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: 2877

Leading Modern Chinese Medicine

Promoting Health Industry

Interim Report **2019**

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Chen Zhong
Mr. Xu Sheng (ceased on 2 July 2019)

Independent Non-executive Directors

Ms. Cheng Li
Prof. Luo Guoan
Mr. Cheung Chun Yue, Anthony
(appointed on 1 January 2019)
Mr. Sun Liutai
(ceased on 1 January 2019)

BOARD COMMITTEES

Audit Committee

Mr. Cheung Chun Yue, Anthony *(Committee Chairman)*
(appointed on 1 January 2019)
Ms. Cheng Li
Prof. Luo Guoan
Mr. Sun Liutai *(Committee Chairman)*
(ceased on 1 January 2019)

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Ms. Xin Yunxia
Mr. Cheung Chun Yue, Anthony
(appointed on 1 January 2019)
Mr. Sun Liutai
(ceased on 1 January 2019)

Nomination Committee

Mr. Li Zhenjiang *(Committee Chairman)*
Prof. Luo Guoan
Mr. Cheung Chun Yue, Anthony
(appointed on 1 January 2019)
Mr. Sun Liutai
(ceased on 1 January 2019)

Corporate Social Responsibility and sustainability Committee

Mr. Cheung Chun Yue, Anthony *(Committee Chairman)*
(appointed on 1 January 2019)
Ms. Xin Yunxia
Ms. Cheng Li
Prof. Luo Guoan

AUTHORIZED REPRESENTATIVES

Mr. Li Huimin
Mr. Lee Bun Ching, Terence

COMPANY SECRETARY

Mr. Lee Bun Ching, Terence

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

CORPORATE INFORMATION

HEAD OFFICE

Luan Cheng, Shijiazhuang
Hebei Province, The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3109, 31/F, Central Plaza
18 Harbour Road, Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
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183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

China Construction Bank (Asia)
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited
Bank of China, Jin Zhu Xi Lu Branch Lhasa, Xizang
China Construction Bank, Luan Cheng Branch, Shijiazhuang, Hebei Province

LEGAL ADVISERS

As to Hong Kong Law
Woo Kwan Lee & Lo

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

STOCK CODE

2877 (Main Board of The Stock Exchange of Hong Kong Limited)

WEBSITES

www.shineway.com.hk
www.shineway.com

INTERIM RESULTS HIGHLIGHTS

For the six months ended 30 June 2019, the operating results of the Group were as follows:

- Turnover amounted to RMB1,368,280,000, an increase of 4.8% as compared to the corresponding period of last year;
- Gross profit margin was 71.3% as compared to 71.2% of the corresponding period of last year;
- Profit for the period amounted to RMB287,656,000, an increase of 11.9% as compared to the corresponding period of last year;
- Earnings per share amounted to RMB36 cents, an increase of 16.1% as compared to the corresponding period of last year;
- Declared interim dividend of RMB11 cents per share;
- Net assets per share amounted to RMB6.9 (equivalent to HKD7.9); and
- Net cash per share amounted to RMB4.3 (equivalent to HKD4.9).

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, granules formats and traditional chinese medicine ("TCM") formula granules. The Group's products are primarily being sold in the People's Republic of China ("PRC") market.

During the first six months of 2019, the Group's prescription and over-the-counter ("OTC") medicines accounted for approximately 84.3% and 15.7% 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.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Earnings per share increased by 16.1%

During the first six months period of 2019, the Group's result performance first edged lower, then followed by a rebound, which was attributable to certain non-recurring factors. First, the pandemic outbreak of flu in last year's winter pushed up the comparative base sales figures of last year's first quarter of anti-influenza drugs of the Group, such as Qing Kai Ling Injection and Qing Kai Ling Soft Capsule, to a relatively high level. Second, the Group had commenced to adjust the product management and sales strategies for retail pharmacy products in the first quarter of this year and at the same time reduced channel inventory, leading to declining sales of certain retail pharmacy store products. At the same time, production and shipment for Huamoyan Granule were still cut back for strategic reasons. The aforementioned matters caused negative growth to the Group's overall turnover of the first quarter of this year. Nonetheless, overall turnover had returned to positive growth for the second quarter. For the first six months of 2019, the Group's turnover increased by 4.8% and the increase was mainly attributable to the soft capsules products and Traditional Chinese Medicine ("TCM") Formula Granules. Gross profit margin of the Group during the Period remained as 71.3%, which approximated to the interim period of last year. Net profit margin increased from 19.7% to 21.0%. Net profit increased by 11.9%. Earnings per share increased by 16.1% as compared to the corresponding period of last year.

As of 30 June 2019, as calculated based on the total issued shares of 827,000,000, net cash per share of the Group amounted to HKD4.9, and net assets per share amounted to HKD7.9.

Sales in the second quarter increased by 15.3%

The Group's sales in the first quarter of this year showed a negative growth of 5.1%. The main reason is the sales volume of Qing Kai Ling Injection due to the flu outbreak last winter, causing a high comparative base figure and its sales in the first quarter of this year was lower as compared with the corresponding period of last year. Coupling with the uncertainty brought from current medical and pharmaceutical policies on Chinese medicine injections, sales of injection products in the first quarter decreased by 21.4% compared with the same period of last year. During the second quarter, sales volumes of Qing Kai Ling Injection and other major injection products of the Group such as Shu Xue Ning Injection and Shen Mai Injection had increased as compared with the same period of last year and the first quarter of this year. This led to an year-on-year increase of 9.6% in the overall sales of injection products in the second quarter of this year. All of the Group's Chinese medicine injections originally included in the 2017 edition of the National Drug Reimbursement List are retained in the recently released 2019 edition. The Group has also been strengthening academic promotion at the hospitals of Class II and above, in effort to turn relevant injection products for hospitals to resume growth gradually. The following table shows the year-on-year growth rate of sales of injection and oral products over the past three quarters, and their proportion of sales in the first six months of this year:

	Year-on-year growth rate			Percentage of total sales	Percentage of total sales
	Fourth quarter in 2018	First quarter in 2019	Second quarter in 2019	First six months of 2018	First six months of 2019
Injection products	2.2%	-21.4%	9.6%	53.6%	47.6%
Oral products	-0.1%	15.0%	21.4%	46.4%	52.4%
Total turnover	1.1%	-5.1%	15.3%	100.0%	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

In the first six months of this year, the proportion of injection products to total turnover of the Group decreased from 53.6% of the same period of last year to 47.6%. At the same time, contribution to adjusted gross profit of the Group by injection products based on internal estimation decreased from 39.2% from the same period last year to 32.6% in the first half of this year. On the contrary, the proportion of oral products to total turnover for the first six months of this year rose to 52.4% from 46.4% of the same period last year. However, the contribution to adjusted gross profit by oral products based on internal estimation rose from 60.8% of same period of last year to 67.4% of the first half of this year.

