神威藥業
SHINEWAY

China Shineway Pharmaceutical Group Limited
中國神威藥業集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 02877

LEADING
MODERN CHINESE MEDICINE

PROMOTING
HEALTH INDUSTRY

2018
INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Ms. Lee Ching Ton Brandelyn
(resigned on 23 January 2018)
Mr. Chen Zhong

Independent Non-executive Directors

Ms. Cheng Li
Mr. Sun Liutai
Prof. Luo Guoan

BOARD COMMITTEES

Audit Committee

Mr. Sun Liutai *(Committee Chairman)*
Ms. Cheng Li
Prof. Luo Guoan

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

AUTHORIZED REPRESENTATIVES

Mr. Li Huimin
Mr. Lee Bun Ching, Terence

COMPANY SECRETARY

Mr. Lee Bun Ching, Terence

AUDITOR

Deloitte Touche Tohmatsu

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Hebei Province, The People's Republic of China

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

China Construction Bank (Asia)
The Hongkong and Shanghai Banking Corporation
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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
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STOCK CODE

02877 (Main Board of
The Stock Exchange of Hong Kong Limited)

WEBSITES

www.shineway.com.hk
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INTERIM RESULTS HIGHLIGHTS

For the six months ended 30 June 2018, the operating results of the Group were as follows:

- Turnover amounted to RMB1,305,153,000, an increase of 60.8% as compared to the corresponding period of last year;
- Gross profit margin was 71.2% as compared to 62.0% of the corresponding period of last year;
- Profit for the period amounted to RMB257,025,000, an increase of 40.4% as compared to the corresponding period of last year;
- Earnings per share amounted to RMB31 cents;
- Net cash generated from operating activities per share amounted to RMB44 cents;
- Declared interim dividend of RMB11 cents per share;
- Net assets per share amounted to RMB7.02 (equivalent to HKD8.30); and
- Net cash per share amounted to RMB4.37 (equivalent to HKD5.17).

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 2018, the Group's prescription and over-the-counter ("OTC") medicines accounted for approximately 72.9% and 27.1% of the Group's turnover respectively. These medicines are mainly categorized by curative effects of medications into eight categories including medications for cardiovascular and cerebrovascular diseases, medications for respiratory system diseases, medications for digestive system diseases, pediatric medications, orthopedic medications, medications for strengthening the body, medications for the nervous system and gynecological medications. Please refer to page 11 for the respective proportion of the Group's turnover of the eight categories mentioned above.

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
- Shu Xie Ning Injection: for treatment of cardio-cerebrovascular disease
- Shen Mai Injection: for treatment of coronary heart disease, viral myocarditis and pulmonary heart disease
- Wu Fu Xin Nao Qing Soft Capsule: for prevention and treatment of coronary heart disease and cerebral arteriosclerosis
- Traditional Chinese medicine (TCM) formula granules
- 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
- Huamoyan Granule: for treatment of both acute and chronic synovitis and treatment after joint surgery
- Qing Kai Ling Soft Capsule: for treatment of high fever, viral influenza and respiratory tract infection

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

First half of 2018 resuming growth momentum

The Group kick-started its new sales and marketing models during the first half of 2018, with more extensive terminal coverage and notable resources deployed in all aspects on our products for eight major therapeutic areas and Traditional Chinese Medicine ("TCM") formula granules. Most of our key products had considerable sales increases, revealing signs that our growth momentum is back.

During the six months ended 30 June 2018 (the "Period"), the Group's turnover rose 60.8%, in which sales of injection products surged by 70.3% and orally taken products went up by 51.1%. TCM formula granules continued to grow in a rapid pace with sales increased by 146.1% during the Period.

Pricing policies on centralized procurement of medicines have been trending towards good-quality-good-prices. Such pricing trend, together with the implementation of "Two-Invoices" and strong demand for our products, have driven up both average selling prices and sales volumes of various products of the Group. During the Period, our gross profit margin increased from 62.0% to 71.2%, while net profit rose sharply by 40.4%.

High growth maintained in the second quarter

Due to an influenza outbreak in early 2018, the demand for the Group's anti-flu related medications surged significantly, driving the Group's sales to a higher growth for the first quarter. Despite the comparatively lower sales growth rate in the second quarter after the end of flu season as compared to the first quarter, all dosage types maintained high growth momentum. The following table shows the quarterly and half year growth rates of various dosage types in the first half of 2018 as compared to the corresponding period of last year:

	Growth rate in 2018			Sales	Percentage of total sales
	First quarter	**Second quarter**	**First six months**	**First six months of 2018 RMB'000**	**First six months of 2018**
Injections	**85.3%**	**56.2%**	**70.3%**	**699,194**	**53.6%**
Soft Capsules	**36.3%**	**37.7%**	**37.1%**	**225,633**	**17.3%**
Granules	**46.6%**	**33.2%**	**41.1%**	**190,366**	**14.6%**
TCM Formula Granules	**151.5%**	**142.3%**	**146.1%**	**130,955**	**10.0%**
Others	**23.4%**	**19.9%**	**21.8%**	**59,005**	**4.5%**
Orally Taken Products	**51.3%**	**50.8%**	**51.1%**	**605,959**	**46.4%**
Total	**68.3%**	**53.6%**	**60.8%**	**1,305,153**	**100%**

Granules' growth in the second quarter was lower than the first quarter mainly due to the negative growth of Huamoyan Granule. The Group had been reshuffling distributors of Huamoyan Granule during the Period to gradually open the door for our sales team to conduct direct terminal sales. For this strategic reason, the Group had slowed down the production and shipment of Huamoyan Granule while awaiting for destocking to be completed by certain distributors. According to our survey on terminal sales, Huamoyan Granule sales made by terminal customers actually increased during the first half of 2018. The Group foresees that growth of Huamoyan Granule will resume in the second half of the year.

A number of products are entering into fast growth tracks

There are a total of 109 products regularly manufactured by the Group, including 17 exclusive products and 16 Essential Drugs. During the Period, 23 products are included in the National Low-Priced Medicine Catalogue; 16 products are included in the Provincial Low-Priced Medicine Catalogue; and 3 products are included in the Catalogue of Emergency Use Drugs. Sales of the Group's key products during the first half of 2018 are set out as follows:

	Six months ended 30 June 2017 RMB'000	**Six months ended 30 June 2018 RMB'000**	Growth rate	Percentage of total sales First six months of 2018
Core products				
Qing Kai Ling Injection	128,302	**252,291**	96.6%	19.3%
Shu Xie Ning Injection	119,213	**222,337**	86.5%	17.0%
Shen Mai Injection	80,158	**104,351**	30.2%	8.0%
Wu Fu Xin Nao Qing Soft Capsule	67,314	**92,116**	36.8%	7.1%
Products with high growth potentials				
TCM Formula Granules	53,223	**130,955**	146.1%	10.0%
Huo Xiang Zheng Qi Soft Capsule	52,530	**85,055**	61.9%	6.5%
Paediatric Qing Fei Hua Tan Granule	29,667	**42,340**	42.7%	3.2%
Huamoyan Granule	28,896	**26,605**	–7.9%	2.0%
Qing Kai Ling Soft Capsule	12,052	**23,523**	95.2%	1.8%
Compound Liquorice Tablet	15,206	**18,351**	20.7%	1.4%
Dan Deng Tong Nao (Hard and Soft) Capsule	7,233	**8,494**	17.4%	0.7%
Others	217,954	**298,735**	37.1%	23.0%
Total	811,748	**1,305,153**	60.8%	100.0%

