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

Leading Modern
CHINESE MEDICINE

INTERIM REPORT
2006

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman)*
Ms. Wang Zhihua
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Hung Randy King Kuen

Independent Non-executive Directors

Mr. Li Kung Man
Ms. Cheng Li (appointed on 3 July 2006)
Mr. Ren Dequan (appointed on 3 July 2006)
Dr. Wang Jianping (resigned on 3 July 2006)
Prof. Zhou Chaofan (resigned on 3 July 2006)

AUDIT COMMITTEE

Mr. Li Kung Man *(Chairman)*
Ms. Cheng Li (appointed on 3 July 2006)
Mr. Ren Dequan (appointed on 3 July 2006)
Prof. Zhou Chaofan (resigned on 3 July 2006)
Dr. Wang Jianping (resigned on 3 July 2006)

REMUNERATION COMMITTEE

Ms. Cheng Li *(Chairman)* (appointed on 3 July 2006)
Dr. Wang Jianping (resigned on 3 July 2006)
Mr. Li Kung Man
Ms. Xin Yunxia

AUTHORIZED REPRESENTATIVES

Ms. Wang Zhihua
Mr. Li Huimin

QUALIFIED ACCOUNTANT

Ms. Wong Mei Shan

COMPANY SECRETARY

Mr. Huen Po Wah

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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P.O. Box 2681 GT
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Grand Cayman
British West Indies

HEAD OFFICE

Luan Cheng
Shijiazhuang
Hebei Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 5201
52/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

Bank of China, Zhong Shan Branch
Shijiazhuang
Hebei Province
People's Republic of China

Bank of China, Lang Fang Branch
Lang Fang City
Hebei Province
People's Republic of China

LEGAL ADVISERS

As to Hong Kong Law
Woo Kwan Lee & Lo

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman Islands

STOCK CODE

Listed on the Main Board of The Stock Exchange of Hong Kong Limited: 2877

WEBSITES

www.shineway.com.hk
www.irasia.com/listco/hk/shineway

Financial Highlights

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2006, the operating results of the Group were as follows:

– Turnover amounted to approximately RMB418,313,000, an increase of approximately 12.5% over the corresponding period of last year;

– Operating profit amounted to approximately RMB199,496,000, an increase of approximately 9.6% over the corresponding period of last year;

– Profit attributable to shareholders amounted to approximately RMB173,204,000, an increase of approximately 1.4% over the corresponding period of last year;

– Earnings per share amounted to RMB0.21, which is approximately the same as the corresponding period of last year;

– Interim dividend per share amounted to RMB10 cents, representing a payout rate of approximately 47.7% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2006.

Company Overview

China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in research and development, production and sales of modern Chinese medicines mainly in injections, soft capsules and granules formats. The Group's products are primarily being sold in the People's Republic of China ("PRC") market.

During the first six months of 2006, the Group regularly manufactured 25 prescription and 21 over-the-counter ("OTC") medicines which accounted for approximately 76.7% and 23.3% of the Group's turnover respectively. These medicines are primarily for the treatments of (i) cardiovascular diseases, respiratory system diseases, colds and fevers and digestive system diseases that commonly affect the middle and old aged people and/or children; and (ii) anti-viral medicines. For the first six months of 2006, approximately 49.2% of the Group's turnover was derived from the products for the treatment of cardiovascular diseases. The products for anti-viral treatment and other products contributed approximately of 28.0% and 22.8% respectively of the Group's turnover.

The Group's key products are as follows:

- Shen Mai injection: for treatment of coronary heart disease, viral myocarditis and pulmonary heart disease

- Qing Kai Ling injection: a widely used anti-viral medicine for treatment of viral diseases, including respiratory tract infection, viral hepatitis, cerebral haemorrhage and cerebral thrombosis

- Wu Fu Xin Nao Qing soft capsule: for prevention and treatment of coronary heart disease and cerebral arteriosclerosis

- Huo Xiang Zheng Qi soft capsule: for prevention and treatment of heat stroke, stomach ache, nausea and diarrhoea

- Huang Qi injection: medicine for cardiovascular diseases and anti-viral – for treatment of viral myocarditis, heart malfunction and hepatitis

- Shu Xie Ning injection: cardio-cerebrovascular disease medicine

As at 30 June 2006, 33 products in total of the Group were included in the medical insurance catalogue.

Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 June 2006, the Group recorded a turnover growth of approximately 12.5%, amounting to approximately RMB418,313,000. An analysis of the sales by product format for the first six months in 2006 is set out as follows:

	Sales	**Sales mix**	**Growth rate**
Injections	RMB220,148,000	52.6%	6.9%
Soft Capsules	RMB141,882,000	33.9%	19.0%
Granules	RMB49,331,000	11.8%	16.0%
Other formats	RMB6,952,000	1.7%	69.0%

The Group's operating profit for the six months ended 30 June 2006 was approximately RMB199,496,000, representing an increase of approximately 9.6% over the corresponding period of last year. Net profit attributable to the equity holders of the Group for the first six months in 2006 amounted to approximately RMB173,204,000, representing an increase of approximately 1.4% over the corresponding period in 2005. The modest growth of net profit was mainly due to the increase of income tax rate this year.

Injection Products

For the first six months of 2006, the Group sold approximately RMB220,148,000 of injection products, representing an increase of approximately 6.9% over the same period of last year. Amongst these injection products, Qing Kai Ling injection, Shu Xie Ning injection, and Huang Qi injection recorded impressive growth rates of approximately 21.1%, 332.8% and 50.3% in sales respectively. Nonetheless, sales of Shen Mai injection decreased by approximately 19.7% in the period. Hence, injection products did not reach the expected growth target for the reporting period. However, market demand for Chinese medicine injection products remains strong. The Group will continue to focus on the business of injection products and implement strategy to strengthen the development of distribution network and points of sales to increase market coverage. It is expected that Chinese medicine injection products will continue to be the product format of the Group with the highest growth potential.

Injection products accounted for approximately 52.6% of total turnover for the first six months of 2006 as compared to 55.4% of total turnover for the same period of last year. The Group believes that it is presently the largest Chinese medicine injection manufacturer in the PRC in terms of sales volume and production capacity.

