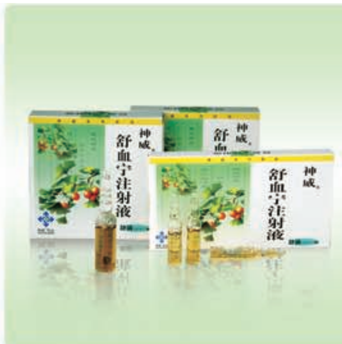
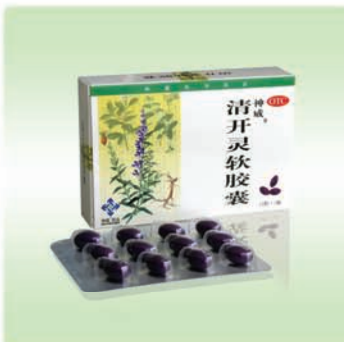
China Shineway Pharmaceutical Group Limited
中國神威藥業集團有限公司

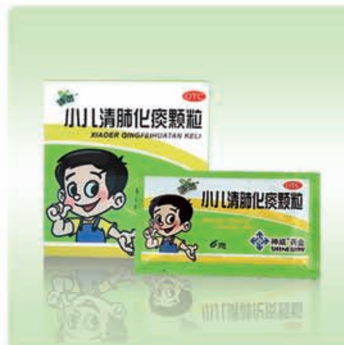
(Incorporated in the Cayman Islands with limited liability)

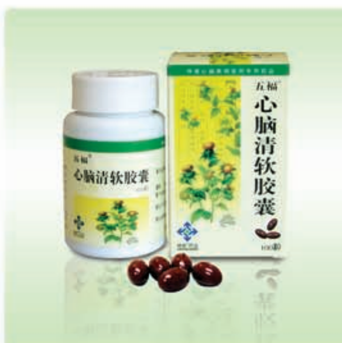
Stock Code: 02877







2009

INTERIM REPORT

LEADING MODERN

CHINESE MEDICINE

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
Ms. Cheng Li
Mr. Ma Kwai Yuen, Terence

Audit Committee

Mr. Ma Kwai Yuen, Terence *(Committee Chairman)*
Mr. Ren Dequan
Ms. Cheng Li

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Mr. Ma Kwai Yuen, Terence
Ms. Xin Yunxia

AUTHORIZED REPRESENTATIVES

Ms. Wang Zhihua
Mr. Li Huimin

COMPANY SECRETARY

Ms. Wong Mei Shan

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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Cayman Islands

HEAD OFFICE

Luan Cheng, Shijiazhuang
Hebei Province, The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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18 Harbour Road, Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609, KY1-1107
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

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

02877 (listed on the Main Board of
The Stock Exchange of Hong Kong Limited)

WEBSITES

www.shineway.com.hk
www.shineway.com

Financial Highlights

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2009, the operating results of the Group were as follows:

– Turnover reached RMB707,817,000, an increase of 10.2% from the corresponding period of last year;

– Gross profit margin was 70.5% as compared to 72.7% of the corresponding period of last year;

– Profit for the period amounted to RMB401,293,000, an increase of 49.5% over the corresponding period of last year;

– Earnings per share amounted to RMB49 cents;

– Declared interim dividend of RMB10 cents per share.

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 2009, the Group's prescription and over-the-counter ("OTC") medicines accounted for approximately 75.5% and 24.5% of the Group's turnover respectively. These medicines are primarily applied 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 2009, approximately 47.2% 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 28.5% and 24.3% respectively of the Group's turnover.

The Group's key products are as follows:

- 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

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

- 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

- Pediatric Qing Fei Hua Tan Granule: for children infected by respiratory related diseases

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

- Qing Kai Ling Soft Capsule: for treatment of high fever, viral influenza and respiratory tract infection

- Huang Qi Injection: for treatment of viral myocarditis, heart malfunction and hepatitis

As at 30 June 2009, 34 of the Group's products were covered by the national medical insurance catalogue.

A total of 30 medicines of the Group are included in the "Essential Drug List (Grass-root Health Care Facilities Use of Supplies) – Year 2009 Version".

Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 June 2009, the Group's turnover increased by 10.2%, amounting to RMB707,817,000. Sales by product format are set out as follows:

	Sales	Sales mix	Growth rate
Injections	RMB376,917,000	53.3%	5.0%
Soft Capsules	RMB194,091,000	27.4%	9.7%
Granules	RMB120,465,000	17.0%	26.2%
Other formats	RMB16,344,000	2.3%	47.6%

Profit for the six months ended 30 June 2009 rose to RMB401,293,000, representing an increase of 49.5% as compared to the corresponding period of last year. The increase in profit for the period is primarily attributable to the growth in sales volume of our products and the increase of operating profit. Also, bank deposits in Australian Dollars had generated net exchange gain during the period.

Rapid growth of China pharmaceutical market and the spreading of influenza A virus subtype H1-N1 ("A(H1-N1) Flu") had led to strong orders of our products. Supply of a number of our products was unable to meet sales demand during the period. The Group was in the process of expanding capacity of our extraction workshop to satisfy the growing needs. The capacity expansion work was completed near the end of this June, and extraction capacity per annum now reaches 10,000 tonnes. The new capacity is currently deployed in full to our production.

Injection Products

For the first six months of 2009, sales of injection products of our Group was RMB376,917,000, representing an increase of 5.0% from the same period of last year. Among these injection products, Qing Kai Ling Injection and Shu Xie Ning Injection recorded sales growth of 3.6% and 38.1% while sales of Shen Mai Injection decreased by 3.2%. For the first six months of 2009, injection products accounted for 53.3% of total turnover as compared to 55.9% of total turnover for the same period of last year.