During the Period, the Group's sales and marketing models had gradually shifted from mainly distribution-driven to terminal-driven. Previously, our sales team mainly assisted distributors to promote the Group's products. Now, they are mandated to focus on developing relationship with medical institutions and pharmacies to directly stimulate demands for the Group's products. While a number of the Group's products started to show robust growth during the first half of 2018, the establishment of direct channels with hospitals and pharmacies was also making steady progress. Besides, as national policies are fostering a mega trend on hierarchical diagnosis and treatment and permit grass-root medical institutions to procure Non-Essential Drugs, the market potential of the Group's grass-root products will be unleashed. The Group is devoted to and focusing on proactively expanding terminal coverage of and conducting marketing activities for our orally taken products, while speeding up our pace to enter into more retail terminal pharmacies and target hospitals, so as to drive our orally taken products to grow in a faster pace.

Broadening procurements by grass-root medical institutions unleashes market potential of the Group's grass-root products

During the 13th Five-Year Plan period, promoting hierarchical diagnosis and treatment is one of the country's major objectives and an important mission for deepening medical reform. The National Health Commission of the PRC revealed that, a very large majority of prefectures and cities in the PRC had commenced the implementation of hierarchical diagnosis and treatment as at the end of November 2017, from which quality medical resources have started to shift downward to the community. Gradually, such hierarchical diagnosis and treatment system on provision of initial primary care at grass-root clinics and a two-way referral system prioritizing treatments among emergency and chronic illness coordinated by both higher and lower-level medical institutions are being established. The number of primary care treatments conducted by grass-root medical institutions as compared to the total number of medical treatments has shown an upward trend. In the end, the ideal hierarchical diagnosis and treatment system will be formed where patients with minor sickness will receive diagnosis and primary care treatments in their local communities whereas those with major medical needs will be treated in hospitals. Patients recovering from major illness will be set to return to their local communities to receive continuing recovery treatments.

As the general public are returning to grass-root medical institutions for primary care treatments, using good-quality-good-prices medications by primary medical and healthcare personnel may become a major trend. During the Period, sales of a number of the Group's products which went through grass-root medical institutions were estimated to reach RMB621,233,000, or 62.6% higher as compared to the same period of last year. In particular, sales of injections, soft capsules and granules which went through grass-root medical institutions increased by 78.6%, 41.3% and 41.8%, respectively. Qing Kai Ling Injection recorded the highest sales volume and the topest ranked sales growth among the Group's products sold towards grass-root medical institutions. During the Period, sales of Qing Kai Ling Injection, a widely used anti-viral medications, which went through grass-root medical institutions was estimated to reach RMB216,963,000, representing a growth of 92.7% as compared to the same period of last year, accounting for 86.0% of its total sales. China was widely affected by influenza at the beginning of 2018, resulting in the supply of Qing Kai Ling Injection falling short of demand. During the second quarter after the end of flu season, although the sales growth of Qing Kai Ling Injection was comparatively lower than the first quarter, it was still maintaining a high growth rate of 80.0%. The following table shows the quarterly growth rates of Qing Kai Ling Injection in the first half of 2018:

Qing Kai Ling Injection	2017 RMB'000	**2018** **RMB'000**	Growth rate
Sales in the first quarter	66,812	**141,611**	112.0%
Sales in the second quarter	61,490	**110,680**	80.0%
Total sales in the first six months	128,302	**252,291**	96.6%

In addition to its inclusion in the National Essential Drug Catalogue, Qing Kai Ling Injection was also accredited by the State Administration of TCM of the PRC as one of the Essential Medicines for Emergency Wards of TCM Hospitals, and also listed in the TCM Medical Treatment Experts' Consensus about Human Infection with Avian Influenza H7N9 (2014 Edition) and the Treatment Plan for Influenza A Viruses H1N1. As one of the medications recommended by the country for fighting against influenza, market potential for Qing Kai Ling Injection is immense. Leveraging on its good quality and good prices status, Qing Kai Ling Injection has been included in the Low-Priced Medicine Catalogue of a total of 15 provinces as of the end of the first six months of this year, as compared to a total of 11 provinces as of the end of last year. The Group believes that broadening procurements by grass-root medical institutions and the mega trend on hierarchical diagnosis and treatment will continue to drive the sales of the Group's grass-root products such as Qing Kai Ling Injection.

MANAGEMENT DISCUSSION AND ANALYSIS

The country's policy of opening the door for grass-root medical institutions to procure Non-Essential Drugs is turning into a key element for the sales growth of good-quality-good-prices medications. The Opinions on Further Strengthening the Management of the Procurement and Use of Medicines in Grass-root Medical and Healthcare Institutions issued by National Health Commission of the PRC in 2014, revised the limitation of procurement and use of Essential Drugs only imposed on grass-root medical institutions. As a result, grass-root medical institutions, such as urban community health service centers and rural township hospitals, can procure and use certain amounts or proportions of Non-Essential Drugs that are included in Drugs Reimbursement List as well as those covered by the New Rural Cooperative Medical System other than just Essential Drugs. Since mid-2017, a number of provinces and cities have promulgated that grass-root medical institutions are allowed to procure certain amounts and proportions of Non-Essential Drugs. Beijing, Tianjin, Guangdong Province and Liaoning Province have also respectively issued authorization requiring their grass-root medical institutions to purchase medications from the same platform of Class II and III hospitals, with an aim to standardize drug catalogues used by all public medical institutions.

The Group believes that the reform on grass-root medical institutions drugs procurement practices may unleash market potential of a number of the Group's Non-Essential Drugs, particularly those exclusive products with good-quality-good-prices, such as Qing Kai Ling Soft Capsule, Huamoyan Granule and Dan Deng Tong Nao Soft Capsule.

Orally taken products volume spurred by pharmacy chains

During the first half of 2018, the sales of the Group's products sold through retail terminal pharmacies were estimated to reach RMB258,087,000, representing an increase of 41.8% as compared to the corresponding period of last year. Of which, the Group's products which went through pharmacy chain stores and single store pharmacies increased by 97.5% and decreased by 6.1% respectively. The estimation of our sales by retail terminal pharmacies is set out as follows:

	First six months of 2017 RMB'000	**First six months of 2018 RMB'000**	Sales growth RMB'000	Growth rate
Pharmacy chain stores	84,142	**166,173**	82,031	97.5%
Single store pharmacies	97,916	**91,914**	-6,002	-6.1%
Sales to retail terminals	182,058	**258,087**	76,029	41.8%

With reference to research data, gradual adoption of dispensing drugs outside of hospitals shall drive up chain operations of pharmacy, resulting in a rising trend in the formation of pharmacy chains.