The sales of the soft capsules and TCM Formula Granules of the Group increased by 7.5% and 84.3% respectively in the first six months of this year, while the sales of granules products decreased by 14.9%. The table below shows a comparison of the sales of each dosage form:

	Sales First six months of 2018 RMB'000	**Sales First six months of 2019 RMB'000**	**Year-on-year growth rate**	**Percentage of total sales First six months of 2019**
Injections	699,194	**651,371**	-6.8%	47.6%
Soft capsules	225,633	**242,591**	7.5%	17.7%
Granules	190,366	**162,076**	-14.9%	11.8%
TCM formula granules	130,955	**241,302**	84.3%	17.6%
Other dosage forms	59,005	**70,940**	20.2%	5.3%
Oral products	605,959	**716,909**	18.3%	52.4%
Total turnover	1,305,153	**1,368,280**	4.8%	100.0%

Soft capsule products' overall sales increased by 7.5%, among which, the sales of Huo Xiang Zheng Qi Soft Capsule increased by 8.1% as compared to the same period of last year. The sales of Wu Fu Xin Nao Qing Soft Capsule and Qing Kai Ling Soft Capsule decreased by 8.8% and 9.6% respectively due to the adjustment of product management and sales strategy of the Group's retail pharmacy products, coupled with a relatively high level of comparative base figure of sales last year. A chemical product of the Group for the adjuvant treatment of atherosclerosis was discontinued for production last year due to a shortage of the relevant chemical raw materials. This product was produced as usual during the Period and its sales had increased by 235.9% as compared to the same period of last year.

Granule products' overall sales decreased by 14.9%. It was mainly because there was less sales of granule products for fighting against flu as compared to the period of pandemic outbreak of flu last year, as well as the continued cut back on production and shipment of Huamoyan Granule due to strategic reasons.

MANAGEMENT DISCUSSION AND ANALYSIS

TCM Formula Granules continued to grow in a rapid pace with sales increased by 84.3% in the first six months of 2019. The Group has been stepping up on cultivating more hospitals and grass-root medical institutions and the entry allowance of other provinces for TCM Formula Granules. The Group has also been nurturing and expanding its sales team to drive TCM Formula Granules to maintain its rapid growth momentum.

As of the end of June in 2019, there were in total of more than 110 products regularly manufactured by the Group. Among them were 20 exclusive products and 18 products admitted in the National Essential Drugs List. Moreover, a total of 77 medications were in the National Drugs Reimbursement List and a total of 33 products had been included in the provincial drug reimbursement lists. The Group also had 23 products included in the National Low-Priced Medicine Catalogue, 16 products in the Provincial Low-Priced Medicine Catalogue, and 3 products in the Catalogue of Emergency Use Drugs.

Sales of the Group's key products in the first six months of 2019 are set out as follows:

			First six months of 2018 RMB'000	**First six months of 2019 RMB'000**	**Year-on-year growth rate**	**Percentage of total sales**
Core products						
Qing Kai Ling Injection	NDRL	Essential Drug	252,291	**194,348**	-23.0%	14.2%
Shu Xie Ning Injection	NDRL	–	222,337	**224,013**	0.8%	16.4%
Shen Mai Injection	NDRL	Essential Drug	104,351	**107,625**	3.1%	7.9%
Wu Fu Xin Nao Qing Soft Capsule	5 PDRL	–	92,116	**83,989**	-8.8%	6.1%
Products with high growth potential						
TCM Formula Granules	1 PDRL	–	130,955	**241,302**	84.3%	17.6%
Huo Xiang Zheng Qi Soft Capsule	NDRL	Essential Drug	85,055	**91,926**	8.1%	6.7%
Pediatric Qingfei Huatan Granule	3 PDRL	–	42,340	**42,387**	0.1%	3.1%
Pseudomonas Aeruginosa Injection	9 PDRL	–	36,192	**40,772**	12.7%	3.0%
Huamoyan Granule	NDRL	Essential Drug	26,605	**22,014**	-17.3%	1.6%
Compound Liquorice Tablet	NDRL	Essential Drug	18,351	**23,703**	29.2%	1.7%
Qing Kai Ling Soft Capsule	NDRL	Essential Drug	23,523	**21,267**	-9.6%	1.6%
Xiesaitong Dripping Pill	11 PDRL	–	11,568	**14,879**	28.6%	1.1%
Dan Deng Tong Nao Capsule	7 PDRL	–	8,494	**8,531**	0.4%	0.6%
Others			250,975	**251,524**	0.2%	18.4%
Total sales			1,305,153	**1,368,280**	4.8%	100.0%

Note: "NDRL" is abbreviated for "National Drugs Reimbursement List and "PDRL" is abbreviated for "Provincial Drug Reimbursement List".

MANAGEMENT DISCUSSION AND ANALYSIS

New 2019 edition of National Drug Reimbursement List

The National Healthcare Securities Administration recently published the 2019 edition of the National Drug Reimbursement List. Changes of medical insurance coverage on medications currently produced by the Group are summarized as follows:

1) A total of 4 medications are added to the list - Shu Jin Tong Luo Granule, Huamoyan Capsule, Xiesaitong Dripping Pill, Pediatric and Antipyretic Oral Fluid

2) A total of 1 medication is removed from the list - Spirulina Tablets (Capsule)

3) All of the Group's Chinese medicine injections originally included in the 2017 National Drug Reimbursement List are retained in the 2019 edition

4) Restrictions are changed on a total of 19 medications, including the following key products:

   - Qing Kai Ling Injection treatment restriction is relaxed
   - Qing Kai Ling Soft Capsule and Huo Xiang Zheng Qi Soft Capsule are transferred to Class A
   - Qing Kai Ling Soft Capsule's restrictions on outpatient use of the insured person and payment by the medical insurance fund at the time of purchase of the drug at the designated pharmacy are removed.

The 4 newly added medications reported a total sales of RMB21,365,000 for the Period. Sales of the removed medication, Spirulina Tablet (Capsule) was RMB1,281,000 for the Period. The new edition of the National Drug Reimbursement List will enable more patients to benefit from the Group's products.

TCM Formula Granules continued to grow in a rapid pace while entry allowance of other provinces are being positioned

The Group's TCM Formula Granules continued to grow in a rapid pace with sales increased by 84.3% during the Period. Accounting for 17.6% of total turnover, TCM formula granules have become the products with the highest contribution to sales and are the biggest driving force for the Group's recent business growth. Based on currently available data, domestic sales of TCM Formula Granules of the Group are currently ranked sixth nationwide.

