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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)

2020 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 2020 (the “Period”) as follows:

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020, the operating results of the Group were as follows:

- Turnover amounted to RMB1,190,112,000, a decrease of 13.0% as compared to the corresponding period of last year;
- Gross profit margin was 73.6% as compared to 71.3% of the corresponding period of last year;
- Profit for the period amounted to RMB253,721,000, a decrease of 11.8% as compared to the corresponding period of last year;
- Earnings per share amounted to RMB33 cents, a decrease of 8.3% as compared to the corresponding period of last year;
- Declared interim dividend of RMB11 cents per share;
- Net assets per share amounted to RMB7.1 (equivalent to HKD7.8); and
- Net cash per share amounted to RMB4.6 (equivalent to HKD5.0).

BUSINESS REVIEW

Interim Results Highlights

Affected by the novel coronavirus pandemic, medical visits reduced notably. According to the data published by the National Health Commission, the total number of patients treated in medical institutions in China between January and June 2020 had gone down by 21.6%, while the Group's sales in the first six months of 2020 decreased by 13.0% as compared with the same period last year. Net profit was RMB254 million, representing a 11.8% decrease from the same period last year and was mainly attributable to the decrease in sales. Net profit margin went up from 21.0% in the same period last year to 21.3%, while earnings per share only decreased by 8.3% to RMB33 cents as compared to the same period last year. Although the performance did not meet the original sales growth target, it was better than the amplitude of contraction on the overall medical service utilization.

During the novel coronavirus pandemic, the number of outpatient visits and hospitalization rates in hospitals and grass-root medical institutions had declined. Patients with respiratory system diseases and pediatric patients reduced drastically, which led to declines in prescriptions and sales of pharmaceutical products. This resulted in a decrease in sales for injection products of approximately 24.9% during the period, and impacted the end-user demand of pediatrics and respiratory diseases in the first six months of the year. However, many of the Group's exclusive oral products and medicines for chronic disease treatment with unique curative effects managed to maintain growth despite the decline in medical consumption. Sales volume of TCM formula granules also surpassed that of the same period last year. Furthermore, the sales channels of oral products gradually recovered after the peak of the pandemic. As a result, although sales of the Group's oral products decreased by 9.0% during the peak of the pandemic in the first quarter of this year, sales increased by 4.0% in the second quarter.

The Group's gross profit margin was 73.6% for the first six-month period of 2020, representing a slight increase compared to 71.3% of the same period last year. This is mainly attributable to the continuous increase of proportion of profit contribution from oral products with higher gross profit margin.

As of 30 June 2020, as calculated based on the total issued shares of 827,000,000 and after deducting bank loans of RMB609.8 million, net cash per share of the Group amounted to HKD5.0, and net assets per share amounted to HKD7.8. The proposed interim dividend is set to be RMB11 cents per share.

Impact of the pandemic on end-user demand is gradually recovering

During the peak of the pandemic, population mobility had been drastically reduced, and many medical institutions and retail pharmacy terminals suspended or limited their services. Despite the pandemic being gradually under control, patients with fever were generally refused by grass-root medical terminals, and inpatient and outpatient rates dropped drastically due to concern about the risk of infection. Public data revealed that, in the first six months in 2020, the total number of patients treated in medical institutions in China decreased significantly compared with the same period last year. Among which the number of patients treated at hospitals decreased by 21.4%, and the number of patients treated in gross-root medical institutions decreased by 21.8% period-on-period. With the pandemic gradually being brought under control, the country was accelerating its restoration of normal medical services. Outpatient visits impacted by the pandemic had shown a significant rebound. The only exception was the pediatric outpatient clinics. As youngster patients have been staying home due to school suspension, a wide reduction of respiratory infection has been resulted due to their reduced contact with the public. In addition, there are still many patients who have suppressed their treatment needs and avoided visiting hospitals for treatments nor pharmacies to procure medications.

Affected by the novel coronavirus pandemic, the results of the first quarter of this year were lower than that of the same period last year. However, when compared to the magnitude of period-on-period drop in number of patients treated in medical institutions in the country, the Group's overall sales and profit of the Group were still able to hold despite such impact. This is attributable to the Group's efforts in expanding its core competitiveness over the years by continuously optimizing investments in research and development for exclusive medications with unique curative effects to diversify product range, and constantly improving manufacturing process and elevating product quality. Medications produced by the Group are widely recognized by healthcare practitioners and consumers. In addition, with the country's domestic pandemic prevention and control proving to be effective, everyday life was getting back to normal. The impact of the pandemic on domestic medical consumption had gradually lessened in the second quarter. Although such impact on injection products was still significant, the end-user demand for oral products has been gradually restoring.

Sales growth rates of the Group for the first quarter, second quarter and the month of July are set out below.

	Year-on-year growth rate		
	First quarter	Second quarter	July 2020
Injection products	-21.4%	-27.7%	-13.2%
Oral products	-9.0%	4.0%	14.1%
Total sales	-14.6%	-11.6%	2.0%

ORAL PRODUCTS CONTRIBUTED TO 72.3% OF GROSS PROFIT

In the first six months of 2020, sales of injection products as a percentage to total turnover of the Group dropped from 47.6% of the same period of last year to 41.1%. The percentage of profit contribution from injection products continued to decline. At the same time, sales of oral products as a percentage to total turnover for the period rose from 52.4% of the same period of last year to 58.9%. The table below shows a comparison of the sales of each dosage form:

	Sales First six months of 2019 <i>RMB'000</i>	Sales First six months of 2020 <i>RMB'000</i>	Period-on- period growth rate	Percentage of sales First six months of 2020
Injections	651,371	489,274	-24.9%	41.1%
Soft capsules	242,591	255,648	5.4%	21.5%
Granules	162,076	147,312	-9.1%	12.4%
TCM formula granules	241,302	239,762	-0.6%	20.1%
Other product formats	<u>70,940</u>	<u>58,116</u>	<u>-18.1%</u>	<u>4.9%</u>
Oral products	<u>716,909</u>	<u>700,838</u>	<u>-2.2%</u>	<u>58.9%</u>
Total sales	<u><u>1,368,280</u></u>	<u><u>1,190,112</u></u>	<u><u>-13.0%</u></u>	<u><u>100.0%</u></u>

Affected by the sharp decline in both inpatients and outpatients during the pandemic, both sales of Shu Xie Ning Injection and Shen Mai Injection, which are mainly used in hospitals, as well as sales of Qing Kai Ling Injection, which is mostly used in grass-root medical institutions recorded a decline. The overall sales of injection products during the first six months of 2020 decreased by 24.9%.

The overall sales of the Group's soft capsule products decreased during the first quarter of this year, but the growth had resumed in the second quarter. Among them, sales of key products such as Wu Fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule, and Qing Kai Ling Soft Capsule in the first half of the year went up by 15.3%, 1.8% and 50.8% respectively. Overall sales of soft capsule products increased by 5.4% in the first six months of 2020 as compared to the corresponding period last year.

Huamoyan Granule, the Group's key exclusive product, recorded a 67.2% growth in sales during the period. However, due to the drop in the number of patients for respiratory and pediatric diseases during the pandemic, sales of other key granule products including the Pediatric Qingfei Huatan Granule had shown decline. Overall sales of granule products during the period decreased by 9.1%.

As estimated with internal data for the first six month period of 2020, oral products accounted for 72.3% of the Group's gross profit after adjusting for "Two-Invoices System" effect. The proportion of profit contribution from oral products was much higher than that of injection products. The following shows the estimated percentages of gross profit contribution after adjusting for "Two-Invoices System" effect:

	Percentage of gross profit contribution	
	First six months of 2019	First six months of 2020
Injection products	32.6%	27.7%
Oral products	67.4%	72.3%
Total sales	100.0%	100.0%

Since our oral products had a higher overall gross profit margin than injection products, an increase in the proportion of sales of oral products would also increase the Group's profitability. The Group will continue to actively cultivate new growth areas of oral products while enhancing their growth momentum to continuously lessen concentration of profit contribution from injection products in the second half of the year.

Market share of TCM formula granules continued to increase

Sales of TCM formula granules decreased slightly by 0.6% in the first six months of 2020 as compared with the same period last year. Despite impacts of the pandemic, sales had not increased during the first half of the year due to the reduction in ex-factory prices of TCM formula granules upon negotiations with medical insurance regulators at the end of last year. Sales as calculated using original ex-factory price should have increased by 30.8% as compared with the same period last year. The adjusted ex-factory prices have become a lot closer to those of Chinese medicine decoctions sold at hospitals. This drives patients to become more incline to take TCM formula granules, which created a larger demand while market competitiveness was enhanced. Furthermore, despite new competitors entered the Hebei Province market in these two years, our market shares in terms of the number of customers and total sales to hospitals in Hebei Province of the Group both recorded an increase as compared to last year. Based on the data currently available, the Group's domestic sales of TCM formula granules ranks sixth nationwide at present. In the month of July 2020, sales of TCM formula granules increased by 21.6% year-on-year.

The Group's TCM formula granules sales team expanded their coverage with 68 additional hospital customers in Hebei Province, and 435 new grass-root medical institution customers in the first half of 2020. During the period, new hospitals and clinic customers accounted for 13.1% of sales, while existing hospitals and clinics accounted for 86.9%. In the first half of 2020, a total of 41 new customers in Yunnan Province, comprised mainly of grass-root medical institutions, had been introduced. The Group is now actively promoting to hospital customers of Class II and above in Yunnan Province, and the business development of TCM formula granules of the Group in Yunnan Province will become another major growth driver.

Most of the sales of TCM formula granules in the first six months of 2020 came from hospitals and grass-root medical institution customers in Hebei Province. The key tasks of the Group in the second half of 2020 are to accelerate the market development and team formation in Yunnan Province, and continue to explore opportunities for entering into other provinces to expand the advantageous regions of our TCM formula granules business as well as enhancing its competitive advantages nationwide. While accelerating our positioning of TCM formula granules in key provinces, the Group is also actively preparing for strategy implementation of TCM formula granules for market openings across China. The National Healthcare Security Administration recently published the contents of the "Seminar on the Proposal for Centralized Procurement of Biological Products and Chinese Medicines by the National Healthcare Security Administration", in which it has been clearly stated that TCM formula granules would not be subject to centralized procurement for the time being, creating a clearer opportunity for the development of formula granules and opening of the market in the coming years.

The Group is currently working on the construction of production facilities in a coastal province of northern China. Yet, due to the impact from the pandemic, the expected completion date would now become mid-2022.