The Group continues to expand its sales coverage to more pharmacy chain stores. Based on internal statistics, the Group is now covering close to 150,000 retail terminal pharmacies, of which 100,000 are pharmacy chain stores and 50,000 are single store pharmacies. The number of pharmacy chain stores and single stores pharmacies covered by the Group increased by 10,000 and 5,000 respectively since the beginning of 2017. Last year, the Group restructured our sales channels and rationalized retail selling prices of various orally taken products, with an aim to expand coverage of our retail pharmacies. By maintaining uniform and steady retail prices to ensure pharmacies' profitability, our average ex-factory prices and sales volume to retail terminal pharmacies were also on the rise as compared with the same period of last year. The Group has been entering into long-term strategic alliance with a number of national pharmacy chains. Looking forward, our focal point is to promote our sales at pharmacy chains by increasing marketing efforts and enhancing after-sales services so as to achieve win-win cooperation. The Group will continue to strengthen the strategic cooperation and expand coverage of pharmacy chains to promote more sales of the Group's orally taken products.

MANAGEMENT DISCUSSION AND ANALYSIS

TCM formula granules are well positioned to enter into other provinces

In the first half of 2018, sales of the Group's TCM formula granules reached RMB130,955,000, up 146.1% as compared with the same period of last year. During the Period, TCM formula granules had also successfully entered into a number of Class III hospitals in Hebei Province, making TCM formula granules the fastest growing dosage product of the Group during the Period. The Group has also been expanding the sales of TCM formula granule products into other hospitals across Hebei Province, while continuing to nurture our terminal sales team and expand our production capacity to better position the Group in entering into other provincial markets. The installation of additional production lines in Hebei Province was completed, and our annual production capacity has increased from 600 million bags (grams) to 2 billion bags (grams) so that we are well prepared for the market to open-up. In addition, the Group's production facilities in Chuxiong Prefecture, Yunan Province with an annual production capacity of 1 billion bags (grams) TCM formula granules is under construction. It is expected that the production facilities will commence operation in October 2018.

During the Period, the Group's TCM formula granule sales network encompassed 137 hospitals in Hebei Province. A total of 163 units of smart medicine dispensing systems of the Group were installed in these hospitals, with 1 to 2 units in each hospital on average and in general, an average of 4 to 8 units were installed in Class III hospitals. These systems were used to sell over 600 types of the Group's TCM formula granules that are exclusively included in the Drugs Reimbursement List of Hebei Province. During the Period, a large majority of the Group's TCM formula granules were sold in 137 hospitals in Hebei Province.

The country's policies allow hospitals to markup on TCM formula granules. Doctors and patients are gradually developing preference on TCM formula granules as a substitute for TCM decoction pieces since TCM formula granules are more convenient to carry and to use. The country's current policy is to support the development of TCM formula granules, with an aim to accelerate the modernization of TCM. It is expected that the TCM formula granules industry will be opened up in the near term. The current market sizes of TCM formula granules and TCM decoction pieces are roughly estimated to reach RMB13 billion and RMB220 billion respectively. Many believe that the market size of TCM formula granules may increase to RMB50 billion within 3 years following the opening-up of the market. As one of the major manufacturers of TCM formula granules, the Group will surely become one of the beneficiaries. With expanded production capacity on TCM formula granules, the Group is patiently awaiting for the market to open up.

Expanded hospital coverage energizes exclusive orally taken products

The Group is actively deploying more resources on our exclusive orally taken products at hospital terminals. Through more academic promotion and evidence-based researches, our dedicated hospital sales team is set to leverage on urban Class III hospitals as the academic benchmark to promote our 10 exclusive orally taken products, including Huamoyan Granule, Qing Kai Ling Soft Capsule, Shujin Tongluo Granule, Jiangzhi Tongluo Soft Capsule and Dan Deng Tong Nao Capsule to public hospitals at county levels and urban Class II hospitals. It is our target that these 10 exclusive orally taken products will be sold in 1,368 hospitals in the year of 2018. Currently, the sales team has already lined up with 809 target hospitals which have started to procure our exclusive orally taken products. Meanwhile, there are still about 559 target hospitals to be cultivated. During the first half of 2018, sales generated by the dedicated hospital sales team, based on our internal statistics, were estimated to increase by approximately 36%.

MANAGEMENT DISCUSSION AND ANALYSIS

Entering into ten provincial drug reimbursement lists makes the general public more keen on Shineway's products

The Group's two key products, namely Huamoyan Granule and Qing Kai Ling Soft Capsule made their initial entrance into the National Drug Reimbursement List in 2017. During the first half of 2018, sales of Qing Kai Ling Soft Capsule increased by 95.2%. For Huamoyan Granule, it was our strategic decision to reduce its production and delivery during the Period. The Group foresees that growth of Huamoyan Granule will resume in the second half of the year.

Currently, a total of 77 medications of the Group are included in the National Drug Reimbursement List, while 33 medications of the Group are included in provincial/municipal drug reimbursement lists. During the first half of 2018, a total of 22 products regularly manufactured by the Group entered into drug reimbursement lists of 10 provinces/ municipals. Sales of these 22 products in aggregate amounted to RMB161,757,000, representing an increase of 28.7% as compared with the same period of last year.

The country's current policy is to make more drugs available for grass-root medical institutions. The Group believes that, as the Group's products enter into more provincial/municipal drug reimbursement lists, medical practitioners and the general public will be more keen on choosing and using its good-quality-good-prices products.

Increasing investments in new products for the next three years

The Group is committed to nurturing more new exclusive products such as Huamoyan Granule and Shujin Tongluo Granule through our internal researches and development as well as external acquisitions. During the first six months of 2018, the Group had 16 exclusive products with a total of sales amounting to RMB111,214,000, representing an increase of 22.8% as compared with the same period of last year. An exclusive gynecological orally taken Chinese medicine acquired by the Group in 2017, which is included in the National Drug Reimbursement List, will be launched for marketing in the fourth quarter of 2018, adding new elements for growth in the coming year.

The Group has continued to increase our efforts on the research and development of new products. Our research and development related expenses for the Period increased by 180.5% as compared with the same period of last year, accounting for approximately 5.6% of the sales in the first six months of 2018 (for the corresponding period of 2017: 3.2%). At present, the Group has a total of 14 ongoing research cases either in pharmaceutical experiment or in clinical trials, including 8 new medicine research programs (one of which is based in Australia), 1 major national science and technology program, and 1 R&D program under provincial or municipal support. A total of 3 clinical trials (including 1 based in Australia) are currently underway.

