

A photograph of a man in a dark suit and tie, sitting in an office chair. Behind him is a wall with the Chinese characters '公正无私' (Justice, Impartiality, No Selfishness) written in black. To the right, there is a green plant. The text 'Chairman's Statement' is overlaid on the image in white and yellow.

Chairman's *Statement*

The Group achieved outstanding results with impressive business growth again in 2005. Turnover and profit attributable to equity holders for the year increased respectively by 18.2% and 27.1% to approximately RMB831 million and RMB331 million.

The brilliant results this year enabled the Group to be ranked among the top four Chinese medicine enterprises in China in terms of profits, and received numerous awards including the Top 10 Most Profitable Enterprises in the Chinese Medicine Manufacturing Industry by the National Bureau of Statistics and 2005 Top 100 Growth Enterprises of China. The Company's shares also became one of the Hang Seng Composite Index constituent stocks in 2005 and was ranked amongst the top 200 companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in market capitalization.

The Group's business of Chinese medicine injections and soft capsules have grown rapidly. Owing to superb product quality, strong brand equity and effective implementation of marketing strategies, sales of injection and soft capsule products increased significantly by 25.3% and 13.2%, respectively from the previous year. To cope with the continuous growth of our business, the Group completed the expansion of the Chinese medicine extraction workshop in the year, making our Chinese medicine extraction capacity to reach 5,400 tonnes per annum. It is believed that our extraction capacity, technology and scale of Chinese medicine are the topmost in the country. In light of strong demand for Chinese medicine injection products from clinical applications, and further utilize the competitive advantage of our injection products, the Group commenced the construction of a new large-scale injection workshop to double its existing injection production capacity to meet the future market growth. The Group is also building a large-scale logistic centre, which will effectively improve our delivery system to cater for the increasing business volume.

During the year, the Group strengthened its investments in research and development and was awarded two Certificates of New Medicine together with production permits for two new national standard medicines. The Group had also submitted applications for the registration of three patents. Meanwhile, research and development



DEAR SHAREHOLDERS,

On behalf of China Shineway Pharmaceutical Group Limited (“Shineway Pharmaceutical” or the “Company”) and its subsidiaries (collectively referred to as the “Group”), I am pleased to announce the results of the Group for the year ended 31 December 2005.



projects of over 17 new medicines are underway. The Group is also working on the establishment of Chinese medicine fingerprints chromatogram which will bring our product quality to the next height. The Group will strive to be the best modern Chinese medicine enterprise with continuous focus on the fast-growing markets of middle and old aged group and anti-viral medicines, developing a first-class product portfolio, utilizing a market-orientated approach for research and development, and production of high quality products.

The modern Chinese medicine industry has been growing rapidly. Higher income level and health awareness of the general public along with the support of the government to the modern Chinese medicine industry will continue to drive up the demand for modern Chinese medicines. The Group will continue to develop and manufacture high quality products with our strong brand equity. Leverage on our high-tech production facilities, efficient research and development model, extensive distribution network, optimized product mix, our strategies to strengthen support on points of sale and expansion in potential markets, the Group is committed to safeguard the health of the Chinese people by providing good efficacy, high quality and value-added modern Chinese medicines.

Appreciation

On behalf of the Board, I would like to express our gratitude for the support of our business partners, customers and shareholders, and the hard work and contribution of all the employees in the past year. With our extensive management experience and expertise in the industry, the Group will continue to expand its business and elevate our corporate governance and transparency. With our solid business foundation, as well as the efforts of all the employees in continuous innovation, we will achieve impressive results again next year.

LI ZHENJIANG

Chairman of the Board

Hong Kong, 20 March 2006