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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)

2022 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 2022 (the “Period”) as follows:

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2022, the operating results of the Group were as follows:

- Turnover amounted to RMB1,815,194,000, an increase of 16.8% as compared to the corresponding period of last year;
- Gross profit margin was 73.0% as compared to 73.8% of the corresponding period of last year;
- Profit for the Period amounted to RMB331,123,000, an increase of 7.3% as compared to the corresponding period of last year;
- Earnings per share amounted to RMB44 cents, an increase of 7.3% as compared to the corresponding period of last year;
- Declared 2022 second interim dividend of RMB11 cents per share;
- Net assets per share amounted to RMB7.3 (equivalent to HKD8.6); and
- Net cash per share amounted to RMB5.4 (equivalent to HKD6.3).

BUSINESS REVIEW

Operating results continued to rise

The PRC government has been making great efforts on pushing forward the development of traditional Chinese medicine (“TCM”) with frequent promulgation of supportive industrial policies and measures to promote the unique advantages of TCM in the construction of “Healthy China”. The Group embraced such development opportunity by continuously enhancing comprehensive terminal coverage and strengthening academic-based marketing. Hence, despite the impact of the COVID-19 pandemic (“pandemic”), our operating results had continued to rise. The Group’s TCM formula granules showed rapid growth momentum and recorded increase in sales by 46.0%. This led the Group’s overall sales to rise by 16.8% to RMB1,815,194,000 for the six months ended 30 June 2022 (the “Period”).

During the Period, gross profit margin decreased slightly from 73.8% for the same period last year to 73.0%. While selling and distribution costs rose by 17.5% as compared to the same period last year, the extent of increase approximated proportionally to the increase of sales revenue. Nonetheless, the decrease of government subsidy income and the increase of administrative expenses as compared with the same period of last year had led to the decrease in the net profit margin from 19.8% to 18.2%, while net profit recorded an increase of 7.3% to RMB331,123,000. Earnings per share increased by 7.3% to RMB44 cents as compared to the same period last year.

The Board resolved to declare the second interim dividend of RMB11 cents (HKD12.5 cents) per share in respect of the fiscal year 2022, which is set to be paid on 29 September 2022 to the shareholders whose names appear on the Company’s register of members on 16 September 2022.

As of 30 June 2022, calculating based on the total issued shares of 827,000,000, net cash per share of the Group amounted to HKD6.3, and net assets per share amounted to HKD8.6.

Oral products proportion reached 61.6%

In the first half of 2022, despite facing the complex situation of frequent outbreak of pandemic in China, most key products and exclusive products of the Group achieved sales growth during the Period. Meanwhile, the Group’s TCM formula granules delivered excellent results. The table below shows the sales and growth rates of each dosage form for the first half of 2022 as compared to the same period last year:

	Sales First six months of 2021 <i>RMB'000</i>	Sales First six months of 2022 <i>RMB'000</i>	Period-on- period growth rate	Percentage of sales First six months of 2022
Injection products	635,382	697,146	9.7%	38.4%
Soft capsule products	275,126	295,959	7.6%	16.3%
Granule products	238,342	257,806	8.2%	14.2%
TCM formula granules	321,509	469,273	46.0%	25.9%
Other product formats	83,738	95,010	13.5%	5.2%
Oral products	918,715	1,118,048	21.7%	61.6%
Total sales	1,554,097	1,815,194	16.8%	100.0%

The Group continued to focus on the development strategy of oral products. Overall sales of oral products increased by 21.7% in the first six months of 2022, of which sales of soft capsules, granules and TCM formula granules increased by 7.6%, 8.2% and 46.0% respectively, as compared to the same period last year. Oral products accounted for 61.6% of the total sales, increased from 59.1% in the same period last year. At the same time, total sales of injection products recorded an increase of 9.7%. Its proportion in the Group's total sales went down continually, decreasing from 40.9% of the same period last year to 38.4%.

During the Period, the Group recorded notable increase in sales of exclusive oral products such as Huamoyan Granule, Huamoyan Capsule, Qi Huang Tong Mi Granule and Jiang Zhi Tong Luo Soft Capsule, respectively. Yet, soft capsule and granule products had not achieved a higher magnitude of overall growth mainly due to the recurring pandemic outbreaks in the first half of this year, which resulted in the so-called “four types of medications”, i.e. febrifuge, cough suppressants, antivirals and antibiotics, being limited or prohibited for sale by online and offline retail pharmacies in many places across the country until about late April to early May. As a result, revenue of the aforementioned “four types of medications” of the Group which are being sold in retail pharmacies generally declined during the Period. Among which the sales of Huo Xiang Zheng Qi Soft Capsule decreased by 13.5% to RMB71,211,000, and the sales of Pediatric Qingfei Huatan Granule (a pediatric retail medicine) also was lower by 15.3% to RMB30,943,000 during the Period. Since the pandemic has been under control at present, the restrictions on sales of the relevant “four types of medications” have been gradually lifted. Their retail sales saw notable turnaround. It is expected that the growth momentum of such medicines will gradually improve in the second half of the year.

