1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands on 14 August 2002 and its shares have been listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent is Sinovest International Investment Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability and owned as to approximately 79.4% by Forway Investment Limited, which is considered to be the ultimate holding company of the Company. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The financial statements are presented in Renminbi, which is the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in the note 30 to the financial statements.

Under a group reorganization scheme to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 10 November 2004. Details of the group reorganization were set out in the prospectus issued by the Company, dated 23 November 2004.

The principal steps of the group reorganization were as follows:

(1) Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") was established for the purpose of taking over business of manufacture and trading of Chinese pharmaceutical products and the relevant assets and liabilities from 神威醫藥科技股份有限公司 Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (formerly known as 石家莊神威藥業股份有限公司 Shijiazhuang Shineway Pharmaceutical Co., Ltd.) ("Shineway Pharmaceutical Business") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") was established for the purpose of taking over the business of manufacture and trading of Chinese pharmaceutical products and the relevant assets and liabilities from 神威醫藥科技(廊坊)有限公司 Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (formerly known as 神威藥業(燕郊)有限公司 Shineway Pharmaceutical (Yangjiao) Co., Ltd.) ("Yanjiao Pharmaceutical Business") (hereinafter collectively referred to as the "Relevant Pharmaceutical Business"). Pursuant to the approval from Hebei Municipal Government, Shineway Pharmaceutical and Hebei Shineway took over the Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business at the consideration of RMB44,540,200 and RMB27,931,200 respectively with effect from 31 March 2004 ("Transfer of Relevant Pharmaceutical Business").

(2) On 31 March 2004, the bank balances and cash of RMB195,596,000 and RMB33,501,000 of Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business were retained by Shineway Medical and Shineway Lang Fang respectively, together with the settlements of current accounts with Shineway Medical and Shineway Lang Fang of RMB119,168,000 (including tax liabilities of RMB29,255,000) and RMB5,207,000 (including tax liabilities of RMB15,219,000) and net assets of RMB24,698,000 and RMB20,157,000 acquired from Shineway Medical and Shineway Lang Fang respectively, by way of a deemed distribution.

1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

(Continued)

(3) Share transactions taken place between the Company, Yuan Da International Limited ("Yuan Da"), the immediate holding company of Shineway Pharmaceutical, Hong Zhan International Limited ("Hong Zhan"), the immediate holding company of Hebei Shineway and Sinovest International Investment Limited ("Sinovest").

The Group resulting from the above mentioned group reorganization is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted all of the new and revised International Financial Reporting Standards ("IFRSs") and International Accounting Standards ("IASs") issued by the International Accounting Standards Board (the "IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised IFRSs, IASs and Interpretations has resulted in changes to the Group's accounting policies in the following areas:

- share-based payments (IFRS 2); and
- goodwill (IFRS 3).

The impact of these changes in accounting policies is discussed below.

IFRS 2, Share-based payments

IFRS 2 share-based payments requires the recognition of equity-settled share-based payments for services rendered by the employees of the Group at fair value at the date of grant.

In accordance with the transitional provisions of IFRS 2, the standard has been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005. The adoption of IFRS 2 has had no material impact to the results of the Group because no options have been granted since the adoption of the share option scheme.

IFRS 3, Business combinations

Goodwill

IFRS 3 has been adopted for business combinations for which the agreement date is on or after 31 March 2004. The option of limited retrospective application of the standard has not been taken up, thus avoiding the need to restate past business combinations. The Group had no acquisition during the 2004 accounting period other than the group reorganisation which was accounted for using merger accounting (see Note 1). The effect of IFRS 3 is the subsequent measurement of goodwill arisen from acquisition of additional interest in a subsidiary during the year.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

IFRS 3, Business combinations *(Continued)*

Goodwill *(Continued)*

After initial recognition, IFRS 3 requires goodwill to be carried at cost less any accumulated impairment losses. Under IAS 36 "Impairment of Assets" (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortisation of goodwill.