Exclusive products and drugs for treatment of chronic diseases maintained growth

As of the end of June in 2020, there were in total of more than 110 products regularly manufactured by the Group, covering 17 therapeutic areas. Among them were 19 exclusive products of the Group and 18 products admitted in the National Essential Drugs List. In addition, 23 products were included in the National Low-Priced Medicine Catalogue, whereas 16 products were included in the Provincial Low-Priced Medicine Catalogue; and 3 products were included in the Catalogue of Emergency Use Drugs. Sales of the Group's key products in the first six months of 2020 are set out as follows:

			First six months of 2019 RMB'000	First six months of 2020 RMB'000	Year-on-year growth rate	Percentage of sales in the first six months of 2020
TCM formula granules	2 PDRL	–	241,302	239,762	-0.6%	20.1%
Shu Xie Ning Injection	NDRL	–	224,013	133,148	-40.6%	11.2%
Qing Kai Ling Injection	NDRL	Essential Drug	194,348	128,953	-33.6%	10.8%
Wu Fu Xin Nao Qing Soft Capsule	6 PDRL	–	83,989	96,837	15.3%	8.1%
Huo Xiang Zheng Qi Soft Capsule	NDRL	Essential Drug	91,926	93,568	1.8%	7.9%
Shen Mai Injection	NDRL	Essential Drug	107,625	81,633	-24.2%	6.9%
Huamoyan Granule	* NDRL	Essential Drug	22,014	36,803	67.2%	3.1%
Qing Kai Ling Soft Capsule	NDRL	Essential Drug	21,267	32,063	50.8%	2.7%
Pseudomonas Aeruginosa Injection	9 PDRL	–	40,772	31,163	-23.6%	2.6%
Pediatric Qingfei Huatan Granule	5 PDRL	–	42,387	23,904	-43.6%	2.0%
Compound Liquorice Tablet	NDRL	Essential Drug	23,703	13,040	-45.0%	1.1%
Xiesaitong Dripping Pill	* NDRL	–	14,879	11,475	-22.9%	1.0%
Dan Deng Tong Nao Capsule	3 PDRL	–	8,531	7,128	-16.4%	0.6%
Qi Huang Tong Mi Soft Capsule	* NDRL	–	35	5,537	15,720.0%	0.5%
Others			<u>251,489</u>	<u>255,098</u>	<u>1.4%</u>	<u>21.4%</u>
Total sales			<u><u>1,368,280</u></u>	<u><u>1,190,112</u></u>	<u><u>-13.0%</u></u>	<u><u>100.0%</u></u>

* Newly included into the 2019 edition of National Drugs Reimbursement List

There were sharp declines in both outpatients and inpatients of hospitals and grass-root medical institutions during the pandemic in the country. Impacted also by the decreasing patients for respiratory diseases and influenza as well as pediatrics, demand of Qing Kai Ling Injection, Shu Xie Ning Injection and Shen Mai Injection, and also oral products for pediatrics and respiratory diseases such as Pediatric Qingfei Huatan Granule and Compound Liquorice Tablet deteriorated immensely. As a result, the overall sales in the first six months period of 2020 was far below the Group's target.

On the other hand, the Group's exclusive products with unique therapeutic effect such as Huamoyan Granule, and Wu Fu Xin Nao Qing Soft Capsule for chronic diseases such as cardio-cerebrovascular diseases were comparatively less affected by the pandemic and had a better performance as users consume these products on a long term basis. Sales of retail pharmacy products such as Huo Xiang Zheng Qi Soft Capsule and Qing Kai Ling Soft Capsule had also recorded growth during the first half of 2020.

In the second half of the year, the Group will continue to expand its coverage and services of hospitals and grass-root medical institutions while strengthening academic promotion. We will continue to optimize the coverage of chain pharmacies, securing in-depth win-win cooperation and strengthening investment in media promotion to drive the business back to its growth track.

THE COUNTRY IS KEEN ON PROMOTING EVIDENCE-BASED CHINESE MEDICINE AND INTEGRATION OF CHINESE AND WESTERN MEDICAL TREATMENTS

In recent years, the country has been driving the development of Chinese medicine. During the pandemic, Chinese medicine had showed its unique role. Thus, the country has clearly expressed that it will expand the coverage of Chinese medicine services by fostering the revitalization and further development of Chinese medicine and accelerating special policies for Chinese medicine's development. Recently, the State Council issued the "Key Tasks of Deepening the Medical and Health System Reform in the second half of 2020", to advance the integration of Chinese and Western medical treatments in general hospitals, hospitals of infectious disease and specialist hospitals, and to speed up the construction of the evidence-based research center for Chinese medicine. Their tasks also include giving full play to the distinctive role of Chinese medicine in treating the pandemic, while also supporting the inheritance, innovation and development of Chinese medicine.

National policies have been implemented to drive the use and stock up inventory of essential drugs as well as boosting their proportion of use, by demanding the grass-root medical institutions, tier-two public hospitals and tier-three public hospitals respectively, in principle, to stock and use not less than 90%, 80% and 60% of essential drugs. A total of 18 medications of the Group, including products such as Qing Kai Ling Soft Capsule, Huamoyan Granule, Huo Xiang Zheng Qi Soft Capsule, Compound Liquorice Tablet, and Shen Mai Injection, have been included in the National Essential Drugs List and are expected to become an accelerator for our future growth.

Building three core pillars to enhance core competitiveness

Riding on the country's high attention and policy support, Chinese medicine is entering a new era of development. In recent years, the Group has actively implemented a new blueprint to enhance our core competitiveness, with the aim to become one of the new generation leaders of modern Chinese medicine. Our initiatives mainly include the following:

1. Increase investments in evidence-based research for our exclusive and key products while utilizing medical strategies centered on diseases and academic promotion to cultivate a blue ocean market.
2. Increase investments in research and development on core medical areas such as orthopedics, cardio-cerebrovascular diseases, gastroenterology, antiviral, gynecology and pediatrics, and oncology to accelerate the innovation of exclusive and semi-exclusive products so as to expand pipelines of core products.
3. Deploy new online sales models swiftly and establish new modes of operations for the Internet era.

