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**

2007
INTERIM REPORT

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr. Ren Dequan
Mr. Li Kung Man
Ms. Cheng Li

AUDIT COMMITTEE

Mr. Li Kung Man *(Committee Chairman)*
Mr. Ren Dequan
Ms. Cheng Li

REMUNERATION COMMITTEE

Ms. Cheng Li *(Committee Chairman)*
Mr. Li Kung Man
Ms. Xin Yunxia

AUTHORIZED REPRESENTATIVES

Ms. Wang Zhihua
Mr. Li Huimin

QUALIFIED ACCOUNTANT

Ms. Wong Mei Shan

COMPANY SECRETARY

Ms. Wong Mei Shan

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE

Luan Cheng
Shijiazhuang
Hebei Province
The PRC

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 Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

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

Corporate Information

PRINCIPAL BANKERS

The Bank of East Asia, Limited

The Hongkong and Shanghai Banking
Corporation Limited

Bank of China, Zhong Shan Branch
Shijiazhuang, Hebei Province

Bank of China, Lang Fang Branch
Lang Fang City, Hebei Province

LEGAL ADVISERS

As to Hong Kong Law
Woo Kwan Lee & Lo

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

STOCK CODE

2877 (listed on the Main Board of
The Stock Exchange of Hong Kong Limited)

WEBSITES

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

Financial Highlights

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2007, the operating results of the Group were as follows:

– Turnover amounted to approximately RMB461,451,000, an increase of approximately 10.3% over the corresponding period of last year;

– Gross profit margin increased from 69.7% to 72.4% as compared to the corresponding period of last year;

– Profit attributable to shareholders amounted to approximately RMB198,315,000, an increase of approximately 14.5% over the corresponding period of last year;

– Earnings per share amounted to RMB24 cents, an increase of approximately 14.3% over the corresponding period of last year;

– Interim dividend per share amounted to RMB11 cents, representing a payout rate of approximately 45.8% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2007.

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 2007, the Group regularly manufactured 28 prescription and 23 over-the-counter ("OTC") medicines which accounted for approximately 79.2% and 20.8% 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 2007, approximately 48.7% 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 30.7% and 20.6% 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

- Shu Xie Ning injection: cardio-cerebrovascular disease medicine

- 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

As at 30 June 2007, 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 2007, the Group recorded a turnover growth of approximately 10.3%, amounting to approximately RMB461,451,000. An analysis of the sales by product format for the first six months in 2007 is set out as follows:

	Sales	Sales mix	Growth rate
Injections	RMB261,175,000	56.6%	18.6%
Soft Capsules	RMB131,736,000	28.5%	-7.2%
Granules	RMB59,722,000	13.0%	21.1%
Other formats	RMB8,818,000	1.9%	26.8%

The Group's operating profit for the six months ended 30 June 2007 was approximately RMB235,003,000, representing an increase of approximately 17.8% over the corresponding period of last year. Net profit attributable to the equity holders of the Group for the first six months in 2007 amounted to approximately RMB198,315,000, representing an increase of approximately 14.5% over the corresponding period in 2006. The growth in net profit was mainly attributable to the increase in turnover and gross margin, and the contribution of investment income during the period.

Injection Products

For the first six months of 2007, the Group sold approximately RMB261,175,000 of injection products, representing an increase of approximately 18.6% over the same period of last year. Amongst these injection products, Qing Kai Ling injection and Shu Xie Ning injection recorded sales growth of approximately 16.5% and 154.1% respectively. Nonetheless, sales of Shen Mai injection declined by approximately 6.0% during the period. The Group will continue to focus on the business of injection products and implement strategies to strengthen the development of distribution network and points of sales to increase market coverage. Market demand for Chinese medicine injection products remains strong and injection products will continue to be the product format of the Group with the highest growth potential.

Injection products accounted for approximately 56.6% of total turnover for the first six months of 2007 as compared to 52.6% 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 2007, sales of the Group's soft capsule products amounted to approximately RMB131,736,000, representing a decrease of approximately 7.2% over the corresponding period of last year. The slower sales came from Wu Fu Xin Nao Qing soft capsule and Huo Xiang Zheng Qi soft capsule, which recorded a decrease of approximately 5.3% and 25.8% respectively as compared to the same period of last year.