At the date of authorisation of these financial statements, the following IASs, IFRSs and Interpretations were in issue but not yet effective for the years covered by these financial statements:

IAS 1 (Amendment)	Capital disclosures[1]
IAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
IAS 21 (Amendment)	Net investment in a foreign operation[2]
IAS 39 (Amendment)	Cash flow hedge of forecast intragroup transactions[2]
IAS 39 (Amendment)	The fair value option[2]
IAS 39 & IFRS 4 (Amendments)	Financial guarantee contracts[2]
IFRS 6	Exploration for and evaluation of mineral resources[2]
IFRS 7	Financial instruments: Disclosures[1]
IFRIC 4	Determining whether an arrangement contains a lease[2]
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
IFRIC 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies[4]
IFRIC 8	Scope of IFRS 2[5]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

5 Effective for annual periods beginning on or after 1 May 2006.

The directors anticipate that the adoption of these IASs, IFRSs, and Interpretations in future periods will have no material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost as explained in the principal accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests in subsidiaries are recorded at historical cost and the excess of the cost of acquisition over the carrying amounts of net assets acquired is recognised as goodwill.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair values at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss as at the balance sheet date.

Construction in progress is stated at cost less any accumulated impairment loss. Cost includes all construction costs and other direct costs attributable to such projects. It is not depreciated until completion of construction. Costs of completed construction works are transferred to the appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives after taking into account their estimated residual value, if any, using the straight line method.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Land use rights

Payments for obtaining land use right is considered as operating lease payment and charged to income statement over the period of the right using the straight line method.

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset is recognised only if all of the following conditions are met:

* an asset is created that can be identified;

* it is probable that the asset created will generated future economic benefits; and

* the development cost of the asset can be measured reliably.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets

Trade receivables/bills receivables/amount due from a related company

Trade receivables, bills receivables and amount due from a related company are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities other than financial liabilities at fair value through profit or loss. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Trade payables/amounts due to related companies

Trade payables and amounts due to related companies are initially measured at fair value and are subsequently measured at amortised cost using effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Equity settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date, if any, is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expenses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies other than Renminbi are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies other than Renminbi are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's foreign operation which are denominated in currencies other than Renminbi are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the leases.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The pension cost, which represents the amount payable in accordance with the regulations promulgated by the local Municipal Government, is charged to the income statement as incurred.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgment that have significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill is RMB58,479,000. Details of the recoverable amount calculation are disclosed in note 14.

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amount received and receivable from sales of Chinese pharmaceutical products.

The Group's operation is regarded as a single segment, being an enterprise engaged in research and development, manufacture and trading of Chinese pharmaceutical products. Over 90% of the Group's sales are made in the PRC and over 90% of the Group's assets are situated in the PRC during the year. Accordingly, no segmental analysis of business and geographical segments is presented for the year.

6. PROFIT BEFORE TAXATION

	2005 RMB'000	2004 RMB'000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	**1,761**	1,272
Allowance for bad and doubtful debts	**–**	27
Cost of inventories recognised as expense	**274,772**	251,998
Depreciation of property, plant and equipment	**25,792**	22,053
Operating lease rentals in respect of land use rights	**328**	231
Staff costs (including directors' remuneration (see note 7))	**51,007**	37,541
Pension costs	**2,428**	2,465
Loss on disposal of property, plant and equipment	**–**	494
Minimum lease payments under operating lease in respect of rented premises	**1,001**	282
Research and development costs	**10,083**	8,367
and after crediting:		
Gain on disposal of property, plant and equipment	**3**	–
Interest income	**17,817**	790

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION

Directors' remuneration:

Year ended 31 December 2005

	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Pension costs RMB'000	Performance related incentive payments RMB'000	Total remuneration RMB'000
Name of directors					
Li Zhenjiang	**50**	**1,407**	**–**	**875**	**2,332**
Wang Zhihua	**50**	**630**	**–**	**309**	**989**
Xin Yunxia	**50**	**630**	**–**	**309**	**989**
Hung Randy King Kuen	**29**	**813**	**6**	**71**	**919**
Li Huimin	**50**	**332**	**–**	**139**	**521**
Hou Jiangtao	**20**	**337**	**–**	**–**	**357**
Name of independent non-executive directors					
Li Kung Man	**124**	**–**	**–**	**–**	**124**
Wang Jianping	**117**	**–**	**–**	**–**	**117**
Zhou Chaofan	**117**	**–**	**–**	**–**	**117**
	607	**4,149**	**6**	**1,703**	**6,465**