Near the end of 2008, several Chinese medicine injection products made by other manufacturers were reported to cause adverse drug reaction during clinical application, thereby affecting sales momentum of the overall injection products market. Riding on our products' superb quality, more sales orders were received from customers despite the incident. On the other hand, supply of our injection products was unable to meet the demand from customers as a result of bottleneck in our extraction capacity. Expansion on capacity of our extraction workshop is now completed and the new capacity is currently deployed in full for production.

Management Discussion and Analysis

To raise standards of production and quality control of Chinese medicine injections, the State Food and Drug Administration (the "SFDA") introduced a series of regulations, including the "Principles on Re-Evaluating Chinese Medicine Injections Safety – quality control" and "Guideline on Re-Evaluating Chinese Medicine Injections Safety – Basic Requirements on Technologies", marking its official commencement to re-evaluate Chinese medicine injections in full scale. This serves to pave the direction on the development and support of Chinese medicine injections. The Group believes that re-evaluation of Chinese medicine injections will lead to the raising of the bars on production technological knowhow and quality standards. Those who are unable to comply with the re-evaluation principles and guidelines would be directed to discontinue and entry barriers of Chinese medicine injections will then be raised. The Group's advantages in Chinese medicine injections will become more significant.

In August 2009, state authorities of the PRC announced the commencement of essential drug system. The Ministry of Health released "Essential Drug List (Grass-root Health Care Facilities Use of Supplies) – Year 2009 Version (the "Essential Drug List"). Seven Chinese medicine injections are included in the Essential Drug List, including Qing Kai Ling Injection, Shen Mai Injection, Dan Zhan Injection and Chai Wu Injection produced by the Group. Inclusion of Chinese medicine injections in the Essential Drug List symbolizes the government's recognition and support on Chinese medicine injections. It is anticipated that clinical use of Chinese medicine injections will grow more rapidly with the implementation of the Essential Drug List.

The Group's production capacity of injection products now reaches 2 billion vials per annum. The Group believes that it is presently the largest Chinese medicine injection manufacturer in the PRC in terms of sales volume and production capacity. The Group will continue to maintain strategic focus in the business of injection products in anticipation of vast market demand of Chinese medicine injections.

Soft Capsule Products

For the first six months in 2009, sales of the Group's soft capsule products amounted to RMB194,091,000, representing an increase of 9.7% over the corresponding period of last year. Wu Fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule and Qing Kai Ling Soft Capsule recorded increases in sales of 16.7%, 8.4% and 6.7% respectively, as compared to the same period of last year.

Soft capsule products accounted for 27.4% of the Group's turnover for the first six months in 2009 as compared to 27.5% in the same period of last year. The Group's production capacity of soft capsule products now reaches 3.5 billion capsules per annum. The Group believes that it is the largest Chinese medicine soft capsule manufacturer in the PRC in terms of sales volume and production capacity.

Management Discussion and Analysis

Granule Products

For the first six months in 2009, sales of granule products increased by 26.2% as compared to the corresponding period of last year, amounting to RMB120,465,000. The increase is mainly due to the strong sales growth of Pediatric Qing Fei Hua Tan Granule.

Granule products accounted for 17.0% of the Group's turnover for the first six months in 2009 as compared to 14.9% in the same period of 2008. The Group's production capacity of granule products now reaches 1.5 billion bags per annum. To cope with growing market demand of our granule products, the Group is now building a new production workshop which will increase production capacity of granule products to 5.5 billion bags per annum. The expansion work is expected to be completed in 2010. The Group believes that it is the largest Chinese medicine granule products manufacturer in the PRC in terms of sales volume and production capacity.

Core Products

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 increased by 3.6% to RMB162,217,000 in the first six months this year, representing 22.9% of total turnover. It is one of the medicines on the recently announced Essential Drug List.

Qing Kai Ling Injection is a well known medicine for anti-viral treatment. It is mandated in the "National Catalogues of Medical Insurance and Occupational Injury Insurance", and designated by the State Administration of Traditional Chinese Medicines as an "Indispensable Chinese Medicine for the Emergency Wards of Chinese Hospitals". Qing Kai Ling Injection has been recommended by the Ministry of Health for treating "Human Transmitted Avian Flu" (the "Avian Flu") and the A(H1-N1) Flu. The product has broad clinical applications. Qing Kai Ling Injection produced by the Group was designated as "Good Quality/Good Price" and "State High-Tech Products" by the state authorities and also recognized as a "High Tech Product with Utmost Market Value"

In April 2009, the SFDA issued a publication notifying the causes of adverse drug reaction incidents from the use of Qing Kai Ling Injections were primarily due to clinical misapplication. Since then, distributors had made more orders of Qing Kai Ling Injections produced by the Group. Market demand of this product increased further during the spread of A(H1-N1) Flu. But because of the inadequate extraction capacity, production of injection products could not meet the demand from customers. Capacity expansion work of extraction workshop is now completed. New capacity is now used for our production of Qing Kai Ling Injection to catch up with its backorders.

The Group believes that as the country implements the Essential Drug List, market demand for Qing Kai Ling Injection is expected to grow vastly. The Group believes that it is the largest manufacturer of Qing Kai Ling Injection in the PRC in terms of sales volume. The Group will continue to rationalize distribution network to further enhance market coverage and penetration as well as strengthen marketing and promotion effort at the points of sales. Qing Kai Ling Injection will sustain strong growth.