Soft Capsule products accounted for approximately 28.5% of the Group's turnover for the first six months in 2007 as compared to 33.9% in the same period of last year. The Group believes that it is 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 2007, sales of granules increased by approximately 21.1% as compared to the corresponding period of last year, amounting to approximately RMB59,722,000. The increase can be attributable to the Group's strategy to strengthen marketing of popular granules to ensure their stable growth. Granule products accounted for approximately 13.0% of the Group's turnover for the first six months in 2007 as compared to 11.8% in the same period of 2006.

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, decreased by approximately 6.0% to approximately RMB78,978,000 for the first six months in 2007 and accounted for approximately 17.1% of the Group's turnover. The decrease in sales was mainly due to the rectification on the medicine administration of hospitals by the state authorities since last year which led to slow down of procurement for top selling medicines in hospitals. In addition, large hospitals and distributors remained conservative in medicine purchase before the PRC government announces health care reform detail. The Group believes the anticipated medical reform will rationalize distribution channels. The Group's Shen Mai injection has been widely used in clinical applications and is very popular among medical institutions and practitioners. Growth momentum in sales of Shen Mai injection is expected to resume. Shen Mai injection is a State Protected Chinese Medicine. It is included in the national catalogues of medical insurance and occupational injury insurance and 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.

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, increased approximately 16.5% to approximately RMB114,068,000 in the first six months this year, representing 24.7% of total turnover. 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. The Group believes it is the largest manufacturer of Qing Kai Ling injection in the PRC in terms of sales volume. The Group will continue to improve distribution channels and strengthen marketing and promotion efforts at the 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 2007 decreased by approximately 5.3% to RMB66,217,000, accounting for approximately 14.3% of the Group's turnover for the six months of the year. The decrease in sales was mainly due to distributors being conservative on purchasing. 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 the points of sales, and increase sales promotion, to re-gain the product's growth momentum.

Emerging Products

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

For the first six months of 2007, sales of Shu Xie Ning injection was RMB40,143,000, representing an increase of 154.1% as compared to the same period of last year, and accounted for 8.7% of total turnover. 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 is one of the major clinical used medicine for treating cardio-cerebrovascular disease, and the third most purchased Chinese medicine by hospitals in China. It is also a State Protected Chinese Medicine. The Group believes that by leveraging the Group's advantage in production technology and economies of scale in Chinese medicine injections, this product will become a core product of the Group.

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

For the first six months of 2007, sales of Huo Xiang Zheng Qi soft capsule decreased approximately 25.8% to RMB38,509,000, representing 8.3% of the Group's turnover. The decrease in sales was mainly due to the change in channel strategy this year by promoting the product mainly in the second and third quarter instead of first and second quarter of last year. The product is a State Protected Chinese Medicine. It is included in the national catalogues of medical insurance and occupational injury insurance and has been 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. Growth of this product is expected to resume.

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

For the first six months of 2007, sales of Huang Qi injection decreased by 25.6% to approximately RMB12,192,000, representing 2.6% of the Group's turnover. The product is included in the national catalogues of medical insurance and occupational injury insurance. With the rising trend of viral myocarditis in recent years, the Group believed that Huang Qi injection, with a proven efficacy on such disease, should have growth potential.

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

Qing Kai Ling soft capsule is a State Protected Chinese Medicine. 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 amounted to approximately RMB10,914,000 during the reporting period, representing an increase of approximately 68.1% as compared to the same period of last year, accounting for approximately 2.4% of the Group's turnover. With strong brand name, effective implementation of channel strategy and points of sales pulling strategy and the synergy with Qing Kai Ling injection, the Group expects that sales of this product can continue to increase.

RESEARCH AND DEVELOPMENT

Currently, there are 19 product research projects which are either undergoing or completed pharmaceutical and clinical trial. Among these research projects are 4 products 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.

To enhance our research and development capability, the Group is currently constructing a new research and development center in Lang Fang, Beijing. The new center is expected to the completed by early next year.

Management Discussion and Analysis

PATENT APPLICATIONS

The Group has increased its effort on pursuing intellectual property rights. For the first six months of 2007, three of the Group's inventions including "a new medicine and its production know-how for treatment of chronic nephritis", "application of total triterpenes of centella asiatica in preventing chronic renal failure and membranous nephropathy", and "a medical compound for treatment of prostatic hyperlasis" were awarded patent certificates by the Intellectual Property Office of the PRC. Currently, the Group has obtained 5 patents for its inventions and 12 invention patent applications are under review.

