

Chairman's Statement



Chairman of Board

Li Zhenjiang

Dear shareholders,

On behalf of the Board of Directors of China Shineway Pharmaceutical Group Limited (the "Company" or "China Shineway") together with its subsidiaries (the "Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2006.

During 2006, coupling with the People's Republic of China ("PRC") Government's initiative to strengthen administrative measures on medicines procurement of hospitals, set back on regulatory approval of new medicines, adjustments on medicine price caps and medical policy reform, the overall

pharmaceutical industry has experienced obvious slow down in growth. Pharmaceutical companies were facing difficulties in both operations and profitability. Many symbolizes the situation as the "Winter of the Pharmaceutical Industry". Despite such an adverse business climate, China Shineway was able to maintain a growth trend with our superb management capability, well-established brand equity and high quality products, coupled by implementing sound strategies to further strengthen our sales network and nurturing emerging products. For 2006, the turnover and operating profit of the Group increased by 1.2% and 13.0% respectively as compared with 2005. Nonetheless the Group's growth of operating profit was offset by the increase of profit tax rate. Hence, net profit attributable to equity holders increased moderately by 0.5%.

During the year, the Group continued to implement our business strategies, expedite investments in advanced technologies and further strengthen our core competence. The large-scale logistic center located at the headquarters of the Group is now in operation. The new logistic center has increased the Group storage capacity by 1.5 times. It has greatly reduced costs of handling inventory, further enhance capability in storage and dispatch and heighten degree of automation. Meanwhile, the construction of new injection workshop is progressing as planned. The new workshop will incorporate our production know-how with state-of-the-art technologies. It will double the Group's production capacity of Chinese medicine injection products, thereby further fortifying the leading position and advantage of our business in Chinese medicine injection. Moreover, several other capital investments, which will further enhance competitiveness of the Group, including ERP implementation and remodeling of quality control center are underway.

Chairman's Statement

The Group continued to foster its research and development capability. During the year, the Ministry of Personnel of the PRC granted its approval for the Group to establish a post-doctoral research workstation, which will endow mammoth momentum for our work in research and development. Furthermore, we are constructing a new research and development center that will further enhance the research and development capability of the Group. During the year, the Group also strengthened its effort on the protection of Chinese medicinal intellectual property rights. We have kicked starting a new strategy in patent application to protect new products and technologies under research with the objective to enhance long term core competitiveness of the Group. Three inventions of the Group have won gold awards at the China International Patent & Brands Fair during the year. The Shineway brand of Qing Kai Ling injection and Jiangzhi Tongluo soft capsule were also selected into the China Hi-Tech Product Catalogue, illustrating the Group's achievement in the application of advanced technologies.

China Shineway remained widely recognized by the PRC Government and general public in the year. We had received a number of honors and awards, including "China Top Ten Most Admired Pharmaceutical Enterprise", "China Top Ten Most Profitable Enterprise of National Pillar Industries", "China Five Hundred Most Valuable Brand" and many more. At the same time, several of our products were granted the "Good Quality/Good Price" status. During the year, based on the recommendation of the State Food and Drug Administration, China Shineway was selected by the Ministry of Publicity of the PRC as a "Model Enterprise that Emphasizes on Quality of Medicines" and was broadly reported by the state's six major news media. Such honors and status validate the Group's leading position in the pharmaceutical industry as well as the unswerving support by the government on modern Chinese medicine and enterprises with superb product quality.

During the year, China Shineway successfully obtained Australian GMP certificate. The certificate represents the endorsement of our quality control system and production facilities by over 20 member countries including Australia, UK, Canada, Singapore and many European countries under the Pharmaceutical Inspection Co-operation Scheme (PIC/S), and is a major step for sales of our modern Chinese medicines in the international markets.

While changes in regulatory policies may cause short term disturbance to the pharmaceutical industry, the new policies could help sanitize the industry's competition terrain, put the industry to grow in good order, raise the industry's entry barrier, drive up innovation and fostering consolidation in the industry. The PRC Government's initiations to escalate administrative measures and controls on the pharmaceutical industry would effectively drive out the sub-standard players and benefit to first rated enterprises, unwind the unethical practices of the medicine market and promote healthy development of the pharmaceutical industry. For enterprises committed to integrity, innovation and high product quality, such changes in regulatory environment present an unprecedented business opportunity. As the PRC's economy and GDP per capita continue to grow, the market demand for healthcare consumable will rise rapidly. Likewise, Chinese people's spending on medicines will grow continuously. The aging population of China will continue to be a strong driving force for the incessant growth of average consumption of medicines per capita. The establishment of the new rural cooperative medical insurance scheme and the increasing of household income of rural residents

Chairman's Statement

also provide tremendous potential of growth for the medical market. In the coming year, China Shineway will continue to strive for capitalizing on the immense momentum of long-term growth of the pharmaceutical industry. We will continue our best effort to develop top quality products and brand equity, further cultivate regional emerging markets, continuously enhance our research and development capability, and increase investments in point of sales support in order to further advance business growth and return in the coming years.

Appreciation

On behalf of the Board, I would like to express our gratitude for the support of our business partners, customers and shareholders, and the hard work and contribution of all of our employees in the past year. With our solid business foundation as well as our effort in continuous innovation, we will endeavor to lead Shineway to be the best modern Chinese medicine enterprise.

Li Zhenjiang

Chairman of the Board

Hong Kong, 21 March 2007