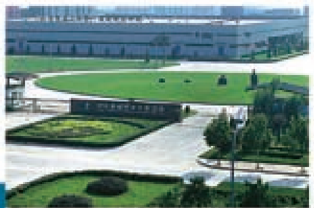
神威藥業
SHINEWAY

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



LEADING MODERN
CHINESE MEDICINE

Interim Report **2010**

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
(resigned on 30 April 2010)

Independent Non-executive Directors

Mr. Ren Dequan
Ms. Cheng Li
Mr. Sun Liutai (appointed on 9 February 2010)

Audit Committee

Mr. Sun Liutai *(Committee Chairman)*
(appointed on 9 February 2010)
Mr. Ren Dequan
Ms. Cheng Li

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Mr. Sun Liutai (appointed on 9 February 2010)
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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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

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18 Harbour Road, Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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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 2010, the operating results of the Group were as follows:

– Turnover reached RMB936,192,000, an increase of 32.3% from the corresponding period of last year;

– Gross profit margin was 69.5% as compared to 70.5% of the corresponding period of last year;

– Profit for the period amounted to RMB420,691,000, an increase of 4.8% over the corresponding period of last year;

– Earnings per share amounted to RMB51 cents;

– Declared interim dividend of RMB11 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 2010, the Group's prescription and over-the-counter ("OTC") medicines accounted for approximately 77.1% and 22.9% 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 2010, approximately 40.3% 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 36.1% and 23.6% 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
- Shu Xie Ning Injection: cardio-cerebrovascular disease medicine
- Wu Fu Xin Nao Qing Soft Capsule: for prevention and treatment of coronary heart disease and cerebral arteriosclerosis
- Huo Xiang Zheng Qi Soft Capsule: for prevention and treatment of heat stroke, stomach ache, nausea and diarrhoea, acclimatization sickness
- Pediatric Qing Fei Hua Tan Granule: for children infected by respiratory related diseases
- Huang Qi Injection: for treatment of viral myocarditis, heart malfunction and hepatitis
- Qing Kai Ling Soft Capsule: for treatment of high fever, viral influenza and respiratory tract infection

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" ("Essential Drug List <2009 version>").

Management Discussion and Analysis

BUSINESS REVIEW

With well-known brand names, quality products and effective implementation of growth strategies, sales of the Group's modern Chinese medicine injection, soft capsule and granule products continued to grow. For the six months ended 30 June 2010, the Group recorded a turnover of RMB936,192,000, an increase of 32.3%. Sales by product form for the period are set out as follows:

	Sales	Product mix	Growth rate
Injections	RMB569,597,000	60.9%	51.1%
Soft Capsules	RMB200,172,000	21.4%	3.1%
Granules	RMB150,333,000	16.0%	24.8%
Other product formats	RMB16,090,000	1.7%	-1.6%

The Group's net profit for the period ended 30 June 2010 is RMB420,691,000 representing an increase of 4.8% as compared to the corresponding period of last year. If excluding the exchange gain from the first six months of 2009, the profit after tax for 2010 will be increased by 26.5%. The percentage of growth in net profit is lower than the percentage of growth in turnover is mainly caused by increase in price of raw materials and distribution costs.

Injection Products

The pharmaceutical market has strong demand for Chinese medicine injections. For the first six months of 2010, the Group sold RMB569,597,000 of injection products, representing an increase of 51.1% from the same period of last year. Amongst these injection products, Qing Kai Ling Injection and Shu Xie Ning Injection, recorded growth in sales of 87.1% and 23.6% respectively, and Shen Mai Injection resumes growth of 20.1%. For the first six months of 2010, injection products accounted for 60.9% of the Group's total turnover as compared to 53.3% for the same period of last year. In the first quarter of 2010, there was large demand for Qing Kai Ling Injection as the influenza A virus subtype H1-N1 ("A(H1-N1) Flu") was still commonly experienced all over China.