At present, with the move to expanding coverage of hospitals of Class II and above in Hebei Province, the Group's TCM Formula Granules sales team is currently penetrating into grass-root medical institutions in full speed. During the first half of 2019, a total of 8 Class III hospitals and 27 Class II hospitals were added to our customer base, while the penetration of grass-root medical institutions has also achieved a great success. The Group is speeding up its entrance into the markets of other provinces. It is expected that the sales of Formula Granules in Yunnan Province will officially commenced in the fourth quarter. Entry qualifications for other provinces have been diligently progressed by the Group. Nonetheless, due to strategic adjustment, the plan to build production facilities in Gansu Province will be temporarily suspended. The Group is set to deploy more resources and build production facilities in another coastal province in Northern China, while exploring a cooperative model to accelerate the entry to other individual provinces.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the sales network of the Group's TCM Formula Granules covered over two hundreds hospitals in Hebei Province, and the smart medicine dispensing systems of Shineway were installed in these hospitals. These systems were used to dispense 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 these over two hundreds hospitals in Hebei Province.

The country's hierarchical diagnosis policies bring major opportunities for grass-root medications

The Group's dedicated community medical sales team covers more than 285,000 targeted grass-root medical institutions ranging from county-level public hospitals, county-level private hospitals, township hospitals, community medical centres, maternal and child health centres, factory-based and mine hospitals, epidemic prevention stations, as well as community and village clinics. According to the internal statistics gathered by the Group, sales of the Group's products relevant to grass-root medical institutions in the first six months of 2019 accounted for 49.8% of overall sales, reaching approximately RMB680,657,000, representing an increase of 9.6% as compared to the same period of last year.

During the Period, the China's State Council issued the Opinions on the Implementation of Healthy China Action and the Outline Development Plan for Healthy China 2030. The Opinion points out grass roots as the focus, importance being persistently given to Chinese and Western medical treatments. In addition, the first choice for patients with minor sickness should be grass-root medical institutions, and those with major illness should go to hospitals. Subsequently, the State Administration of TCM of the PRC and the National Health Commission jointly issuing the "Notice on Diligently Strengthening the Work on Traditional Chinese Medicine While Establishing United Medical Bodies" which demand to drive the Chinese medicine hospitals to lead the establishment of various forms of united medical bodies, promote high-quality TCM resources to deepen into the grass-roots, and give a full play to the important role of Chinese medicine in preventive treatment, curing and rehabilitation. The authorities also encourage county level Chinese medicine hospitals to take a lead on the formation of united medical bodies and enhance the Chinese medical service capacity of the county by advancing the united medical bodies.

National policies are driving general public to gradually return to grass-root medical institutions for medical diagnostic and treatments, while also unwaveringly confirmed the importance of Chinese medicine practice and the traditional Chinese medications. The market potential of the Group's grass-root products will be unleashed. The Group's community medical sales team is devoted to proactively expanding terminal coverage and marketing activities for our grass-root products, so as to drive our grass-root products to grow in a faster pace.

Retail pharmacy products will return to growth

For the first six months of 2019, the sales of the Group's retail pharmacy products based on the internal statistics accounted for 17.3% of the overall turnover, amounted to RMB237,274,000, representing a decrease of 8.1% as compared to the corresponding period of last year. As such, the Group' products which went through pharmacy chain stores and single-store pharmacies decreased by 1.3% and 20.3% respectively.

The estimated proportion of the Group's product sales by retail pharmacy products is set out as follows:

	First six months of 2018	**First six months of 2019**	**Sales growth rate**
Pharmacy chain store products	64.4%	**69.1%**	-1.3%
Single-store pharmacy products	35.6%	**30.9%**	-20.3%
Retail pharmacy products total	100.0%	**100.0%**	-8.1%

The decrease in the sales of the Group's retail pharmacy products as compared to the corresponding period of last year was mainly because the Group began to adjust the product management and sales policy for these products in the first quarter of this year. Certain products for retail pharmacy chain stores were switching into new packagings and at the same time awaiting for pharmacy stores to sell off their inventory of old packagings. This process led to negative growth of retail pharmacy products during the Period. At present, the above matters have been basically completed, and retail pharmacy products will return to normal growth track.

The Group's retail pharmacy sales team is currently optimizing its coverage of pharmacy chain stores. As of the end of June 2019, based on internal statistics, retail pharmacy sales team of the Group was covering close to 143,000 retail pharmacies, of which 81,000 were pharmacy chain stores and 62,000 were single-store pharmacies. The number of pharmacy chain and single-stores pharmacies covered by the Group decreased by 19,000 stores and increased by 12,000 stores respectively from the same period of last year.

Expanded hospital coverage energizes exclusive oral products

According to internal statistics, the Group's Chinese prepared medications for Class II and above public hospitals in the first six months of 2019 accounted for 15.3% of total turnover of the Group, reaching approximately RMB209,047,000. This was a decrease of 29.1% as compared to the same period of last year, mainly due to the decline in injection products used in hospitals.

The Group's hospital sales team is actively deploying more resources on exclusive oral products at hospital terminals. Through more evidence-based researches and academic promotion, the Group promotes various exclusive oral products, including Huamoyan Granule, Qing Kai Ling Soft Capsule, Shujin Tongluo Granule, Jiangzhi Tongluo Soft Capsule and Dan Deng Tong Nao Capsule to boost hospital sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Potential innovative Chinese medicine

The Group currently has a total of 14 research projects in pharmaceutical and clinical trials. Among them are 2 exclusive innovative Chinese medicine.

1. Sailuotong Capsule

The Group's key research initiative "Sailuotong Capsule", an innovative compound TCM is now under phase III clinical trials in Australia and China. They are expected to complete in 2021 and 2022 respectively. The Phase III clinical trial in Australia focuses on the treatment of vascular dementia and Alzheimer's disease, while the Phase III clinical trial in China addresses the treatment of vascular dementia.

Vascular dementia and Alzheimer's disease are the two most common causes of dementia which is the fourth "killer disease" after heart disease, cancer, and stroke. At present, there is no effective therapeutic drug, and the commonly used therapeutic drugs in clinical practice can only delay the progression of the disease and slow down the functional degradation.

According to a report released by the World Health Organization (the "WHO"), the total number of dementia patients worldwide was about 35.6 million in 2010, which is expected to double every 20 years, reaching 65.7 million in 2030, and 115 million in 2050. The number of new dementia patients is close to 7.7 million per year, which means that a new dementia patient appears every 4 seconds. About 46% of the patients are from Asia, 31% are from Europe, 16% are from the Americas, and 7% are from Africa.

The WHO report estimates that the global costs of treating dementia patients in 2010 reached USD604 billion, in which 89% came from high-income countries. Direct medical costs account for 16% (or USD96.6 billion). The four most common subtypes of dementia are Alzheimer's disease, vascular dementia, Lewy body dementia and frontotemporal dementia (in the order of commonness). Dementia shortens the life of the patient. The median survival time after getting Alzheimer's disease is estimated to be 7.1 years, and that of vascular dementia is 3.9 years. The WHO report estimates the proportion of different subtypes of dementia after considering the analysis of the Dementia Report in the United Kingdom, with Alzheimer's disease accounting for 41% and vascular dementia accounting for 32%.