Increase investments on evidence-based research on exclusive and key products

Chinese medicine has a significant effect on the prevention and treatment of severe diseases, common diseases and rare illnesses. For example, Chinese medicine has a noticeable effect on the prevention and treatments of cardio-cerebrovascular diseases, infectious diseases and endocrine diseases. Moreover, it can improve the quality of life of patients when they undergo treatment for malignant tumors, extend the median survival period, and prevent recurrence and metastasis of malignant tumors.

Some patients in society nowadays have a negative attitude towards Chinese medicine. The key reason is that there are insufficient international and influential researches to prove its effectiveness and safety. Therefore, conducting evidence-based researches on Chinese medicine to provide clear proofs to people in doubt is an essential choice for the innovation and development of Chinese medicine, which also serves as a breakthrough point for the integration of Chinese and Western medical treatments.

For years, the Group has been devoting efforts in evidence-based medical researches and had succeeded in providing evidence-based medical proofs for the effectiveness and safety of the Group's several key products. As early as the year of 2013, the Group had taken the lead in cooperating with Tsinghua University to carry out researches on the basic substance of Chinese medicine injection products and the re-evaluation on the safety of Chinese medicine injections. The Group's three core Chinese medicine injection products, namely Qing Kai Ling Injection, Shen Mai Injection and Shu Xie Ning Injection had each conducted 30,000 cases of clinical researches on its safety to justify the safety of these medications with legitimate evidence-based medical proofs. Among them, Qing Kai Ling Injection and Shu Xie Ning Injection of Shineway have been ranked among top 10 of "Chinese Medicine Clinical Evidence Evaluation Index – Stroke, Areas of Stroke/Angina" since the beginning of this year. The "Chinese Medicine Clinical Evidence Evaluation Index" was established by the Evidence-based Traditional Chinese Medicine Research Alliance based on more than 80,000 clinical research data covering more than 1,700 varieties of basic drug catalogue, catalogue of medicines covered by insurance, and Chinese medicine injection. It is the first complete database of evidence-based evaluation of clinical efficacy of Chinese medicine in China.

The Group will speed up our evidence-based medical researches focusing on six therapeutic areas, namely orthopedics, cardio-cerebrovascular diseases, anti-viral, gastroenterology, gynecology and pediatrics, as well as oncology. The Group will be commencing evidence-based medical researches on our exclusive products with proprietary intellectual property rights such as Huamoyan Granule, Dan Deng Tong Nao Soft Capsule, Qi Huang Tong Mi Soft Capsule, Jiangzhi Tongluo Soft Capsule, Lian Su Capsule, Yi Qi Tong Luo Granule, Shu Jin Tong Luo Granule, Qing Kai Ling Soft Capsule, Sechang Zhixie San and Si Wu Pian. Such evidence-based medical researches will be conducted through expert argumentation and other relevant methods.

The argumentation meeting for the randomized, double-blind, positive drug-controlled, multi-center clinical research program of the Group's exclusive product "Sechang Zhixie Powder" for the treatment of children with acute diarrhea has commenced. The formula of this product is originated from the folk prescriptions of the Yi people in Yunnan, and has a history of over 100 years of use. The clinical research is one of the major projects and focused research and development programs of the Yunnan Provincial Department of Science and Technology. Upon completion of the study, "Sechang Zhixie Powder" will become the first-line medication for the treatment of pediatric diarrhea, making the leap from empirical treatment to evidence-based treatment to precise treatment. The study will be led by the First Affiliated Hospital of Tianjin University of Traditional Chinese Medicine, with the participation of 21 nationally renowned children's hospitals, including Guangzhou Women and Children's Medical Center, Children's Hospital of Zhejiang University School of Medicine, and Yunnan University of Chinese Medicine (affiliated hospital).

At present, the Group is strengthening the establishment of a medical expert network at four levels – national, provincial, municipal and county levels. We are working with medical experts and officers on cooperated academic projects, evidence-based research and real-world research in order to provide academic support to clinical guidelines, clinical pathways, expert consensus on the use of drugs and other relevant credentials for our medications.

Accelerating the development of exclusive products to expand new core product pipelines

The Group will focus on the research and development of innovative medications with clinical advantages and unique characteristics in fields where Chinese medicine are advantages, namely cardiovascular diseases, gynaecology, paediatrics and orthopedics. We will utilize independent research and development, joint research and development and traded patents to accelerate the development of new core product pipelines. The Group currently has a total of 7 research projects undergoing clinical trials, among which the 3 groundbreaking exclusive medications are as follows:

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. 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. The clinical trials in both countries were originally expected to be completed in 2021 and 2022 respectively. However, due to the impact of the novel coronavirus pandemic, the clinical trials are currently estimated to be completed in 2022 and 2023 respectively.

In early 2019, Sailuotong Capsule was granted an invention patent by IP Australia, and also received a notice of patent family grant from Russia in the same month. Since the first overseas patent granted in 2010, Sailuotong has been granted 8 invention patents by countries including the United States, Japan, Korea, Germany, Russia, Canada and Australia.

2. *Q-B-Q-F Condensed Pill*

Q-B-Q-F Condensed Pill focuses on the treatment of mycoplasma pneumonia in children. It is currently undergoing a phase III clinical trial through the green channel, which was originally expected to be completed in 2021. As a result of the novel coronavirus pandemic, it is currently estimated that the clinical trial will be completed in 2022.