STATE PROTECTED CHINESE MEDICINES

As of 30 June 2007, the Group has a total of 12 medicines under the state protection scheme.

CHANGES IN REGULATIONS OF THE INDUSTRY

Early this year, regulatory authorities announced the adjustment of price caps on 278 Chinese medicines. Only 9 medicines of the Group are included in the adjustment list, including Qing Kai Ling injection, Shu Xie Ning injection, Deng Zhan Hua Su injection and Guan Xin Ning injection. Since these four injection products under the Shineway brand are labeled by the state authorities as "Good Quality/Good Price" products, the decrease of price caps for these four products are far less than the other brand without the "Good Quality/Good Price" status. Hence, the decrease of price caps on these products do not have material impact on the Group's earnings.

PROSPECT

During the reporting period, state authorities continued to rationalize the medicine market, and further administer regulatory measures to the pharmaceutical industry. Medicine manufacturers have been instructed to re-register production permits of medicine formulas. Those medicine formulas which are unable to qualify during the re-registration process will have to be withdrawn from the market. New medicine application approval are mostly put on hold. At the same time, regulators are conducting haphazard on-site inspection to manufacturers under the "Drugs Production Quality Control Protocols" and have, on a trial basis, assigned on-site supervisors to station at selected manufacturers. Medicine manufacturers who cannot conform with these administrative measures and protocols are most likely unable to continue their business. Likewise, consolidation of the industry is expected to accelerate.

While medical reform is forthcoming, the PRC government's investments in the health care system are also on the rise, whereby gradually improving the insufficiency of medical resources at present. As the medical reform process accelerates, resources available for the medical industry will favor companies with strong niches, hence raising entry barriers and speeding up the advancement of industry structure.

Management Discussion and Analysis

Although the pharmaceutical market of the PRC is fermenting transformation, key factors for its healthy growth remain unchanged. Medical reform will boost demand of medicines from community health care and rural cooperative medical services. In addition, higher living standard, population growth and aging will continue to drive growing needs of medicines. Pharmaceutical manufacturers with good products, strong research and development capacity and well built sales channels will definitely benefit from such market opportunity.

Modern Chinese medicines, as the main development focus of the country, are strongly supported by the PRC government. National policies have explicitly set key directions in modernization and internationalization of Chinese medicines. These directives include development of research and production technologies of modern Chinese medicines, effective protection and utilization of Chinese medicine resources, strengthening Chinese medicine intellectual property protection and establishing platform for international cooperation, with an aim to build a solid foundation for the development of modern Chinese medicine during "The Eleventh Five-Year Plan" for the health care industry.

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 injection, Qing Kai Ling injection and Wu Fu Xin Nao Qing soft capsule), the Group will nurture emerging products (including Shu Xie Ning injection, Huo Xiang Zheng Qi soft capsule, Huang Qi injection 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 coastal areas, Yangtze River coastal 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 2007, the Group continued to produce Chinese medicine products of good efficacy and high quality. Turnovers of injection products increased by 18.6% to RMB261,175,000, accounted for 56.6% of the Group's total turnover. Turnovers of soft capsule products decreased by 7.2% to RMB131,736,000, accounted for 28.5% of the Group's total turnover. Turnovers of granule products increased by 21.1% to RMB59,722,000, accounted for 13.0% of the Group's total turnover. The Group had also sold approximately RMB8,818,000 of medicines in other formats which accounted for approximately 1.9% of the Group's turnover.

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 48.7% (for the corresponding period of 2006: 49.2%), 30.7% (for the corresponding period of 2006: 28.0%), 8.3% (for the corresponding period of 2006: 12.4%), and 12.3% (for the corresponding period of 2006: 10.4%) of the Group's total turnover.

Turnover of prescription and OTC medicines of the Group for the first six months of 2007 were approximately RMB365,352,000 and RMB96,099,000 respectively, accounting for approximately 79.2% and 20.8% 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 2007 was RMB127,449,000, equal to approximately 27.6% of the total turnover. Direct materials, direct labour and other production costs accounted for approximately 74.9%, 5.9% and 19.2% of the total production costs.

Gross Profit Margin

During the first six months of 2007, the Group's overall gross profit margin increased to approximately 72.4% as compared to 69.7% 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 76.2%, 76.0% and 50.8% respectively. The steady 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 increase in percentage of sales of injection products, which have a relatively higher gross profit margin, from 52.6% to 56.6% of the total turnover for first six months of 2007, also led to the increase in the overall gross profit margin.