Sales of injection products increased by 9.7% during the Period, of which Qing Kai Ling Injection recorded a 43.3% increase to RMB207,799,000, and Guan Xin Ning Injection increased by 10.7% to RMB157,701,000, while sales of Shen Mai Injection and Shu Xie Ning Injection decreased by 11.3% and 15.2% to RMB90,666,000 and RMB110,792,000 respectively. The decreases in sales of Shen Mai Injection and Shu Xie Ning Injection were mainly because implementation schedules of online purchases of Hubei Province-led centralised procurements of traditional Chinese medicines have been varying from province to province. Many participating provinces have delayed their implementation schedules. This centralized procurement scheme was participated by a total of 19 provinces, and till now only 6 provinces had commenced their respective online procurement portal listing procedures. The remaining 13 provinces have not yet implemented the online procurements nor publishing the notice on the procurement volume agreed by the medical institutions in that province. In addition, the adjustment by the Group's sales channel strategy for one of the specifications of Shen Mai Injection had somewhat affected sales growth of this product. The Group believes that with the completion of the sales channel adjustment and the commencements of online centralized procurement of tendered medications with agreed-upon procurement quantities in other provinces, sales volume of Shen Mai Injection and Shu Xie Ning Injection may pick up in the second half of the year.

TCM formula granules grew sharply

The Group's TCM formula granules witnessed a fantastic development in 2022. Market opening policies have already driven the expansion of the TCM formula granules market. In the face of changing market landscape, the Group overcame various impacts of the pandemic and embraced such market opportunities with rapid responses, technical knowhow advantages, solid product quality and excellent customer services. As a results, the Group experienced rapid development of our TCM formula granules with a substantial increase in sales by 46.0% during the Period. Their proportion of the Group's total sales had also went up from 20.7% to 25.9% as compared to the same period last year. According to the latest unaudited data, the Group's sales of TCM formula granules surpassed RMB100 million (tax inclusive) during the single month of July 2022.

Currently, Hebei Province contributed to the majority of the Group's sales of TCM formula granules with a significant growth from the same period last year. The Group also achieved remarkable results in Yunnan Province through academic marketing. Sales generated from that province increased by 186.3% compared to the same period last year. The Group's TCM formula granules business unit will continue to step up its efforts in cultivating targeted hospitals in Hebei Province and Yunnan Province while accelerating the personnel deployments, product preparations and hospital development work on national grade medical institutions and the grass-root markets.

As of the first half of August 2022, the National Medical Products Administration and the Pharmacopoeia Commission had promulgated national standards for 200 varieties of TCM formula granules, and also published national standards of additional 51 varieties for public scrutiny. Presently, the Group has completed all filings of the entire varieties with national standards needed for the market launch. The completed inter-provincial filings had reached 29 provinces. The Group is now making every effort to speed up the filings of varieties with provincial standards of key provinces outside the Hebei Province.

At present, the Group has completed the listing on the online procurement portals for TCM formula granules varieties complied with both the national and provincial quality standards in the provinces of Hebei, Yunnan, Fujian, Shandong, Gansu, and Inner Mongolia. This laid the foundation for the Group's TCM formula granules to develop markets in these provinces. In Fujian and Gansu provinces, other than the existing six companies that held national permits, the Group is the only other company that has obtained the qualification to list on the relevant online procurement portals. In addition, the Group is one of the companies with comparably larger quantities of TCM formula granules varieties listed on the online procurement portals of Yunnan and Shandong provinces.

During the Period, the Group also completed the expansion of production capacity of TCM formula granules to an annual production value of RMB5 billion. In the future, the Group will continue to implement its production capacity expansion plan based on market development status.