Year ended 31 December 2004

	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Pension costs RMB'000	Performance related incentive payments RMB'000	Total remuneration RMB'000
Name of directors					
Li Zhenjiang	12	478	56	146	692
Wang Zhihua	12	180	25	73	290
Xin Yunxia	12	205	26	80	323
Hou Jiangtao	12	100	17	47	176
Li Huimin	12	145	22	65	244
Name of independent non-executive directors					
Li Kung Man	30	–	–	–	30
Wang Jianping	20	–	–	–	20
Zhou Chaofan	30	–	–	–	30
	140	1,108	146	411	1,805

During the year, the emoluments of eight (2004: eight) of the directors were less than HK$1,000,000 (equivalent to RMB1,030,000) and one director (2004: nil) was in the range of HK$2,000,000 to HK$2,500,000 (equivalent to RMB2,060,000 to RMB2,575,000).

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION *(Continued)*

Employees' remuneration:

The five highest paid individuals of the Group included four directors for the year (2004: four), details of whose remuneration are set out above. The remuneration of the remaining one employee for the year (2004: one) is as follows:

	2005 **RMB'000**	2004 RMB'000
Salaries, allowance and other benefits	**839**	398
Pension costs	**11**	–
	850	398

Emoluments of these directors and employees were within the follow bands:

	2005 **Number of**		2004 Number of	
	Directors	**Employees**	Directors	Employees
Less than RMB500,000	**–**	**–**	3	1
RMB500,001 - RMB1,000,000	**3**	**1**	1	–
RMB2,000,001 - RMB2,500,000	**1**	**–**	–	–
	4	**1**	4	1

During the year, no remuneration was paid by the Group to the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and supervisors has waived any remuneration during the year.

8. INCOME TAX

	2005 **RMB'000**	2004 RMB'000
Current tax:		
PRC Enterprise Income Tax	**(7,923)**	(13,225)
Deferred tax (note 16)	**2,477**	2,566
	(5,446)	(10,659)

The provision for PRC Enterprise Income Tax is calculated based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable for the year.

8. INCOME TAX *(Continued)*

The reconciliation of tax charge to the profit before taxation per the income statement for the year is as follows:

	2005 RMB'000	**2005** %	2004 RMB'000	2004 %
Profit before taxation	**342,452**		280,809	
Tax at the applicable tax rate of 33%	**(113,009)**	**(33.0)**	(92,667)	(33.0)
Tax effect of expenses that are not deductible in determining taxable profit	**(3,367)**	**(1.0)**	(11,975)	(4.3)
Tax effect of income that are not taxable in determining taxable profit	**2,683**	**0.8**	422	0.2
Tax loss not recognised	**(1,311)**	**(0.4)**	(2,992)	(1.1)
Tax effect on tax holiday	**104,023**	**30.5**	85,469	30.5
Tax effect of utilisation of tax losses not previously recognised	**–**	**–**	6,123	2.2
Income tax on concessionary rate	**6,281**	**1.8**	6,225	2.2
Effect of different tax rates of subsidiaries operating in other jurisdiction	**(598)**	**(0.2)**	–	0.0
Others	**(148)**	**(0.1)**	(1,264)	(0.5)
Taxation charge and effective tax rate for the year	**(5,446)**	**(1.6)**	(10,659)	(3.8)

Pursuant to the relevant law and regulations in the PRC, Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") are entitled to full exemption from PRC Enterprise Income Tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The first profit-making period of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004.

Pursuant to Qiong Hai National Tax Document 2004 No.151 (瓊海國税發2004 151號), Shineway Pharmaceutical Sales Co., Ltd. ("Shineway Sales") was exempted from PRC Enterprise Income Tax for the year ended 31 December 2003. Pursuant to National Tax Document 1988 No. 26 (國發1988 26號), the PRC Enterprise Income Tax rate applicable to Shineway Sales was 15% of its assessable profit.

9. DIVIDENDS

	2005 **RMB'000**	2004 RMB'000
Interim, paid – RMB10 cents per share (2004: nil)	**82,700**	–
Final, proposed – RMB10 cents per share (2004: nil)	**82,700**	–
Special, proposed – RMB2 cents per share (2004: nil)	**16,540**	–
	181,940	–

In respect of the current year, the directors propose that a final dividend of RMB10 cents per share and a special final dividend of RMB2 cents per share will be paid to shareholders on 27 April 2006. These dividends are subject to approval by shareholders at the Annual General Meeting and have not been included as liabilities in these financial statements. The proposed dividends are payable to all shareholders on the Register of Members on 26 April 2006. The total estimated dividend to be paid is RMB99,240,000.