Management Discussion and Analysis

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

For the first six months in 2009, sales of Shen Mai Injection reached RMB92,816,000, a decrease of 3.2% from the same period of last year, and accounted for 13.1% of the Group's turnover. Shen Mai Injection is included in the Essential Drug List.

Further to the requirement of the Notice of Re-evaluation Work on the Safety of Chinese Medicine Injections, the SFDA is taking steps to re-evaluate the safety of Chinese Medicine Injections in batches with the objective to further solidify the fundamentals of Chinese medicine injections. The first batch subject to re-evaluation includes Shen Mai Injection. Shen Mai Injection produced by the Group is a "State Protected Chinese Medicine". It is mandated in the "National Catalogues of Medical Insurance and Occupational Injury Insurance". It has been also recommended by the Ministry of Health of the PRC for treating the Avian Flu.

The Group believes that it is the largest manufacturer and supplier of Shen Mai Injection in China in terms of sales volume. The Group will continue to enhance market coverage and penetration of Shen Mai Injection to ensure its continuous sales growth.

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

For the first six months of 2009, sales of Shu Xie Ning Injection reached RMB91,827,000, an increase of 38.1% as compared to the same period of last year, and accounted for 13.0% of total turnover of the Group.

Shu Xie Ning Injection produced by the Group is designated by state authorities as a "Good Quality/Good Price" product and a "State Protected Chinese Medicine". Shu Xie Ning Injection is mandated in the "National Catalogues of Medical Insurance and Occupational Injury Insurance". The Group will continue to strengthen our promotion effort, cultivating strategic distributors and rationalizing distribution structure to sustain its strong growth.

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

As compared to the corresponding period of last year, sales of Wu Fu Xin Nao Qing Soft Capsule increased by 16.7% to RMB98,239,000, accounted for 13.9% of the Group's turnover.

Wu Fu Xin Nao Qing Soft Capsule is considered as one of the top ten oral Chinese medicines in the PRC for the treatment of cardiovascular illness. Its "Wu Fu" brand is a China Famous Trademark. Its cost of average daily dosage is among one of the lowest compared with other cardiovascular Chinese medicines.

Leveraging on the strong "Wu Fu" brand name, the Group will continue to strengthen its market coverage and support at the points of sales, as well as increase promotional activities. Growth in sales of this product is expected to continue.

Emerging Products

Huo Xiang Zheng Qi Soft Capsule – for prevention and treatment of heat stroke, stomach ache, nausea and diarrhea

For the first six months of 2009, sales of Huo Xiang Zheng Qi Soft Capsule increased by 8.4% to RMB56,169,000, representing 7.9% of the Group's turnover.

Huo Xiang Zheng Qi Soft Capsule is a "State Protected Chinese Medicine" and is mandated in the "National Catalogues of Medical Insurance and Occupational Injury Insurance". It has been recommended by the Ministry of Health of the PRC for treating the Avian Flu and A(H1-N1) Flu. Huo Xiang Zheng Qi Soft Capsule is a very popular non-prescription product due to its effective efficacy and high absorption rate of soft capsule.

The Group is actively boosting market coverage and support at point of sales, partnering with strategic distributors and pharmaceutical chain stores, and strengthening advertising and promotion to ensure stronger growth of Huo Xiang Zheng Qi Soft Capsule.

Pediatric Qing Fei Hua Tan Granule – for children infected by respiratory related diseases

For the first six months of 2009, sales of Pediatric Qing Fei Hua Tan Granule was RMB52,390,000, an increase by 59.6%, and accounted for 7.4% of the Group's turnover.

Pediatric Qing Fei Hua Tan Granule is a "State Protected Chinese Medicine". It has superb curative effect and is now a famous brand of coughing medicine for children. The Group will continue to increase advertising and joint promotional campaign with chain drug stores to ensure its sales growth momentum.

Huang Qi Injection – for treatment of viral myocarditis, heart malfunction and hepatitis

For the first six months of 2009, sales of Huang Qi Injection decreased by 5.0% to RMB18,826,000, representing 2.7% of the Group's turnover.

Huang Qi Injection is mandated in the "National Catalogues of Medical Insurance and Occupational Injury Insurance". The product has outstanding efficacy in clinical application and thus has enormous growth potential.

The Group is leveraging our brand advantages in Chinese medicine injections and market coverage to cultivate growth opportunities of Huang Qi Injection.

Management Discussion and Analysis

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

For the first six months of 2009, sales of Qing Kai Ling Soft Capsule amounted to RMB19,034,000, an increase of 6.7% as compared to the same period of last year, and accounted for 2.7% of the Group's turnover.

Qing Kai Ling Soft Capsule is both a prescription and non-prescription medicine. It is a "State Protected Chinese Medicine" and is mandated in the "National Catalogues of Medical Insurance and Occupational Injury Insurance". Qing Kai Ling Soft Capsule has also been recommended by the Ministry of Health of the PRC for treating the Avian Flu.

By leveraging the strong brand name and synergy with Qing Kai Ling Injection, the Group has been strengthening our partnership with strategic distributors and pharmaceutical chain stores, increasing advertising and promotion, and boosting market coverage and support at point of sales to ensure strong growth of this product.

RESEARCH AND DEVELOPMENT

Presently, the Group is carrying out 20 product research projects which are undergoing pharmaceutical and clinical trials. Among these research projects are 12 products for treatment of cardiovascular diseases, 1 product for treatment of digestive system illnesses and 2 products for anti-viral treatment. All of these research projects, including the joint research program with an university in Australia on a new medicine for the treatment of Alzheimer's disease, are progressing as planned.