In order to better meet the medication needs of the public and to stipulate the management of online procurement portals of TCM formula granules, Hebei Province issued the "Notice on Specification of Online Procurement Portals of TCM Formula Granules" (《關於開展中藥配方顆粒規範掛網的通知》) during the Period, which states that TCM formula granules that meet the national and provincial quality standards and have been registered with the medical products supervision and administration department of Hebei Province may apply for listing on the online procurement portals. The Notice requires that manufacturers of TCM formula granules shall submit price quotations according to the regulations. And if any TCM formula granules enterprise makes malicious price quotations, disrupts the market order, causing the inability to meet the clinical drug needs of medical institutions and patients, or is not able to supply regularly for two consecutive months, its qualification to list on the online procurement portals will be cancelled. For enterprises that have been disqualified from listing on the online procurement portals, they cannot re-apply for such qualification within one year, and will be treated as untrustworthy. Accordingly, the Group believes that the opening of the TCM formula granules market will not lead to unreasonable price quotations which would affect the high-quality development of the TCM formula granules.

Boosting market development of exclusive products

In the first six months of this year, sales of the Group's exclusive products maintained rapid growth. Among them, sales of Huamoyan Granule, Huamoyan Capsule, Qi Huang Tong Mi Soft Capsule, Jiang Zhi Tong Luo Soft Capsule and Dan Deng Tong Nao Soft Capsule increased by 30.9%, 70.7%, 69.2%, 114.4% and 110.5% to RMB107,207,000, RMB16,133,000, RMB30,630,000, RMB16,631,000 and RMB13,969,000 respectively as compared to the same period last year.

Chinese medicine has remarkable efficacy in the prevention and treatment of severe diseases, common diseases, and rare and complex complications. The Group's exclusive innovative Chinese medicine, Huamoyan Granule, is the only innovative Chinese medicine for treating knee joint synovitis approved by the National Medical Products Administration. It has filled the gap in both Western medications and traditional Chinese medicine in the treatment of synovitis in China. And Qi Huang Tong Mi Soft Capsule is a new generation of modern Chinese medicine for the treatment of functional constipation. The product is efficient in curing senile constipation and habitual constipation, especially in the slow transmission type (deficient constipation) and mixed functional constipation. Qi Huang Tong Mi Soft Capsule can quickly relieve key symptoms such as dry stool, difficulty in defecation and loss in defecation frequency. After ceasing the intake for two weeks, the symptoms do not worsen. Hence, the effect is long-lasting and this successfully addresses the safety and efficacy problems of comparable generic drugs in the market. This product has become the only new generation of modern Chinese medicine on the market for treating functional constipation of the elderly that is laxative without causing diarrhea, while also being sustainable and effective. Jiang Zhi Tong Luo Soft Capsule, a single herb prescription medicine with turmeric extract as the main ingredient, is the only lipid regulator with hepatoprotective effect, and can effectively treat hyperlipidemia with good safety. When used together with statin drugs, this product can create synergistic and complementary effects, lower the potential risk of cerebrovascular disease and reduce the incidence of adverse reactions effectively.

The Group will continue to actively carry on evidence-based medical research, and through boosting end-terminal investments and academic promotion to expand the sales of our exclusive products.

Pushing the development of ethnic medicine

Yunnan is a major province of traditional Chinese medicine and ethnic medicine. With its rich resources of Chinese herbal medicine, it has more than 1,300 ethnic medicines, ranking the first in China. Since 2006, the Group has been increasing our investments in the Yunnan Province. We successively established a wholly-owned subsidiary, Yunnan Shineway Spirin Pharmaceutical (雲南神威施普瑞藥業), which is dedicated to the production and research and development of modern Chinese medicines, ethnic medicines and TCM formula granules. We also completed the acquisitions of ethnic medicine enterprises Lao Bo Yun Tang (老撥雲堂) and Yunnan Liangfang Pharmaceutical (雲南良方藥業). With these initiatives, the Group has formed a series of ethnic medicine featuring Yi medicine (彝藥), Dai medicine (傣藥) as well as classic famous prescriptions for the development of ethnic medicine in Yunnan Province.

The ethnic medicine division of the Group has carried out a number of market promotions for ethnic medicines including Xiao Jie An Capsule/Oral Liquid, Guan Tong Shu Capsule/Oral Liquid, Run Yi Rong Capsule/Oral Liquid, and Hawthorn Nei Jin Oral Liquid. Xiao Jie An Capsule/Oral Liquid is used for intramammary nodules caused by qi stagnation and blood stasis, breast lobular hyperplasia, ovarian cysts, and uterine fibroids. Guan Tong Shu Capsule/Oral Liquid is used for joint pain caused by wind-cold-dampness arthralgia, unfavorable flexion and extension, as well as lumbar muscle strain and traumatic low back and leg pain. Run Yi Rong Capsule/Oral Liquid is used for acne and chloasma caused by wind-heat. Hawthorn Nei Jin Oral Liquid is used for infantile malnutrition caused by indigestion, loss of appetite, abdominal distention and pain, indigestion, and defecation disorders.