Management Discussion and Analysis

Soft Capsule Products

For the first six months in 2006, sales of the Group's soft capsule products amounted to approximately RMB141,882,000, representing an increase of approximately 19.0% over the corresponding period of last year. It was mainly attributable to the increase in sales of Wu Fu Xin Nao Qing soft capsule and Huo Xiang Zheng Qi soft capsule. During the period under review, sales of Wu Fu Xin Nao Qing soft capsule and Huo Xiang Zheng Qi soft capsule recorded an increase of approximately 9.9% and 61.6% respectively over the corresponding period of last year.

Soft Capsule products accounted for approximately 33.9% of the Group's turnover for the first six months in 2006 as compared to 32.1% in the same period of last year. The Group believes that it is now the largest Chinese medicine soft capsule manufacturer in the PRC in terms of sales volume and production capacity.

Granule Products

For the first six months in 2006, sales of granules increased by approximately 16.0% as compared to the corresponding period of last year, amounting to approximately RMB49,331,000. It was the result from the Group's strategy to strengthen the marketing of the more popular granules to ensure their stable growth. Granule products accounted for approximately 11.8% of the Group's turnover for the first six months in 2006 as compared to 11.4% in the same period of 2005.

Key Products

Shen Mai injection – for treatment of coronary heart disease, viral myocarditis and pulmonary heart disease

Sales of Shen Mai injection, one of the Group's core strategic products, amounted to approximately RMB83,997,000 for the first six months in 2006, decreased by approximately 19.7% from the same period of last year and accounted for approximately 20.1% of the Group's turnover. The decrease in sales of Shen Mai injection was mainly due to the rectification on the medicine administration of hospitals by the state authorities during the reporting period that led to slow down of procurement for top selling medicines in hospitals. The Group believes the rectification measures of the state authorities will put distribution channels more in order. The Group's Shen Mai injection is widely used in clinical applications and is very popular among medical institutions and practitioners. Leveraging on the strong and established brand name and the effective implementation of pinpointed marketing strategy, the Group will continuously strive to further expand its market share and penetration in the established markets in northern and central regions of China as well as the emerging markets in the eastern and southern regions of China, and thus the growth momentum in sales of Shen Mai injection is expected to resume. Shen Mai injection is one of the State Protected Chinese Medicines and is included in the national catalogues of medical insurance and occupational injury insurance. It is also recommended by the Ministry of Health of the PRC for treating human transmitted avian flu. The Group believes that it is the largest manufacturer and supplier of Shen Mai injection in China in terms of sales volume and enjoys competitive pricing advantage. According to an independent survey, Shen Mai injection is ranked number one in hospital purchase of Chinese medicines in the PRC. This product has enormous growth potential.

Management Discussion and Analysis

Qing Kai Ling injection – a widely used anti-viral medicine for treatment of viral diseases including respiratory tract infection, viral hepatitis, cerebral haemorrhage and cerebral thrombosis

Sales of Qing Kai Ling injection, one of the Group's core strategic products, amounted to approximately RMB97,926,000 in the first six months this year, accounting for approximately 23.4% of the Group's turnover in the same period, which represented an increase of approximately 21.1% as compared to the corresponding period in last year. Qing Kai Ling injection is included in the national catalogues of medical insurance and occupational injury insurance, and designated by the State Administration of Traditional Chinese Medicine as an indispensable Chinese medicine for the emergency wards of Chinese hospitals. It is also recommended by the Ministry of Health of the PRC for treating human transmitted avian flu. The product has broad clinical applications. As Qing Kai Ling injection is the longest in the history of the Group's manufacturing of injection products, the Group possesses strong production knowhow and production cost advantage in this respect. The Group believes it is the largest manufacturer of Qing Kai Ling injection in the PRC in terms of sales volume. The increase in sales of this product was mainly attributable to the increase in demand from the established markets of the northern and central regions of China and emerging markets in the eastern and southern regions of China. The Group will further develop and establish alliance with strategic national distributors, improve distribution channels and strengthen marketing and promotion efforts at points of sales, to ensure the product's continuous growth.

Wu Fu Xin Nao Qing soft capsule – for prevention and treatment of coronary heart disease and cerebral arteriosclerosis

As compared to the same period of last year, the sales of Wu Fu Xin Nao Qing soft capsule for the first six months of 2006 increased by approximately 9.9% to RMB69,933,000, accounting for approximately 16.7% of the Group's turnover for the six months ended 30 June 2006. Wu Fu Xin Nao Qing soft capsule is one of the lowest in cost of average daily dosage among similar cardiovascular medicines and the product has been very popular. Leveraging on the strong brand name "Wu Fu", the Group will continue to strengthen its management and support at points of sales, and increase sales promotion to maintain the product's growth momentum.

Emerging Products

Huo Xiang Zheng Qi soft capsule – for prevention and treatment of heat stroke, stomach ache, nausea and diarrhoea

For the first six months of 2006, the Group recorded an increase of approximately 61.6% in sales of Huo Xiang Zheng Qi soft capsule as compared to the same period of last year, with a revenue of approximately RMB51,832,000 which accounted for approximately 12.4% of the Group's turnover for the six months ended 30 June 2006. The product is one of the State Protected Chinese Medicines and is included in the national catalogues of medical insurance and occupational injury insurance. It is recommended by the Ministry of Health of the PRC for treating human transmitted avian flu. Huo Xiang Zheng Qi soft capsule is a very popular non-prescription product due to its effective efficacy and the high absorption rate of soft capsule. The growth of this product was mainly attributable to its brand equity, pinpointed marketing strategy, the effective implementation of first mover channel strategy and points of sales pulling strategy. The Group will strengthen its marketing efforts, and continuous growth of this product is expected.

Huang Qi injection – medicine for cardiovascular diseases and anti-viral – for treatment of viral myocarditis, heart malfunction and hepatitis

As compared to the same period of last year, sales of Huang Qi injection for the first six months of 2006 increased by approximately 50.3% to approximately RMB16,377,000, accounting for approximately 3.9% of the Group's turnover for the six months ended 30 June 2006. The product is one of the State Protected Chinese Medicines and is included in the national catalogues of medical insurance and occupational injury insurance. With the rising trend of viral myocarditis in recent years, Huang Qi injection, with a proven efficacy on such disease, has solid foundation for future market development.