During the period, Shineway Pharmaceutical Limited and Hebei Shineway Pharmaceutical Limited were assessed and granted as Provincial Grade Hi-Tech Enterprises.

The building structure of the Group's new research and development center in Lang Fang, Beijing is completed and awaiting for installation of equipment.

PATENT APPLICATIONS

The Group continues to pursue for intellectual property rights. During the first six month of 2009, the Group received 2 invention patents from the Intellectual Property Office of the PRC, including "a method to extract and prepare radix astragali armor glucoside" and "the medical application of carcuma longa extract to prevent or delay chronic renal failure".

As at 30 June 2009, the Group has obtained 9 patents for our inventions, and 7 invention patent applications are pending for approval.

Management Discussion and Analysis

STATE PROTECTED CHINESE MEDICINES

As at 30 June 2009, the Group had 9 medicines listed as "State Protected Chinese Medicines" including Shen Mai Injection, Shu Xie Ning Injection, Guan Xin Ning Injection, Pediatric Qing Fei Hua Tan Granule and Li Yan Jie Du Granule.

OUTLOOK

In April 2009, the state authorities of the PRC announced the "Opinion of In-Depth Reform on Healthcare Structure" and its supplementary document "2009-2011 Implementation Plan of In-Depth Reform on Healthcare Structure" which officially marked the commencement of the reform on basic heath care system with universal coverage to provide full scale health care services to the people of China. This symbolizes a new starting point of the pharmaceutical industry, leading to a surge of medicine market. It is expected that the growth of pharmaceutical industry will be expedited.

In May 2009, the state authorities of the PRC published the "Opinion on Supporting and Promoting the Development of Chinese Medicines" to reiterate its stance and firm support on the Chinese medicine industry. The Group believes that the state authorities had explicitly voiced its position on stronger support on clinical application of Chinese medicines and stronger backing on the Chinese medicine industry with preferential policies and regulations.

In August 2009, the Ministry of Health introduced the Essential Drug List to be effective on 21 September 2009. With reference to the "2009-2011 Implementation Plan of In-Depth Reform on Healthcare Structure", medicines in the Essential Drug List will all be included in the pending new National Insurance Catalog. Their insurance claim will be set at a higher amount than those medicines not included in the Essential Drug List. The Group believes that the market for medicines included in the Essential Drug List will inevitably expand. Upon full implementation of the Essential Drug List, it is expected that the medicine consumption will increase significantly.

There are a total of 307 medicines in the Essential Drug List. Among them are 30 medicines of the Group, including our core products Qing Kai Ling Injection and Shen Mai Injection. Leveraged on our superb brand name and advantage in product quality, the Group is aggressively preparing for this market change as health care reform is being implemented. The Group would be able to sell our products to hospitals, community clinics and rural areas in an unprecedented scale.

To cope with the health care reform and the opportunity from the country's continuous investments in medical care, the Group has commenced the construction of a Shineway Modern Chinese Medicine Park. The goal is to build one of the most technologically advanced and largest in scale production headquarters of Chinese medicine. Currently, a number of production workshops and facilities are being built. After completion of Phase I of the Shineway Modern Chinese Medicine Park, production capabilities will be tremendously expanded. Our advantages and leading positions in modern Chinese medicine injections, soft capsules and granules will further excel.

Management Discussion and Analysis

GROWTH STRATEGIES

The pharmaceutical industry of China is undergoing rapid growth. The government has ascertained its plan to allocate RMB850 billion to reform the country's health care system. In the midst of health care reform and the full implementation of the Essential Drug List, market for medicines will expand swiftly. With our strong management team, foremost research capabilities and large production capacity, China Shineway is well prepared to achieve better growth and return in the coming years by implementing the follow growth strategies:

Product Pipeline

1. Target on three high growth market segments – the middle and old aged, anti-viral and children medicines

2. Increase sales contribution from core products (namely Shen Mai Injection, Qing Kai Ling Injection, Shu Xie Ning Injection and Wu Fu Xin Nao Qing Soft Capsule)

3. Continue to nurture emerging products (such as Qing Kai Ling Soft Capsule, Pediatric Qing Fei Hua Tan Granule, Huo Xiang Zheng Qi Soft Capsule, Huang Qi Injection,) so each would have sales of over RMB100 million

4. Expediting market entrance of Lian Shen Tong Lin pallet, Qi Huang Tong Mi Soft Capsule and Xingsu Zhike Soft Capsule and accelerate sales growth of Shujin Tongluo Granule, Wu Fu Jiangzhi Tonghuo Soft Capsule and Xiesaitong Dripping Pills

5. Increase investments in research and development – to form a pipeline of broad span innovative products

Market Development

1. Continue to expand personnel covering prescription medicines, OTC and the "Third Point of Sale Zones" (hospitals of factories and mining fields, community clinics and rural healthcare centers) to strengthen sales support at these points of sales

2. Synergize regional sales strength by delegating authority to regional management to strengthen regional decision making and expedite responding time

3. Increase regional support and promotion as well as training, educating and experience sharing to further develop network of end customers

4. Increase advertising and promotion to strengthen brand equities of "Shineway", "Wu Fu" and "Shen Miao"

Management Discussion and Analysis

Regional Expansion

1. While utilizing our advantageous position in northern China markets, the Group will strengthen our presence in other key strategic regions (mainly Pearl River Delta – Guangdong, the Yangtze River Delta – Zhejiang, Shanghai, Jiangsu, the Huanbo Bay coastal areas – Beijing, Tianjin, Liaoning)