Management Discussion and Analysis

Soft Capsule Products

For the first six months of 2010, the Group recorded RMB200,172,000 on sales of soft capsule products, representing an increase of 3.1% from the same period of last year. Sale of Huo Xiang Zheng Qi Soft Capsule increased by 28.6%. However, Wu Fu Xin Nao Qing Soft Capsule and Qing Kai Ling Soft Capsule decreased by 12.2% and 5.7% respectively, as compared to the same period of last year.

Soft Capsule products account for 21.4% of the Group's turnover for the first six months of 2010, as compared to 27.5% for the same period of last year. Sales of soft capsule products recorded a slight growth rate because of the capacity utilization is at a high level. Therefore, a smooth growth is expected. The Group's production capacity for soft capsule products is presently at 3.5 billion capsules per annum. The Group believes that it is currently the largest Chinese medicine soft capsule manufacturer in the PRC in terms of sales volume and production capacity.

Granule Products

Sales of granule products in the first six months of 2010 had increased by 24.8% as compared to the same period of last year, amounting to RMB150,333,000. The growth can be attributable to the satisfactory growth of pediatric granule series.

Granule products account for 16.0% of the Group's turnover for the first six months of 2010 as compared to 17.0% of the same period of 2009. The Group's production capacity of granule products now reaches 1.9 billion bags per annum. To cope with growing market demand of our granule products, the Group is now building a new production workshop which is expected to increase production capacity of granule products to 3.4 billion bags per annum. The new workshop is expected to be completed in late 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.

Management Discussion and Analysis

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 our Qing Kai Ling Injection for the first six months of the year had increased by 87.1% to RMB303,474,000 as compared to the corresponding period of last year. This product now accounts for 32.4% of the Group's turnover.

Qing Kai Ling Injection is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance, and is 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 "Avian Flu") and the A(H1-N1) Flu. The product has broad clinical applications. Qing Kai Ling Injection produced by the Group is a famous anti-viral medicine and has been named as "Good Quality/Good Price" and "State High-Tech Product" by the authorities. Qing Kai Ling Injection has been included by the Ministry of Health in the Essential Drug List <2009 version>.

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 based on sales volume. The Group will continue to rationalize distribution network to further enhance market coverage and penetration, as well as to strengthen marketing and promotion effort at the points of sales. Qing Kai Ling Injection will sustain strong growth.

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

For the first six month of 2010, sales of Shen Mai Injection were RMB111,451,000, an increase of 20.1% as compared to the corresponding period of last year. This product now accounts for 11.9% of the Group's turnover.

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 treatment of Avian Flu and included in the Essential Drug List <2009 version>.

The Group believes that it is the largest manufacturer of Shen Mai Injection in the PRC based on sales volume. Leveraging on our strong brand name and effective marketing strategy, the Group will strive to further expand market share and penetration for Shen Mai Injection to generate further growth in coming years.

Management Discussion and Analysis

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

For the first six months of 2010, sales of Shu Xie Ning Injection reached RMB113,519,000, an increase of 23.6% from corresponding period of last year. This product now accounts for 12.1% of the Group's turnover.

Shu Xie Ning Injection is designated as a "State Protected Chinese Medicine" and a "Good Qualify/Good Price" product by the PRC authorities. It is included in the National Catalogues of Medical Insurance and Occupational Injury Insurance. The Group will continue to further enhance market coverage and penetration, foster marketing effort at the points of sales, and look for strategic distributors and rationalize distribution channels to achieve strong growth continuously.

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

Sales for the first six months of 2010 of Wu Fu Xin Nao Qing Soft Capsule decreased by 12.2% to RMB86,279,000. This product now accounts for 9.2% of the Group's turnover.

Wu Fu Xin Nao Qing Soft Capsule is ranked among the top ten cardiovascular Chinese medicines in the country. It is also one of the lowest in cost of average daily dosage among similar cardiovascular medicines. The "Wu Fu" trademark was certified as a "China Famous Trademark".

The Group will continue to strengthen our effort on promoting the "Wu Fu" brand and deepen our end-user market coverage and exercise more support to our distributors by increasing promotional activities to broaden its sales.