Qing Kai Ling soft capsule – for treatment of high fever, viral influenza and respiratory tract infection

Qing Kai Ling soft capsule is one of the State Protected Chinese Medicines. It is both a prescription and non-prescription medicine. It is included in the national catalogues of medical insurance and occupational injury insurance and recommended by the Ministry of Health of the PRC for treating human transmitted avian flu. Sales of Qing Kai Ling soft capsule for the first six months of 2006 amounted to approximately RMB6,491,000 during the period, representing an increase of approximately 0.69% as compared to the same period of last year, accounting for approximately 1.6% of the Group's turnover for the six months ended 30 June 2006. With strong brand name, effective implementation of channel strategy and points of sales pulling strategy and the synergy in branding, Qing Kai Ling injection, the Group expects that sales of this product can increase considerably.

Shu Xie Ning injection – for treatment of cardio-cerebrovascular disease

For the first six months of 2006, the Group recorded an increase of approximately 332.8% in sales of Shu Xie Ning injection as compared to the same period of last year, with a turnover of approximately RMB15,795,000. This product was put into mass production after the Group expanded its extraction capacity in early 2005. According to an independent survey, Shu Xie Ning injection, being a major type of clinical medicine for treating cardio-cerebrovascular disease, is the third most purchased Chinese medicine by hospitals in China, and is also one of the State Protected Chinese Medicines. The Group believes that by leveraging the Group's advantage in production technology and economies of scale in Chinese medicine injections, this product has the potential to become a core product of the Group. With its business experience in Chinese medicine injection products and established brand name, the Group successfully introduced the product to the market during the year. This product is expected to achieve a substantial growth in the coming years.

RESEARCH AND DEVELOPMENT

Currently, there are 22 product research projects which are either undergoing pharmaceutical and clinical trial or have completed clinical trial. Among these projects are 10 products used for treatment of cardiovascular diseases, 2 products for treatment of digestive system illnesses and 3 products for anti-viral treatment. All of these research projects are progressed in line as planned.

Management Discussion and Analysis

During the period, the Ministry of Personnel of the PRC approved the Group's establishment of a post-doctoral work station, which provides the Group with enormous new strength to its research and development functions, further enhances the commercialization of research projects and provides a ground for training modern Chinese medical talents and promotion of innovation.

PATENT APPLICATIONS

The Group has increased its effort on pursuing intellectual property rights. For the first six months of 2006, "a hawthorn leaf injection for treatment of cardiovascular diseases" invented by the Group was awarded the invention patent certificate by the Intellectual Property Office of the PRC. The Group kicked start a new strategy of patent application and intellectual property rights, which strengthened the protection of the Group's new products and the related technologies under research to improve the Group's long term core competence. Currently, the Group has obtained 2 patents for its inventions and 11 invention patent applications are under review.

STATE PROTECTED CHINESE MEDICINES

For the first six months of 2006, the Group renewed the certificate of State Protected Chinese Medicines for Jian Yang Pian, to extend its protection period from 2006 to 2013. At present, the Group has 13 medicines under the state protection scheme.

CHANGES IN REGULATIONS OF THE INDUSTRY

In June this year, the price cap of 67 western anti-tumor medicines included in the national catalogue of medical insurance were adjusted downward. Currently the Group is not aware of any formal notification from the national regulatory authority of any downward adjustment of price cap of the Chinese medicines. The Group believes that even if such downward adjustment occurs, it would not have material impact on its earnings as the average retail prices of most of the Group's products are considerably lower than the current price cap.

In response to the occurrence of a series of incidents related to medicine safety from poor drug quality during the period, the regulatory authorities resolved to rectify the supervision and management of the medicine manufacturers and promulgated a number of regulations regarding the management of production process and product quality, which include "the Announcement of National Implementation regarding Special Inspection of Medicine Production" (《全國藥品生產專項檢查實施方案》), "The Provisional Regulations for Inspection of GMP Requirements" (《藥品GMP飛行檢查暫行規定》), "the Notice regarding Further Enhancement on the Supervision and Management of the Packing Materials for Medicines" (《關於進一步加強藥包材監督管理工作的通知》), "the Quality Management Guidelines on Production of Supplementary Materials for Medicines" (《藥用輔料生產質量管理規範》) etc. In order to strengthen the supervision and management of medicine manufacturers, the regulatory authorities will revoke the medicines production license or withdraw the GMP certificate from those manufacturers which do not comply with the requirements of the above new regulations. The Group is of the opinion that the rectification will increase public's confidence in use of medicines and facilitate healthy development of the pharmaceutical industry, though some medicine manufacturers which could not meet the regulatory standards will probably be shutdown.

Management Discussion and Analysis

PROSPECT

The growth in pharmaceutical industry faces challenges in 2006. Recurring medical incidents due to poor medicine quality affected the public's confidence in the safety of drugs. The state authorities rectification of medicine procurement led to slow down in placing orders for top selling medicines in hospitals. However, along with the implementation of regulatory price-cut, rectification of drugs procurement and closer scrutinization of the production and quality of medicines, many unreasonable and improper business practices will be eliminated. In the view of those medicine enterprises with renowned brand and products of good quality, implementation of the above initiatives, which is essentially a medical system reform, will accelerate market consolidation. As for the pharmaceutical industry, the initiatives of regulatory authorities will further facilitate and promote the healthy development of the industry.

In the pharmaceutical market of the PRC, large portion of the population are consuming modern Chinese medicines with good curative effect and quality. In the 11th Five-Year State Plan period, the PRC government is determined to increase investments in public health care, improve public health and medical service system, reasonably deploy medical resources, and continue its support to the development of the Chinese medicines and promote the modern Chinese medicine industry.