2. Sales growth for key strategic regions are set at higher levels than the Group's overall growth target

Distribution Channels

1. Rationalize distribution channels to foster closer strategic cooperation with cross regional distributors which have strong distribution capabilities to increase market coverage and penetration

2. Strengthen cooperation with distributors which have strong network of points of sales to expedite product coverage of community clinics and rural health care centres

3. Continue to utilize the strength in our sales channels to vastly conduct academic seminars, customer education activities to enhance product coverage

Cost Efficiency

1. Maintain cost leadership by sustaining low operation costs via economies of scale and affirm on low price high quality products to maintain price competitiveness

2. Steadily expand production capacities and degree of automation, strengthen procurement control and improve production efficiency to lower production costs

Acquisition Targets

1. Focus our acquisition target on Chinese medicine companies that would further strengthen our leadership in modern Chinese medicines, and be able to realize synergy to unfold our operating results

Management Discussion and Analysis

FINANCIAL ANALYSIS

Turnover

For the first six months of 2009, the Group continued to produce Chinese medicine products of good efficacy and high quality and turnover had surged by 10.2%. Sales of our injection products increased 5.0% to RMB376,917,000, which is equivalent to 53.3% of the Group's total turnover. Sales of soft capsule products was up 9.7% to RMB194,091,000, accounting for 27.4% of the Group's total turnover. Sales of granule products jumped 26.2% to RMB120,465,000, accounting for 17.0% of the Group's total turnover. The Group had also sold RMB16,344,000 of medicines in other formats which was about 2.3% of the Group's turnover.

During the period, sales of medicines for treating cardiovascular illness, anti-viral and medicines for treating other illnesses respectively accounted for 47.3% (for the corresponding period of 2008: 46.5%), 28.5% (for the corresponding period of 2008: 31.7%) and 24.2% (for the corresponding period of 2008: 21.8%) of the Group's total turnover.

Sales of prescription and OTC medicines of the Group for the first six months of 2008 were RMB534,185,000 and RMB173,632,000, equal to 75.5% and 24.5% of the Group's turnover respectively.

Cost of Sales

Cost of sales for the first six months of 2009 was RMB208,723,000, equal to 29.5% of turnover. Direct materials, direct labour and other production costs accounted for 74.7%, 5.5% and 19.8% of the total production costs respectively.

Gross Profit Margin

During the first six months of 2009, the Group's overall gross profit margin decreased slightly to 70.5% as compared to 72.7% from the same period of last year. The Group's average gross profit margins of injection products, soft capsule products and granule products were 75.4%, 72.1% and 56.0% respectively.

The slight adjustment of gross profit margin was mainly a result of higher growth of granule products leading to a slight change in sales mix during the period. Leveraged on our economies of scale, effective internal control, and advanced production technology to achieve high extraction rate and production yield rate, the Group's gross profit margin would remain stable.

Other Income

Other income mainly includes interest income from bank deposits of RMB20,183,000, and government subsidies of RMB23,802,000 (for the corresponding period of 2008: interest income from bank and other deposits of RMB17,773,000 and government subsidies of RMB14,817,000). The government subsidies mainly represented incentives received from government for investments in relevant regions in PRC by the Group.

Management Discussion and Analysis

Distribution Costs

Distribution costs for the first six months of 2009 decreased by 6.4% from the corresponding period of last year and were equal to 13.5% of the Group's turnover (for the corresponding period of 2008: 15.9%). The decrease is mainly due to the decrease of distribution promotion expenses by 37.0%. Distributor promotion expenses which accounted for 4.0% of the Group's turnover (for the corresponding period of 2008: 7.0%), mainly included promotion cost subsidies to distributors with reference to sales growth target for the year.

Administrative Expenses

Administrative expenses increased by 8.8%, as compared to the first six months of last year, which is in line with our growth in business activities. Administrative expenses accounted for 7.1% of the Group's turnover (for the corresponding period of 2008: 7.1%). Administrative expenses included research and development expenses of RMB10,195,000 (for the corresponding period of 2008: RMB9,192,000). Administrative expenses also comprised of salaries and wages and non-production depreciation expenses which accounted for 1.6% and 0.6% respectively (for the corresponding period of 2008: 1.8% and 0.5%) of the Group's turnover.

Net Exchange Gain

The Group posted a net exchange gain of RMB68,728,000 for the first six months of 2009. Included in the amount are exchange gain of RMB77,662,000 resulted from change of exchange rate between Australian Dollars and Renminbi and exchange loss of RMB8,934,000 from change of exchange rate between Hong Kong Dollars and Renminbi.

Income Tax Rate

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

Pursuant to the 國稅函(2009)203號,the PRC EIT rate applicable to Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") is 15% on their assessable profits for the year.

Pursuant to 西藏拉薩經濟技術開發區優惠政策, the PRC EIT rate applicable to Xizang Shineway Pharmaceuical Co., Limited is 10%, 12% and 15% on its assessable profit for the year ended 31 December 2008 and the years ending 31 December 2009 and 2010 respectively.

Dividends

The Board of Directors of the Company (the "Board") resolved to pay an interim dividend of RMB10 cents per share for the six months ended 30 June 2009 to the shareholders whose names appear on the register of member of the Company on 14 October 2009 (for which such interim dividend will be paid on 19 October 2009).