Based on the above information, the costs of medical care for dementia caused by Alzheimer's disease and vascular dementia in Asia and Europe alone in 2010 was estimated to reach RMB490 billion.

2. Q-B-Q-F Condensed Pill

Q-B-Q-F Condensed Pill, targeting to cure mycoplasma pneumonia in children, are currently at its Phase III clinical trial through the green channel, which is expected to be completed in 2021.

Mycoplasma has no cell wall. Therefore the penicillin family of antibiotics that destroy cell wall synthesis are ineffective in this regard. At present, macrolides (including azithromycin), are generally mainly used in clinical treatment for mycoplasma pneumonia on children. Due to repeated clinical uses, resistance of these medication have increased significantly. A study conducted by National Natural Science Foundation shows that their drug resistant rate has reached 59.4%. Once drug resistance occurs, the disease may become untreatable. The entering of Q-B-Q-F Condensed Pill into the market will break the monopoly position of azithromycin for the treatment for mycoplasma pneumonia and ease the clinical dilemma where drug-resistant mycoplasma pneumoniae infection turning incurable.

Mycoplasma pneumoniae is a pathogenic microorganism differing from any bacteria or viruses. Mycoplasma pneumonia due to infection of such bacterium has an incidence rate of pneumonia of 30%, ranking first among all types of atypical pneumonia. Mycoplasma pneumoniae is common among children and adolescents that it accounts for approximately 70% among pediatric community-acquired pneumonia. Clinical symptoms of mycoplasma pneumonia include severe intractable cough. Moreover, children with compromised immune system may have mixed infections induced, characterized by a number of chronic carriages of recurrent complications.

For the moment, annual sales of azithromycin in China is more than RMB7.5 billion. Representing more than 50% of the market share, azithromycin has ranked first in the macrolide market. Q-B-Q-F Condensed Pill, as an alternative to azithromycin's children market, are estimated to have a market size between RMB1.2 billion and RMB1.8 billion.

Although mycoplasma pneumonia is particularly common among children, it is not rare for adults. Among all types of community-acquired pneumonia, mycoplasma pneumoniae infection has accounted for a considerable proportion and is also increasing year by year. Q-B-Q-F Condensed Pill can expand its market capacity by expanding its documented efficacy of lower respiratory tract infections caused by mycoplasma as well as broadening the target patient group of the disease after entering the market.

Interpreting policy impact with operation data

The Group is aware that investors may have concerns about the potential impact arising from certain pharmaceutical policies and market rumors. The Group now provides investors with a summary of operational data for the first six months of 2019 for the purpose of conducting analysis on these potential policy impact concerning investors, hence facilitating better decision-making.

1. 4+7 Bulk Centralised Procurement

- This policy currently applies to bulk centralised procurement by eleven pilot cities for generic chemical drugs that passed the consistency evaluation only

- Generic chemical drugs that passed the consistency evaluation sold through centralised procurement accounted for 0.0% of the Group's turnover

2. As stipulated in the National Reimbursement Drug List, certain Chinese medicine injections can only be reimbursed when they are used for designating therapeutic purposes in medical institutions of Class II and above

- Chinese medicine injection products sold to medical institutions other than public hospitals of Class II and above accounted for approximately 35.2% of the Group's turnover

- The average ex-factory price of Chinese medicine injection products sold to medical institutions other than public hospitals of Class II and above generally ranged from RMB1 to RMB3 per vial

3. Rumours said the National Catalogue of Closely Monitored Drugs on their Reasonable Use will include a number of Chinese medicine injections

- The first National Catalogue of Closely Monitored Drugs on their Reasonable Use was published on 1 July 2019. None of the Chinese medicine injection products of the Group are included in the list

- Previously a province had issued consultation paper stipulating that drugs in the National Essential Drugs List will not be included in the catalogue of adjuvant medications that are subject to close monitoring

- The Chinese medicine injection products of the Group that are not included in the National Essential Drugs List accounted for 10.8% of the Group's adjusted overall gross profit

- All of the Group's Chinese medicine injections originally included in the 2017 edition of the National Drug Reimbursement List are retained in the recently released 2019 edition

4. Western medical doctors are required to acquire professional knowledge on Chinese medicine and passing assessments before they can prescribe Chinese medicine (Note)

- Except for one province, all other provinces have not issued rules to implement such policy

- The Group's overall prescription Chinese medicine (other than TCM formula granule) accounted for 66.7% of turnover

Note: As part of the Notice on Issuing the National Catalog of First Batch of Drugs under Closely Monitoring on Reasonable Drug Use (for Chemical Medicines and Biological Products) issued by the Medical Administration and Medical Control Bureau of the National Health Commission on 1 July 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Turnover

For the first six months of 2019, the Group continued to produce modern Chinese medicine products of good efficacy and high quality. The Group's turnover had increased by 4.8% as compared to the corresponding period of last year. This was mainly due to the increase of average selling price and sales volume of certain Group's products as compared with those of the corresponding period in 2018. Sales of our injection products had decreased by 6.8% to RMB651,371,000, accounted for 47.6% of the Group's total turnover. Sales of soft capsule products had increased by 7.5% to RMB242,591,000, accounted for 17.7% of the Group's total turnover. Sales of granule products had decreased by 14.9% to RMB162,076,000, accounted for 11.8% of the Group's total turnover. Sales of TCM formula granules had increased by 84.3% to RMB241,302,000, accounted for 17.6% of the Group's total turnover. The Group had also sold RMB70,940,000 of medicines in other formats which accounted for 5.3% of the Group's turnover.

Sales of prescription and OTC medicines of the Group for the first six months of 2019 were RMB1,153,087,000 and RMB215,193,000, equal to 84.3% and 15.7% of the Group's turnover, respectively.

Cost of Sales

Cost of sales for the first six months of 2019 was RMB392,992,000, equals to 28.7% of the Group's turnover. Direct materials, direct labour and other production costs accounted for 57.7%, 16.9% and 25.4% of the total production costs respectively. (For the corresponding period of 2018: 58.3%, 17.2% and 24.5%).

Gross Profit Margin

For the first six months of 2019, average gross margin of injection products, soft capsule products, granule products and TCM formula granule products were approximately 73.6% (for the corresponding period of 2018: 72.1%), 70.1% (for the corresponding period of 2018: 75.1%), 67.3% (for the corresponding period of 2018: 67.1%) and 74.5% (for the corresponding period of 2018: 74.7%) respectively. Overall gross profit margin was 71.3% as compared to 71.2% of the corresponding period of last year.

Other Income

Other income mainly includes government subsidies of RMB73,858,000 (for the corresponding period of 2018: RMB17,529,000). The government subsidies mainly represented incentives received from government for research activities and investments in relevant regions in the PRC by the Group.