3. *JC Soft Capsule*

JC Soft Capsule is a compound TCM developed under the guidelines from the traditional medicine theory. It is a new medication of compounded Chinese medicine using “detoxification from the interior to exterior” as the principle for treatment of common cold. It is used for treating upper respiratory tract infection with symptoms such as fever and aversion to cold, dry and sore throat, nasal congestion and runny nose, headache and cough, etc. At present, most traditional Chinese medicine in the market for common cold are heat-clearing detoxifying types or antiseptics, but none of those in the market are available for “detoxification from the interior to exterior”. JC Soft Capsule is expected to complete phase III of clinical trials in 2021.

Other details of Sailuotong Capsule and Q-B-Q-F Condensed Pill were both disclosed in the Group’s 2019 interim report. In addition, the Group is actively developing, registering, reporting and screening new varieties of nearly 100 classic prescriptions in accordance with the national policies. At the same time, the Group is also strengthening the research on compounded Chinese medicines with clinical value for in-hospital formulations.

Chinese medicine aerosol inhalant has become a major innovative treatment in Chinese medicine pediatrics in recent years. This new way of treatment has excellent curative effect on respiratory tract infections in children, with few side effects, quick effect, short treatment time and long-lasting efficacy. The Group is kickstarting new research and development projects on Chinese medicine aerosol inhalant, and has commenced the preparation to establish a focal point laboratory and technical platform for aerosol inhaler.

The Group’s new direction on product pipeline includes applying for production permits of generic drugs in advantageous areas, among which a number of bioequivalence evaluations and confirmatory clinical tests are currently in progress. In recent months, the Group’s joint application with Shandong Confucius Pharmaceutical for the listing of a class 4 generic medication called Afatinib Maleate tablet was accepted. Afatinib Maleate, developed by Boehringer Ingelheim, is the world’s first irreversible EGFR targeted lung cancer drug and was approved for marketing in the United States in July 2013. In February 2017, Afatinib Maleate was approved to enter China domestic market for the treatment of patients with EGFR mutation positive lung cancer, and patients with locally advanced or metastatic lung squamous cell carcinoma whose disease has progressed during or after platinum-containing chemotherapy. It is the second-generation EGFR-TKI to be first listed in China. After Afatinib Maleate successfully entered the National Drug Reimbursement list in 2018, the growth rates of terminal sales in the last two years were more than 200%.

Commencement of a new digitalized sales and marketing model

In 2020, the Group's Internet Digital Marketing Department strengthened its strategic partnership with domestic mainstream medical B2B and B2C e-commerce platforms such as Jingdong, Tmall, Ping An Good Doctor, 111, Inc., Yao Shi Bang, Yi Hao Yao, Yao Jing Cai and Xiao Yao Yao to extensively explore cooperation in various fields and to drive the scale of sales. The Group's flagship medicine store on Tmall was also launched in May 2020 to better showcase the Group's high-quality series of products, enhance the brand effect, highlight the advantages of the Group's products, and at the same time provide a convenient platform for end-users to make purchases.

Although online launching of certain products for sales was affected by the pandemic, the Group's internet digital marketing business recorded online sales of RMB33.5 million, representing a 212% increase year-on-year in the first half of 2020.

During the year, another key development of the Group's Internet Digital Marketing Department was to explore innovative piloting of community marketing business and rapidly deploy sports and health marketing and promotion channels. With our sports and health products, the Group rapidly established a community operation team, and explored a new online growth mode through community marketing. In addition to strengthening cooperation with mainstream e-commerce platforms, the Group will also foster market expansion based on big data to promote digital sales and marketing.

FINANCIAL ANALYSIS

Turnover

For the first six months of 2020, the Group continued to produce modern Chinese medicine products of good efficacy and high quality. The Group's turnover had decreased by 13.0% as compared to the corresponding period of last year. This was mainly due to the decrease in sales volume of the Group's products affected by the COVID-19 pandemic as compared with those of the corresponding period in 2019. Sales of our injection products had decreased by 24.9% to RMB489,274,000, accounted for 41.1% of the Group's total turnover. Sales of soft capsule products had increased by 5.4% to RMB255,648,000, accounted for 21.5% of the Group's total turnover. Sales of granule products had decreased by 9.1% to RMB147,312,000, accounted for 12.4% of the Group's total turnover. Sales of TCM formula granules had decreased by 0.6% to RMB239,762,000, accounted for 20.1% of the Group's total turnover. The Group had also sold RMB58,116,000 of medicines in other formats which accounted for 4.9% of the Group's turnover.

Sales of prescription and OTC medicines of the Group for the first six months of 2020 were RMB989,235,000 and RMB200,877,000, equal to 83.1% and 16.9% of the Group's turnover, respectively.

Cost of Sales

Cost of sales for the first six months of 2020 was RMB313,747,000, equals to 26.4% of the Group's turnover. Direct materials, direct labour and other production costs accounted for 57.6%, 16.7% and 25.7% of the total production costs respectively. (For the corresponding period of 2019: 57.7%, 16.9% and 25.4%).

Gross Profit Margin

For the first six months of 2020, average gross margin of injection products, soft capsule products, granule products and TCM formula granule products were approximately 75.6% (for the corresponding period of 2019: 73.6%), 75.3% (for the corresponding period of 2019: 70.1%), 70.0% (for the corresponding period of 2019: 67.3%) and 73.2% (for the corresponding period of 2019: 74.5%) respectively. Overall gross profit margin was 73.6% as compared to 71.3% of the corresponding period of last year.

Other Income

Other income mainly includes government subsidies of RMB67,370,000 (for the corresponding period of 2019: RMB73,858,000). The government subsidies mainly represented incentives received from government for research activities and investments in relevant regions in the People's Republic of China (the "PRC") by the Group.