Management Discussion and Analysis

Capital Structure

For the six months ended 30 June 2009, there was no change in the capital structure and issued share capital of the Group.

Liquidity and Financial Resources

As at 30 June 2009, bank deposits of the Group amounted to RMB2,070,550,000 (31 December 2008: RMB1,585,644,000) which comprised of RMB1,270,207,000 (31 December 2008: RMB754,557,000) was denominated in Renminbi. Others being equivalent to RMB529,579,000, RMB269,333,000 and RMB1,431,000 (31 December 2008: RMB449,980,000, RMB379,414,000 and RMB1,693,000) were denominated in Australian Dollars, Hong Kong Dollars and United States Dollars respectively.

Except for trade and operating payables, the Group did not have any other liabilities. The directors of the Company ("Directors") believe that the financial position of the Group is healthy, with sufficient financial resources to meet the requirement for future development.

Bills and Trade Receivables

Bills and trade receivables for the first six months of 2009 decreased by 79.6% and 8.0% respectively from 31 December 2008. Turnover days of bills and trade receivables were 46 days and 3 days respectively (for the corresponding period of 2008: 82 days and 4 days respectively).

Inventories

Inventories balance as at 30 June 2009 increased by 18.3% from 31 December 2008 in anticipation of stronger sales growth in the second half of 2009. By inventory categories, raw materials, work in progress and finished products respectively accounted for 55.6%, 20.3% and 24.1% of inventories as at 30 June 2009 (31 December 2008: 65.1%, 14.9% and 20.0% respectively).

Turnover days for finished products in the first six months of 2009 were 18 days (for the corresponding period of 2008: 32 days).

Property, Plant and Equipment

As at 30 June 2009, property, plant and equipment increased RMB61,970,000 including RMB9,721,000 for purchasing production equipment and automobile, and the construction in progress of RMB52,249,000 includes the Shineway Modern Chinese Medicine Park project.

For the six months ended 30 June 2009, depreciation for property, plant and equipment amounted to RMB21,667,000 as compared to RMB17,649,000 during the same period of last year.

Management Discussion and Analysis

Goodwill

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

Trade Payables

During the period under review, turnover days of trade payables were 71 days (for the corresponding period of 2008: 86 days).

Loans and Bank Borrowings

The Group did not have any loans or bank borrowings as at 30 June 2009 (31 December 2008: Nil). Accordingly the gearing ratio with reference to interest bearing debt for the period is Nil (31 December 2008: Nil).

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2009 (31 December 2008: Nil).

Exposure to Fluctuations in Exchange Rates

Substantially all of the Group's business transactions and liabilities are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and most of its bank deposits are in Renminbi, Hong Kong Dollars and Australian Dollars. Despite our Australian Dollars bank deposits incurred exchange loss last year, volatility of Australian currency is stabilizing. As at 30 June 2009, 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.

Employees

As at 30 June 2009, the Group has 2,515 employees (31 December 2008: 2,345 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.

Other Information

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 not permitted to exceed 10% of the total number of shares of the Company in issue at any point of time unless otherwise approved by the Company's shareholders.

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 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.

Option granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per option. Options may be exercise at any time from the date of grant of the share option to the 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 six months ended 30 June 2009 and as at the date of this report since adoption.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2009, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2009, 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 Securities and Futures Ordinance (the "SFO"), which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (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 to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows: Mr. Li Zhenjiang, a Director, is deemed to be interested in 476,374,416 shares of the Company ("Shares") representing approximately 57.60% of the issued share capital of the Company. These 476,374,416 Shares are held 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. Accordingly, Mr. Li Zhenjiang is deemed to be interested in such 476,374,416 Shares under the SFO.

Save as disclosed above, as at 30 June 2009, 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.

Other Information

SUBSTANTIAL SHAREHOLDERS

(a) Interest in the Company

As at 30 June 2009, 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 SFO were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
Forway	Beneficial owner	476,374,416	57.60%
Matkon Limited ("Matkon")	Beneficial owner	111,621,644	13.50%
Trustcorp Limited (Notes 1 and 2)	Trustee of discretionary trust	587,996,060	71.10%
Newcorp Limited (Note 1)	Registered shareholder	587,996,060	71.10%

Notes:

(1) Interests of Trustcorp Limited and Newcorp Limited in the shares of the Company were duplicated.

(2) 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. The entire issued share capital of Matkon is owned by Trustcorp Limited in its capacity as the trustee of The Shineway Employee 2003 Trust, a discretionary trust, the discretionary objects of which are 330 employees of the Group. Accordingly, Trustcrop Limited is deemed to be interested in the 587,996,060 Shares under the SFO.

(b) Interest in other members of the Group

As at 30 June 2009, 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 2009, 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.

Other Information

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 to the Listing Rules during the period ended 30 June 2009, except for the following deviations:

Chairman and chief executive officer

Provision A.2.1 of the Code stipulates 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 the chief executive officer has been assumed by the President of the Company (the "President").

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.

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 2009.

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 2009.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 12 October 2009 to 14 October 2009 (both days inclusive). In order to qualify for the 2009 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 9 October 2009.