China is determined to expedite its development of community healthcare services by establishing a new type of rural cooperative health care system in pilot areas. This will likely shore up the continuous growth of demand in domestic medicine market. In those pilot rural areas, farmers only need to pay RMB10 per person per year to participate in the "New Farming Village Cooperative Medical Scheme", to enjoy basic health care services. In March this year, the State Council of the PRC passed in principle "the Program for Establishing and Developing a Rural Health Care Service System"(《農村衛生服務體系建設與發展規劃》) and set a target that every farmer will be able to enjoy basic health care services by 2010. From 2006 onward, subsidies paid by the central and local governments to the "New Farming Village Cooperative Medical Scheme" have been increased to RMB40 per person per year. The scope of pilot areas will also expand to cover 40% of the country and further enhance to 60% by 2007. By 2008, pilot areas will be established to cover the whole nation. The goal is to establish "the New Farming Village Cooperative Medical Scheme" in almost all rural areas by 2010. "The New Farming Village Cooperative Medical Scheme" will become another robust growth point in the medicine market of the PRC.

The reform in medical system of the PRC has started. The pharmaceutical market will likely to become more consolidated. Sizeable pharmaceutical enterprises will probably gain larger market share. The driving force and demand from the pharmaceutical economy will gain more strength. While the reform in medical system will keep the medicine market growing only steadily in 2006, it does not change the prospect of the Chinese medicine market. With the continuous growth of China's GDP and its average income per capita, rising health awareness among the general public, an aging population that results in increased demand for medicines for treatment of chronic diseases, as well as the continuous support from the Chinese government, it is expected that the Chinese medicine market will continue to grow rapidly.

Management Discussion and Analysis

GROWTH STRATEGIES

The Group will continue to implement the following established growth strategies and strives to achieve better growth and results:

1. Product mix enhancement – while increasing the revenue contribution from its core products, (namely Shen Mai, Wu Fu Xin Nao Qing and Qing Kai Ling), the Group will nurture emerging products (including Huo Xiang, Huang Qi, Shu Xie Ning and Qing Kai Ling soft capsule) to broaden its strategic growth product portfolio.

2. Rationalization of distribution channels – The Group will foster closer strategic cooperation with cross-regional distributors which have strong distribution capabilities and strong financial position to establish a distribution network backbone and further increase the efficiency of distribution channels.

3. Strengthening support at points of sales – The Group will continue to enhance the development of a professional team to support the points of sales of prescription medicines in hospitals and OTC, as well as the "Third Point of Sale Zones" (hospitals of factories and mining fields, community clinics and rural healthcare centres).

4. Implementation of regional expansion strategies – While utilizing its advantageous position in northern, northeastern and northwestern China markets, the Group will also explore opportunities in southern, central and eastern China emerging markets which have strong demand for Chinese medicines to broaden the growth of the Group. Key strategic development regions include economically developed regions such as the Pearl River Delta, the Yangtze River Delta, Huanbo Bay costal areas, Yangtze River costal areas and cities and regions along the Beijing and Guangzhou railway.

5. The Group will continue to execute its research and development strategies with increased investments in the development of products for the treatment of chronic diseases that commonly affect the middle and old aged, anti-viral diseases and diseases that mostly affecting children.

6. The Group will continue to evaluate acquisition opportunities in a prudent manner.

FINANCIAL ANALYSIS

Turnover

For the first six months of 2006, the Group continued to focus its business on Chinese medicine products of good efficacy and high quality. Turnovers of injection, soft capsule and granule products increased by 6.9%, 19.0% and 16.0% from 2005 to approximately RMB220,148,000, RMB141,882,000 and RMB49,331,000, respectively, each of which accounted for approximately 52.6%, 33.9% and 11.8% of the Group's turnover for the six months ended 30 June 2006. The Group had also sold approximately RMB6,952,000 of medicines in other formats which accounted for approximately 1.7% of the Group's turnover for the six months ended 30 June 2006.

Management Discussion and Analysis

Turnover of the three key products of the Group, namely Shen Mai injection, Qing Kai Ling injection and Wu Fu Xin Nao Qing soft capsule, approximately decreased by 19.7%, increased by 21.1% and increased by 9.9% from the first six months of 2005 to approximately RMB83,997,000, RMB97,926,000 and RMB69,933,000, respectively.

During the same period, turnover of medicines for treating cardiovascular illness, anti-viral, gastroenteritis medicines and medicines for treating other illnesses respectively accounted for approximately 49.2% (for the corresponding period of 2005: 55.1%), 28.0% (for the corresponding period of 2005: 25.9%), 12.4% (for the corresponding period of 2005: 8.8%), and 10.4% (for the corresponding period of 2005: 10.2%) of the Group's total turnover for the six months ended 30 June 2006.

Turnover of prescription and non-prescription medicines of the Group for the first six months of 2006 were approximately RMB320,999,000 and RMB97,314,000, accounting for approximately 76.7% and 23.3% of the Group's total turnover for the same period, respectively.

Cost of Sales

Cost of sales of the Group for the first six months of 2006 was approximately RMB126,812,000, and equal to approximately 30.3% of the total turnover. Direct materials, direct labour and other production costs accounted for approximately 77.8%, 4.7% and 17.5% of the total production costs.

Gross Profit Margin

During the first six months of 2006, the Group's overall gross profit margin increased slightly by 2% to approximately 69.7% as compared to the 67.7% over the corresponding period of last year. The Group's average gross profit margins of injection products, soft capsule products and granule products were approximately 75.6%, 68.2% and 47.8% respectively. The improvement in gross profit margin is mainly attributable to the economies of scale, effective internal control, and advanced production technology to achieve high extraction rate and production yield rate. The higher gross profit margins of the injection and soft capsule products, as compared to the corresponding period of last year, also led to the increase in the overall gross profit margin of the Group during the reporting period.

Distribution Costs

The overall distribution costs of the Group for the first six months of 2006 increased by approximately 57.0% when compared to the corresponding period of last year, representing approximately 18.1% of the Group's turnover for the same period (for the corresponding period of 2005: 13.0%). This was primarily attributable to the increase of distributor promotion expenses by approximately 658.9%. Distributor promotion expenses which accounted for approximately 8.4% of the Group's turnover (for the corresponding period of 2005: 1.2%), mainly included the promotion cost subsidies to distributors with reference to the sales growth target for the year. The Group had been strengthening its effort in the promotion of its products to the points of sales through active participation in exhibitions, seminars and trainings, and thus resulting in an increase in the related expenses and subsidies to distributors. In addition, the subsidies were paid and recorded on a quarterly basis in 2006, as contrary to last year that the subsidies were paid toward the end of the year.