Management Discussion and Analysis

Distribution Costs

Distribution costs for the first six months of 2007 increased by approximately 29.2% when compared to the corresponding period of last year, representing approximately 21.2% of the Group's turnover for the same period (for the corresponding period of 2006: 18.1%). The increase was primarily attributable to the increase of distributor promotion expenses by approximately 44.0%. Distributor promotion expenses which accounted for approximately 11.5% of the Group's turnover (for the corresponding period of 2006: 8.4%), mainly included promotion cost subsidies to distributors with reference to sales growth target for the year. The Group had strengthened its effort in the promotion of its products at 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.

Administrative Expenses

Administrative expenses for the reporting period increased by approximately 98.1%, as compared to the first six months of last year. The increase was primarily due to exchange loss of approximately RMB21,241,000 from translating net assets denominated in Hong Kong dollars to Renminbi and the increase of salaries and wages. Administrative expenses accounted for approximately 12.5% of the Group's turnover (for the corresponding period of 2006: 7.0%). Salaries and wages increased by approximately 56.7% as compared to the same period last year, accounting for approximately 2.9% (for the corresponding period of 2006: 0.6%) of the Group's turnover. The increase was due to the increase in management and sales person headcount and pay rate to promote front line business and corporate development. During the reporting period, research and development expenses was RMB2,432,000. Administrative expenses also comprised of non-production depreciation expenses which accounted for approximately 0.7% (for the corresponding period of 2006: 0.3%) of the Group's total turnover.

Income Tax

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 year 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% of its assessable profit.

Management Discussion and Analysis

In March 2007, the National People's Congress promulgated the Corporate Income Tax Law of the PRC (the "new CIT") which will be effective from 1 January 2008. The new CIT will impose a single income tax rate of 25% for both domestic and foreign invested enterprises. The existing Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (the "FIE and FE tax laws") and Provisional Regulations of the PRC on Enterprise Income Tax (collectively referred to as the "existing tax laws") will be abolished simultaneously. Currently, the Company and its subsidiaries applied tax rates prevailing in the relevant jurisdictions. The new CIT has provided a 5-year transitional period for those entities that applied FIE and FE tax laws in previous years. As there are still no detail implementation rulings released, the Company will continue to assess the impact of such new law.

Dividends

The Board resolved to pay an interim dividend of RMB11 cents per share for the six months ended 30 June 2007 to the shareholders on the register of members of the Company on 18 September 2007, it represents a payout rate of approximately 45.8% of net profit attributable to the equity holders for the period.

On 20 March 2006, the Board approved a dividend policy to distribute interim and final dividends to all shareholders of the Company of not less than 40% of the distributable profit of the year.

Capital Structure

For the six months ended 30 June 2007, there was no change in the capital structure and issued share capital of the Group.

Establishment of Subsidiaries

During the first six months of 2007, the Group has established two wholly-owned subsidiaries namely Xizang Shineway Pharmaceutical Co., Ltd and Shineway Pharmaceutical (Hainan) Co., Ltd, with issued share capital of USD1,250,000 and USD3,900,000 respectively. These two wholly-owned subsidiaries were incorporated in PRC, with principal activity of trading Chinese pharmaceutical products.

Liquidity and Financial Resources

As at 30 June 2007, bank deposits of the Group amounted to approximately RMB1,561,974,000 which comprised of approximately RMB912,017,000 and approximately HK$656,522,000 (which is equivalent to approximately RMB649,957,000). 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.

Management Discussion and Analysis

Trade and Bills Receivables

Trade and bills receivables for the first six months of 2007 increased by approximately 79.8% from 31 December 2006. Turnover days of trade and bills receivables were 2 days and 35 days respectively (for the corresponding period of 2006: 1 day and 43 days respectively).

Inventories

Inventories balance as at 30 June 2007 increased by approximately 49.0% as compared to the balance as at 31 December 2006 due to an expected increase in demand of sales in the second half of 2007. According to the analysis by inventory types on 30 June 2007, raw materials, work in progress and finished products accounted for approximately 26.2%, 20.8% and 53.0% (31.12.2006: 35.9%, 29.9% and 34.2% respectively) of inventories respectively.

Finished products inventories turnover days in the first six months of 2007 was 62 days (for the corresponding period of 2006: 30 days).

