comprise the condensed consolidated statement of financial position as of 30 June 2017 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 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 2017

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	NOTES	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Turnover	3	811,748	931,641
Cost of sales		(308,078)	(336,016)
Gross profit		503,670	595,625
Other income		28,953	4,963
Investment income		47,719	59,515
Net exchange gain (loss)		1,259	(2,055)
Selling and distribution costs		(176,006)	(154,732)
Administrative expenses		(123,274)	(140,149)
Research and development costs		(26,209)	(33,884)
Profit before taxation		256,112	329,283
Taxation	4	(73,108)	(52,817)
Profit and total comprehensive income for the period	5	183,004	276,466
Earnings per share – basic	7	RMB22 cents	RMB33 cents



Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	1,459,167	1,466,458
Prepaid lease payments		158,321	160,578
Intangible assets		328,159	348,353
Goodwill		159,291	159,291
Deposit for intangible assets		58,000	58,000
Deferred tax assets		21,476	21,586
		2,184,414	2,214,266
Current assets			
Inventories		322,301	294,410
Trade receivables	9	72,350	51,122
Bills receivables	9	251,525	502,553
Prepayments, deposits and other receivables		80,033	128,562
Tax recoverable		1,474	1,442
Pledged bank deposits		52,498	54,506
Bank balances and cash		3,435,822	3,218,401
		4,216,003	4,250,996
Current liabilities			
Trade payables	10	173,420	164,620
Bills payables	10	52,498	54,506
Other payables and accrued expenses		324,705	396,088
Amounts due to related companies		15,949	16,086
Deferred income		16,128	13,554
Tax liabilities		41,646	28,202
		624,346	673,056

Condensed Consolidated Financial Statements

	NOTE	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)
Net current assets		<u>3,591,657</u>	<u>3,577,940</u>
Total assets less current liabilities		<u>5,776,071</u>	<u>5,792,206</u>
Non-current liabilities			
Deferred tax liabilities		53,182	56,431
Deferred income		<u>83,808</u>	<u>109,102</u>
		<u>136,990</u>	<u>165,533</u>
Net assets		<u><u>5,639,081</u></u>	<u><u>5,626,673</u></u>
Capital and reserves			
Share capital	11	87,662	87,662
Reserves		<u>5,551,419</u>	<u>5,539,011</u>
Total equity		<u><u>5,639,081</u></u>	<u><u>5,626,673</u></u>



Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital	Share premium	Merger reserve	Statutory surplus reserve fund	Discretionary surplus reserve fund	Share options reserve	Accumulated profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017 (audited)	87,662	767,388	83,758	436,950	154,760	64,830	4,031,325	5,626,673
Profit and total comprehensive income for the period	-	-	-	-	-	-	183,004	183,004
Dividends paid	-	(173,670)	-	-	-	-	-	(173,670)
Recognition of equity-settled share based payments	-	-	-	-	-	3,074	-	3,074
Lapse of share options	-	-	-	-	-	(1,319)	1,319	-
At 30 June 2017 (unaudited)	<u>87,662</u>	<u>593,718</u>	<u>83,758</u>	<u>436,950</u>	<u>154,760</u>	<u>66,585</u>	<u>4,215,648</u>	<u>5,639,081</u>
At 1 January 2016 (audited)	87,662	767,388	83,758	434,774	154,760	63,261	3,704,368	5,295,971
Profit and total comprehensive income for the period	-	-	-	-	-	-	276,466	276,466
Dividends paid	-	-	-	-	-	-	(173,670)	(173,670)
Recognition of equity-settled share based payments	-	-	-	-	-	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>

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Net cash generated from operating activities	<u>343,719</u>	<u>392,292</u>
Investing activities		
Interest income received	71,430	33,614
Withdrawal of pledged bank deposits	54,506	43,247
Net proceeds from short-term financial products	18,968	17,330
Placement of pledged bank deposits	(52,498)	(50,445)
Purchase of property, plant and equipment	(49,582)	(60,577)
Payment for acquisition of a subsidiary in prior year	–	(78,360)
Other investing cash flows	<u>4,925</u>	<u>–</u>
Net cash from (used in) investing activities	<u>47,749</u>	<u>(95,191)</u>
Financing activity		
Dividends paid	<u>(173,670)</u>	<u>(173,670)</u>
Cash used in financing activity	<u>(173,670)</u>	<u>(173,670)</u>
Net increase in cash and cash equivalents	217,798	123,431
Cash and cash equivalents at beginning of the period	3,218,401	2,826,219
Effect of foreign exchange rate changes	<u>(377)</u>	<u>2,336</u>
Cash and cash equivalents at end of the period, representing bank balances and cash	<u><u>3,435,822</u></u>	<u><u>2,951,986</u></u>



Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

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

The application of the 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.

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.

Condensed Consolidated Financial Statements

4. TAXATION

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current tax:		
People's Republic of China (the "PRC")		
Enterprise Income Tax ("EIT")	52,750	53,932
Under(over)provision in prior years	3,497	(3,233)
Withholding tax on distributed profits	20,000	–
	<u>76,247</u>	<u>50,699</u>
Deferred tax:		
Current year	(3,139)	(2,132)
Withholding tax on undistributed profits	–	4,250
	<u>(3,139)</u>	<u>2,118</u>
	<u>73,108</u>	<u>52,817</u>

The provision for PRC EIT is based on the estimated taxable income for PRC taxation purpose at the rate of taxation applicable for the period.