In April 2018, the State Administration of TCM published "Catalogue of Ancient and Classical Prescriptions (Batch 1)" on its official website to implement a directive of the TCM Act. The catalogue was derived from classical multi-herbs prescriptions and formulations recorded in ancient medical books. These classical prescriptions are still widely used nowadays because of their renowned efficacy. Through regulated and standardized researches, these classical prescriptions, once modernized, will become easier to be accepted and used by the general public. The Group is keen on the opportunity in the research and modernization of these classical prescriptions. It is our hope that new products based on these classical prescriptions can be made available within one to two years.

The Group's major R&D project Sailuotong Capsule, a compounded modernized innovative TCM targeting vascular dementia, is currently at its Phase III clinical trial. It is expected that Sailuotong Capsule will enter the market in 2021 after its clinical trials in Australia and China being completed in 2020.

In March 2018, Alzheimer's & Dementia: Translational Research & Clinical Interventions, an international medical journal, published a report titled "A random clinical trial of the efficacy and safety of Sailuotong Capsule, the compounded Chinese medicine targeting vascular dementia" detailing the Phase II clinical trial data and results of Shineway's R&D project Sailuotong Capsule. The article stated that there were no registered medicines targeting vascular dementia at the moment. A total of 340 patients were divided on a random basis into two trial groups (patients of group A and group B taking 360 mg and 240 mg of Sailuotong Capsule for 52 weeks respectively) and one placebo group (patients of group C taking 360 mg and 240 mg of Sailuotong Capsule from week 27 to week 52). The results of such clinical trials showed that Sailuotong Capsule may be safe and effective in the treatment of mild to moderate vascular dementia. The report on the data and results of Phase II clinical trials of Sailuotong Capsule can be downloaded from the following Internet link:

https://www.trci.alzdem.com/article/S2352-8737(18)30007-6/abstract

In August 2018, Phoenix TV reported the meeting convened in the same month by the Group and Western Sydney University regarding the progress of Phase III clinical trial of Sailuotong Capsule. For details, please watch the related Phoenix TV news report through the following Internet link:

https://mp.weixin.qq.com/s/hxxcxBemBo7M92wOhGFzhQ

Focusing on eight major therapeutic areas and TCM formula granules

With top quality products delivering outstanding curative effects, the Group strives to improve public health by focusing on the development of eight major therapeutic areas and TCM formula granules. Sales of the Group categorized by curative effects of medications during the first half of 2018 are set out as follows:

	Six months ended 30 June 2017 RMB'000	**Six months ended 30 June 2018 RMB'000**	Growth rate	Percentage of total sales First six months of 2018
Medications for cardiovascular and cerebrovascular diseases	366,931	**545,333**	48.6%	41.8%
Medications for respiratory system diseases	194,073	**369,695**	90.5%	28.3%
Medications for digestive system diseases	57,188	**90,468**	58.2%	6.9%
Pediatric medications	58,014	**75,973**	31.0%	5.8%
Orthopedic medications	36,133	**34,147**	–5.5%	2.6%
Medications for strengthening the body	4,704	**6,227**	32.4%	0.5%
Medications for the nervous system	3,606	**4,216**	16.9%	0.3%
Gynecological medications	655	**884**	35.0%	0.1%
	721,304	**1,126,943**		
TCM formula granules	53,223	**130,955**	146.1%	10.0%
Other treatment areas	37,221	**47,255**	26.9%	3.7%
Total sales	811,748	**1,305,153**	60.8%	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

The year of 2018 is a turning point of the Group on resuming growth. The Group will ride on our eight major therapeutic areas, namely medications for cardiovascular and cerebrovascular diseases, respiratory system diseases, digestive system diseases, pediatrics, orthopedics, body strength enhancement, nervous system diseases, and gynecological illness. Academic promotion and research on evidence-based medications will be carried out more intensively. Our product structure will be further enhanced, with more focus on orally taken products. Our products for treating middle and old-aged people and children will be nurtured and promoted to become one of the most preferred national brands, and our exclusive orally taken products will be promoted for faster growth. We are in no doubt eyeing on the opportunities arising from the country's upcoming policy on TCM formula granules and are well positioned to become one of the market leaders upon the opening-up of the TCM formula granule market.

FINANCIAL ANALYSIS

Turnover

For the first six months of 2018, the Group continued to produce modern Chinese medicine products of good efficacy and high quality. The Group's turnover had increased by 60.8% as compared to the corresponding period of last year. This was mainly due to the increase of average selling price and sales volume of the Group's pharmaceutical products as compared with those of the corresponding period in 2017. Sales of our injection products had risen by 70.3% to RMB699,194,000, accounted for 53.6% of the Group's total turnover. Sales of soft capsule products had risen by 37.1% to RMB225,633,000, accounted for 17.3% of the Group's total turnover. Sales of granule products had risen by 41.1% to RMB190,366,000, accounted for 14.6% of the Group's total turnover. Sales of TCM formula granules had risen by 146.1% to RMB130,955,000, accounted for 10.0% of the Group's total turnover. The Group had also sold RMB59,005,000 of medicines in other formats which accounted for 4.5% of the Group's turnover.

Sales of prescription and OTC medicines of the Group for the first six months of 2018 were RMB951,509,000 and RMB353,644,000, equal to 72.9% and 27.1% of the Group's turnover, respectively (for the corresponding period of 2017: 74.9% and 25.1%).

Cost of Sales

Cost of sales for the first six months of 2018 was RMB375,880,000, representing 28.8% of the Group's turnover as compared to 38.0% of the corresponding period of last year. Direct materials, direct labour and other production costs accounted for 58.3%, 17.2% and 24.5% of the total production costs respectively (for the corresponding period of 2017: 57.9%, 14.2% and 27.9%).

Gross Profit Margin

The Group's overall gross profit margin for the first six month of 2018 was 71.2% as compared to 62.0% of the corresponding period of last year. The increase in gross profit margin was mainly due to the increased average selling price of the Group's products.

Other Income

Other income mainly includes government subsidies of RMB17,529,000 (for the corresponding period of 2017: RMB27,028,000). The government subsidies mainly represented incentives received from government for investments in relevant regions in the PRC by the Group.

Investment Income

Investment income mainly includes interest income from bank deposits and investments in short-term financial products and financial products of RMB39,066,000 (for the corresponding period of 2017: RMB28,751,000) and RMB32,591,000 (for the corresponding period of 2017: investments in short-term financial products RMB18,968,000) respectively.

Selling and Distribution Costs

Selling and distribution costs for the first six months of 2018 increased 185.0% from the corresponding period of last year and were equal to 38.4% of the Group's turnover (for the corresponding period of 2017: 21.7%). The increase was mainly due to the increased advertising and promotion expenses as compared to same period of last year. Advertising and promotion expenses accounted for approximately 27.9% of the Group's turnover (for the corresponding period of 2017: 10.1%).

Administrative Expenses

During the first six months of 2018, administrative expenses increased by 5.2% as compared to the corresponding period of last year, representing approximately 9.9% (for the corresponding period of 2017: 15.2%) of the Group's turnover. Administrative expenses mainly comprised of salaries and social security outlay, depreciation and amortisation expenses which accounted for 2.2% and 2.6% (for the corresponding period of 2017: 4.3% and 4.4%) of the Group's turnover respectively.