The Group continues to intensify our efforts to deeply explore the of Yunnan traditional Chinese medicine and ethnic medicine and turn their advantages and resources into industrial advantages and growth points for business development.

Continuing to accelerate the development of exclusive innovative medications

The Group continues to adopt the combined strategy of independent research and development, joint research and development as well as patents trading to accelerate the development of exclusive innovative medications with clinical advantages and unique characteristics.

Leveraging on our academician workstations, post-doctoral scientific research workstations, national laboratories accredited by CNAS, state-certified enterprise technology centers and other scientific research and technology platforms, the Group developed new products, and actively carried out extensive scientific research and academic cooperation with well-known scientific research units and many well-known experts. Currently, a number of research projects of the Group are undergoing pharmaceutical and clinical trials, among which 3 exclusive innovative medications, namely Sailuotong Capsule, Q-B-Q-F Condensed Pill, and JC Soft Capsule, are still undergoing Phase III clinical trials.

The Group will provide update on the status of the clinical trials from time to time. Please refer to the previously published interim reports and annual reports for the detail descriptions and market potentials of the aforementioned three medications.

Continual promulgation of favorable policies to TCM industry

In the first half of 2022, the PRC government continued to issue supportive policies and regulations to promote the revitalization of traditional Chinese medicine, covering the entire industry chain of Chinese medicine across the country.

In March 2022, the General Office of the State Council issued the “14th Five-Year Plan for the Development of Traditional Chinese Medicine” (《「十四五」中醫藥發展規劃》) to positioning the work on traditional Chinese medicine practice comprehensively during the 14th Five-Year Plan Period. This is the first five-year plan for traditional Chinese medicine issued in the name of the General Office of the State Council in accordance with the country’s “Fourteenth Five-Year Plan for National Economic and Social Development and Outline of Vision 2035” (《國民經濟和社會發展第十四個五年規劃和二零三五年遠景目標綱要》). It specifies measures and provides assurance for the high-quality development of Chinese medicine from a strategic perspective. The key development targets include the increase from 2020 to 2025 in the number of TCM medical institutions from over 70,000 to over 90,000 and the number of Chinese medicine hospitals from over 5,000 to over 6,000, as well as the increase in the number and coverage of TCM physicians. Its overall requirements also include clearly adhering to the equal emphasis on traditional Chinese medicine and western medicine, promoting the complementary and coordinated development of traditional Chinese medicine and western medicine, and providing strong support for comprehensively promoting the construction of a healthy China and better protecting people’s health.

In early June 2022, the National Administration of Traditional Chinese Medicine also issued the “Notice on the Development Plan for Promoting the High-quality Integration of Traditional Chinese Medicine and the Joint Construction of the Belt and Road Initiative (2021-2025)” (《推進中醫藥高品質融入共建「一帶一路」發展規劃(2021-2025年)》), which stipulates the focus on the heritage and innovative development of TCM with promoting the modernization, industrialization and globalization of TCM as development goals. The Notice requires the cooperation with the “Belt and Road” countries to build a high-quality overseas Chinese medicine center, an international cooperation base for Chinese medicine, a national Chinese medicine service export base, etc., and to strengthen the construction of an overseas registration service platform for traditional Chinese medicine products during the “14th Five-Year Plan” period. By 2025, the inter-governmental cooperation mechanism of traditional Chinese medicine shall be further improved, the practical cooperation in the fields of medical care, education and training, scientific and technological research and development and cultural communication will be solidly promoted. Furthermore, the level of internationalizing traditional Chinese medicine industry should be continuously enhanced, and the high-quality traditional Chinese medicine will be integrated into the joint construction, leading to remarkable results achieved under the Belt and Road Initiative.

The national policy to promote the revitalization and development of traditional Chinese medicine is accelerating the implementation of the development of the traditional Chinese medicine industry. The opening up of TCM Formula Granules’ national market is in full speed. The Group is also making continuous efforts and increasing investment to seize the new round of development cycle and to drive for rapid business development.

FINANCIAL ANALYSIS

Turnover

For the first six months of 2022, the Group continued to produce modern Chinese medicine products of good efficacy and high quality. The Group’s turnover had increased by 16.8% as compared to the corresponding period of last year. Sales of our injection products had increased by 9.7% to RMB697,146,000, accounted for 38.4% of the Group’s total turnover. Sales of soft capsule products had increased by 7.6% to RMB295,959,000, accounted for 16.3% of the Group’s total turnover. Sales of granule products had increased by 8.2% to RMB257,806,000, accounted for 14.2% of the Group’s total turnover. Sales of TCM formula granules had increased by 46.0% to RMB469,273,000, accounted for 25.9% of the Group’s total turnover. The Group had also sold RMB95,010,000 of medicines in other formats which accounted for 5.2% of the Group’s turnover.