10. DISTRIBUTION

Pursuant to part of the group reorganisation which took effect from 31 March 2004, Shineway Pharmaceutical and Hebei Shineway took over the business of manufacture and trading of Chinese pharmaceutical products and the relevant assets and liabilities from Shineway Medical ("collectively known as Shineway Pharmaceutical Business") and the business of manufacture and trading of Chinese pharmaceutical products and the relevant assets and liabilities from Shineway Lang Fang ("collectively known as Yanjiao Pharmaceutical Business") at the consideration of RMB44,540,200 and RMB27,931,000 respectively. The consideration paid represented the net amounts of assets and liabilities of the Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business transferred to Shineway Pharmaceutical and Hebei Shineway respectively. Accordingly, the reserves and retained profits of Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business were distributed to the shareholders of Shineway Medial and Shineway Lang Fang respectively by way of a deemed distribution which represented the net assets values of Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business of RMB339,462,000 and RMB58,865,000 respectively.

The deemed distribution was settled by bank balances and cash of RMB195,596,000 and RMB33,501,000 of Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business retained in Shineway Medical and Shineway Lang Fang, current accounts with Shineway Medical and Shineway Lang Fang of RMB119,168,000 (including tax liabilities of RMB29,255,000) and RMB5,207,000 (including tax liabilities of RMB15,219,000) and net assets of RMB24,698,000 and RMB20,157,000 retained in Shineway Medical and Shineway Lang Fang respectively.

11. EARNINGS PER SHARE

The calculations of basic earnings per share is based on the following data:

	2005	2004
	RMB'000	RMB'000
Basic earnings per share (profit for the year attributable to equity holders of the Company)	**331,467**	260,793

	Number of ordinary shares	
	2005	2004
Weighted average number of ordinary shares for the purposes of basic earnings per share	**828,550,800**	617,232,877

No diluted earnings per share is presented, as the Company did not have any potential dilutive ordinary shares outstanding.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2004	117,765	127,430	1,461	–	4,563	251,219
Additions	3,500	5,847	1,869	247	8,217	19,680
Reclassifications	1,153	294	–	–	(1,447)	–
Reclassification to deposit for purchase of building	–	–	–	–	(11,022)	(11,022)
Disposals	(368)	(180)	(187)	–	–	(735)
At 31 December 2004	122,050	133,391	3,143	247	311	259,142
Additions	27,700	32,104	3,988	1,516	18,768	84,076
Reclassifications	–	1,129	–	–	(1,129)	–
Disposals	–	–	–	(174)	–	(174)
At 31 December 2005	**149,750**	**166,624**	**7,131**	**1,589**	**17,950**	**343,044**
DEPRECIATION						
At 1 January 2004	18,362	44,905	1,047	–	–	64,314
Provided for the year	5,191	16,506	300	56	–	22,053
Eliminated on disposals	(192)	(27)	(22)	–	–	(241)
At 31 December 2004	23,361	61,384	1,325	56	–	86,126
Provided for the year	7,054	17,693	916	129	–	25,792
Eliminated on disposals	–	–	–	(67)	–	(67)
At 31 December 2005	**30,415**	**79,077**	**2,241**	**118**	**–**	**111,851**
CARRYING VALUES						
At 31 December 2005	**119,335**	**87,547**	**4,890**	**1,471**	**17,950**	**231,193**
At 31 December 2004	98,689	72,007	1,818	191	311	173,016

The following rates are used for the depreciation of property, plant and equipment:

Buildings	5%
Plant and machinery	10% - 33%
Office equipment	20%
Motor vehicles	33%

13. LAND USE RIGHTS

	2005 **RMB'000**	2004 RMB'000
CARRYING VALUE		
At 1 January	**6,602**	4,149
Additions during the year	**–**	2,684
Expense for the year	**(328)**	(231)
At 31 December	**6,274**	6,602
Analysed for reporting purposes as:		
Current portion (included in other receivables)	**328**	328
Non-current portion	**5,946**	6,274
At 31 December	**6,274**	6,602

The amount represents the prepayment of rentals for land use rights situated in the PRC held under medium-term leases, amortise over the periods ranged from 45 to 50 years.