Investment Income

Investment income mainly includes interest income from bank deposits and investments in financial products of RMB24,552,000 (for the corresponding period of 2018: RMB39,066,000) and RMB23,158,000 (for the corresponding period of 2018: RMB32,591,000) respectively.

Selling and Distribution Costs

Selling and distribution costs for the first six months of 2019 increased by 13.5% from the corresponding period of last year and were equal to 41.6% of the Group's turnover (for the corresponding period of 2018: 38.4%). The increase was mainly due to the increased promotion expenses and salaries and social security outlay of sales staff as compared to same period of last year. Promotion expenses and salaries and social security outlay of sales staff accounted for 4.8% and 4.1% (for the corresponding period of 2018: 0.6% and 3.0%) of the Group's turnover respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

During the first six months of 2019, administrative expenses increased by 8.4% as compared to the corresponding period of last year, representing approximately 10.3% (for the corresponding period of 2018: 9.9%) of the Group's turnover. Administrative expenses mainly comprised of salaries and social security outlay of administration staff, depreciation and amortisation expenses which accounted for 3.0% and 3.0% (for the corresponding period of 2018: 2.2% and 2.6%) of the Group's turnover respectively.

Research and Development Costs

During the first six months of 2019, research and development costs decreased by 37.7% as compared to the corresponding period of last year, which accounted for approximately 3.3% of the Group's turnover (for the corresponding period of 2018: 5.6%). The decrease in research and development costs was mainly attributable to the decrease in cost of the R&D project, namely Classic Traditional Chinese Medicine Prescription as compared to the corresponding period of last year.

Net Exchange Gain

The Group had a net exchange gain of RMB4,378,000 for the first six months of 2019 (for the corresponding period of 2018: net exchange gain of RMB1,909,000), which was mainly resulted from exchange gain arising from change of exchange rate between Australian dollars, Hong Kong dollars and Renminbi.

Taxation

Taxation for the first six months ended 30 June 2019 amounted to RMB62,301,000 (for the corresponding period of 2018: RMB61,711,000). The effective tax rate was lowered from 19.4% in the corresponding period of last year to 17.8%. This was mainly due to the write-back of overprovision of tax in prior years.

Profit for the Period

The Group's profit attributable to the owners of the Company for the first six months ended 30 June 2019 was RMB287,656,000, representing an increase of 11.9% from the corresponding period of last year. The increase in profit was mainly attributable to the increased turnover and operating profit of the Period.

Interim Dividend

The board of directors of the Company (the "Board") resolved to declare an interim dividend of RMB11 cents per share amounting to RMB85,074,000 in respect of the six months ended 30 June 2019 and are calculated on the basis of 827,000,000 shares issued less 53,597,000 shares held for share award scheme as at 30 August 2019 (for the six months ended 30 June 2018: RMB11 cents per share, amounting to RMB89,854,000), which will be paid on 30 October 2019, to the shareholders whose names appear on the Company's register of members on 11 October 2019.

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 30 August 2019 (RMB1=HK$1.098). Accordingly, the amount payable on 30 October 2019 will be HK$0.1208 per share.

Capital Structure

For the six months ended 30 June 2019, there was no change in the capital structure and issued share capital of the Group as compared to those on 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 30 June 2019, bank deposits of the Group, amounting to RMB3,546,054,000 (31 December 2018: RMB3,611,485,000) of which RMB3,469,713,000 (31 December 2018: RMB3,550,407,000), were denominated in Renminbi. Others, being equivalent to RMB71,123,000, RMB1,810,000 and RMB3,408,000 (31 December 2018: RMB52,848,000, RMB4,851,000 and RMB3,379,000), were denominated in Hong Kong dollars, Australian dollars and United States dollars respectively.

The directors of the Company (the "Directors") believe that the financial position of the Group is healthy, with sufficient financial resources to meet the requirement for future development.

Trade Receivables and Trade Receivables backed by Bank Bills

Trade receivables and trade receivables backed by bank bills as at 30 June 2019 increased by 40.7% and 9.4% respectively from 31 December 2018. Turnover days of trade receivables and trade receivables backed by bank bills were 28.0 days and 50.1 days respectively (for the corresponding period of 2018: 16.0 days and 57.7 days respectively).

Inventories

Inventories balance as at 30 June 2019 decreased by 12.5% from 31 December 2018. By inventory categories, raw materials, work in progress and finished products respectively accounted for 30.6%, 36.6% and 32.8% of inventories as at 30 June 2019 (31 December 2018: 31.0%, 33.4% and 35.6% respectively).

Turnover days for finished goods products in the first six months of 2019 were 60.8 days (for the corresponding period of 2018: 59.9 days).

Property, Plant and Equipment

In the first six months of 2019, the Group acquired buildings of RMB3,020,000, plant and machinery of RMB6,160,000, office equipment of RMB2,828,000 and the new construction works of modern Chinese medicine production base located in Chuxiong City of Yunnan amounted to approximately RMB22,823,000 in total. Besides, following the adoption of IFRS 16, property, plant and equipment had included the prepaid lease payments and right-of-use assets relating to operating leases, which had respective net book values of RMB166,113,000 and RMB5,524,000 as at 30 June 2019.

For the six months ended 30 June 2019, depreciation for property, plant and equipment amounted to RMB86,766,000 as compared to RMB77,867,000 during the same period of last year.

Intangible Assets

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 80.5 days (for the corresponding period of 2018: 98.5 days).

Trade Payables backed by Bank Bills

As at 30 June 2019, the Group had trade payables backed by bank bills amounted to RMB5,766,000 (31 December 2018: RMB16,693,000). These liabilities are repayable within one year. Bank deposits of RMB5,766,000 (31 December 2018: Bank deposits of RMB16,693,000) were pledged to banks to secure these payables.

Pledge of Assets

As at 30 June 2019, the Group secured trade payables backed by bank bills of RMB5,766,000 (31 December 2018: RMB16,693,000) by pledging bank deposits amounting to RMB5,766,000 (31 December 2018: Bank deposits of RMB16,693,000).

Employees

As at 30 June 2019, the Group has 3,709 employees (31 December 2018: 3,649 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 2019 arose from the change in exchange rate between Hong Kong dollars, Australian dollars and Renminbi. As at 30 June 2019, 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 2019 (31 December 2018: Nil).

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2019, 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 and the 2015 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 2019, 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.

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.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at 30 June 2019, 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 2019, 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.