Research and Development Costs

During the first six months of 2018, research and development costs increased by 180.5% as compared to the corresponding period of last year which accounted for approximately 5.6% of the Group's turnover (for the corresponding period of 2017: 3.2%). The increase in research and development costs was mainly attributable to the cost of the new R&D project, namely Modernization of the Classical Prescriptions of approximately RMB49,000,000 in the current period.

Net Exchange Gain

The Group posted a net exchange gain of RMB1,909,000 for the first six months of 2018 (for the corresponding period of 2017: net exchange gain of RMB1,259,000), which mainly resulted from exchange gain arising from change of exchange rate between Australian dollars, Hong Kong dollars and Renminbi.

Taxation

Taxation for the six months ended 30 June 2018 amounted to RMB61,711,000 (for the corresponding period of 2017: RMB73,108,000). The effective tax rate was lowered from 28.5% in the corresponding period of last year to 19.4%. This was mainly due to the absence of withholding tax related to dividend distribution in the current period.

Profit for the Period

The Group's profit attributable to the owners of the Company for the first six months ended 30 June 2018 was RMB257,025,000, representing an increase of 40.4% from the corresponding period of last year. The increase in profit was mainly attributable to the increased turnover and operating profit and the absence of withholding tax related to dividend distribution in the current period.

Interim Dividend

The Board resolved to declare an interim dividend of RMB11 cents per share amounting to RMB89,853,830 in respect of the six months ended 30 June 2018 which was calculated on the basis of 827,000,000 shares issued less 10,147,000 shares held for share award scheme as at 31 August 2018 (for the six months ended 30 June 2017: RMB11 cents per share, amounting to RMB90,970,000) and will be paid on 30 October 2018 to the shareholders whose names appear on the Company's register of members on 12 October 2018.

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 31 August 2018 (RMB1=HK$1.147). Accordingly, the amount payable on 30 October 2018 will be HK$0.1262 per share.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

For the six months ended 30 June 2018, there was no change in the capital structure and issued share capital of the Group as compared to those on 31 December 2017.

Liquidity and Financial Resources

As at 30 June 2018, bank deposits of the Group, amounting to RMB3,596,654,000 (31 December 2017: RMB3,532,385,000) of which RMB3,568,759,000 (31 December 2017: RMB3,489,094,000), were denominated in Renminbi. Others, being equivalent to RMB19,326,000, RMB5,348,000 and RMB3,221,000 (31 December 2017: RMB34,592,000, RMB5,542,000 and RMB3,157,000), 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.

Trade Receivables and Trade Receivables Backed by Bank Bills

Trade receivables and trade receivables backed by bank bills as at 30 June 2018 increased by 117.3% and decreased by 21.0% respectively from 31 December 2017. Turnover days of trade receivables and trade receivables backed by bank bills were 16.0 days and 57.7 days respectively (for the corresponding period of 2017: 13.9 days and 85.0 days respectively).

Inventories

Inventories balance as at 30 June 2018 increased by 16.0% from 31 December 2017. By inventory categories, raw materials, work in progress and finished products respectively accounted for 40.2%, 27.3% and 32.5% of inventories as at 30 June 2018 (31 December 2017: 24.7%, 25.2% and 50.1% respectively).

Turnover days for finished goods products in the first six months of 2018 were 59.9 days (for the corresponding period of 2017: 85.7 days).

Property, Plant and Equipment

In the first six months of 2018, the Group acquired buildings of RMB3,907,000, plant and machineries of RMB7,849,000, office equipment of RMB3,746,000 and the new construction works of TCM formula granules plants located in Shijiazhuang and Yunnan amounted to approximately RMB45,933,000 in total. The depreciation of property, plant and equipment expenses for the Period amounted to RMB77,867,000 (for the corresponding period of 2017: RMB78,802,000).

Intangible Assets

Intangible assets represent patents and production licenses with finite useful lives. In the first six months of 2018, the Group completed the acquisition of certain patents and production licenses, with an amount of RMB22,000,000 transferred from the deposits for intangible assets. The total amortisation of intangible assets expenses for the Period amounted to RMB20,194,000 (for the corresponding period of 2017: RMB20,194,000).

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 98.5 days (for the corresponding period of 2017: 100.4 days).

Trade Payables Backed by Bank Bills

As at 30 June 2018, the Group had trade payables backed by bank bills amounting to RMB31,413,000 (31 December 2017: RMB54,389,000). These liabilities are repayable within one year. Bank deposits of RMB31,413,000 (31 December 2017: Bank deposits of RMB43,401,000 and trade receivables backed by bank bills of RMB11,200,000) were pledged to banks to secure these payables.

Pledge of Assets

At the time of settlement as at 30 June 2018, the Group secured trade payables backed by bank bills of RMB31,413,000 (31 December 2017: RMB54,389,000) by pledging bank deposits amounting to RMB31,413,000 (31 December 2017: Bank deposits of RMB43,401,000 and trade receivables backed by bank bills of RMB11,200,000).

Employees

As at 30 June 2018, the Group has 3,736 employees (31 December 2017: 3,442 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 2018 arose from the change in exchange rate between Hong Kong dollars, Australian dollars and Renminbi. As at 30 June 2018, 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 2018 (31 December 2017: Nil).

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2018, 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)*	546,802,990	66.12%
Li Huimin	Company	Beneficiary owner	1,020,000	0.12%
Xin Yunxia	Company	Beneficiary owner	540,000	0.07%
Chen Zhong	Company	Beneficiary owner	280,000	0.03%

Note: These 546,802,990 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 546,802,990 Shares under the SFO.

Certain Directors have been granted share options under the 2004 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 2018, 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 headings "Share Option Scheme" and "Employees' Share Award 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 2018, 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	546,802,990	66.12%
Fiducia Suisse SA *(Notes 1 and 2)*	Trustee of discretionary trust	546,802,990	66.12%

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 2018, 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:

		No. of shares comprised in share options						
Name of grantees	**Date of grant**	**As at 1 January 2018**	**Reclassification during the period**	**Granted during the period**	**Lapsed during the period**	**As at 30 June 2018**	**Note**	**Exercise price per share (HK$)**
Ms. Xin Yunxia	2 September 2013	1,000,000	–	–	–	1,000,000	1	11.84
Mr. Li Huimin	2 September 2013	300,000	–	–	–	300,000	1	11.84
Mr. Li Huimin	5 September 2013	500,000	–	–	–	500,000	2	11.84
Ms. Lee Ching Ton Brandelyn (resigned on 23 January 2018)	2 September 2013	800,000	(800,000)	–	–	–	1	11.84
Mr. Chen Zhong	2 September 2013	1,000,000	–	–	–	1,000,000	1	11.84
Other Employees	2 September 2013	16,150,000	800,000	–	(800,000)	16,150,000	1	11.84
		19,750,000	–	–	(800,000)	18,950,000		

Notes:

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

The options are exercisable in tranches:

(i) up to 20% within such period(s) during the year commencing on 2 September 2014 to be designated by the Company;

(ii) up to 20% within such period(s) during the year commencing on 2 September 2015 to be designated by the Company;

(iii) up to 20% within such period(s) during the year commencing on 2 September 2016 to be designated by the Company;

(iv) up to 20% within such period(s) during the year commencing on 2 September 2017 to be designated by the Company; and

(v) up to 20% within such period(s) during the year commencing on 2 September 2018 to be designated by the Company.