14. GOODWILL

	RMB'000
At 1 January 2004 and 2005	–
Arising on acquisition of additional interest in a subsidiary	58,479
At 31 December 2005	**58,479**

Goodwill acquired has been allocated to the cash-generating unit ("CGU") of Shineway Pharmaceutical Sales Co., Ltd.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years based on an estimated growth rate of 3%. This rate does not exceed the average long-term growth rate for the relevant markets.

14. GOODWILL *(Continued)*

The rate used to discount the forecast cash flows from Shineway Sales is 12%.

At 31 December 2005, no impairment loss is identified.

15. DEPOSIT FOR PURCHASE OF BUILDING

The Chinese Medicine Extraction Workshop ("Extraction Workshop") under construction was transferred to the Group pursuant to the transfer of Shineway Pharmaceutical Business. Subsequent to the transfer of Shineway Pharmaceutical Business to the Group, Shineway Pharmaceutical had entered into an purchase agreement with Shineway Medical in respect of the purchase of the Extraction Workshop from Shineway Medical ("Purchase Agreement"). Pursuant to the Purchase Agreement, Shineway Pharmaceutical purchased the Extraction Workshop from Shineway Medical at a consideration of RMB51,105,000. Shineway Pharmaceutical has paid a deposit of RMB11,022,000, which form part of the consideration for the transfer of Shineway Pharmaceutical Business, for the purchase of Extraction Workshop as at 31 December 2004. The amount was reclassified to property, plant and equipment upon the completion of the construction of the Extraction Workshop during the year ended 31 December 2005.

16. DEFERRED TAXATION

The followings are the major deferred tax assets recognised and movement thereon during the year.

	Accelerated tax depreciation RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2004	(5,484)	299	(5,185)
Release upon corporate restructuring	4,187	(299)	3,888
Reversal of revaluation surplus of property, plant and equipment in relation to transfer of business (note)	7,713	–	7,713
Credit to income for the year	1,104	1,462	2,566
At 31 December 2004 and 1 January 2005	7,520	1,462	8,982
Credit to income for the year	(193)	2,670	2,477
At 31 December 2005	**7,327**	**4,132**	**11,459**

Note: The property, plant and equipment was purchased from Shineway Medical and Shineway Lang Fang at revalued amounts. The revalued amounts were the cost, representing the tax bases, to Shineway Pharmaceutical and Hebei Shineway. Such revalued surplus was reversed on consolidation and therefore, deferred tax assets arisen.

16. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group has unused tax losses of RMB8,830,000 (2004: RMB1,338,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax loss may be carried forward indefinitely.

17. INVENTORIES

	2005 **RMB'000**	2004 RMB'000
Raw materials	**17,317**	8,869
Work in progress	**5,224**	2,341
Finished goods	**12,910**	6,955
	35,451	18,165

All inventories were carried at cost at the respective balance sheet dates.

18. OTHER FINANCIAL ASSETS

	2005 **RMB'000**	2004 RMB'000
Trade receivables and bills receivables:		
Trade receivables	**2,998**	7,140
Bills receivables	**134,348**	187,004
	137,346	194,144

The Group allows a credit period normally ranging from six months to one year to its trade customers. The trade receivables and bills receivables are of the age within six months at the balance sheet dates.

The directors consider that the carrying amounts of trade receivables and bills receivables approximate their fair values.

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximate their fair values.

18. OTHER FINANCIAL ASSETS *(Continued)*

Liquidity risk

At the balance sheet date, certain bank balances and cash of RMB713,742,000 (2004: RMB120,844,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Credit risk

The Group's principal financial assets are trade and bills receivables, amounts due from related companies and bank balances and cash, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables and amounts due from related companies. The amounts presented in the balance sheet are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior default experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because majority of the counterparties are state-owned banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

19. AMOUNTS DUE FROM/TO RELATED COMPANIES

	2005 **RMB'000**	2004 RMB'000
Amount due from a related company		
Hebei Shineway Chain Drugstores Co., Ltd.		
("Shineway Drugstores")	**155**	358
Amounts due to related companies:		
Shineway Medical	–	1,568
Shineway Lang Fang	–	263
	–	1,831

Certain directors of the Company have beneficial interests in Shineway Drugstores, Shineway Medical and Shineway Lang Fang. The balance with Shineway Drugstores is trade nature and with the age of less than six months from the balance sheet dates. In the opinion of the directors, the carrying amounts approximate their fair values.