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 2019**	**Granted during the period**	**Lapsed during the period**	**As at 30 June 2019**	**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
Mr. Chen Zhong	2 September 2013	1,000,000	–	–	1,000,000	1	11.84
Other Employees	2 September 2013	14,650,000	–	(300,000)	14,350,000	1	11.84
		17,450,000	–	(300,000)	17,150,000		

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 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$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;

OTHER INFORMATION

(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 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$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 2019**	**Granted during the period**	**Lapsed during the period**	**As at 30 June 2019**	**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
Mr. Xu Sheng (ceased on 2 July 2019)	17 December 2018	2,000,000	–	–	2,000,000	5	9.56
		6,000,000	–	–	6,000,000		

(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 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$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.

(5) *The options have a validity period of 6 years from the date of grant on 17 December 2018.*

The options are exercisable in tranches:

(i) *up to 20% within such period(s) during the year commencing on 17 December 2019 to be designated by the Company;*

(ii) *up to 20% within such period(s) during the year commencing on 17 December 2020 to be designated by the Company;*

(iii) *up to 20% within such period(s) during the year commencing on 17 December 2021 to be designated by the Company;*

(iv) *up to 20% within such period(s) during the year commencing on 17 December 2022 to be designated by the Company; and*

(v) *up to 20% within such period(s) during the year commencing on 17 December 2023 to be designated by the Company.*

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$8.90.

The options have lapsed automatically on 2 July 2019 in accordance with the terms of the 2015 Scheme by reason of the termination of directorship of Mr. Xu Sheng on 2 July 2019.

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

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 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 of Directors 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 of Directors. The Board of Directors shall not make any further award which will result in the number of shares awarded by the board of directors 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.

OTHER INFORMATION

During the six months ended 30 June 2019, 23,730,000 shares were purchased by the trustee from the market at an average price of approximately HK$7.55 (equivalent to RMB6.64) per share, with an aggregate amount of HK$179,210,000 (equivalent to RMB157,617,000). No shares were granted to eligible employees pursuant to the Scheme. At the end of the reporting period, there are 53,597,000 shares held by the trustee.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2019, 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 2019, 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. From 1 January 2019 to 30 June 2019, Mr. Xu Sheng has been both the executive Director and chief executive officer of the Company, the Company fully complies with the requirement of code provision A.2.1. As Mr. Xu Sheng ceased as both executive Director and chief executive officer of the Company on 2 July 2019, Mr. Li Zhenjiang became both the Chairman and president of the Company (the "President"), who assume the duty of a chief executive. 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 2019.

CHANGES IN DIRECTOR'S INFORMATION

Mr. Xu Sheng ("Mr. Xu") was appointed as executive Director and chief executive officer of the Company with effect from 1 December 2018, Mr. Xu ceased as executive Director and chief executive officer of the Company on 2 July 2019 due to his wish to spend more time to handle his personal affairs.

OTHER INFORMATION

Mr. Sun Liutai ceases to serve as the independent non–executive director of the Company (the "INED") upon the expiry of the terms of directorship pursuant to his appointment letter with effect from 1 January 2019. Mr. Sun Liutai confirmed that he has no disagreement with the Board and he is not aware of any matters that need to be brought to the attention of the shareholders of the Company in relation to his cessation as INED. Mr. Cheung Chun Yue, Anthony ("Mr. Cheung") was appointed as an INED with effect from 1 January 2019. Details of Mr. Cheung's appointment and biography information were disclosed in the announcement of the Company dated 31 December 2018.

Save as disclosed above, there are no other issues related to the Directors 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 2019.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 10 October 2019 to 11 October 2019 (both days inclusive). In order to qualify for the interim dividend for the six months ended 30 June 2019, 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 9 October 2019.

By order of the Board
China Shineway Pharmaceutical Group Limited

Li Zhenjiang
Chairman

Hong Kong, 30 August 2019

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 27 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2019 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
30 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
		2019	2018
	NOTES	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)
Turnover	*3*	**1,368,280**	1,305,153
Cost of sales		**(392,992)**	(375,880)
Gross profit		**975,288**	929,273
Other income		**78,295**	20,717
Investment income	*4*	**47,710**	71,657
Net exchange gain		**4,378**	1,909
Selling and distribution costs		**(569,256)**	(501,678)
Administrative expenses		**(140,476)**	(129,634)
Research and development costs		**(45,825)**	(73,508)
Interest on lease liabilities		**(157)**	–
Profit before taxation		**349,957**	318,736
Taxation	*5*	**(62,301)**	(61,711)
Profit and total comprehensive income for the period	*6*	**287,656**	257,025
EARNINGS PER SHARE	*8*		
Basic		**RMB36 cents**	RMB31 cents
Diluted		**RMB36 cents**	RMB31 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	NOTES	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	*9*	**1,527,185**	1,403,661
Prepaid lease payments		**–**	163,778
Intangible assets		**266,625**	287,920
Goodwill		**159,291**	159,291
Deposits for intangible assets		**36,000**	36,000
Deferred tax assets		**25,768**	28,196
		2,014,869	2,078,846
Current assets			
Inventories		**354,736**	405,498
Trade receivables	*10*	**244,867**	174,034
Trade receivables backed by bank bills	*10*	**391,247**	357,471
Prepayments, deposits and other receivables		**107,628**	87,457
Tax recoverable		**300**	307
Pledged bank deposits		**5,766**	16,693
Bank deposits and cash		**3,546,054**	3,611,485
		4,650,598	4,652,945
Current liabilities			
Trade payables	*11*	**149,508**	196,414
Trade payables backed by bank bills	*11*	**5,766**	16,693
Other payables and accrued expenses		**474,951**	381,668
Lease liabilities		**3,682**	–
Contract liabilities		**34,116**	82,682
Amounts due to related companies		**15,935**	15,935
Deferred income		**39,344**	41,452
Tax payable		**37,424**	45,429
		760,726	780,273
Net current assets		**3,889,872**	3,872,672
Total assets less current liabilities		**5,904,741**	5,951,518

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	NOTE	**30.6.2019 RMB'000 (Unaudited)**	31.12.2018 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		**40,234**	60,631
Lease liabilities		**1,907**	–
Deferred income		**129,813**	125,106
		171,954	185,737
Net assets		**5,732,787**	5,765,781
Capital and reserves			
Share capital	12	**87,662**	87,662
Reserves		**5,645,125**	5,678,119
Total equity		**5,732,787**	5,765,781