Sales of prescription and OTC medicines of the Group for the first six months of 2022 were RMB1,617,177,000 and RMB198,017,000 respectively, which equal to 89.1% and 10.9% of the Group’s turnover respectively.

Cost of Sales

Cost of sales of the Group for the first six months of 2022 was RMB490,380,000, representing to 27.0% of the Group's turnover. Direct materials, direct labour and other production costs accounted for 60.5%, 15.5% and 24.0% of the total production costs respectively (for the corresponding period of 2021: 63.7%, 14.2% and 22.1%).

Gross Profit Margin

For the first six months of 2022, average gross margin of the Group's injection products, soft capsule products, granule products and TCM formula granule products were 73.6% (for the corresponding period of 2021: 77.4%), 74.6% (for the corresponding period of 2021: 75.1%), 77.5% (for the corresponding period of 2021: 76.5%) and 70.1% (for the corresponding period of 2021: 69.3%) respectively. Overall gross profit margin was 73.0% as compared to 73.8% of the corresponding period of last year.

Other Income

Other income mainly includes government subsidies of RMB7,634,000 (for the corresponding period of 2021: RMB24,881,000). The government subsidies mainly represented incentives received from the government for research activities and investments in the 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 RMB53,023,000 (for the corresponding period of 2021: RMB47,119,000) and RMB3,504,000 (for the corresponding period of 2021: RMB3,903,000) respectively.

Other Gains and Losses

Other gains and losses comprised of net exchange loss and loss on disposal of property, plant and equipment. The Group recorded net exchange loss of RMB1,847,000 for the first six months of 2022 (for the corresponding period of 2021: net exchange gain of RMB518,000), which was mainly resulted from exchange loss arising from change of exchange rate among Australian dollars, Hong Kong dollars and Renminbi. Besides, the net loss on disposal of property, plant and equipment for this period was RMB296,000 (for the corresponding period of 2021: net loss of RMB8,237,000).

Selling and Distribution Costs

Selling and distribution costs for the first six months of 2022 increased by 17.5% from the corresponding period of last year and were equal to 45.4% of the Group's turnover (for the corresponding period of 2021: 45.2%). The increase was mainly due to the increase in market development expense, sale management expense and salaries and social security outlay of sales staff as compared to same period of last year.

Administrative Expenses

In the first six months of 2022, administrative expenses increased by 13.2% as compared to the corresponding period of last year, representing approximately 7.0% (for the corresponding period of 2021: 7.3%) of the Group's turnover. Administrative expenses mainly comprised of salaries and social security outlay of administration staff, depreciation expenses of property, plant and equipment and amortisation expenses of intangible assets which accounted for 2.3% and 1.5% (for the corresponding period of 2021: 2.3% and 1.5%) of the Group's turnover respectively.

Research and Development Costs

During the first six months of 2022, research and development costs accounted for approximately 1.6% of the Group's turnover (for the corresponding period of 2021: 1.6%) which was comparable with the corresponding period of last year.

Taxation

Taxation for the first six months ended 30 June 2022 amounted to RMB80,285,000 (for the corresponding period of 2021: RMB71,966,000). The effective tax rate was increased from 18.9% in the corresponding period of last year to 19.5%. This was mainly due to the under provision of tax in prior years and the withholding tax related to dividend distributions of subsidiaries in the PRC during the period.

Profit for the Period

The Group's net profit for the first six months ended 30 June 2022 was RMB331,123,000 representing an increase of 7.3% as compared to the corresponding period of last year. The rise in profit was mainly attributable to the increased turnover and operating profit during the period.

Liquidity and Financial Resources

As at 30 June 2022, bank deposits of the Group amounted to RMB4,461,197,000 (31 December 2021: RMB4,205,722,000) of which RMB4,376,248,000 (31 December 2021: RMB4,094,854,000), were denominated in Renminbi. Others being equivalent to RMB38,461,000, RMB42,725,000 and RMB3,763,000 (31 December 2021: RMB64,308,000, RMB43,307,000 and RMB3,253,000) 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 need for future development.

Property, Plant and Equipment

In the first six months of 2022, the Group acquired plant and machinery of RMB13,710,000, office equipment of RMB4,971,000, motor vehicles of RMB283,000 and the addition to construction in progress amounted to approximately RMB34,015,000 in total. Besides, following the adoption of IFRS 16, property, plant and equipment had included the leasehold land, leasehold properties, leasehold motor vehicles and leasehold machineries which had respective net book values of RMB112,469,000, RMB2,192,000, RMB1,780,000 and RMB2,911,000 as at 30 June 2022.