The amounts due to Shineway Medical and Shineway Lang Fang as at 31 December 2004 were unsecured, interest-free and settled by the deemed distribution of the reserves and retained profits of Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business as at 31 December 2004.

20. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of HK$0.10 each		
Authorised:		
On the date of incorporation (note a)	50	414
Redenomination and subdivision of shares (note b)	3,850	–
Increase during the year (note d)	4,996,100	529,586
Balance at 31 December 2004 and 31 December 2005	5,000,000	530,000
Issued and fully paid:		
Allotted and issued on the date of incorporation (note a)	–	–
Redenomination and subdivision of shares (note b)	8	–
Issue of shares on group reorganisation (note d)	599,992	63,600
Issue of shares by placing, public offering and exercise of over-allotment option (note e)	230,000	24,380
Balance at 31 December 2004	830,000	87,980
Cancellation upon repurchase of own shares (note f)	(3,000)	(318)
Balance at 31 December 2005	**827,000**	**87,662**

Notes:

(a) The Company was incorporated on 14 August 2002 with an authorised share capital of US$50,000 (equivalent to RMB413,400) divided into 50,000 shares of US$1 each. 1 share of US$1 in the Company was allotted and issued to the initial subscriber for cash at par and was then transferred to Li Zhenjiang for cash at par. On the same date, 99 shares of US$1 each in the Company were allotted and issued to Li Zhenjiang for cash at par.

(b) Pursuant to the written resolutions of the sole shareholder of the Company passed on 17 June 2004:

(i) the authorised share capital of the Company of US$50,000 divided into 50,000 shares of US$1.00 each was redenominated and subdivided as HK$390,000 divided into 3,900,000 shares of HK$0.10 each; and

(ii) the issued share capital of the Company of US$100 comprising 100 shares of US$1.00 each was also redenominated and subdivided as HK$780, divided into 7,800 shares of HK$0.10 each.

20. SHARE CAPITAL *(Continued)*

(c) On 9 July 2004, Li Zhenjiang transferred 7,800 shares of HK$0.10 each in the share capital of the Company, representing the entire issued share capital of the Company, to Sinovest International Investment Limited ("Sinovest") for cash at par.

(d) Pursuant to the written resolutions of the sole shareholder of the Company passed on 10 November 2004:

(i) the authorised share capital of the Company was increased from HK$390,000 to HK$500,000,000 (divided into 5,000,000,000 shares) by the creation of an additional 4,996,100,000 shares.

(ii) as consideration for the acquisition by the Company of the entire issued share capital of Yuan Da International Limited ("Yuan Du") and Hong Zhan International Limited ("Hong Zhan") from Sinovest on 10 November 2004, the Company issued an aggregate of 599,992,200 shares to Sinovest, credited as fully paid.

(e) On 4 December 2004 and 29 December 2004, the Company allotted and issued 200,000,000 shares of HK$0.10 each upon listing of the shares on the Mainboard of the Stock Exchange and 30,000,000 shares of HK$0.10 each upon the exercise of the over-allotment options, both at a price of HK$4.36 per share, respectively. These shares rank pari passu with the then existing shares.

(f) During the year, the Company repurchased on the Stock Exchange a total of 3,000,000 shares of HK$0.10 each of the Company at an aggregate consideration of HK$9,874,000, all of these shares were subsequently cancelled. The aggregate consideration was paid out of the retained profits.

21. SHARE OPTIONS

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 10 November 2004 for the primary purpose of providing incentives to:

(a) director of employee of any members of the Group; and

(b) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or employee of any member of the Group.

The Scheme will expire on 9 November 2014. Under the Scheme, the Board of Directors of the Company may grant options to eligible person to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent non-executive director of the Company) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Option granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per option. Options may be exercise at any time from the date of grant of the share option to the 10 anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

No option was granted since adoption.