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Share capital	Share premium	Merger reserve	Statutory surplus reserve fund	Discretionary surplus reserve fund	Share options reserve	Shares held for share award scheme	Accumulated profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note 13)	RMB'000	RMB'000
At 1 January 2019 (audited)	**87,662**	**422,140**	**83,758**	**445,262**	**154,760**	**65,828**	**(304,256)**	**4,810,627**	**5,765,781**
Profit and total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**287,656**	**287,656**
Transfer	**-**	**-**	**-**	**4**	**-**	**-**	**-**	**(4)**	**-**
Release upon deregistration of a subsidiary	**-**	**-**	**-**	**(51,789)**	**-**	**-**	**-**	**51,789**	**-**
Purchase of shares under share award scheme	**-**	**-**	**-**	**-**	**-**	**-**	**(157,617)**	**-**	**(157,617)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(163,997)**	**(163,997)**
Recognition of equity-settled share based payments	**-**	**-**	**-**	**-**	**-**	**964**	**-**	**-**	**964**
Lapse of share options	**-**	**-**	**-**	**-**	**-**	**(1,097)**	**-**	**1,097**	**-**
At 30 June 2019 (unaudited)	**87,662**	**422,140**	**83,758**	**393,477**	**154,760**	**65,695**	**(461,873)**	**4,987,168**	**5,732,787**
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
	NOTE	**2019 RMB'000 (Unaudited)**	2018 RMB'000 (Unaudited)
Net cash generated from operating activities		**226,272**	362,395
Investing activities			
Placement of financial products		**(250,000)**	(400,800)
Proceeds from redemption of financial products		**255,026**	409,380
Net proceeds from short-term financial products	4	**18,132**	24,011
Placement of pledged bank deposits		**(5,766)**	(31,413)
Withdrawal of pledged bank deposits		**16,693**	43,401
Interest received		**21,229**	29,875
Purchase of property, plant and equipment		**(34,852)**	(79,449)
Other investing cash flows		**11,157**	7,280
Net cash from investing activities		**31,619**	2,285
Financing activities			
Dividends paid		**(163,997)**	(171,578)
Purchase of shares held for share award scheme		**(157,617)**	(128,585)
Repayment of principal on lease liabilities		**(1,777)**	–
Repayment of interest on lease liabilities		**(157)**	–
Cash used in financing activities		**(323,548)**	(300,163)
Net (decrease) increase in cash and cash equivalents		**(65,657)**	64,517
Cash and cash equivalents at beginning of the period		**3,611,485**	3,532,385
Effect of foreign exchange rate changes		**226**	(248)
Cash and cash equivalents at end of the period, representing bank balances and cash		**3,546,054**	3,596,654

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

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 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 months ended 30 June 2019 are the same as those presented in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

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 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle

Except as described below, the application of the amendments to IFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases"

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 "Leases" ("IAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Cont'd)

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Cont'd)

As a lessee (Cont'd)

Right-of-use assets (Cont'd)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets in "property, plant and equipment", the same line item as that within which the corresponding underlying assets would be presented if they were owned.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 "Financial Instruments" and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Cont'd)

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Cont'd)

As a lessee (Cont'd)

Lease liabilities (Cont'd)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Cont'd)

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Cont'd)

As a lessee (Cont'd)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease" and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Cont'd)

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Cont'd)

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) relied on the assessment of whether leases are onerous by applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

(ii) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

(iv) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.75%.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Cont'd)

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Cont'd)

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	**9,084**
Less: Recognition exemption – short-term leases	**(1,348)**
	7,736
Lease liabilities discounted at relevant incremental borrowing rate relating to operating leases recognised upon application of IFRS 16 as at 1 January 2019	**7,366**
Analysed as	
Current	**3,596**
Non-current	**3,770**
	7,366

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	7,366
Reclassified from prepaid lease payments *(Note)*	168,448
	175,814
By class:	
Leasehold lands	173,209
Buildings	2,605
	175,814

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Cont'd)

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Cont'd)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	**Carrying amounts under IFRS 16 at 1 January 2019 RMB'000**
Non-current assets			
Property, plant and equipment	–	175,814	**175,814**
Prepaid lease payments *(Note)*	163,778	(163,778)	**–**
Current assets			
Prepaid lease payments *(Note)*	4,670	(4,670)	**–**
Current liabilities			
Lease liabilities	–	(3,596)	**(3,596)**
Non-current liabilities			
Lease liabilities	–	(3,770)	**(3,770)**

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

Note: Upfront payments for leasehold lands in the People's Republic of China (the "PRC") were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB4,670,000 and RMB163,778,000, respectively, were reclassified to right-of-use assets.

3. TURNOVER AND SEGMENT INFORMATION

Operating segments

The Group is engaged in research and development, manufacturing and trading of Chinese pharmaceutical products. Information reported to the Chairman of the Board of Directors of the Group, being the chief operating decision maker, for the purpose of resource allocation and assessment focuses on revenue analysis by products. No other discrete financial information is provided other than the Group's results and financial position as a whole. Accordingly, only entity-wide disclosures are presented.

Revenue from major products

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Injections	**651,371**	699,194
Soft capsules	**242,591**	225,633
Granules	**162,076**	190,366
Traditional Chinese medicine formula granules	**241,302**	130,955
Others	**70,940**	59,005
	1,368,280	1,305,153

Sales of the Group to external customers were substantially made in the PRC including Hong Kong.

4. INVESTMENT INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank deposits	**24,552**	39,066
Investment income from short-term financial products *(Note)*	**18,132**	24,011
Investment income from financial products *(Note)*	**5,026**	8,580
	47,710	71,657

Note: The financial products and short-term financial products are measured at fair value through profit or loss for both periods. The redemption amount (including the return) of such products is related to the performance of underlying debt instruments, equity instruments or foreign currencies. The investment income represents the different 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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("EIT"):		
Current tax	**62,979**	54,336
(Over)underprovision in prior years	**(2,471)**	12,382
Withholding tax on distributed profits	**2,602**	–
	63,110	66,718
Deferred tax	**(809)**	(5,007)
	62,301	61,711

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of the qualifying group entity will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. Accordingly, starting from the year ended 31 December 2018, the Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits for the qualifying group entity and at 16.5% on the estimated assessable profits above HK$2 million. Hong Kong Profits Tax was calculated at a flat rate of 16.5% on the estimated assessable profits for the six months ended 30 June 2018. As the Company and its subsidiaries operating in Hong Kong do not have assessable profits, 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% for both periods.

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 15% (six months ended 30 June 2018: 15%) for the period. Certain subsidiaries which are recognised as High and New-tech Enterprises have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both periods. 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% (six months ended 30 June 2018: 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.

5. TAXATION (Cont'd)

During the six months ended 30 June 2018, the State Taxation Administration of Hebei Province had 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 undistributed profits of the PRC subsidiaries amounting to RMB4,508,758,000 (31 December 2018: RMB4,161,640,000) 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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**21,295**	20,194
Amortisation of prepaid lease payments	**N/A**	2,210
Depreciation of property, plant and equipment	**86,766**	77,867
Government subsidies (included in other income) *(Note)*	**(73,858)**	(17,529)
Loss on disposal of property, plant and equipment	**34**	–
Share-based payments expense	**964**	3,893

Note: The government subsidies represent the amounts received from the local government by the subsidiaries of the Company. During the six months ended 30 June 2019, government subsidies of (a) RMB65,619,000 (six months ended 30 June 2018: RMB13,302,000) represent incentives received in relation to engagement of the subsidiaries of the Company in High Technology business. The grants were unconditional, approved and received during the period of recognition; and (b) RMB8,239,000 (six months ended 30 June 2018: RMB4,227,000) represent recognition of deferred income upon completion of related research activities.

