



Strengthening and Growing

Backed by Shineway's highly experienced senior management team and its actively and meticulously drawn up and administered corporate development plans, Shineway has been able to tap the fast growing modern Chinese medicine market. Leveraging its efficient research capabilities, quality products, strong brand equity and extensive distribution network, Shineway is able to maintain its dominant market position.



Chairman's Statement



I am pleased to announce to shareholders that the results of China Shineway Pharmaceutical Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) are impressive in the first year after the listing. I would like to thank our shareholders, business partners, clients and all staff for their support, trust and contribution.

The pharmaceutical industry in the PRC maintains a fast-growing pace in 2004. The growth of Chinese medicines sector surpasses the growth of the overall pharmaceutical industry in the PRC. The GMP and GSP certification policies enforced during the year further regulate the pharmaceutical industry for healthy development in the PRC. Meanwhile, consolidation trend is apparent within the industry with active mergers and acquisitions. Through implementation of sales, production, research and development, raw material purchase and product portfolio strategies, the Group achieved outstanding competitive advantages and higher profitability. The Group is one of the leading non-state-owned modern Chinese medicine enterprises in the PRC in terms of revenue and profit. Targeting at medicines for treatment of diseases affecting the middle and old aged and/or children, as well as anti-viral medicines, the three major markets with rapid growth, the Group provides Chinese prescription medicines mainly in three product forms of injection, soft capsules and granules. The Group sells its products under its principal brand, “SHINEWAY”, which was recognised as a China Famous Trademark (中國馳名商標) by the Trademark Bureau of the State Administration for Industry and Commerce of the PRC.

Financial Highlights

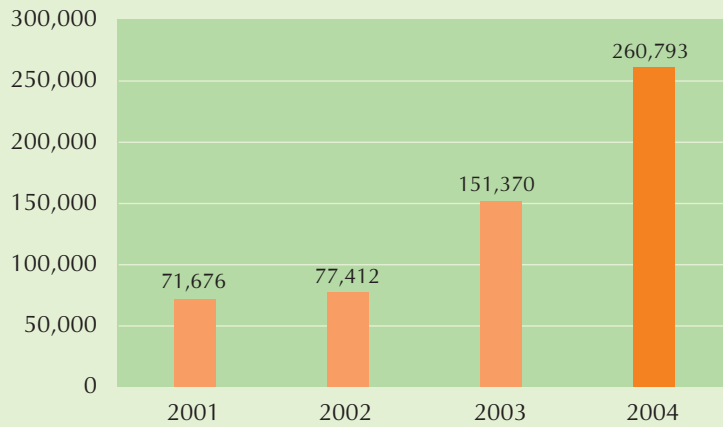
During 2004, the results of the Group maintain favorable growth. For the year ended 31 December 2004, the Group recorded a turnover of approximately RMB703,575,000, grew by 16.5% over RMB604,042,000 of last year.

During the year, the Group's gross profit grew by 56.0% from RMB289,040,000 in 2003 to RMB451,577,000. The gross profit margin increased sharply from 47.8% in 2003 to 64.2%.

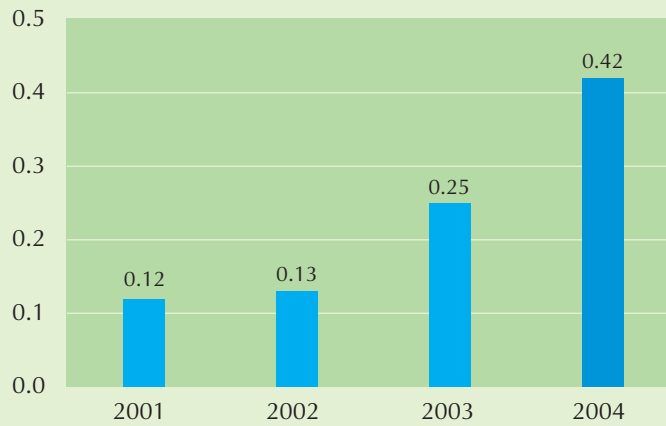
During the year, the profit attributable to shareholders was approximately RMB260,793,000, increase of 72.3% compared with 2003.