Under the Law of the 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 on 31 December 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 on 31 December 2017. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.



Condensed Consolidated Financial Statements

4. TAXATION (Continued)

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 RMB3,982,688,000 (31.12.2016: RMB3,939,803,000) 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.

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	20,194	20,194
Amortisation of prepaid lease payments	2,210	2,018
Depreciation of property, plant and equipment	78,802	75,128
Government subsidies (included in other income) (Note a)	(27,028)	(4,551)
Interest income from bank deposits (included in investment income)	(28,751)	(42,185)
Investment income from short-term financial products (Note b)	(18,968)	(17,330)
Loss on disposal of property, plant and equipment	41	115
Share-based payments expense	3,074	5,677

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) RMB10,827,000 (2016: RMB2,684,000) represent incentives received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB16,201,000 (2016: RMB1,867,000) represent recognition of deferred income upon completion of related research activities.
- (b) These short-term financial products, which are related to debt and equity instruments and foreign currencies, carried effective interest rate ranged from 4.0% to 4.6% (2016: 3.7% to 4.4%) 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.

Condensed Consolidated Financial Statements

6. DIVIDENDS

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Dividends		
– 2016 final dividend of RMB12 cents (2016: 2015 final dividend of RMB12 cents) per share paid	99,240	99,240
– 2016 special dividend of RMB9 cents (2016: 2015 special dividend of RMB9 cents) per share paid	74,430	74,430
	173,670	173,670
– 2017 interim dividend of RMB11 cents (2016: RMB11 cents) per share	90,970	90,970

The interim dividend of RMB11 cents per share which was proposed by the directors of the Company for the period has been calculated on the basis of 827,000,000 shares in issue as at 29 August 2017, and will be paid on 30 October 2017, to the shareholders of the Company whose names appear in the Company's register of members on 13 October 2017.



Condensed Consolidated Financial Statements

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	<u>183,004</u>	<u>276,466</u>

	Six months ended 30 June	
	2017	2016
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 2017 and 2016 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 2017 and 2016.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group made additions to construction in progress of RMB52,187,000 (for the six months ended 30 June 2016: RMB35,866,000) and acquired other property, plant and equipment of RMB19,426,000 (for the six months ended 30 June 2016: RMB7,396,000).

Condensed Consolidated Financial Statements

9. TRADE AND BILLS RECEIVABLES

	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)
Trade receivables	72,350	51,122
Bills receivables	<u>251,525</u>	<u>502,553</u>
	<u><u>323,875</u></u>	<u><u>553,675</u></u>

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:

	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)
Within 6 months	312,000	546,953
Over 6 months but less than 1 year	9,808	6,722
Over 1 year but less than 2 years	<u>2,067</u>	<u>–</u>
	<u><u>323,875</u></u>	<u><u>553,675</u></u>

10. TRADE AND BILLS PAYABLES

	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)
Trade payables	173,420	164,620
Bills payables	<u>52,498</u>	<u>54,506</u>
	<u><u>225,918</u></u>	<u><u>219,126</u></u>



Condensed Consolidated Financial Statements

10. TRADE AND BILLS PAYABLES (Continued)

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

	30.6.2017	31.12.2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 6 months	200,756	197,387
Over 6 months but less than 1 year	13,742	1,807
Over 1 year but less than 2 years	8,345	11,298
Over 2 years	3,075	8,634
	225,918	219,126

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.

11. SHARE CAPITAL

	Number of	Amount
	shares	HK\$'000
	'000	
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 30 June 2017	<u>5,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 January 2016, 31 December 2016 and 30 June 2017	<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.

Condensed Consolidated Financial Statements

12. 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.

13. 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	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Rental expenses to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (Note)	639	639
Rental expenses to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note)	506	506
Service fee to Shineway Medical (Note)	4,466	4,314
Service fee to Shineway Lang Fang (Note)	1,278	1,237
Sale of Chinese pharmaceutical products to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (Note)	-	36
	<u> </u>	<u> </u>

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



Condensed Consolidated Financial Statements

13. RELATED PARTY TRANSACTIONS *(Continued)*

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	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Short-term benefits	5,627	5,156
Post-employment benefits	39	39
Share-based payments expense	572	997
	<u>6,238</u>	<u>6,192</u>

14. COMMITMENTS

(a) Operating lease commitments

At 30 June 2017, the Group had future aggregate minimum lease payments under operating leases as follows:

	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)
Within one year	2,381	4,332
In the second to fifth year inclusive	882	1,347
	<u>3,263</u>	<u>5,679</u>

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.

Condensed Consolidated Financial Statements

14. COMMITMENTS (Continued)

(a) Operating lease commitments (Continued)

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:

	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)
Within one year	<u>1,145</u>	<u>2,289</u>

(b) Capital commitments

	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements		
– in respect of acquisition of property, plant and equipment	294,232	305,847
– in respect of acquisition of intangible assets	<u>84,000</u>	<u>84,000</u>