7. DIVIDENDS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends		
– 2018 final dividend of RMB12 cents (2018: 2017 final dividend of RMB12 cents) per share paid	**93,713**	98,045
– 2018 special dividend of RMB9 cents (2018: 2017 special dividend of RMB9 cents) per share paid	**70,284**	73,533
	163,997	171,578
– 2019 interim dividend of RMB11 cents (2018: RMB11 cents) per share	**85,074**	89,854

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 53,597,000 shares held for share award scheme as at 30 August 2019, and will be paid on 30 October 2019, to the shareholders of the Company whose names appear in the Company's register of members on 11 October 2019.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to the owners of the Company the purpose of basic and diluted earnings per share per share	**287,656**	257,025

	Six months ended 30 June	
	2019	2018
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	**789,929,497**	823,075,530
Effect of dilutive potential ordinary shares: Share options	**267,553**	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	**790,197,050**	826,487,118

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group made additions to construction in progress of RMB22,823,000 (six months ended 30 June 2018: RMB45,933,000) and acquired other property, plant and equipment of RMB12,008,000 (six months ended 30 June 2018: RMB15,502,000). During the six months ended 30 June 2019, the Group also disposed of certain property, plant and equipment with carrying amount of RMB353,000 (six months ended 30 June 2018: nil) at net consideration of RMB319,000 (six months ended 30 June 2018: nil), resulting in a loss on disposal of RMB34,000 (six months ended 30 June 2018: nil).

10. TRADE RECEIVABLES/TRADE RECEIVABLES BACKED BY BANK BILLS

	30.6.2019 **RMB'000** **(Unaudited)**	31.12.2018 RMB'000 (Audited)
Trade receivables	**244,867**	174,034
Trade receivables backed by bank bills	**391,247**	357,471
	636,114	531,505

The Group allows credit periods normally ranging from six months to one year to its trade customers. The following is an aged analysis of the trade receivables and trade receivables backed by bank bills presented based on the invoice date at the end of the reporting period, which approximated the revenue recognition date.

	30.6.2019 **RMB'000** **(Unaudited)**	31.12.2018 RMB'000 (Audited)
Within 6 months	**610,041**	515,697
Over 6 months but less than 1 year	**23,916**	15,808
Over 1 year but less than 2 years	**2,157**	–
	636,114	531,505

As at 30 June 2019, total bills received amounting to RMB391,247,000 (31 December 2018: RMB357,471,000) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

11. TRADE PAYABLES/TRADE PAYABLES BACKED BY BANK BILLS

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Trade payables	**149,508**	196,414
Trade payables backed by bank bills	**5,766**	16,693
	155,274	213,107

An aged analysis of the Group's trade payables and trade payables backed by bank bills at the end of the reporting period is as follows:

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Within 6 months	**127,746**	195,170
Over 6 months but less than 1 year	**11,607**	4,814
Over 1 year but less than 2 years	**2,961**	1,006
Over 2 years but less than 3 years	**9,779**	9,035
Over 3 years	**3,181**	3,082
	155,274	213,107

The average credit period taken for trade purchases ranges from two months to six months.

12. SHARE CAPITAL

	Number of shares '000	Amount '000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2018, 31 December 2018 and 30 June 2019	5,000,000	HK$500,000
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 30 June 2019	827,000	HK$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 both periods.

During the six months ended 30 June 2019, 23,730,000 (six months ended 30 June 2018: 10,147,000) shares were purchased by the trustee from the market. Details are set out in note 13.

13. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company has share option scheme which were adopted on 10 November 2004 and 29 May 2015.

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 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 of Directors 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 of Directors. The Board of Directors shall not make any further award which will result in the number of shares awarded by the Board of Directors 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 2019, 23,730,000 (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$7.55 (equivalent to RMB6.64) (six months ended 30 June 2018: HK$14.98 (equivalent to RMB12.67) per share, with an aggregate amount of HK$179,210,000 (equivalent to RMB157,617,000) (six months ended 30 June 2018: HK$151,988,000) (equivalent to RMB128,585,000)). No shares were granted to eligible employees pursuant to the Scheme. At the end of the reporting period, there are 53,597,000 (31 December 2018: 29,867,000) shares held by the trustee.

14. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

15. RELATED PARTY DISCLOSURES

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group had the following significant transactions and balances with related parties during the period:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on lease liabilities to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	**45**	N/A
Interest on lease liabilities to Shineway (Sanhe) Property Development Limited ("Shineway Sanhe")	**57**	N/A
Interest on lease liabilities to Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")	**55**	N/A
Rental expenses to Shineway Medical	**N/A**	700
Rental expenses to Shineway Sanhe	**N/A**	550
Rental expenses and hotel service fee to Kang Yue Hotel	**N/A**	684
Service fee to Shijiazhuang Municipal Luancheng County Shineway Training School ("Shineway Training School")	**484**	629
Service fee to Shineway Medical	**5,110**	4,821
Service fee to Shineway Sanhe	**1,017**	1,133

As at 30 June 2019, the Group's right-of-use assets with carrying amount of RMB1,999,000 (31 December 2018: N/A), RMB1,571,000 (31 December 2018: N/A) and RMB1,954,000 (31 December 2018: N/A) are arising from leasehold lands and property leased from Shineway Medical, Shineway Sanhe and Kang Yue Hotel, respectively. The respective lease liabilities amounted to RMB1,589,000 (31 December 2018: N/A), RMB2,023,000 (31 December 2018: N/A) and RMB1,977,000 (31 December 2018: N/A), respectively.

During the six months ended 30 June 2019, the Group's payments of principal and interest on lease liabilities in relation to leasehold lands and property leased from Shineway Medical, Shineway Sanhe and Kang Yue Hotel amounted to RMB700,000 (31 December 2018: N/A), RMB550,000 (31 December 2018: N/A) and RMB684,000 (31 December 2018: N/A), respectively.

Shineway Medical, Shineway Sanhe, Kang Yue Hotel and Shineway Training School, all of which are ultimately controlled by the controlling shareholder of the Company.

15. RELATED PARTY DISCLOSURES (Cont'd)

Compensation of key management personnel

Key management personnel is deemed to be the members of the Board of Director of the Company which has responsibility for planning, directing and controlling the activities of the Group. Details of the remuneration paid to them during the period were as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	**5,459**	5,107
Post-employment benefits	**59**	32
Share-based payments expense	**799**	199
	6,317	5,338

16. CAPITAL COMMITMENTS

	30.6.2019	31.12.2018
	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	**169,676**	194,445
– in respect of acquisition of intangible assets	**84,000**	84,000