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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)

2019 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “Board”) of China Shineway Pharmaceutical Group Limited (the “Company” or “Shineway”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2019 (the “Period”) as follows:

FINANCIAL 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).

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%

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 <i>RMB'000</i>	Sales First six months of 2019 <i>RMB'000</i>	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	<u>59,005</u>	<u>70,940</u>	<u>20.2%</u>	<u>5.3%</u>
Oral products	<u>605,959</u>	<u>716,909</u>	<u>18.3%</u>	<u>52.4%</u>
Total turnover	<u>1,305,153</u>	<u>1,368,280</u>	<u>4.8%</u>	<u>100.0%</u>

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.

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			<u>250,975</u>	<u>251,524</u>	<u>0.2%</u>	<u>18.4%</u>
Total sales			<u>1,305,153</u>	<u>1,368,280</u>	<u>4.8%</u>	<u>100.0%</u>

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

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.

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's 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	<u>35.6%</u>	<u>30.9%</u>	<u>-20.3%</u>
Retail pharmacy products total	<u>100.0%</u>	<u>100.0%</u>	<u>-8.1%</u>

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.

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. Sailuotung 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 carriage 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

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.

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.

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.

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.

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.

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.

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2019 together with the comparative figures for the six months ended 30 June 2018 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	<i>Notes</i>	Six months ended 30 June	
		2019	2018
		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		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	4	(62,301)	(61,711)
Profit and total comprehensive income for the period	5	<u>287,656</u>	<u>257,025</u>
EARNINGS PER SHARE	7		
Basic		<u>RMB36 cents</u>	<u>RMB31 cents</u>
Diluted		<u>RMB36 cents</u>	<u>RMB31 cents</u>

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	8	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
		<u>2,014,869</u>	<u>2,078,846</u>
Current assets			
Inventories		354,736	405,498
Trade receivables	9	244,867	174,034
Trade receivables backed by bank bills	9	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
		<u>4,650,598</u>	<u>4,652,945</u>
Current liabilities			
Trade payables	10	149,508	196,414
Trade payables backed by bank bills	10	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
		<u>760,726</u>	<u>780,273</u>
Net current assets		<u>3,889,872</u>	<u>3,872,672</u>
Total assets less current liabilities		<u>5,904,741</u>	<u>5,951,518</u>

	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	87,662	87,662
Reserves	5,645,125	5,678,119
Total equity	5,732,787	5,765,781

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.

2.1 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.

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.

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.

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 standard 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.

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%.

**At 1 January
2019
RMB'000**

Operating lease commitments disclosed as at 31 December 2018	9,084
Less: Recognition exemption – short-term leases	<u>(1,348)</u>

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	<u>7,366</u>
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Analysed as	
Current	3,596
Non-current	<u>3,770</u>

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 (<i>Note</i>)	<u>168,448</u>

175,814

By class:	
Leasehold lands	173,209
Buildings	<u>2,605</u>

175,814

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

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
	<u>1,368,280</u>	<u>1,305,153</u>

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

4. 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	<u>2,602</u>	<u>—</u>
	<u>63,110</u>	<u>66,718</u>
Deferred tax	<u>(809)</u>	<u>(5,007)</u>
	<u>62,301</u>	<u>61,711</u>

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 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.

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.

5. 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.

6. 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
	<u>163,997</u>	<u>171,578</u>
– 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.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit for the period attributable to the owners of the Company the purpose of basic and diluted earnings per share per share	<u>287,656</u>	<u>257,025</u>
	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	<u>267,553</u>	<u>3,411,588</u>
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	<u>790,197,050</u>	<u>826,487,118</u>

8. 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).

9. TRADE RECEIVABLES/TRADE RECEIVABLES BACKED BY BANK BILLS

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

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	31.12.2018
	RMB'000	RMB'000
	(Unaudited)	(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	–
	<u>636,114</u>	<u>531,505</u>

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.

10. TRADE PAYABLES/TRADE PAYABLES BACKED BY BANK BILLS

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

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 <i>RMB'000</i> (Unaudited)	31.12.2018 <i>RMB'000</i> (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	<u>3,181</u>	<u>3,082</u>
	<u>155,274</u>	<u>213,107</u>

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

11. 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.

12. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

13. RELATED PARTY 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.

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
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Short-term benefits	5,459	5,107
Post-employment benefits	59	32
Share-based payments expense	799	199
	<u>6,317</u>	<u>5,338</u>

14. CAPITAL COMMITMENTS

	30.6.2019	31.12.2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(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

OTHER INFORMATION

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.

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.

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.

INTERIM REPORT

The interim report of 2019 will be despatched to the shareholders of the Company and published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company’s website (www.shineway.com.hk) in due course.

We are delighted by the trust and support of our shareholders and those who care about the Company. On behalf of the Board, we would like to take this opportunity to thank all of you, as well as our employees who made tremendous efforts.

By order of the Board
China Shineway Pharmaceutical Group Limited
Li Zhenjiang
Chairman

Hong Kong, 30 August 2019

As at the date of this announcement, the Board comprises Mr. Li Zhenjiang, Ms. Xin Yunxia, Mr. Li Huimin and Mr. Chen Zhong as executive directors; and Ms. Cheng Li, Prof. Luo Guoan and Mr. Cheung Chun Yue Anthony as independent non-executive directors.