Profit Attributable to Shareholders (RMB'000)



Earnings Per Share (RMB' Yuan)



Business Review

During the year under review, under intense competition, the Group further strengthened its competitive advantages through leveraging on its reputable brand name, high quality products and delicate customer services and accomplished excellent results of operations.



Further refining the product mix. We focused on promoting sales of injection products with advanced technologies and sophisticated techniques. The sales amount of injection products accounted for 51.4% of our total sales, representing an increase of 36.8% over last year. Products in soft capsule and granule form recorded stable growth rate of 6.5% and 13% against last year, respectively. During the year, 3 products achieved sales of over RMB100 million.

Implementing raw material centralized purchase strategies. We implemented centralization purchase policy. In addition, we entered into long term supply agreements with major suppliers of key raw materials to secure quality supplies. For favorable purchase terms, we also managed our payables turnovers and made prompt payment to suppliers. Through adopting the above measures, the stable supply of high quality raw materials at favorable prices was guaranteed.

Upgrading production techniques and strengthen quality control. We rose quality standard by implementing quality control measures throughout the whole processes ranging from research and development, raw material purchase, manufacturing, sales and aftersales service provision. The ex-factory pass rate of our products was nearly 100%. All of our production facilities have obtained three integrated system certifications, including ISO9001, ISO14001 and OHSAS18001, issued by the International Organization for Standardization.





Expanding production facilities and raise production capacity for achieving greater economies of scale. The phase 2 of the Chinese medicine extraction workshop constructed by 神威醫藥科技股份有限公司 (Shineway Medical Science & Technology Co., Ltd.) ("Shineway Medical") was completed at the end of 2004 and commenced trial production. Our Chinese medicine extraction capacity increased twofold to 5,400 tones. We exercised the purchase right in January 2005. We constantly enhanced our production efficiency, such as introducing fully-automatic packaging line and granule portfolio lever packaging technique, which are both up to the leading standard in PRC. While the sales volume of our products rose, we could fully utilize our large-scale commercial production capacity. After improving product structure, the production capacity of injection reached 73.6%, showing obvious scale efficiency.

Enhancing sales network and sales team. The Group not only maintains its advantages in Northern and Central China markets, but also expands the sales network coverage in emerging markets such as Eastern, Northeastern, Western and Southern China. The proportion of the sales in these markets increased significantly. At the same time, we expanded our sales team by increasing staff for the two direct sales teams of prescriptoin medicines and OTC medicines. The number of salespersons increased from 220 at the beginning of the year to 449 at the end of the year. 神威藥業營銷有限公司 (Shineway Pharmaceutical Sales Co., Ltd.) ("Shineway Sales"), owned as to 80% by the Group, obtained the GSP certification in July 2004.

Smooth proceeding of research and development projects. In 2004, the Group has developed 9 new medicines. The research and development proceeded smoothly. Jiang Zhi Tong Luo Soft capsule, the State Category 2 New Medicine for lowering lipid and cholesterol levels, has obtained the Certificate of New Medicine. It was launched at the end of October 2004 and received good market response. The Group's emerging products including Qing Kai Ling soft capsule, Huang Qi injection and Paediatric Hua Tan Zhi Ke granules recorded a sales growth of 94%, 60% and 110%, respectively. Furthermore, Shu Xie Ning injection, the Group's reserve product, materialized commercial production successfully and was launched during the year under review.

Investor relations. The Group employed personnel to maintain a smooth communication with Hong Kong and international investors, so that all investors can get the updated development and information of the Group.