For the six months ended 30 June 2022, depreciation for property, plant and equipment amounted to RMB84,329,000 as compared to RMB83,655,000 during the same period of last year.

Interim Dividend

The Board resolved to declare the second interim dividend of RMB11 cents per share amounting to RMB83,094,000 in respect of the fiscal year 2022 and is calculated on the basis of 827,000,000 shares issued less 71,600,000 shares held for share award scheme as at 30 June 2022, which will be paid on 29 September 2022 to the shareholders whose names appear on the Company's register of members on 16 September 2022.

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 2022 (RMB1=HK\$1.136). Accordingly, the amount payable on 29 September 2022 will be HK\$0.125 per share.

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2022 together with the comparative figures for the six months ended 30 June 2021 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	NOTES	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	3	1,815,194	1,554,097
Cost of sales		<u>(490,380)</u>	<u>(407,067)</u>
Gross profit		1,324,814	1,147,030
Other income		15,434	32,119
Investment income		56,527	51,090
Other gains and losses		(2,143)	(7,719)
Impairment losses on financial assets under expected credit loss model, net of reversal	10	(1,443)	(525)
Selling and distribution costs		(824,798)	(702,236)
Administrative expenses		(127,967)	(113,014)
Research and development costs		(28,671)	(25,025)
Finance costs		<u>(345)</u>	<u>(1,298)</u>
Profit before taxation		411,408	380,422
Taxation	4	<u>(80,285)</u>	<u>(71,966)</u>
Profit and total comprehensive income for the period	5	<u><u>331,123</u></u>	<u><u>308,456</u></u>
Earnings per share	7		
Basic		<u><u>RMB44 cents</u></u>	<u><u>RMB41 cents</u></u>
Diluted		<u><u>RMB44 cents</u></u>	<u><u>RMB41 cents</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	<i>NOTES</i>	30.6.2022 RMB'000 (Unaudited)	31.12.2021 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	1,219,759	1,251,999
Intangible assets		56,887	66,426
Goodwill		165,956	165,956
Deferred tax assets		19,321	20,465
		<u>1,461,923</u>	<u>1,504,846</u>
Current assets			
Inventories		558,635	587,956
Trade receivables	9	590,922	424,457
Trade receivables backed by bank bills	9	309,769	400,726
Prepayments, deposits and other receivables		81,744	80,251
Bank balances and cash		4,461,197	4,205,722
		<u>6,002,267</u>	<u>5,699,112</u>
Current liabilities			
Trade payables	11	202,665	228,620
Trade payables backed by bank bills	11	44,399	–
Other payables and accrued expenses		787,145	666,232
Contract liabilities		52,747	85,885
Lease liabilities		7,279	7,587
Amounts due to related companies		13,784	13,784
Deferred income		44,244	31,167
Tax payable		65,005	65,096
		<u>1,217,268</u>	<u>1,098,371</u>
Net current assets		<u>4,784,999</u>	<u>4,600,741</u>
Total assets less current liabilities		<u>6,246,922</u>	<u>6,105,587</u>

	30.6.2022	31.12.2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Non-current liabilities		
Lease liabilities	3,822	7,324
Deferred tax liabilities	15,014	25,188
Deferred income	<u>154,116</u>	<u>171,594</u>
	<u>172,952</u>	<u>204,106</u>
Net assets	<u>6,073,970</u>	<u>5,901,481</u>
Capital and reserves		
Share capital	87,662	87,662
Reserves	<u>5,986,308</u>	<u>5,813,819</u>
Total equity	<u>6,073,970</u>	<u>5,901,481</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. GENERAL

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and International Accounting Standard 34 “Interim Financial Reporting” issued by International Accounting Standards Board.

The Group’s condensed consolidated financial statements are presented in Renminbi (“RMB”) which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

Application of amendments to International Financial Reporting Standards (“IFRS Standards”)

In the current interim period, the Group has applied the following amendments to IFRS Standards issued by the International Accounting Standards Board for the first time, which are mandatorily effective for the annual period beginning on 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018 – 2020

The application of the amendments to IFRS Standards in the current interim 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.

3. REVENUE 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	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Injections	697,146	635,382
Soft capsules	295,959	275,126
Granules	257,806	238,342
Traditional Chinese medicine formula granules	469,273	321,509
Others	95,010	83,738
	<u>1,815,194</u>	<u>1,554,097</u>

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

4. TAXATION

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
PRC Enterprise Income Tax ("EIT"):		
Current tax	74,583	60,180
Underprovision in prior years	3,132	3,326
	<u>77,715</u>	<u>63,506</u>
Deferred tax	2,570	8,460
	<u>80,285</u>	<u>71,966</u>

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.