Property, Plant and Equipment

Property, plant and equipment for the first six months of 2007 grew by approximately 12.3% as compared to 31 December 2006. This was mainly due to the costs of approximately RMB8,660,000 for the construction of a newly acquired research and development centre in the period.

Goodwill

Goodwill was originated from 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 129 days (for the corresponding period of 2006: 108 days).

Loans and Bank Borrowings

Except for the bills payable of approximately RMB411,000 (2006: RMB2,973,000), the Group did not have any loans or bank borrowings as at 30 June 2007 (2006: Nil). Accordingly the gearing ratio based on interest bearing debts for the period is Nil (2006: Nil).

Pledge of Assets

As at 30 June 2007, the Group pledged bank deposits amounting approximately RMB411,000 (2006: bank deposits and bills receivables amounting approximately RMB1,882,000 and RMB1,368,000 respectively) to secure bills payable of the same amount (2006: bills payable of RMB2,973,000).

Management Discussion and Analysis

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2007 (2006: Nil).

Exposure to Fluctuations in Exchange Rates

Since exchange rate between Renminbi and Hong Kong dollars kept moving up in the first six months of 2007, the Group has incurred exchange loss of approximately RMB21,241,000 from translating net assets denominated in Hong Kong dollars. The Group expected the exchange rate between Renminbi and Hong Kong dollars would become stable in the second half of this year.

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 2007, 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.

Connected Transaction

On 1 March 2007, a wholly-owned subsidiary of the Group entered into a transfer agreement with Shineway Medical Science & Technology (Lang Fang) Co., Ltd ("Shineway Lang Fang") for the acquisition of the research and development center and the relevant land use rights for an aggregate consideration of RMB23,960,000. Shineway Lang Fang is a 70% subsidiary of Shineway Medical Science & Technology Co., Ltd ("Shineway Medical"), which is controlled by a director of the Company.

Employees

As at 30 June 2007, the Group has 2,123 employees (for the corresponding period of 2006: 1,938 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 2007, 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 2007, 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%

Management Discussion and Analysis

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 2007, 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 2007, 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.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2007, 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: Mr. Li Zhenjiang, a Director, is deemed to be interested in 600,000,000 Shares representing approximately 72.55% of the issued share capital of the Company. 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. The Li Family 2004 Trust is 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 2007, 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.

Management Discussion and Analysis

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 2007, except for the following deviations:

(a) Chairman and chief executive officer

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 will nevertheless review the structure from time to time.

(b) Independent non-executive directors

Each of the independent non-executive directors, except for Mr. Li Kung Man, has entered into an appointment letter with the Company for a term of two years commencing from 3 July 2006 or till retirement by rotation in accordance with the Company's Articles of Association, if earlier.

Mr. Li Kung Man has not been appointed for any specific terms, however, he is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws.

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 2007.

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 2007.

Management Discussion and Analysis

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 11 September 2007 to 14 September 2007 (both days inclusive). In order to qualify for the 2007 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 4:30 pm on 10 September 2007.

APPRECIATION

On behalf of the Board, I would like to thank our shareholders and those who have supported our group, as well as our employees who made tremendous efforts to achieve the growth in our results during the period.

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

Hong Kong, 23 August 2007

Report on Review of Interim Financial Information

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 reviewed the interim financial information set out on pages 24 to 35, which comprises the condensed consolidated balance sheet of China Shineway Pharmaceutical Group Limited (the "Company") as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 August 2007

Condensed Interim Financial Report

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	NOTES	Six months ended 30 June **2007** **RMB'000** **(Unaudited)**	 2006 RMB'000 (Unaudited)
Turnover	3	**461,451**	418,313
Cost of sales		**(127,449)**	(126,812)
Gross profit		**334,002**	291,501
Other income		**56,740**	12,987
Distribution costs		**(97,996)**	(75,843)
Administrative expenses		**(57,743)**	(29,149)
Profit before taxation	4	**235,003**	199,496
Income tax	5	**(36,688)**	(26,292)
Profit for the period, attributable to equity holders of the Company		**198,315**	173,204
Dividends paid	6	**99,240**	99,240
Dividend declared	6	**90,970**	82,700
Earnings per share – basic	7	**RMB24 cents**	RMB21 cents