The 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.

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

		No. of shares comprised in share options					
Name of grantees	**Date of grant**	**As at 1 January 2018**	**Granted during the period**	**Lapsed during the period**	**As at 30 June 2018**	**Note**	**Exercise price per share (HK$)**
Other Employees	1 June 2016	1,000,000	–	–	1,000,000	3	8.39
Other Employees	30 August 2017	3,000,000	–	–	3,000,000	4	7.21
		4,000,000	–	–	4,000,000		

(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.

(4) *The options have a validity period of 10 years, from 30 August 2017 to 29 August 2027 (both dates inclusive).*

The share options will be exercisable upon achievement of the relevant performance targets.

The closing price per share immediately before the date on which the options were granted was HK$7.19.

OTHER INFORMATION

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.

EMPLOYEES' SHARE AWARD SCHEME

The Company has adopted an employees' share award scheme with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group. Details of the employees' share award scheme are disclosed in the announcement of the Company dated 26 March 2018.

No shares were awarded under the employees' share award scheme of the Company during the six months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2018, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2018, 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 for Securities Transactions by Directors of Listed Issuers ("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 2018.

OTHER INFORMATION

CHANGES IN DIRECTOR'S INFORMATION

Ms. Lee Ching Ton Brandelyn has resigned as Executive Director of the Company with effect from 23 January 2018. Save as disclosed above, there are no other issues related to the directors of the Company that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 unaudited consolidated results of the Group for the six months ended 30 June 2018.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 11 October 2018 to 12 October 2018 (both days inclusive). In order to qualify for the interim dividend for the six months ended 30 June 2018, 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 10 October 2018.

By order of the Board
China Shineway Pharmaceutical Group Limited

Li Zhenjiang
Chairman

Hong Kong, 31 August 2018

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF
CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED
中國神威藥業集團有限公司
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 42, which comprise the condensed consolidated statement of financial position as of 30 June 2018 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.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that these condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
	Notes	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)
Turnover	*3*	**1,305,153**	811,748
Cost of sales		**(375,880)**	(308,078)
Gross profit		**929,273**	503,670
Other income		**20,717**	28,953
Investment income	*4*	**71,657**	47,719
Net exchange gain		**1,909**	1,259
Selling and distribution costs		**(501,678)**	(176,006)
Administrative expenses		**(129,634)**	(123,274)
Research and development costs		**(73,508)**	(26,209)
Profit before taxation		**318,736**	256,112
Taxation	*5*	**(61,711)**	(73,108)
Profit and total comprehensive income for the period	*6*	**257,025**	183,004
EARNINGS PER SHARE	*8*		
Basic		**RMB31 cents**	RMB22 cents
Diluted		**RMB31 cents**	RMB22 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	Notes	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**1,385,396**	1,401,824
Prepaid lease payments		**153,881**	156,073
Intangible assets		**309,768**	307,962
Goodwill		**159,291**	159,291
Deposits for intangible assets		**36,000**	58,000
Deferred tax assets		**23,440**	21,670
		2,067,776	2,104,820
Current assets			
Inventories		**325,166**	280,209
Trade receivables	10	**156,061**	71,822
Trade receivables backed by bank bills	10	**363,200**	459,506
Prepayments, deposits and other receivables		**99,190**	171,514
Tax recoverable		**1,067**	1,456
Pledged bank deposits		**31,413**	43,401
Bank deposits and cash		**3,596,654**	3,532,385
		4,572,751	4,560,293
Current liabilities			
Trade payables	12	**228,146**	176,368
Trade payables backed by bank bills	12	**31,413**	54,389
Other payables, accrued expenses and contract liabilities		**429,849**	426,358
Amounts due to related companies		**16,269**	15,935
Deferred income		**20,022**	19,389
Tax payable		**10,070**	16,854
		735,769	709,293
Net current assets		**3,836,982**	3,851,000
Total assets less current liabilities		**5,904,758**	5,955,820
Non-current liabilities			
Deferred tax liabilities		**46,708**	60,945
Deferred income		**76,340**	73,920
		123,048	134,865
Net assets		**5,781,710**	5,820,955
Capital and reserves			
Share capital	13	**87,662**	87,662
Reserves		**5,694,048**	5,733,293
Total equity		**5,781,710**	5,820,955

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory surplus reserve fund RMB'000	Discretionary surplus reserve fund RMB'000	Share options reserve RMB'000	Shares held for share award scheme RMB'000 *(Note 14)*	Accumulated profits RMB'000	Total equity RMB'000
At 1 January 2018 (audited)	**87,662**	**593,718**	**83,758**	**441,591**	**154,760**	**68,894**	**-**	**4,390,572**	**5,820,955**
Profit and total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**257,025**	**257,025**
Transfer	**-**	**-**	**-**	**283**	**-**	**-**	**-**	**(283)**	**-**
Purchase of shares under share award scheme	**-**	**-**	**-**	**-**	**-**	**-**	**(128,585)**	**-**	**(128,585)**
Dividends paid	**-**	**(171,578)**	**-**	**-**	**-**	**-**	**-**	**-**	**(171,578)**
Recognition of equity-settled share based payments	**-**	**-**	**-**	**-**	**-**	**3,893**	**-**	**-**	**3,893**
Lapse of share options	**-**	**-**	**-**	**-**	**-**	**(2,269)**	**-**	**2,269**	**-**
At 30 June 2018 (unaudited)	**87,662**	**422,140**	**83,758**	**441,874**	**154,760**	**70,518**	**(128,585)**	**4,649,583**	**5,781,710**
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)	87,662	593,718	83,758	436,950	154,760	66,585	–	4,215,648	5,639,081

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Note	Six months ended 30 June **2018** **RMB'000** **(Unaudited)**	 2017 RMB'000 (Unaudited)
Net cash generated from operating activities		**362,395**	343,719
Investing activities			
Placement of financial products		**(400,800)**	–
Proceeds from redemption of financial products		**409,380**	–
Net proceeds from short-term financial products	*4*	**24,011**	18,968
Placement of pledged bank deposits		**(31,413)**	(52,498)
Withdrawal of pledged bank deposits		**43,401**	54,506
Interest income received		**29,875**	71,430
Purchase of property, plant and equipment		**(79,449)**	(49,582)
Other investing cash flows		**7,280**	4,925
Net cash from investing activities		**2,285**	47,749
Financing activities			
Dividends paid		**(171,578)**	(173,670)
Purchase of shares held for share award scheme		**(128,585)**	–
Cash used in financing activities		**(300,163)**	(173,670)
Net increase in cash and cash equivalents		**64,517**	217,798
Cash and cash equivalents at beginning of the period		**3,532,385**	3,218,401
Effect of foreign exchange rate changes		**(248)**	(377)
Cash and cash equivalents at end of the period, representing bank deposits and cash		**3,596,654**	3,435,822

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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.