Option to Acquire 20% Interest in Shineway Sales

Pursuant to an option agreement entered into between 神威醫藥科技（廊坊）有限公司 (Shineway Medical Science & Technology (Lang Fang) Co., Ltd.) (“Shineway Lang Fang”) and the Company on 20 November 2004, the Company intends to exercise this option. An equity interest transfer agreement (股權轉讓協議) (the “Equity Interest Transfer Agreement”) will be entered into between Yuan Da International Limited (“Yuan Da”), a wholly-owned subsidiary of the Company, and Shineway Lang Fang, Yuan Da conditionally agreed to purchase and Shineway Lang Fang conditionally agreed to sell 20% equity interest in Shineway Sales, which is currently owned as to 80% by Yuan Da and as to 20% by Shineway Lang Fang. After completion of the Equity Interest Transfer Agreement, Shineway Sales will become a wholly-owned subsidiary of Yuan Da and a wholly-owned foreign invested enterprise. As Shineway Lang Fang is indirectly controlled by Mr. Li Zhenjiang, an executive director of the Company, the Equity Interest Transfer Agreement constitutes a connected transaction for the Company.

Outlook

The Group engages in the modern Chinese medicine industry in the PRC which has been rapidly developing. The medicine market of the PRC is with enormous potential. It has low average healthcare expenditure per capita, demonstrating remarkable development potential. With rising of people's income level, increasing health awareness, extension of medical insurance coverage, aging population and diseases caused by urbanization are the driving forces on the demand of medical products. In particular, Chinese people have long history of using Chinese medicines. The advantages of Chinese medicines are its natural ingredients and a perceived lower levels of side effects. Combined with the advantages of curative effectiveness and convenience, modern Chinese medicines are well-received by customers. Chinese medicine is a quintessence of the Chinese culture. The State has implemented a number of supportive policies on encouraging and supporting the Chinese medicine industry from time to time, such as the Blueprint for Modernization of Chinese medicines (中國藥現代化發展綱要) issued by the Eight Ministries and Committees and the “Provisions on the Protection of Chinese Medicines” (中藥品種保護條例) promulgated by the State Council.

The Group will be devoted to become the excellent supplier of modern Chinese medicine products in the PRC next year. We will leverage on the high quality of the Group's products and customer services to extend the influence of the “SHINEWAY” brand from its foothold in the Northern and Central regions of the PRC to other areas of the PRC where the Directors envisage significant market potential. At the same time, the Group expands its sales and marketing network, focusing on end customers including hospitals and retail pharmacies

to further enlarge market coverage and deepen market penetration. We will capitalize on our competitive strength of large scale production by expanding the Group's facilities for the extraction of effective ingredients for Chinese medicines and upgrading its workshops for production of its injection, soft capsule and granule products to expand production capacity for these key revenue generating product forms. We will develop new products with market potential by adopting a market-orientated approach to research and development, carrying out thorough market analyses before commencing research, and working closely with research institutions, hospitals and universities to develop new products in a cost effective manner while at the same time developing production techniques to commercialise new products and improve production quality and efficiency for existing products. In addition, the Group will improve the information systems and logistics. Regarding raw material supply, the Group will continue implementing the centralized purchase system. We will take a pro-active approach in our relationships with our suppliers of key raw materials to ensure increased control over the quality, cost and supply of the raw materials used in the production of its Chinese medicines. Under effective implementation of these operational strategies, we believe that we will create long term and great value for our shareholders.

In the future, we will also explore various growth opportunities, including identifying suitable merger and acquisition opportunities, with a view to enhancing our core competence and creating value to shareholders.

Appreciation

On behalf of the Board, I would like to express our thanks for the loyal service, hard work and contribution of our management and employees. In addition, I would like to express gratitude for the support from our shareholders. The Group, as one of the leading non-state-owned Chinese medicine enterprises in the PRC, relies on your support and co-operation, which are the solid foundation of the Group's business expansion and the basis of our success.

LI ZHENJIANG

Chairman

Hong Kong, 29 March 2005