Investment Income

Investment income mainly includes interest income from bank deposits and investments in financial products of RMB51,256,000 (for the corresponding period of 2019: RMB24,552,000) and RMB19,021,000 (for the corresponding period of 2019: RMB23,158,000) respectively.

Selling and Distribution Costs

Selling and distribution costs for the first six months of 2020 decreased by 1.3% from the corresponding period of last year and were equal to 47.2% of the Group's turnover (for the corresponding period of 2019: 41.6%). The decrease was mainly due to the decrease in advertising and travelling expenses as compared to same period of last year.

Administrative Expenses

During the first six months of 2020, the Group strengthened cost control. Administrative expenses decreased by 9.9% as compared to the corresponding period of last year, representing approximately 10.6% (for the corresponding period of 2019: 10.3%) 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 3.4% and 3.4% (for the corresponding period of 2019: 3.0% and 3.0%) of the Group's turnover respectively.

Research and Development Costs

During the first six months of 2020, research and development costs decreased by 56.0% as compared to the corresponding period of last year, which accounted for approximately 1.7% of the Group's turnover (for the corresponding period of 2019: 3.3%). Due to the impact of COVID-19 pandemic, the progress of various research and development projects has been blocked in this period, the research and development costs decreased accordingly as compared to the corresponding period of last year.

Other gains and losses

Other gains and losses comprised of net exchange gain and gain or loss on disposal of property, plant and equipment. The Group recorded net exchange gain of RMB3,822,000 for the first six months of 2020 (for the corresponding period of 2019: net exchange gain of RMB4,378,000), which was mainly resulted from exchange gain arising from change of exchange rate between Australian dollars, Hong Kong dollars and Renminbi. Besides, the net gain on disposal of property, plant and equipment for this period was RMB2,950,000 (for the corresponding period of 2019: net loss of RMB34,000).

Taxation

Taxation for the first six months ended 30 June 2020 amounted to RMB48,088,000 (for the corresponding period of 2019: RMB62,301,000). The effective tax rate was lowered from 17.8% in the corresponding period of last year to 15.9%. This was mainly due to the write-back of overprovision of tax in prior years and the absence of withholding tax related to dividend distribution in the current period.

Profit for the Period

The Group's net profit for the first six months ended 30 June 2020 was RMB253,721,000 representing a decrease of 11.8% from the corresponding period of last year. The decrease in profit was mainly attributable to the decreased turnover and operating profit of the period.

Liquidity and Financial Resources

As at 30 June 2020, bank deposits of the Group, amounting to RMB4,083,437,000 (31 December 2019: RMB3,946,006,000) of which RMB4,022,986,000 (31 December 2019: RMB3,841,511,000), were denominated in Renminbi. Others, being equivalent to RMB37,604,000, RMB19,230,000 and RMB3,617,000 (31 December 2019: RMB99,198,000, RMB1,786,000 and RMB3,511,000), 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 2020, the Group acquired buildings of RMB1,469,000, plant and machinery of RMB25,824,000, office equipment of RMB3,074,000 and the new construction works amounted to approximately RMB4,403,000 in total. Besides, following the adoption of IFRS 16, property, plant and equipment had included the leasehold land and leasehold properties, which had respective net book values of RMB150,186,000 and RMB2,543,000 as at 30 June 2020.

For the six months ended 30 June 2020, depreciation for property, plant and equipment amounted to RMB82,779,000 as compared to RMB86,766,000 during the same period of last year.

Loans and Bank Borrowings

As at 30 June 2020, the Group had bank borrowings of RMB609,800,000 which comprised of bank loans for general operations of RMB303,000,000 with fixed interest rates ranging from 2.05% to 3.00% per annum and loans associated with the discounted bills of RMB306,800,000. These borrowings are due within one year. As at 30 June 2020, the Group had certain loans associated with the discounted bills of RMB299,319,000 which were pledged by bank deposits amounting RMB300,000,000. The Group's gearing ratio based on interest bearing debt for the first six months was 10.4% (for the corresponding period of 2019: Nil). All these loans have been used to generate financial income.

Interim Dividend

The board of directors of the Company (the "Board") resolved to declare an interim dividend of RMB11 cents per share amounting to RMB83,006,000 in respect of the six months ended 30 June 2020 and are calculated on the basis of 827,000,000 shares issued less 72,400,000 shares held for share award scheme as at 30 June 2020 (for the six months ended 30 June 2019: RMB11 cents per share, amounting to RMB85,074,000), which will be paid on 29 October 2020, to the shareholders whose names appear on the Company's register of members on 9 October 2020.

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 28 August 2020 (RMB1=HK\$1.124). Accordingly, the amount payable on 29 October 2020 will be HK\$0.1236 per share.