Administrative Expenses

The administrative expenses of the Group for the reporting period increased by approximately 4.2% when compared to the first six months of last year. The increase in administrative expenses was primarily due to the increase of travel expenses and research and development expenses. As administrative expenses accounted for approximately 7.0% of the Group's turnover (for the corresponding period of 2005: 7.5%). Travel expenses for the reporting period increased by approximately 77.9% as compared to the same period last year, accounting for approximately 0.6% (for the corresponding period of 2005: 0.4%) of the Group's turnover and the increase was due to more effort made to the management of front-line business promotion by the Group during the period. The Group's research and development expenses in the first six months of 2006 increased by 54.1% as compared to the same period last year to approximately RMB2,483,000. During the year, the Group continued to increase its effort in product development, which led to a moderate rise in the overall research and development expenses to approximately 0.6% (for the corresponding period of 2005: 0.4%) of the Group's turnover. Administrative expenses also comprised of non-production depreciation expenses which accounted for approximately 0.3% (for the corresponding period of 2005: 0.3%) of the Group's total turnover.

Income Tax

Pursuant to National Tax Document 1988 No. 26 (國發1988 26號), the PRC Enterprise Income Tax rate applicable to Shineway Pharmaceutical Sales Co., Ltd. ("Shineway Sales") was 15% of its assessable profit.

The PRC Enterprise Income Tax and Local Income Tax rates applicable to Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Co., Ltd. ("Hebei Shineway") is 33% of their assessable profits. Pursuant to the relevant law and regulations of the PRC, Shineway Pharmaceutical and Hebei Shineway are exempted from PRC Enterprise Income Tax for two years commencing from their first profitable year of operation and are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. In addition, Shineway Pharmaceutical and Hebei Shineway are also exempted from Local Income Tax for five years from their first profitable year. The first profitable period of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004.

Hence, the overall effective income tax rate of the Group from 2006 to 2008 is estimated to be approximately 15%. The Group believes that Shineway Pharmaceutical and Hebei Shineway are able to continue to enjoy 50% relief of PRC Enterprise Income Tax according to the current tax concession for high-tech enterprises of PRC, and therefore its overall effective income tax rate will most likely remain at approximately 15% after 2008.

Minority Interests

In 2005, the Group acquired the remaining 20% interests of Shineway Sales. Upon completion of the acquisition, the Group now holds the entire interests of Shineway Sales and effectively eliminated the related minority interests.

Management Discussion and Analysis

Dividends

The Board resolved to pay an interim dividend of RMB10 cents per share for the half year ended 30 June 2006 to the shareholders on the register of members of the Company on 4 September 2006, it represents a payout rate of approximately 47.7% of net profit attributable to the equity holders for the period.

On 20 March 2006, the Board approved a dividend policy to distribute to all shareholders of the Company of not less than 40% of the distributable profit of the year. Interim and final dividends will be distributed in September and June each year.

Capital Structure

For the six months ended 30 June 2006, there was no change in the capital structure and issued share capital of the Group.

Liquidity and Financial Resources

As at 30 June 2006, bank deposits of the Group amounted to approximately RMB1,466,804,000 which comprised of approximately RMB929,961,000 and approximately HK$521,207,000 (which is equivalent to approximately RMB536,843,000). Except for trade and operating payables, the Group did not have any other liabilities.

The Directors believe that the financial position of the Group is healthy, with sufficient financial resources to meet the requirement for future development.

Trade and Bills Receivables

Bills receivables for the first six months of 2006 dropped by approximately 51.2% from 31 December 2005 since the Group encouraged customers to settle payment by cash instead of bills. Turnover days of trade and bills receivables were 1 day and 43 days respectively (for the corresponding period of 2005: 2 days and 93 days respectively).

Inventories

Inventories balance as at 30 June 2006 increased by approximately 30.2% as compared to the balance as at 31 December 2005 due to an expected increase in demand of sales in the second half of 2006. According to the analysis by inventory types on 30 June 2006, raw materials, work in progress and finished products accounted for approximately 28.1%, 8.6% and 63.3% (for the corresponding period of 2005: 37.3%, 20.9% and 41.8% respectively) of inventories respectively.

Finished products inventories turnover days in the first six months of 2006 was 30 days (for the corresponding period of 2005: 12 days).

Management Discussion and Analysis

Property, Plant and Equipment

Property, plant and equipment for the first six months of 2006 grew by approximately 2.4% as compared to 31 December 2005. This was mainly due to the costs of approximately RMB15,373,000 for the construction of a large scale intelligent logistics centre and a new injection workshop in the period.

Goodwill

Goodwill is related to the Group's acquisition of the remaining 20% equity interests in Shineway Sales in 2005.

Trade Payables

During the period under review, turnover days of trade payables was 108 days (for the corresponding period of 2005: 60 days).

Loans and Bank Borrowings

Except for the bills payable of approximately RMB18,135,000, the Group did not have any loans or bank borrowings as at 30 June 2006 (2005: Nil). Accordingly the gearing ratio based on interest bearing debts for the period is Nil (2005: Nil).

Pledge of Assets

As at 30 June 2006, the Group pledged time deposits and bills receivables amounting approximately RMB9,316,000 and RMB10,050,000 respectively to secure bills payable of approximately RMB18,135,000 (2005: Nil).

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2006 (2005: Nil).

Exposure to Fluctuations in Exchange Rates

Substantially all of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong dollars. The Group adopts a conservative financial policy and all of its bank deposits are in Renminbi and Hong Kong dollars. As at 30 June 2006, the Group did not have any bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to any material interest and exchange risks.

Substantial Investment and Acquisition

During the first six months of 2006, the Group did not have any substantial investment and acquisition.

Employees

As at 30 June 2006, the Group has 1,938 (for the corresponding period of 2005: 1,650) employees. Remuneration is determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provides other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong are also enrolled in the mandatory provident fund scheme.