22. RESERVES

Statutory surplus reserve fund, statutory public welfare fund, discretionary surplus reserve fund and retained profits ("Reserves") represented the Reserves of the Shineway Pharmaceutical Business, Yanjiao Pharmaceutical Business and the Group companies arising during the years.

(a) Basis of appropriations to reserves

The transfers to statutory surplus reserve fund, statutory public welfare fund and discretionary surplus reserve fund are based on the net profit in the financial statements prepared under PRC Accounting Standards.

(b) Statutory surplus reserve fund

Shineway Medical's, Shineway Lang Fang's and Shineway Sales's Articles of Association ("Articles") require the appropriation of 10% of its profit after taxation each year to the statutory surplus reserve fund until the balance reaches 50% of the registered share capital. According to the provision of the Articles, in normal circumstances, the statutory surplus reserve fund shall only be used for making up losses, capitalisation into share capital and expansion of Shineway Medical's, Shineway Lang Fang's and Shineway Sales's production and operation. For the capitalisation of statutory surplus reserve fund into share capital, the remaining amount of such reserve fund shall not be less than 25% of the registered share capital.

(c) Statutory public welfare fund

Pursuant to the PRC Company Law, Shineway Medical, Shineway Lang Fang and Shineway Sales shall make allocation from its profit after taxation at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with Shineway Medical, Shineway Lang Fang and Shineway Sales. The statutory public welfare fund forms part of the shareholders' equity but is not distributable other than in liquidation.

(d) Discretionary surplus reserve fund

Pursuant to the Articles, Shineway Medical, Shineway Lang Fang and Shineway Sales shall make allocation from its profit after taxation and appropriations to the discretionary surplus reserve fund at the rate decided by the shareholders annually. In normal circumstances, the discretionary surplus reserve fund shall only be used for making up losses, capitalisation into share capital and expansion of Shineway Medical's, Shineway Lang Fang's and Shineway Sales's production and operation.

(e) Merger reserve of the Group represents the difference between the net asset value of Yuan Da and Hong Zhan and the nominal amount of the Company's shares which were issued as consideration for the acquisition of Yuan Da and Hong Zhan at the time of the group reorganisation in 2004.

(f) Special reserve

Special reserve represents the reserves and retained profits of the Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business prior to the group organisation taken place in March 2004, which was fully distributed to Shineway Medical and Shineway Lang Fang pursuant to the group reorganisation.

23. OTHER FINANCIAL LIABILITIES

	2005 RMB'000	2004 RMB'000
Trade payables	**58,101**	33,129
Receipt in advance	**27,870**	2,255
	85,971	35,384

An aged analysis of the Group's trade payables at the balance sheet date is as follows:

	2005 RMB'000	2004 RMB'000
Within six months	**54,644**	31,407
Over six months but less than one year	**2,769**	1,060
Over one year but less than two years	**276**	346
Over two years	**412**	316
	58,101	33,129

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchase ranges from two months to four months.

The directors consider that the carrying amounts of trade payables approximate their fair values.

24. GOVERNMENT GRANTS RECEIVED

The amounts represent government subsidies received in advance in relation to research and development expenses on certain new products. The amounts are recognised in the same period as the related research and development expenses are incurred and are deducted in reporting the related research and development expenses. The grant is recognised as deferred income because there is an obligation to repay the grant if the related research is not successfully completed.

25. NON-CASH TRANSACTION

Pursuant to the group reorganisation on 31 March 2004, the balances with Shineway Medical and Shineway Lang Fang were settled by deemed distribution of reserves and retained profits of the Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business as at 31 March 2004.

26. OPERATING LEASE

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2005 RMB'000	2004 RMB'000
Within one year	**1,500**	1,203
In the second to fifth year inclusive	**1,385**	1,560
Over five years	**–**	–
	2,885	2,763

Operating lease payments represent rentals payable by the Group for certain of its warehouse, staff quarters and offices. Leases are negotiated for terms ranged from one to three years with fixed rental.

Included in the operating lease commitment, RMB469,000 (2004: nil) fall due within one year and RMB821,000 (2004: nil) fall due in the second to fifth year inclusive are payable to Shineway Medical.