Other Information

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, 14 September 2009

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 36, which comprises the condensed consolidated statement of financial position of China Shineway Pharmaceutical Group Limited as of 30 June 2009 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows 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
14 September 2009

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2009

		Six months ended 30 June	
		2009	2008
		RMB'000	RMB'000
	NOTES	**(Unaudited)**	(Unaudited)
Turnover	3	**707,817**	642,359
Cost of sales		**(208,723)**	(175,621)
Gross profit		**499,094**	466,738
Other income		**46,316**	31,538
Investment gain (loss)		**86**	(6,438)
Net exchange gain (loss)		**68,728**	(24,855)
Distribution costs		**(95,730)**	(102,295)
Administrative expenses		**(50,138)**	(46,094)
Profit before taxation	4	**468,356**	318,594
Income tax	5	**(67,063)**	(50,140)
Profit for the period		**401,293**	268,454
Exchange differences on translation of foreign subsidiaries		**–**	8,384
Total comprehensive income for the period		**401,293**	276,838
Earnings per share – basic	7	**RMB49 cents**	RMB32 cents

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2009

	NOTES	30.6.2009 RMB'000 (Unaudited)	31.12.2008 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**366,186**	326,323
Land use rights	9	**62,662**	19,219
Goodwill		**58,479**	58,479
Deferred tax assets		**6,456**	8,664
		493,783	412,685
Current assets			
Inventories		**90,290**	76,324
Bills receivables	10	**60,868**	297,954
Trade receivables	10	**9,854**	10,714
Prepayments, deposits and other receivables		**31,032**	43,136
Bank balances and cash		**2,070,550**	1,585,644
		2,262,594	2,013,772
Current liabilities			
Trade payables	11	**98,439**	64,137
Other payables and accrued expenses		**180,101**	197,460
Amounts due to related companies		**9,319**	9,628
Government grants received		**–**	6,980
Tax liabilities		**29,748**	11,535
		317,607	289,740
Net current assets		**1,944,987**	1,724,032
Total assets less current liabilities		**2,438,770**	2,136,717
Capital and reserves			
Share capital	12	**87,662**	87,662
Reserves		**2,351,108**	2,049,055
Total equity		**2,438,770**	2,136,717

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Statutory surplus reserve fund RMB'000	Discretionary surplus reserve fund RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2008 (audited)	87,662	982,408	83,758	(33,130)	210,003	132,000	606,574	2,069,275
Exchange differences on translation of foreign subsidiaries recognised in statement of comprehensive income	–	–	–	8,384	–	–	–	8,384
Profit for the period	–	–	–	–	–	–	268,454	268,454
Total comprehensive income for the period	–	–	–	8,384	–	–	268,454	276,838
Transfers	–	–	–	–	3,441	–	(3,441)	–
Dividends paid	–	–	–	–	–	–	(223,290)	(223,290)
At 30 June 2008 (unaudited)	87,662	982,408	83,758	(24,746)	213,444	132,000	648,297	2,122,823
Exchange differences on translation of foreign subsidiaries recognised in statement of comprehensive income	–	–	–	(8,384)	–	–	–	(8,384)
Profit for the period	–	–	–	–	–	–	129,788	129,788
Total comprehensive income for the period	–	–	–	(8,384)	–	–	129,788	121,404
Transfers	–	–	–	33,130	–	–	(33,130)	–
Transfers	–	–	–	–	21,917	–	(21,917)	–
Dividend paid	–	–	–	–	–	–	(107,510)	(107,510)
At 31 December 2008 and 1 January 2009 (audited)	87,662	982,408	83,758	–	235,361	132,000	615,528	2,136,717
Profit for the period	–	–	–	–	–	–	401,293	401,293
Total comprehensive income for the period	–	–	–	–	–	–	401,293	401,293
Transfers	–	–	–	–	100,998	22,760	(123,758)	–
Dividends paid	–	–	–	–	–	–	(99,240)	(99,240)
At 30 June 2009 (unaudited)	87,662	982,408	83,758	–	336,359	154,760	793,823	2,438,770

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	**602,009**	80,507
Net cash used in investing activities:		
Interest received	**20,097**	16,209
Purchase of property, plant and equipment and land use rights	**(106,688)**	(24,787)
	(86,591)	(8,578)
Net cash used in financing activity:		
Dividends paid	**(99,240)**	(223,290)
Net increase (decrease) in cash and cash equivalents	**416,178**	(151,361)
Cash and cash equivalents at beginning of the period	**1,585,644**	1,678,442
Effect of foreign exchange rate changes	**68,728**	(16,443)
Cash and cash equivalents at end of the period, representing bank balances and cash	**2,070,550**	1,510,638

Condensed Interim Financial Report

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. GENERAL

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

In the current interim period, the Group has adopted, for the first time, a number of new or revised standards, amendments and interpretations ("new or revised IFRSs") issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee of IASB, which are effective for the Group's financial year beginning on 1 January 2009.

IAS 1 (revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. IFRS 8 is a disclosure standard. It has not resulted in a redesignation of the Group's reportable segments (see note 3), nor has any impact on the reported results of financial position of the Group. The adoption of the new and revised IFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs May 2008 [1]
IFRSs (Amendments)	Improvements to IFRSs April 2009 [2]
IAS 27 (Revised)	Consolidated and separate financial statements [1]
IAS 39 (Amendment)	Eligible hedge items [1]
IFRS 1 (Amendment)	Additional exemptions for first-time adopters [3]
IFRS 2 (Amendment)	Group cash-settled share-based payment transactions [3]
IFRS 3 (Revised)	Business combinations [1]
IFRIC 17	Distributions of non-cash assets to owners [1]
IFRIC 18	Transfers of assets from customers [4]

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

[2] Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 January 2010.

[4] Effective for transfers on or after 1 July 2009.