SHARE OPTION SCHEME

The existing share option scheme (the "Scheme"), which was adopted by the Company pursuant to a written resolution of the sole shareholder of the Company passed on 10 November 2004 is for the primary purpose of providing a flexible means of giving incentives to, rewarding, remunerating, compensating and/or providing benefits to the following participants, and for such other purposes as the Board may approve from time to time:

(i) any executive or non-executive director including any independent non-executive director or any employee (whether full-time or part-time) of any member of the Group;

(ii) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or any employee, executive or non-executive director of any member of the Group;

(iii) any consultant, professional and other advisers to any member of the Group;

(iv) any chief executive or substantial shareholder of any member of the Group;

(v) any Associate of any director, chief executive or substantial shareholder of any member of the Group; and

(vi) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up options.

The total number of shares in respect of which options may be granted under the Scheme is 82,700,000 shares, which is equivalent to 10% of the total number of shares of the Company in issue on the date of commencement of dealings in the shares of the Company on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme and any other share option scheme (if any) adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue unless otherwise approved by the Company's shareholders. Where any grant of options to a substantial shareholder, an independent non-executive director, 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) would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the shares of the Company in issue; and

(ii) having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant in excess of HK$5 million,

such grant of option shall be subject to prior approval of the shareholders of the Company who are not connected persons of the Company as defined in The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

An option must be exercised within 10 years from the date of grant or such shorter period as the Board may notify to the grantee.

Options 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 10th 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.

The Scheme has a life of 10 years and will expire on 9 November 2014 unless otherwise terminated in accordance with the terms of the Scheme.

However, no option was granted, exercised, cancelled or lapsed during the year and as at the date of this report since adoption.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30 June 2006, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

SUBSTANTIAL SHAREHOLDERS

(a) Interest in the Company

As at 30 June 2006, interest of every person (not being a director or chief executive of the Company) in the shares and underlying shares in the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance ("the SFO") were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
Sinovest International Investment Limited ("Sinovest") (Notes 1 and 2)	Beneficial owner	600,000,000	72.55%
Forway Investment Limited ("Forway") (Notes 1, 2 and 3)	Interest of a controlled corporation	600,000,000	72.55%
Trustcorp Limited (Notes 1 to 4)	Trustee of discretionary trust	600,000,000	72.55%
David Henry Christopher HILL (Notes 1 and 5)	Interest of controlled corporation	600,000,000	72.55%
David William ROBERTS (Notes 1 and 6)	Interest of controlled corporation	600,000,000	72.55%
Rebecca Ann HILL (Notes 1, 5 and 7)	Interest of spouse	600,000,000	72.55%

Notes:

(1) All interests of Sinovest, Forway, Trustcorp Limited, David Henry Christopher HILL, David William ROBERTS and Rebecca Ann HILL were duplicated.

(2) The 600,000,000 shares are beneficially owned by Sinovest.

(3) The issued share capital of Sinovest is owned as to approximately 79.4% by Forway. Accordingly Forway is deemed to be interested in the 600,000,000 shares of the Company under the SFO.

(4) The entire issued share capital of Forway is owned by Trustcorp Limited in its capacity as the trustee of The Li Family 2004 Trust, a discretionary trust, the founder (as defined in the SFO) of which is Li Zhenjiang and the discretionary objects of which are family members of Li Zhenjiang (excluding Li Zhenjiang himself). Accordingly, Trustcorp Limited is deemed to be interested in the 600,000,000 shares of the Company under the SFO.

(5) The following is a breakdown of the interests in shares held by David Henry Christopher HILL:

			Total interest in Shares	
Name of controlled corporation	**Name of controlling shareholder**	**Percentage of control**	**Direct interest**	**Indirect interest**
Newcorp Holdings Ltd.	David Henry Christopher HILL	35	–	600,000,000
Newcorp Ltd.	Newcorp Holdings Ltd.	100	–	600,000,000
Trustcorp Limited	Newcorp Ltd.	100	–	600,000,000
Forway Investment Limited	Trustcorp Limited	100	–	600,000,000
Sinovest International Investment Limited	Forway Investment Limited	79.4	600,000,000	–

(6) The following is a breakdown of the interests in shares held by David William ROBERTS:

			Total interest in Shares	
Name of controlled corporation	**Name of controlling shareholder**	**Percentage of control**	**Direct interest**	**Indirect interest**
Newcorp Holdings Ltd.	David William Roberts	35	–	600,000,000
Newcorp Ltd.	Newcorp Holdings Ltd.	100	–	600,000,000
Trustcorp Limited	Newcorp Ltd.	100	–	600,000,000
Forway Investment Limited	Trustcorp Limited	100	–	600,000,000
Sinovest International Investment Limited	Forway Investment Limited	79.4	600,000,000	–

(7) This interest is in fact the same block of 600,000,000 shares disclosed by David Henry Christopher HILL.

(b) Interest in other members of the Group

As at 30 June 2006, so far as the directors or the chief executives of the Company are aware, no person will be directly or indirectly interested in 5% or more of the nominal value of any class of Shares carrying rights to vote in general meetings of any other member of the Group:

As at 30 June 2006, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

Management Discussion and Analysis

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2006, the interests and short positions of the Directors and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register referred therein, or which one required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

Name of director	Name of relevant Company	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
Li Zhenjiang	Company	Founder of discretionary trust (Note)	600,000,000	72.55%
Hung, Randy King Kuen	Company	Beneficiary owner	50,000	0.01%

Note: These 600,000,000 Shares are held by Sinovest International Investment Limited, which is owned as to approximately 79.40% by Forway Investment Limited ("Forway"). Forway is owned as to 100% by Trustcorp Limited, a trust company, in its capacity as the trustee of The Li Family 2004 Trust, a discretionary trust the founder (as defined in the SFO) of which is Mr. Li Zhenjiang and the discretionary objects of which are family members of Mr. Li Zhenjiang (excluding Mr. Li Zhenjiang himself). Accordingly, Mr. Li Zhenjiang is deemed to be interested in the 600,000,000 Shares under the SFO.