Certain subsidiaries which are operating in Western China have been granted tax concession by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both periods. Certain subsidiaries which are recognised as High and New-tech Enterprise 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 agricultural products business has been granted tax exemption by the local tax bureau.

According to a joint circular of the Ministry of Finance and State Administration of Taxation, Cai Shui 2011 No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter shall be subject to the Enterprise Income Tax at 5% or 10% and withheld by the PRC entities, pursuant to Articles 3 and 27 of the New Tax Law and Article 91 of its Detailed Implementation Rules.

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 RMB4,585,522,000 (31 December 2021: RMB4,406,980,000) 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	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	9,539	5,676
Depreciation of property, plant and equipment	84,329	83,655
Government subsidies (included in other income) <i>(Note)</i>	(7,634)	(24,881)
Net exchange loss (gain) (included in other gains and losses)	1,847	(518)
Loss on disposal of property, plant and equipment (included in other gains and losses)	296	8,237
Share-based payments expense	–	34
	–	34

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 2022, government subsidies of (a) RMB854,000 (six months ended 30 June 2021: RMB3,371,000) 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; (b) RMB6,780,000 (six months ended 30 June 2021: RMB6,456,000) represent recognition of deferred income upon completion of related research activities and development projects; and (c) nil (six months ended 30 June 2021: RMB15,054,000) represent recognition of deferred income in relation to disposal of property, plant and equipment in 邛崃醫藥產業園 (Qionglai Pharmaceutical Area) in Sichuan Province in the PRC due to a land resumption from local government, which associated with a government grant received in 2011.

6. DIVIDENDS

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the periods:		
– 2020 final dividend of RMB21 cents per share	–	158,466
– 2022 first interim dividend of RMB21 cents per share	<u>158,634</u>	<u>–</u>
	<u>158,634</u>	<u>158,466</u>
Dividends declared during the periods:		
– 2022 second interim dividend of RMB11 cents per share	83,094	–
– 2021 interim dividend of RMB39 cents per share	<u>–</u>	<u>294,606</u>

The 2022 second interim dividend of RMB11 cents per share, in the amount of an aggregate of RMB83,094,000, has been declared by the directors of the Company on 30 August 2022 and will be paid out on 29 September 2022, to the shareholders of the Company whose names appear in the Company's register of members on 16 September 2022. The aggregate amount of RMB83,094,000 (2021: RMB294,606,000) has been calculated on the basis of 827,000,000 (2021: 827,000,000) shares in issue less 71,600,000 (2021: 71,600,000) shares held for share award scheme as at 30 June 2022.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit for the period attributable to the owners of the Company for the purpose of basic and diluted earnings per share	<u>331,123</u>	<u>308,456</u>

Six months ended 30 June
2022 **2021**

Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of basic and diluted earnings per share	<u>755,400,000</u>	<u>754,877,901</u>
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The computation of diluted earnings per share does not assume the exercise of the Company’s options at exercise prices of HK\$8.39 and HK\$7.21 (six months ended 30 June 2021: HK\$8.39 and HK\$7.21) because the exercise prices of those options were higher than the average market price for shares for the period ended 30 June 2022.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group made additions to construction in progress of RMB34,015,000 (six months ended 30 June 2021: RMB3,724,000) and acquired other property, plant and equipment of RMB18,964,000 (six months ended 30 June 2021: RMB23,297,000). During the six months ended 30 June 2022, the Group also disposed of certain property, plant and equipment with carrying amount of RMB1,066,000 (six months ended 30 June 2021: RMB77,424,000) at net consideration of RMB770,000 (six months ended 30 June 2021: RMB69,187,000), resulting in a loss on disposal of RMB296,000 (six months ended 30 June 2021: loss on disposal of RMB8,237,000).