Other than the application of accounting policy for share award scheme and changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Share award scheme

The consideration paid by the trustee for purchasing the Company's shares from the market is presented as "shares held for share award scheme" and the amount is deducted from total equity. Purchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain and loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Application of new and amendments to IFRSs (Cont'd)

Impacts and changes in accounting policies of application on IFRS 15 "Revenue from Contracts with Customers"

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations.

The revenue of the Group arising from sales of Chinese pharmaceutical products is recognised at a point in time. Under the transfer-of-control approach in IFRS 15, revenue from these sales is recognised when customer's acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of the these products and obtain substantially all of the remaining benefits of these products. Transportation and other related activities that occur before customers obtain control of the related goods are considered as fulfilment activities.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and the related interpretations.

Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Application of new and amendments to IFRSs (Cont'd)

Impacts and changes in accounting policies of application on IFRS 15 "Revenue from Contracts with Customers" (Cont'd)

Key changes in accounting policies resulting from application of IFRS 15 (Cont'd)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using the most likely amount.

The estimated amount of variable consideration, is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Application of new and amendments to IFRSs (Cont'd)

Impacts and changes in accounting policies of application on IFRS 15 "Revenue from Contracts with Customers" (Cont'd)

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	**Carrying amounts under IFRS 15 at 1 January 2018 RMB'000**
Current liabilities			
Other payables, accrued expenses and contract liabilities			
— Other payables and accrued expenses	426,358	(70,648)	**355,710**
— Contract liabilities	–	70,648	**70,648**

As at 1 January 2018, an amount of RMB70,648,000 in respect of future purchases to be made by customers previously included in other payables was reclassified to contract liabilities.

As at 30 June 2018, an amount of HK$61,009,000 in respect of future purchases to be made by customers was classified as contract liabilities and the amount shall remain as it is and included in other payables without application of IFRS 15.

The application of IFRS 15 has had no material impact on the Group's retained profits as at 1 January 2018.

Impacts and changes in accounting policies of application on IFRS 9 "Financial Instruments"

In the current period, the Group has applied IFRS 9 "Financial Instruments" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Application of new and amendments to IFRSs (Cont'd)

Impacts and changes in accounting policies of application on IFRS 9 "Financial Instruments" (Cont'd)

Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 "Business Combinations" applies.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. There is no change in classification and measurement on the Group's financial assets.

Impairment under ECL model

The Group assesses for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, trade receivables backed by bank bills, other receivables, pledged bank deposits and bank deposits). The assessment is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Application of new and amendments to IFRSs (Cont'd)

Impacts and changes in accounting policies of application on IFRS 9 "Financial Instruments" (Cont'd)

Key changes in accounting policies resulting from application of IFRS 9 (Cont'd)

Impairment under ECL model (Cont'd)

The Group always recognises lifetime ECL for trade receivables. Customers are assessed for ECL by categorising into receivables fully backed by bank bills and not backed by bank bills. The ECL on trade receivables not backed by bank bills are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings. The ECL for debtors with trade receivables backed by bank bills are assessed individually taking into consideration of the credit rating and reputation of the banks issuing the bills.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Application of new and amendments to IFRSs (Cont'd)

Impacts and changes in accounting policies of application on IFRS 9 "Financial Instruments" (Cont'd)

Key changes in accounting policies resulting from application of IFRS 9 (Cont'd)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9.

Summary of effect arising from initial application of IFRS 9

Impairment under ECL model

In relation to the impairment of financial assets, IFRS 9 requires an ECL model, as opposed to an incurred credit loss model under IAS 39. The ECL model requires an entity to account for ECL and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In the current period, the Group has applied IFRS 9 simplified approach to measure ECL using lifetime ECL for trade receivables. Customers are assessed for ECL by categorising into receivables fully backed by bank bills and not backed by bank bills. To measure the ECL, trade receivables not backed by bank bills are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings. Debtors with trade receivables backed by bank bills are assessed individually taking into consideration of the credit rating and reputation of the banks issuing the bills.

ECL for other financial assets at amortised cost mainly comprise of other receivables, pledged bank deposits and bank deposits, and are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against accumulated profits as the estimated allowance under the ECL model was not significantly different to that under IAS 39 based on the counterparties' past repayment history and forward looking information.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amount received and receivable from sales of Chinese pharmaceutical products which are recognised at a point in time.

The following is an analysis of the Group's revenue from its major products:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Injections	**699,194**	410,592
Soft capsules	**225,633**	164,574
Granules	**190,366**	134,917
TCM formula granules	**130,955**	53,223
Others	**59,005**	48,442
	1,305,153	811,748

Sales to external customers were substantially made in the People's Republic of China (the "PRC").

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 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. INVESTMENT INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income from bank deposits	**39,066**	28,751
Investment income from short-term financial products *(Note)*	**24,011**	18,968
Investment income from financial products *(Note)*	**8,580**	–
	71,657	47,719

Note: The financial products and short-term financial products are related to debt and equity instruments and foreign currencies. The investment income represents the difference between initial investment amounts and redemptions amounts. In the opinion of the directors of the Company, the short-term financial products are large in amounts, with quick turnover and short maturities ranging from one to three months. 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.

5. TAXATION

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	**54,336**	52,750
Underprovision in prior years	**12,382**	3,497
Withholding tax on distributed profits	**11,000**	20,000
	77,718	76,247
Deferred tax:		
Current year	**(5,007)**	(3,139)
Withholding tax on undistributed profits	**(11,000)**	–
	(16,007)	(3,139)
	61,711	73,108

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both periods. The Company and its subsidiaries operating in Hong Kong do not have assessable profits, accordingly, no provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements.

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%. 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%. In addition, a subsidiary which is operating in trading of agricultural products business has been granted tax exemption by the local tax bureau.

Under the applicable corporate tax law in Australia, income tax is charged at 27.5% of the estimated assessable profits. No provision for Australian income tax has been made in the condensed consolidated financial statements as the subsidiary operating in Australia has no assessable profits for both periods.

During the six months ended 30 June 2018, the State Taxation Administration of Hebei Province has issued additional tax assessments to a subsidiary regarding intergroup transactions for prior years. A payment of RMB11,739,000 was made by the Group and recorded as underprovision for EIT in prior years.