Condensed Interim Financial Report

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007

	NOTES	30.6.2007 RMB'000 (Unaudited)	31.12.2006 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**251,855**	224,368
Land use rights	9	**20,680**	5,618
Goodwill		**58,479**	58,479
Deferred tax assets		**8,835**	9,198
		339,849	297,663
Current assets			
Inventories		**56,905**	38,197
Bills receivables	10	**113,800**	63,301
Trade receivables	10	**6,236**	3,346
Prepayments, deposits and other receivables		**50,292**	21,340
Pledged bank deposits		**411**	1,882
Bank balances and cash		**1,561,974**	1,582,014
		1,789,618	1,710,080
Current liabilities			
Trade payables	11	**78,080**	73,173
Bills payables	11	**411**	2,973
Other payables, receipt in advance and accrued charges		**137,962**	142,388
Amount due to a related company		**11,577**	587
Government grants received		**5,800**	5,800
Tax liabilities		**27,309**	13,569
		261,139	238,490
Net current assets		**1,528,479**	1,471,590
Total assets less current liabilities		**1,868,328**	1,769,253
Capital and reserves			
Share capital	12	**87,662**	87,662
Reserves		**1,780,666**	1,681,591
Equity attributable to equity holders of the Company		**1,868,328**	1,769,253

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	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	Accumulated profits 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
Exchange difference on translation of foreign subsidiaries directly recognised in equity	–	–	–	(6)	–	–	–	–	(6)
Profit for the period	–	–	–	–	–	–	–	173,204	173,204
Total recognised (expense) income for the period	–	–	–	(6)	–	–	–	173,204	173,198
Transfers	–	–	–	–	39,019	(37,206)	–	(1,813)	–
Dividends paid	–	–	–	–	–	–	–	(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
Exchange difference on translation of foreign subsidiaries directly recognised in equity	–	–	–	(12,026)	–	–	–	–	(12,026)
Profit for the period	–	–	–	–	–	–	–	159,773	159,773
Total recognised (expense) income for the period	–	–	–	(12,026)	–	–	–	159,773	147,747
Transfers	–	–	–	–	27,865	–	–	(27,865)	–
Dividends paid	–	–	–	–	–	–	–	(82,700)	(82,700)
At 31 December 2006 and 1 January 2007	87,662	982,408	83,758	(32,721)	141,292	–	121,000	385,854	1,769,253
Profit for the period	–	–	–	–	–	–	–	198,315	198,315
Total recognised income for the period	–	–	–	–	–	–	–	198,315	198,315
Transfers	–	–	–	–	9,677	–	11,000	(20,677)	–
Dividends paid	–	–	–	–	–	–	–	(99,240)	(99,240)
At 30 June 2007	87,662	982,408	83,758	(32,721)	150,969	–	132,000	464,252	1,868,328

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	**119,159**	232,684
Net cash used in investing activities	**(39,959)**	(14,239)
Net cash used in financing activities	**(99,240)**	(99,240)
Net (decrease) increase in cash and cash equivalents	**(20,040)**	119,205
Cash and cash equivalents at beginning of the period	**1,582,014**	1,347,605
Effect of foreign exchange rate changes	**–**	(6)
Cash and cash equivalents at end of the period, representing bank balances and cash	**1,561,974**	1,466,804

Condensed Interim Financial Report

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

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 2006 except as described below.

In the current period, the Group has adopted, for the first time, a new and an amended International Financial Reporting Standard ("Standard") 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 1 January 2007.

The adoption of the new Standards had no material effect on how the results or financial position of the Group for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

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

IAS 23 (Revised)	Borrowing costs [1]
IFRS 8	Operating segments [1]
IFRIC 11	IFRS 2 – Group and treasury share transactions [2]
IFRIC 12	Service concession arrangements [3]
IFRIC 13	Customer loyalty programmes [4]
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

[1] Effective for annual periods beginning on or after 1 January 2009.

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

[3] Effective for annual periods beginning on or after 1 January 2008.

[4] Effective for annual periods beginning on or after 1 July 2008.

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	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of land use rights	**236**	164
Depreciation and amortisation of property, plant and equipment	**17,294**	11,755
Loss on disposal of property, plant and equipment	**–**	12
Research and development costs	**2,432**	2,354
Exchange loss (gain)	**21,241**	(756)
Interest income	**(20,673)**	(12,426)
Gain on disposal of trading listed investments	**(35,218)**	–
Dividend income from trading listed investments	**(581)**	–

5. INCOME TAX

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**36,325**	25,752
Deferred tax	**363**	540
	36,688	26,292

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 year 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.