9. TRADE RECEIVABLES/TRADE RECEIVABLES BACKED BY BANK BILLS

	30.6.2022 <i>RMB’000</i> (Unaudited)	31.12.2021 <i>RMB’000</i> (Audited)
Trade receivables	608,923	439,710
Less: Allowance for expected credit loss (“ECL”)	<u>(18,001)</u>	<u>(15,253)</u>
	<u>590,922</u>	<u>424,457</u>
Trade receivables backed by bank bills	311,176	403,438
Less: Allowance for ECL	<u>(1,407)</u>	<u>(2,712)</u>
	<u>309,769</u>	<u>400,726</u>
	<u>900,691</u>	<u>825,183</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 ECL, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	30.6.2022	31.12.2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Within 6 months	751,789	739,996
Over 6 months but less than 1 year	110,520	65,569
Over 1 year but less than 2 years	34,825	17,574
More than 2 years	3,557	2,044
	<u>900,691</u>	<u>825,183</u>

As at 30 June 2022, total bills received with carrying amount of RMB309,769,000 (31 December 2021: RMB400,726,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year. As at 30 June 2022, bills received with carrying amount of RMB44,688,000 (31 December 2021: nil) were pledged as security for the bills issued by the Group to the relevant suppliers for future settlement of trade payables.

10. IMPAIRMENT LOSSES ON FINANCIAL ASSETS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Impairment losses on trade receivables	<u>1,443</u>	<u>525</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 2022 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

11. TRADE PAYABLES

	30.6.2022 RMB'000 (Unaudited)	31.12.2021 RMB'000 (Audited)
Trade payables	202,665	228,620
Trade payables backed by bank bills (<i>Note</i>)	44,399	–
	<u>247,064</u>	<u>228,620</u>

Note: These relate to trade payables in which the Group has issued bills to the relevant suppliers for future settlement of trade payables. The Group continues to recognise these trade payables as the Group is obliged to make payments on due dates of the bills.

An aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period is as follows:

	30.6.2022 RMB'000 (Unaudited)	31.12.2021 RMB'000 (Audited)
Within 6 months	238,044	221,939
Over 6 months but less than 1 year	4,017	2,661
Over 1 year but less than 2 years	1,557	573
Over 2 years but less than 3 years	211	719
Over 3 years	3,235	2,728
	<u>247,064</u>	<u>228,620</u>

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

12. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company has a share option scheme which was adopted at the extraordinary general meeting of the Company held on 29 May 2015 for a period of 10 years. 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 2021, 800,000 shares were disposed of by the trustee to the market at an average price of approximately HK\$5.50 (equivalent to RMB4.58) per share. The proceeds from disposal of those shares amounted to HK\$4,403,000 (equivalent to RMB3,663,000). The difference of HK\$2,885,000 (equivalent to RMB2,400,000) between the cost of the shares and the proceeds was charged to accumulated profits. No shares were granted to eligible employees pursuant to the share award scheme. There were no disposal or purchase of shares by the trustee during the six months ended 30 June 2022. At the end of the reporting period, there are 71,600,000 (31 December 2021: 71,600,000) shares held by the trustee.

13. RELATED PARTY DISCLOSURES

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

Name of related parties	Nature of transactions	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	Interest expenses on lease liabilities	220	329
	Service fee	5,215	4,918
Shineway (Sanhe) Property Development Limited ("Shineway Sanhe")	Interest expenses on lease liabilities	53	79
	Service fee	1,278	1,205
Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")	Interest expenses on lease liabilities	60	90
	Hotel service fee	-	112
Shijiazhuang Municipal Luancheng County Shineway Training School ("Shineway Training School")	Service fee	460	201
		30.6.2022	31.12.2021
Name of related parties	Nature of balances	RMB'000 (Unaudited)	RMB'000 (Audited)
Shineway Medical	Lease liabilities	7,163	9,435
Shineway Sanhe	Lease liabilities	1,725	2,272
Kang Yue Hotel	Lease liabilities	1,966	2,590

Shineway Medical, Shineway Sanhe, Kang Yue Hotel and Shineway Training School 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 directors 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	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Short-term benefits	6,400	6,048
Post-employment benefits	23	30
Share-based payments expense	—	34
	<u>6,423</u>	<u>6,112</u>

14. CAPITAL COMMITMENTS

	30.6.2022 <i>RMB'000</i> (Unaudited)	31.12.2021 <i>RMB'000</i> (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>122,599</u>	<u>152,216</u>

OTHER INFORMATION

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 15 September 2022 to 16 September 2022 (both days inclusive). In order to qualify for the second interim dividend for the fiscal year 2022, 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 14 September 2022.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2022, 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 2022, except for code provision C.2.1 as described below.

Code provision C.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 relevant 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 2022.

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 2022.

INTERIM REPORT

The interim report of 2022 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 2022

As at the date of this announcement, the executive Directors are Mr. Li Zhenjiang, Ms. Xin Yunxia, Mr. Li Huimin and Mr. Chen Zhong; the non-executive Director is Mr. Zhou Wencheng and the independent non-executive Directors are Ms. Cheng Li, Prof. Luo Guoan and Mr. Liu Shun Fai.