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 RMB4,415,313,000 (31.12.2017: RMB4,116,311,000) 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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(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**	2,210
Depreciation of property, plant and equipment	**77,867**	78,802
Government subsidies (included in other income) *(Note)*	**(17,529)**	(27,028)
Loss on disposal of property, plant and equipment	**–**	41
Share-based payments expense	**3,893**	3,074

Note: 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) RMB13,302,000 (2017: RMB10,827,000) represent incentives received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB4,227,000 (2017: RMB16,201,000) represent recognition of deferred income upon completion of related research activities.

7. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends		
— 2017 final dividend of RMB12 cents (2017: 2016 final dividend of RMB12 cents) per share paid	**98,045**	99,240
— 2017 special dividend of RMB9 cents (2017: 2016 special dividend of RMB9 cents) per share paid	**73,533**	74,430
	171,578	173,670
— 2018 interim dividend of RMB11 cents (2017: RMB11 cents) per share	**89,854**	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 less 10,147,000 shares held for share award scheme as at 31 August 2018, and will be paid on 30 October 2018, to the shareholders of the Company whose names appear in the Company's register of members on 12 October 2018.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to the owners of the Company)	**257,025**	183,004

	Six months ended 30 June	
	2018	2017
Number of shares		
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of basic earnings per share	**823,075,530**	827,000,000
Effect of dilutive potential ordinary shares:		
Share options	**3,411,588**	–
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of diluted earnings per share	**826,487,118**	827,000,000

The computation of diluted earnings per share for the period ended 30 June 2017 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.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group made additions to construction in progress of RMB45,933,000 (for the six months ended 30 June 2017: RMB52,187,000) and acquired other property, plant and equipment of RMB15,502,000 (for the six months ended 30 June 2017: RMB19,426,000).

10. TRADE RECEIVABLES/TRADE RECEIVABLES BACKED BY BANK BILLS

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Trade receivables	**156,061**	71,822
Trade receivables backed by bank bills	**363,200**	459,506
	519,261	531,328

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

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Within 6 months	**508,362**	526,832
Over 6 months but less than 1 year	**8,823**	4,496
Over 1 year but less than 2 years	**2,076**	–
	519,261	531,328

11. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO ECL MODEL

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. Customers are assessed for ECL by categorising into receivables fully backed by bank bills and not backed by bank bills. The Group assessed the ECL on trade receivables not backed by bank bills individually for debtors with significant balances and/or collectively based on provision matrix as at 1 January 2018 and 30 June 2018.

Certain trade receivables not backed by bank bills as at 30 June 2018 were assessed individually and not included in provision matrix, there were no additional impairment allowance during the current interim period.

For the trade receivables backed with bank bills, no allowance for impairment was made since the directors of the Company consider the probability of default is negligible taking into consideration of the credit rating and reputation of the banks issuing the bills.

No impairment allowance for trade receivables not backed by bank bills were provided based on the provision matrix as the amount is insignificant since the loss given default and exposure at default are low based on historical credit loss experience. The directors of the Company has also assessed all available forward looking information, including but not limited to expected growth rate of the industry and subsequent settlement, and concluded that there is no significant increase in credit risk.

Other receivables were assessed individually and were not included in provision matrix, there were no additional impairment allowance during the current interim period.

For pledged bank deposits and bank deposits, no allowance for impairment was made since the directors of the Company consider the probability of default is negligible as such amounts are receivable from or placed in banks having good reputation.

12. TRADE PAYABLES/TRADE PAYABLES BACKED BY BANK BILLS

	30.6.2018	31.12.2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade payables	**228,146**	176,368
Trade payables backed by bank bills	**31,413**	54,389
	259,559	230,757

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

	30.6.2018	31.12.2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 6 months	**233,737**	202,463
Over 6 months but less than 1 year	**4,867**	5,099
Over 1 year but less than 2 years	**10,529**	10,533
Over 2 years but less than 3 years	**8,031**	8,086
Over 3 years	**2,395**	4,576
	259,559	230,757

Trade 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.

13. SHARE CAPITAL

	Number of shares '000	**Amount HK$'000**
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 30 June 2018	5,000,000	500,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 30 June 2018	827,000	82,700

	RMB'000
Shown in the financial statements as	87,662

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

During the six months ended 30 June 2018, 10,147,000 shares were purchased by the trustee from the market. Detail are set out in Note 14.

14. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company has share option schemes which were adopted on 10 November 2004 and 29 May 2015. Details are set out in the section "Other Information" in the interim financial report of the Company.

Share award scheme

On 26 March 2018, the Company adopted the share award scheme ("the Scheme") with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group. The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. Unless terminated earlier by the board of directors (the "Board") pursuant to the Scheme, the Scheme shall be valid and effective for a period of ten years commencing on the adoption date.

Pursuant to the Scheme, the Board may, from time to time, at its absolute discretion cause to be paid to the trustee sums of money from the Company's resources for the purchase of shares to be held on trust in accordance with the Scheme and the trust deed. Such sums of money shall be applied towards the purchase of the specific number of shares from the open market according to the written instructions of the Board. The Board shall not make any further award which will result in the number of shares awarded by the Board under the Scheme exceeding 10% of the issued share capital of the Company as at the adoption date. The maximum aggregate number of the awarded shares which may be awarded to a selected employee under the Scheme shall not exceed 1% of the issued share capital of the Company as at the adoption date.

During the six months ended 30 June 2018, 10,147,000 shares were purchased by the trustee from the market at an average price of approximately HK$14.98 (equivalent to RMB12.67) per share, with an aggregate amount of HK$151,988,000 (equivalent to RMB128,585,000). No shares were granted to eligible employees pursuant to the Scheme during the six months ended 30 June 2018. At the end of the reporting period, there are 10,147,000 shares held by the trustee.

15. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

16. 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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Rental expenses to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	**700**	639
Rental expenses to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang")	**550**	506
Rental expenses and hotel service fee paid to Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")	**684**	–
Service fee to Shijiazhuang Municipal Luancheng County Shineway Training School ("Shineway Training School")	**629**	–
Service fee to Shineway Medical	**4,821**	4,466
Service fee to Shineway Lang Fang	**1,133**	1,278

On 9 February 2018, the Group entered into a number of agreements with Shineway Medical, Shineway Lang Fang, Kang Yue Hotel and Shineway Training School, all of which are ultimately controlled by the controlling shareholder of the Company, for the above transactions. Details are set out in the announcement of the Company dated 9 February 2018.

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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	**5,107**	5,627
Post-employment benefits	**32**	39
Share-based payments expense	**199**	572
	5,338	6,238

17. COMMITMENTS

(a) Operating lease commitments

At 30 June 2018, the Group had future aggregate minimum lease payments under operating leases as follows:

	30.6.2018	31.12.2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	**5,295**	1,472
In the second to fifth year inclusive	**6,265**	882
	11,560	2,354

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:

	30.6.2018	31.12.2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	**3,868**	–
In the second to fifth year inclusive	**5,802**	–
	9,670	–

(b) Capital commitments

	30.6.2018	31.12.2017
	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	**304,309**	321,631
— in respect of acquisition of intangible assets	**84,000**	84,000