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2020 together with the comparative figures for the six months ended 30 June 2019 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	<i>NOTES</i>	Six months ended 30 June	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Turnover	3	1,190,112	1,368,280
Cost of sales		(313,747)	(392,992)
Gross profit		876,365	975,288
Other income		73,732	78,295
Investment income		70,277	47,710
Other gains and losses		6,772	4,344
Impairment losses on financial assets, net of reversal	10	(3,487)	—
Selling and distribution costs		(561,832)	(569,256)
Administrative expenses		(126,488)	(140,442)
Research and development costs		(20,176)	(45,825)
Finance costs		(13,354)	(157)
Profit before taxation		301,809	349,957
Taxation	4	(48,088)	(62,301)
Profit and total comprehensive income for the period	5	<u>253,721</u>	<u>287,656</u>
EARNINGS PER SHARE	7		
Basic		<u>RMB33 cents</u>	<u>RMB36 cents</u>
Diluted		<u>RMB33 cents</u>	<u>RMB36 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	NOTES	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	1,422,751	1,493,926
Intangible assets		226,952	248,267
Goodwill		159,291	159,291
Deferred tax assets		24,194	26,804
		<u>1,833,188</u>	<u>1,928,288</u>
Current assets			
Inventories		444,438	430,803
Trade receivables	9	316,382	260,026
Trade receivables backed by bank bills	9	304,487	414,285
Prepayments, deposits and other receivables		150,946	151,395
Pledged bank deposits		300,000	538
Bank balances and cash		4,083,437	3,946,006
		<u>5,599,690</u>	<u>5,203,053</u>
Current liabilities			
Trade payables	11	134,813	188,907
Trade payables backed by bank bills	11	–	538
Other payables and accrued expenses		510,073	429,208
Bank borrowings	12	609,800	398,392
Lease liabilities		2,829	4,658
Contract liabilities		50,521	47,271
Amounts due to related companies		14,784	15,935
Deferred income		11,349	53,616
Tax payable		33,623	39,482
		<u>1,367,792</u>	<u>1,178,007</u>
Net current assets		<u>4,231,898</u>	<u>4,025,046</u>
Total assets less current liabilities		<u>6,065,086</u>	<u>5,953,334</u>

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Non-current liabilities		
Lease liabilities	1,038	1,487
Deferred tax liabilities	33,760	46,997
Deferred income	194,448	127,923
	229,246	176,407
Net assets	5,835,840	5,776,927
Capital and reserves		
Share capital	87,662	87,662
Reserves	5,748,178	5,689,265
Total equity	5,835,840	5,776,927

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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.

Certain comparative figures have been reclassified to conform with the current period’s presentation of the condensed consolidated financial statements.

The outbreak of coronavirus disease (“COVID-19”) during the period has had a negative impact on the operations of the Group in the PRC. The Group is faced with a decrease in demand for pharmaceutical products due to mandatory government quarantine and other control measures in an effort to contain the spread of COVID-19. These measures had a negative impact on the Group’s business mainly resulted in decrease in revenue as disclosed in the relevant note.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than additional accounting policies resulting from application of 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 2020 are the same as those presented in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to IFRSs, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

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

Impacts of application on Amendments to IAS 1 and IAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

3. TURNOVER AND SEGMENT INFORMATION

Operating segment

The Group is engaged in a single operating segment in research and development, manufacturing and trading of Chinese pharmaceutical products. This operating segment has been identified on the basis of internal management reports that are regularly reviewed by the Chairman of the Board of Directors of the Group, being the chief operating decision maker, for the purpose of resources allocation and performance assessment. 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	
	2020	2019
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
Injections	489,274	651,371
Soft capsules	255,648	242,591
Granules	147,312	162,076
Traditional Chinese medicine formula granules	239,762	241,302
Others	58,116	70,940
	<u>1,190,112</u>	<u>1,368,280</u>

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

4. TAXATION

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("EIT"):		
Current tax	53,420	62,979
Overprovision in prior years	(4,705)	(2,471)
Withholding tax on distributed profits	—	2,602
	<u>48,715</u>	<u>63,110</u>
Deferred tax	(627)	(809)
	<u><u>48,088</u></u>	<u><u>62,301</u></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 profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. 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% for both periods. 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 2019: 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.

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 RMB4,765,318,000 (31 December 2019: RMB4,469,335,000) 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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	21,315	21,295
Depreciation of property, plant and equipment	82,779	86,766
Government subsidies (included in other income) (<i>Note</i>)	(67,370)	(73,858)
Net exchange gain (included in other gains and losses)	(3,822)	(4,378)
(Gain) loss on disposal of property, plant and equipment (included in other gains and losses)	(2,950)	34
Share-based payments expense	95	964

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 2020, government subsidies of (a) RMB59,808,000 (six months ended 30 June 2019: RMB65,619,000) 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 year of recognition; and (b) RMB7,562,000 (six months ended 30 June 2019: RMB8,239,000) represent recognition of deferred income upon completion of related research activities and development projects.

6. DIVIDENDS

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Dividends		
– 2019 final dividend of RMB12 cents (2019: 2018 final dividend of RMB12 cents) per share paid	90,552	93,713
– 2019 special dividend of RMB9 cents (2019: 2018 special dividend of RMB9 cents) per share paid	67,914	70,284
	<u>158,466</u>	<u>163,997</u>
– 2020 interim dividend of RMB11 cents (2019: RMB11 cents) per share	83,006	85,074

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 72,400,000 shares held for share award scheme as at 30 June 2020, and will be paid on 29 October 2020, to the shareholders of the Company whose names appear in the Company's register of members on 9 October 2020.

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	
	2020	2019
	<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	<u>253,721</u>	<u>287,656</u>

	Six months ended 30 June	
	2020	2019
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	758,879,401	789,929,497
Effect of dilutive potential ordinary shares:		
Share options	<u>—</u>	<u>267,553</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>758,879,401</u>	<u>790,197,050</u>

The computation of diluted earnings per share does not assume the exercise of all the Company's options at exercise prices of HK\$8.39 and HK\$7.21 (six months ended 30 June 2019: certain options at exercise prices of HK\$11.84, HK\$9.56 and HK\$8.39) because the exercise prices of those options were higher than the average market price for shares for the six months ended 30 June 2020.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group made additions to construction in progress of RMB4,403,000 (six months ended 30 June 2019: RMB22,823,000) and acquired other property, plant and equipment of RMB30,367,000 (six months ended 30 June 2019: RMB12,008,000). During the six months ended 30 June 2020, the Group also disposed of certain property, plant and equipment with carrying amount of RMB23,169,000 (six months ended 30 June 2019: RMB353,000) at net consideration of RMB26,119,000 (six months ended 30 June 2019: RMB319,000), resulting in a gain on disposal of RMB2,950,000 (six months ended 30 June 2019: loss on disposal of RMB34,000).