In March 2007, the National People's Congress promulgated the Corporate Income Tax Law of the PRC (the new "CIT") which will be effective from 1 January 2008. The new CIT will impose a single income tax rate of 25% for both domestic and foreign invested enterprises. The existing Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (the "FIE and FE tax laws") and Provisional Regulations of the PRC on Enterprise Income Tax (collectively referred to as the "existing tax laws") will be abolished simultaneously. Currently, the Company and its subsidiaries applied tax rates prevailing in the relevant jurisdictions. The Corporate Income Tax Law has provided a 5-year transitional period for those entities that applied FIE and FE tax laws in previous years. As there are still no detail implementation rulings released, the Company will continue to assess the impact of such new law.

6. DIVIDENDS

Dividend paid

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

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final – RMB10 cents (2006: RMB10 cents) per share	**82,700**	82,700
Special – RMB2 cents (2006: RMB2 cents) per share	**16,540**	16,540
	99,240	99,240

Dividend declared

The directors declare an interim dividend of RMB11 cents per share amounting to approximately RMB90,970,000 in respect of the six months ended 30 June 2007 (1.1.2006 to 30.6.2006: 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 14 September 2007. The interim dividend has not been recognised as a liability at the balance sheet date.

Dividends payable in cash in Hong Kong dollars will be converted from Renminbi at the telegraphic transfer exchange rates quoted by bank at 11:00 a.m. on 23 August 2007 (RMB1 = HK$1.0285). Accordingly, the amount payable on 18 September 2007 will be approximately HK$0.1131 per share.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to the equity holders of the Company and earnings for the purposes of basic earnings per share	**198,315**	173,204

	Six months ended 30 June	
	2007	2006
Number of ordinary shares for the purposes of basic earnings per share	**827,000,000**	827,000,000

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

8. ADDITIONS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired plant and machinery at a cost of RMB9,835,000 (2006: RMB865,000), office equipment at a cost of RMB3,760,000 (2006: RMB599,000) and addition to construction in progress of RMB30,915,000 (2006: RMB15,373,000).

9. LAND USE RIGHTS

	30.6.2007	31.12.2006
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At beginning of the period/year	**5,946**	6,274
Addition for the period	**15,300**	–
Release to income statement	**(236)**	(328)
At end of the period/year	**21,010**	5,946
Leasehold land outside Hong Kong		
Current portion (included in other receivables)	**330**	328
Non-current portion	**20,680**	5,618
	21,010	5,946

10. TRADE AND BILLS RECEIVABLES

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

	30.6.2007	31.12.2006
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 6 months	**6,171**	3,346
Over 6 months but less than 1 year	**65**	–
	6,236	3,346

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

11. TRADE AND BILLS PAYABLES

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

	30.6.2007 RMB'000 (Unaudited)	31.12.2006 RMB'000 (Audited)
Within 6 months	**74,469**	68,241
Over 6 months but less than 1 year	**1,758**	3,724
Over 1 year but less than 2 years	**1,330**	1,198
Over 2 years	**523**	10
	78,080	73,173

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

12. SHARE CAPITAL

	Number of shares '000	**Amount** RMB'000
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2006, 31 December 2006 and 30 June 2007	**5,000,000**	530,000
Issued and fully paid:		
Balance at 1 January 2006, 31 December 2006 and 30 June 2007	**827,000**	87,662

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

13. PLEDGE OF ASSETS

At 30 June 2007, the Group has pledged bank deposits of approximately RMB411,000 to secure the bank credit facilities (31.12.2006: Bills receivables of RMB1,368,000 and bank deposits of RMB1,882,000).

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of goods to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (Note a)	**36**	279
Rental expenses paid to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (Note a)	**235**	235
Service fee to Shineway Medical (Note a)	**3,478**	3,478
Service fee to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note b)	**587**	587
Purchase of research centre and land use rights from Shineway Lang Fang (Note b)	**23,960**	–

Notes:

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

(b) Shineway Lang Fang being a 70% subsidiary of Shineway Medical.

15. COMMITMENTS

(a) Operating lease commitments

At 30 June 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2007	31.12.2006
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	**1,744**	1,211
In the second to fifth year inclusive	**3,339**	391
	5,083	1,602

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 commitments

At 30 June 2007, capital expenditure of RMB23,889,000 in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements (31.12.2006: RMB2,545,000).