3. TURNOVER AND SEGMENT INFORMATION

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

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (IAS 14, *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, there is no segmental analysis of business and geographical segments, because the Group's operation was regarded as a single segment, being an enterprise engaged in research and development, manufacture and trading of Chinese pharmaceutical products. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments because the CODM, Chairman of the Board of Directors of the Group, reviews the demand of pharmaceutical market and the operating results of the Group as a whole for performance assessment and resource allocation. Therefore, the operation of the Group constitutes one single reportable segment.

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of land use rights	**381**	335
Depreciation of property, plant and equipment	**21,667**	17,649
Loss on disposal of property, plant and equipment	**435**	84
Research and development costs	**9,176**	9,192
Government subsidies received (included in other income) (Note)	**(23,802)**	(14,817)
Interest income from bank deposits	**(20,183)**	(17,773)
Loss on disposal of held-for-trading investments	**–**	7,818
Dividends from held-for-trading investments	**–**	(67)

Note: It mainly represented the incentives received from PRC Government for investments in relevant regions in PRC by the Group.

5. INCOME TAX

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**61,198**	41,411
Underprovision in prior year	**3,657**	8,919
Deferred tax	**2,208**	(190)
	67,063	50,140

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

Pursuant to the 國稅函(2009)203號, the PRC EIT rate applicable to Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") is 15% on their assessable profits for the year.

5. INCOME TAX *(Continued)*

Pursuant to 西藏拉薩經濟技術開發區優惠政策, the PRC EIT rate applicable to Xizang Shineway Pharmaceutical Co., Limited is 10%, 12% and 15% on its assessable profit for the year ended 31 December 2008 and the years ending 31 December 2009 and 2010 respectively.

6. DIVIDENDS

Dividends paid

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

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final – RMB12 cents (2008: RMB11 cents) per share	**99,240**	90,970
Special – nil (2008: RMB16 cents) per share	**–**	132,320
	99,240	223,290

Dividend declared

The directors of the Company (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 2009 (1 January 2008 to 31 December 2008: RMB12 cents per share and a special dividend of RMB1 cent per share, amounting to approximately RMB107,510,000), which will be paid on 19 October 2009, to the shareholders whose names appear on the Company's register of members on 14 October 2009. The 2009 interim dividend has not been recognised as a liability as at 30 June 2009.

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 am on 14 September 2009 (RMB1 = HK$1.1319). Accordingly, the amount payable on 19 October 2009 will be approximately HK$0.1132 per share.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to the owners of the Company and earnings for the purposes of basic earnings per share	**401,293**	268,454

	Six months ended 30 June	
	2009	2008
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. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired buildings at a cost of RMB213,000 (2008: RMB3,043,000), plant and machinery at a cost of RMB7,287,000 (2008: RMB3,543,000), office equipment at a cost of RMB1,186,000 (2008: RMB2,227,000), motor vehicles at a cost of RMB1,035,000 (2008: RMB1,015,000) and addition to construction in progress of RMB52,249,000 (2008: RMB14,959,000).

9. LAND USE RIGHTS

	30.6.2009 RMB'000 (Unaudited)	31.12.2008 RMB'000 (Audited)
At beginning of the period/year	**19,894**	20,569
Addition for the period/year	**44,718**	–
Release to statement of comprehensive income for the period/year	**(381)**	(675)
At end of the period/year	**64,231**	19,894
Leasehold land outside Hong Kong		
Current portion (included in other receivables)	**1,569**	675
Non-current portion	**62,662**	19,219
	64,231	19,894

10. OTHER FINANCIAL ASSETS

	30.6.2009 RMB'000 (Unaudited)	31.12.2008 RMB'000 (Audited)
Bills receivables and trade receivables:		
Bills receivables	**60,868**	297,954
Trade receivables	**9,854**	10,714
	70,722	308,668

10. OTHER FINANCIAL ASSETS *(Continued)*

The Group allows credit periods normally ranging from six months to one year to its trade customers. An aged analysis of the Group's bills receivables and trade receivables at 30 June 2009 is as follows:

	30.6.2009	31.12.2008
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 6 months	**70,722**	308,668

11. OTHER FINANCIAL LIABILITIES

	30.6.2009	31.12.2008
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade payables	**98,439**	64,137

An aged analysis of the Group's trade payables at 30 June 2009 is as follows:

	30.6.2009	31.12.2008
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 6 months	**80,922**	57,079
Over 6 months but less than 1 year	**13,603**	3,625
Over 1 year but less than 2 years	**3,013**	3,263
Over 2 years	**901**	170
	98,439	64,137

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

12. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2008, 31 December 2008 and 30 June 2009	5,000,000	530,000
Issued and fully paid:		
Balance at 1 January 2008, 31 December 2008 and 30 June 2009	827,000	87,662

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

13. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Sale of goods to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (Note a)	**126**	59
Rental expenses paid to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (Note a)	**310**	235
Service fee to Shineway Medical (Note a)	**3,618**	3,547
Service fee to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note b)	**750**	700

Notes:

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

(b) Shineway Medical owns 70% equity interest in Shineway Lang Fang.

13. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel

The key management personnel are the Directors. Details of the remuneration paid to them during the period were as follows:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	**2,248**	2,470
Post-employment benefits	**5**	5
	2,253	2,475

14. COMMITMENTS

(a) *Operating lease commitments*

At 30 June 2009, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2009	31.12.2008
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	**3,475**	2,121
In the second to fifth year inclusive	**109**	1,002
	3,584	3,123

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 2009, capital expenditure of RMB85,020,000 in respect of acquisition of property, plant and equipment is contracted for but not provided in the condensed consolidated financial statements (31 December 2008: RMB69,572,000).