Save as disclosed above, as at 30 June 2006, none of the directors of the Company or their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied and complied with the Code Provisions in the Code on Corporate Governance Practices ("the Code") set out in Appendix 14 of the Listing Rules during the period ended 30 June 2006, except for the following deviation:

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

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

COMPLIANCE WITH THE MODEL CODE

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules ("the Model Code") as the code of conduct for directors in their dealing in the Company's securities. The Company made specific enquiries with each director and each of them confirmed that he or she had complied with the Model Code during the period ended 30 June 2006.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and external auditors the accounting principles and policies adopted by the Group and the interim report for the six months ended 30 June 2006.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 1 September 2006 to 4 September 2006 (both days inclusive). In order to qualify for the 2006 interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar and Transfer Office, 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 4:00 pm of 31 August 2006.

APPRECIATION

We are delighted with the trust and support of our shareholders and those who care about the Group. 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 to achieve such encouraging operating results during the period under review.

By order of the Board
China Shineway Pharmaceutical Group Limited
Li Zhenjiang
Chairman

Hong Kong, 16 August 2006

Independent Review Report

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED
中國神威藥業集團有限公司

INTRODUCTION

We have been instructed by China Shineway Pharmaceutical Group Limited (the "Company") to review the interim financial report set out on pages 24 to 36.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with the Hong Kong Standard on Auditing 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquires of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
16 August 2006

Condensed Interim Financial Report

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	NOTES	Six months ended 30 June **2006** **RMB'000** **(Unaudited)**	 2005 RMB'000 (Unaudited)
Turnover	3	**418,313**	371,735
Cost of sales		**(126,812)**	(120,063)
Gross profit		**291,501**	251,672
Other income		**12,987**	6,645
Distribution costs		**(75,843)**	(48,309)
Administrative expenses		**(29,149)**	(27,983)
Profit before taxation	4	**199,496**	182,025
Income tax	5	**(26,292)**	(5,725)
Net profit for the period		**173,204**	176,300
Attributable to:			
Equity holders of the Company		**173,204**	170,761
Minority interests		**–**	5,539
		173,204	176,300
Dividends paid	6	**99,240**	–
Dividend declared	6	**82,700**	82,700
Earnings per share – basic	7	**RMB0.21**	RMB0.21

Condensed Interim Financial Report

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	NOTES	30.6.2006 RMB'000 (Unaudited)	31.12.2005 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**236,775**	231,193
Land use rights		**5,781**	5,946
Goodwill		**58,479**	58,479
Deferred tax assets		**10,919**	11,459
		311,954	307,077
Current assets			
Inventories		**46,168**	35,451
Trade receivables	9	**3,248**	2,998
Bills receivables	9	**65,610**	134,348
Prepayments, deposits and other receivables		**27,399**	17,614
Amounts due from related companies		**–**	155
Pledged bank deposits		**9,316**	–
Bank balances and cash		**1,466,804**	1,347,605
		1,618,545	1,538,171
Current liabilities			
Trade payables	10	**91,739**	58,101
Bills payables	10	**18,135**	–
Other payables, receipt in advance and accrued charges		**104,120**	148,596
Government grants received		**5,400**	5,400
Amount due to a related company		**234**	–
Tax liabilities		**6,665**	2,903
		226,293	215,000
Net current assets		**1,392,252**	1,323,171
Total assets less current liabilities		**1,704,206**	1,630,248
Capital and reserves			
Share capital	11	**87,662**	87,662
Reserves		**1,616,544**	1,542,586
Equity attributable to equity holders of the Company		**1,704,206**	1,630,248

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve fund RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2005	87,980	982,408	83,758	379	18,849	9,427	–	229,926	1,412,727	23,542	1,436,269
Exchange difference on translation of foreign subsidiaries directly recognised in equity	–	–	–	157	–	–	–	–	157	–	157
Net profit for the period	–	–	–	–	–	–	–	170,761	170,761	5,539	176,300
Total recognised income for the period	–	–	–	157	–	–	–	170,761	170,918	5,539	176,457
Acquisition of minority interests of a subsidiary	–	–	–	–	–	–	–	–	–	(22,367)	(22,367)
Transfers	–	–	–	–	23,975	14,949	121,000	(159,924)	–	–	–
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(6,714)	(6,714)
At 30 June 2005	87,980	982,408	83,758	536	42,824	24,376	121,000	240,763	1,583,645	–	1,583,645
Exchange difference on translation of foreign subsidiaries directly recognised in equity	–	–	–	(21,225)	–	–	–	–	(21,225)	–	(21,225)
Net profit for the period	–	–	–	–	–	–	–	160,706	160,706	–	160,706
Total recognised (expense) income for the period	–	–	–	(21,225)	–	–	–	160,706	139,481	–	139,481
Transfers	–	–	–	–	31,584	12,830	–	(44,414)	–	–	–
Repurchase of shares	(318)	–	–	–	–	–	–	(9,860)	(10,178)	–	(10,178)
Dividend paid	–	–	–	–	–	–	–	(82,700)	(82,700)	–	(82,700)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 June 2006

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve fund RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	87,662	982,408	83,758	(20,689)	74,408	37,206	121,000	264,495	1,630,248	–	1,630,248
Exchange difference on translation of foreign subsidiaries directly recognised in equity	–	–	–	(6)	–	–	–	–	(6)	–	(6)
Net profit for the period	–	–	–	–	–	–	–	173,204	173,204	–	173,204
Total recognised (expense) income for the period	–	–	–	(6)	–	–	–	173,204	173,198	–	173,198
Transfers	–	–	–	–	39,019	(37,206)	–	(1,813)	–	–	–
Dividends paid	–	–	–	–	–	–	–	(99,240)	(99,240)	–	(99,240)
At 30 June 2006	87,662	982,408	83,758	(20,695)	113,427	–	121,000	336,646	1,704,206	–	1,704,206

Condensed Interim Financial Report

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	**232,684**	169,690
Net cash used in investing activities		
Acquisition of minority interests of a subsidiary	**–**	(80,846)
Other investing cash flow	**(14,239)**	(46,749)
	(14,239)	(127,595)
Net cash used in financing activities	**(99,240)**	(6,714)
Net increase in cash and cash equivalents	**119,205**	35,381
Cash and cash equivalents at beginning of the period	**1,347,605**	1,146,592
Effect of foreign exchange rate changes	**(6)**	–
Cash and cash equivalents at end of the period, representing bank balances and cash	**1,466,804**	1,181,973

Condensed Interim Financial Report

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. GENERAL

The condensed 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 "Stock Exchange") and with International Accounting Standard 34 "Interim Financial Reporting" issued by International Accounting Standards Board.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current period, the Group has adopted, for the first time, the following new and revised International Financial Reporting Standards ("Standards") issued by the International Accounting Standards Board (the "IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") ("Interpretations") of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006, respectively.

IAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
IAS 21 (Amendment)	Net investment in a foreign operation
IAS 39 (Amendment)	Cash flow hedge of forecast intragroup transactions
IAS 39 (Amendment)	The fair value option
IAS 39 & IFRS 4 (Amendment)	Financial guarantee contracts
IFRS 6	Exploration for and evaluation of mineral resources
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
IFRIC 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment

The adoption of these Standards and Interpretations has had no material effect on how the results for the current or prior accounting period are prepared. Accordingly, no prior period adjustment has been made.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and financial positions of the Group.

IAS 1 (Amendment)	Capital disclosures[1]
IFRIC 7	Applying the restatement approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"[2]
IFRIC 8	Scope of IFRS 2[3]
IFRIC 9	Reassessment of embedded derivatives[4]
IFRS 7	Financial instruments: Disclosures[1]

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

[2] Effective for annual periods beginning on or after 1 March 2006.

[3] Effective for annual periods beginning on or after 1 May 2006.

[4] Effective for annual periods beginning on or after 1 June 2006.

3. 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 People's Republic of China (the "PRC") and over 90% of the Group's assets are situated in the PRC during the period. Accordingly, no segmental analysis of business and geographical segments is presented for the period.

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	**11,755**	13,965
Loss (gain) on write-off/disposal of property, plant and equipment	**12**	(1)
Research and development costs	**2,354**	1,593
Interest income	**(12,426)**	(6,645)

5. INCOME TAX

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**25,752**	4,824
Deferred tax	**540**	901
	26,292	5,725

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

Pursuant to the relevant law and regulations in the PRC, the subsidiaries, Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Co., Ltd. ("Hebei Shineway"), are entitled to 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 National Tax Document 1988 No. 26 (國發1988 26號), the PRC Enterprise Income Tax rate applicable to a subsidiary, Shineway Pharmaceutical Sales Co., Ltd. ("Shineway Sales"), is 15% on its assessable profit.

6. DIVIDENDS

Dividends paid

Dividends attributable to the previous financial year, approved and paid during the period.

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final – RMB10 cents (2005: nil) per share	**82,700**	–
Special – RMB2 cents (2005: nil) per share	**16,540**	–
	99,240	–

Dividend declared

The directors declare an interim dividend of RMB10 cents per share, amounting to approximately RMB82,700,000, in respect of the six months ended 30 June 2006 (1.1.2005 to 30.6.2005: RMB10 cents per share, amounting to approximately RMB82,700,000), which will be paid to the shareholders whose names appear on the Company's register of members on 4 September 2006. The interim dividend has not been recognised as a liability at the balance sheet date.

Dividend payable in cash in Hong Kong dollars will be converted from RMB at the telegraphic transfer exchange rates quoted by bank at 11:00 a.m. on 16 August 2006 (RMB1 = HK$0.9704). Accordingly, the amount payable on 5 September 2006 will be approximately HK$0.0970 per share.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net profit for the period attributable to the equity holders of the Company and earnings for the purpose of basic earnings per share	**173,204**	170,761

	Six months ended 30 June	
	2006	2005
Weighted average number of ordinary shares for the purpose of basic earnings per share	**827,000,000**	830,000,000

No diluted earnings per share has been presented as there were no dilutive potential ordinary shares for both periods.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired certain property, plant and equipment at a cost of RMB17,349,000.

9. TRADE AND BILLS RECEIVABLES

The Group allows credit periods normally ranging from six months to one year to its trade customers. An aging analysis of the Group's trade receivables at the balance sheet date is as follows:

	30.6.2006	31.12.2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 6 months	**3,128**	2,998
Over 6 months but less than 1 year	**120**	–
	3,248	2,998

All bills receivables aged within six months at the respective balance sheet dates.

10. TRADE AND BILLS PAYABLES

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

	30.6.2006	31.12.2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 6 months	**86,865**	54,644
Over 6 months but less than 1 year	**1,911**	2,769
Over 1 year but less than 2 years	**2,605**	276
Over 2 years	**358**	412
	91,739	58,101

All bills payables aged within six months at the respective balance sheet dates.

11. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2005, 31 December 2005 and 30 June 2006	5,000,000	530,000
Issued and fully paid:		
Balance at 1 January 2005	830,000	87,980
Cancellation upon repurchase of own shares	(3,000)	(318)
Balance at 31 December 2005 and 30 June 2006	827,000	87,662

There was no change in the Company's authorised, issued and fully paid share capital during the period.

12. PLEDGE OF ASSETS

At 30 June 2006, the Group has pledged bills receivables of approximately RMB10,050,000 and bank deposits of approximately RMB9,316,000 to secure the bank credit facilities (31.12.2005: nil).

13. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of goods to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (Note a)	**279**	901
Rental expenses paid to a related company, Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	**235**	–
Service fee to Shineway Medical	**3,478**	3,301
Service fee to a related company, Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang")	**587**	555
Purchase of 20% equity interest in Shineway Sales (Note b)	**–**	80,846

Notes:

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

(b) 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 International Limited ("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.

14. COMMITMENTS

(a) Operating lease commitment

At 30 June 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2006	31.12.2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	**1,398**	1,500
In the second to fifth year inclusive	**752**	1,385
	2,150	2,885

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

(b) Capital commitment

As at 30 June 2006, capital expenditure of RMB14,812,000 for the completion of a logistic centre, an injection workshop and related facilities was contracted for but not provided in the financial statements (31.12.2005: RMB12,056,000).