9. TRADE RECEIVABLES/TRADE RECEIVABLES BACKED BY BANK BILLS

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 <i>RMB'000</i> (Audited)
Trade receivables	323,898	264,055
Trade receivables backed by bank bills	<u>304,487</u>	<u>414,285</u>
	628,385	678,340
Less: Allowance for credit losses	<u>(7,516)</u>	<u>(4,029)</u>
	<u><u>620,869</u></u>	<u><u>674,311</u></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, net of allowance for credit losses, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 <i>RMB'000</i> (Audited)
Within 6 months	561,654	635,996
Over 6 months but less than 1 year	50,133	32,834
Over 1 year but less than 2 years	<u>9,082</u>	<u>5,481</u>
	<u><u>620,869</u></u>	<u><u>674,311</u></u>

As at 30 June 2020, total bills received amounting to RMB304,487,000 (31 December 2019: RMB414,285,000) are held by the Group for future settlement of trade receivables of which certain bills amounting to RMB7,481,000 (31 December 2019: RMB118,392,000) were further discounted by the Group. All bills received by the Group are with a maturity period of less than one year.

10. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS, NET OF REVERSAL

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Impairment losses on trade receivables	<u>3,487</u>	<u>—</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidation financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

11. TRADE PAYABLES/TRADE PAYABLES BACKED BY BANK BILLS

	30.6.2020	31.12.2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Trade payables	134,813	188,907
Trade payables backed by bank bills	<u>—</u>	<u>538</u>
	<u>134,813</u>	<u>189,445</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:

	30.6.2020	31.12.2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Within 6 months	125,778	173,007
Over 6 months but less than 1 year	3,655	2,899
Over 1 year but less than 2 years	2,411	1,302
Over 2 years but less than 3 years	1,927	1,264
Over 3 years	<u>1,042</u>	<u>10,973</u>
	<u>134,813</u>	<u>189,445</u>

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

12. BANK BORROWINGS

	30.6.2020 <i>RMB'000</i> (Unaudited)	31.12.2019 <i>RMB'000</i> (Audited)
Bank loans, unsecured	303,000	280,000
Loans related to bills discounted with recourse	<u>306,800</u>	<u>118,392</u>
	<u>609,800</u>	<u>398,392</u>

As at 30 June 2020, the bank loans of RMB303,000,000 (31 December 2019: RMB280,000,000) are unsecured and repayable within one year and carry fixed interest rates ranging from 2.05% to 3.00% (31 December 2019: at 3.70%) per annum.

As at 30 June 2020, the loans related to bills discounted with recourse of RMB7,481,000 (31 December 2019: RMB118,392,000) carry a fixed interest rate at 1.46% (31 December 2019: ranging from 2.55% to 2.69%) per annum and are with a maturity period of less than one year. The remaining loans of RMB299,319,000 (31 December 2019: nil) are related to intercompany bills discounted, pledged by bank deposits and repayable within one year and carry a fixed interest rate at 2.72% per annum (31 December 2019: N/A).

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. During the period, no share options were granted under the share option scheme of the Company.

Share award scheme

On 26 March 2018, the Company adopted the share award scheme (“the Scheme”) with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group. The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. Unless terminated earlier by the Board of Directors 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 2020, 7,032,000 (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\$5.70 (equivalent to RMB5.18) (six months ended 30 June 2019: HK\$7.55 (equivalent to RMB6.64)) per share, with an aggregate amount of HK\$40,080,000 (equivalent to RMB36,437,000) (six months ended 30 June 2019: 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 72,400,000 (31 December 2019: 65,368,000) 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

Other than as disclosed elsewhere in the condensed consolidated financial statements, the Group has the following transactions and balances with related parties:

Name of related parties	Nature of transactions	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	Interest expenses on lease liabilities	20	45
	Service fee	5,417	5,110
Shineway (Sanhe) Property Development Limited ("Shineway Sanhe")	Interest expenses on lease liabilities	26	57
	Service fee	1,273	1,017
Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")	Interest expenses on lease liabilities	25	55
	Hotel service fee	214	–
Shijiazhuang Municipal Luancheng County Shineway Training School ("Shineway Training School")	Service fee	936	484
		30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Shineway Medical	Lease liabilities	690	1,365
Shineway Sanhe	Lease liabilities	541	1,072
Kang Yue Hotel	Lease liabilities	675	1,333

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	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Short-term benefits	5,011	5,459
Post-employment benefits	33	59
Share-based payments expense	95	799
	5,139	6,317

16. CAPITAL COMMITMENTS

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	164,165	142,683

OTHER INFORMATION

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 8 October 2020 to 9 October 2020 (both days inclusive). In order to qualify for the interim dividend for the six months ended 30 June 2020, 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 7 October 2020.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2020, 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 2020, except for code provision A.2.1 as described below.

Code provision A.2.1 of the Code stipulates that the roles of chairman of the board (the "Chairman") and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing. The Company does not use the title "Chief Executive". The duty of the chief executive has been assumed by the president of the Company (the "President").

Mr. Li Zhenjiang has been both the Chairman and President. His responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and President in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard set out in the Model Code. The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group’s senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry, all directors of the Company confirmed that they had complied with the required standard set out in the Model Code regarding securities transactions of the directors for the six months ended 30 June 2020.

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 2020.

INTERIM REPORT

The interim report of 2020 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, 28 August 2020

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.