27. RETIREMENT BENEFITS PLANS

The employees of the Group participate in retirement and medicare insurances in accordance with the People's Republic of China (the "PRC") laws and related regulations. When an employee joins the Group, he is enrolled with the local retirement plan. Contributions to the retirement insurance, borne by the Group and the employee jointly at the proportions stipulated by the local Municipal Government, are paid to the social insurance institutions monthly. When the employee retires, he receives his retirement funds from the insurance company directly and is also entitled to enjoy medical benefits after retirement provided by the insurance company. Other than this, the Group has no obligation for any related retirement benefits.

The total expense recognised in the income statement of RMB2,428,000 (2004: RMB2,465,000) represents contributions payable to this plan by the Group at rates specified in the rules of the plan.

28. CAPITAL COMMITMENTS

	2005 RMB'000	2004 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**12,056**	41,196

29. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

	2005 **RMB'000**	2004 RMB'000
Trading transactions:		
Sale of goods to Shineway Drugstores (note a)	**2,018**	1,673
Sale of goods to Hebei Shineway Medical Co., Ltd. (note a)	**–**	95
Sales of goods to Shijiazhuang Shineway Packaging Company Limited ("Shineway Packaging") (note b)	**–**	22
Purchase of goods from Shineway Packaging (note b)	**–**	4,790
Rental expenditure paid to Shineway Medical	**117**	–
Service fee to Shineway Medical	**6,601**	4,705
Service fee to Shineway Lang Fang	**1,111**	788
Purchase of 20% equity interest in Shineway Sales (note c)	**80,846**	–

Compensation of key management personnel

Remuneration of directors and other members of key management during the year amounted to RMB7,021,000 (2004: RMB2,334,000), all of which were short-term benefits.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes:

(a) Shineway Medical, which is owned by the beneficial shareholder of the Company, holds 80% equity interest in the related companies.

(b) Shineway Medical, which was owned by the beneficial shareholder of the Company, holds 25% equity interest in Shineway Packaging. During the year ended 31 December 2004, Shineway Medical disposed of its entire interest in Shineway Packaging.

(c) Pursuant to the equity interest transfer agreement dated 30 March 2005 entered into between Shineway Lang Fang, a 70% subsidiary of Shineway Medical, and Yuan Da, a wholly-owned subsidiary of the Company. Yuan Da acquired 20% equity interest in Shineway Sales from Shineway Lang Fang at a consideration of RMB80.8 million. The consideration was determined with reference to the net profit of Shineway Sales for the year ended 31 December 2004 and the price earnings ratio of the Group. The goodwill arisen from the acquisition of minority interests of a subsidiary amounted to RMB58.5 million. The details of the determination of the consideration was set out in the circular of the Company dated 19 April 2005.

30. SUBSIDIARIES

Details of the subsidiaries at 31 December 2005 are as follows:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid/ registered capital	Percentage of equity interest held by the Company Direct	Indirect	Principal activities
Yuan Da 遠大國際有限公司	British Virgin Islands ("BVI") 20 November 2002	Share – US$1	100%	–	Investment holding
Hong Zhan 宏展國際有限公司	BVI 20 November 2002	Share – US$1	100%	–	Investment holding
神威藥業營銷有限公司 Shineway Sales (Note a)	People's Republic of China (the "PRC") 3 March 2003 for a term of 30 years	Registered capital – RMB98,533,542	–	100%	Trading of Chinese pharmaceutical products
神威藥業有限公司 Shineway Pharmaceutical (Note b)	PRC 30 December 2003 for a term of 30 years	Registered capital – US$25,000,000	-	100%	Research and development, manufacture and trading of Chinese pharmaceutical products
河北神威藥業有限公司 Hebei Shineway (Note b)	PRC 30 December 2003 for a term of 30 years	Registered capital – US$12,000,000	-	100%	Manufacture and trading of Chinese pharmaceutical products
China Shineway Pharmaceutical (Hong Kong) Limited 中國神威藥業(香港)有限公司	Hong Kong 21 April 2004	Share – HK$1	-	100%	Trading of Chinese pharmaceutical products

30. SUBSIDIARIES *(Continued)*

Notes:

(a) Shineway Sales is a limited liability company before 16 March 2004. Pursuant to an approval by Hainan Municipal Government dated 16 March 2004, the form of Shineway Sales has changed from a limited liability company to a Sino-foreign equity joint venture.

(b) Shineway Pharmaceutical and Hebei Shineway are foreign wholly-owned enterprises.