Emerging Products

Huo Xiang Zheng Qi Soft Capsule – for prevention and treatment of heat stroke, stomachache, nausea and diarrhea, acclimatization sickness

Sales for the first six months of 2010 of Huo Xiang Zheng Qi Soft Capsule increased by 28.6% as compared to the corresponding period of last year, with a revenue of RMB72,320,000. The product accounts for 7.7% of the Group's turnover.

Huo Xiang Zheng Qi Soft Capsule is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. It is also recommended by the Ministry of Health of the PRC for Avian Flu and the A(H1-N1) Flu. Due to its effective efficacy and the high bioavailability of soft capsule, Huo Xiang Zheng Qi Soft Capsule is a very popular non-prescription medicine.

Management Discussion and Analysis

The Group will continue to expand market coverage. Furthermore, we will expedite partnership with strategic distributors and chain drug stores, and increase promotion to strive for better growth of Huo Xiang Zheng Qi Soft Capsule.

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

Sales for the first six months of 2010 of Pediatric Qing Fei Hua Tan Granule was RMB65,964,000, an increase of 25.9% as compared to the same period of last year. This product now accounts for 7.0% of the Group's turnover.

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

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

Sales for the first six months of 2010 of Huang Qi Injection had increased by 9.4% to RMB20,601,000. The product now accounts for 2.2% of the Group's turnover.

Huang Qi Injection is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. It is also named as a "Hi-Tech Product" by the PRC authorities. Viral myocarditis has become more prevalent in recent years. With a proven efficacy on such illness, Huang Qi Injection has strong market potential. The Group will continue to further enhance market coverage and penetration and growth in sales of Huang Qi Injection is expected in coming years.

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

Sales of Qing Kai Ling Soft Capsule recorded sales of RMB19,034,000 for the first six months of 2010, a decrease of 5.7% as compared to the same period of last year. The product now accounts for 1.9% of the Group's turnover.

Qing Kai Ling Soft Capsule is both a prescription and non-prescription medicine.

The Group will further expedite partnership with strategic distributors and chain drug stores, and increase promotion effort to ensure sales momentum of this product.

Management Discussion and Analysis

RESEARCH AND DEVELOPMENT

During the year, there are 20 product research projects which are either undergoing pharmaceutical and clinical trial or have completed clinical trial. Among these projects, 12 projects are related to treatment of various cardiovascular diseases, 2 projects for anti-viral treatment, 1 project for treatment of digestive system illnesses and 1 project for gynaecological treatment. All of these research projects, including the joint research project with a university in Australia to develop a new medicine for the treatment of Alzheimer's disease, are proceeded as planned. The Group is now working jointly with renounced institutions and universities to improve the quality and efficacy of injection products

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

PATENT APPLICATIONS

The Group continues to apply for intellectual property rights. As at 30 June 2010, the Group received 5 invention patents from the Intellectual Property Office of the PRC.

As at the date of the Interim Report, the Group has obtained 14 patents for our inventions, and 4 invention patent applications are pending approval.

STATE PROTECTED CHINESE MEDICINES

As at 30 June 2010, the Group had 9 medicines listed as State Protected Chinese Medicines including Shu Xie Ning Injection, Guan Xin Ning Injection, Pediatric Qing Fei Hua Tan Granule, Liyan Jiedu Granule, etc.

PROSPECT

In June 2010, The National Development and Reform Committee ("NDRC") has published the (Request For Opinion) in relation to (Medicine Price Management Method) and commenced examination of certain medicines ex-factory price. As these announcements requested plenty of information and was very complicated, concerning massive information from medicine manufacturers and sales companies, there is no announcements on the price control methods at present. The Group will cooperate and follow any applicable rules and methods to be announced in the future. As the Group's products included in the Essential Drug List <2009 version> are governed by relevant government authority, it is anticipated that there will not be significant adverse effect to the Group.

To raise standards of production and quality control of Chinese medicine injections, the State Food and Drug Administration 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 as a direction and support for the development of Chinese medicine injections. The Group believes that re-evaluation of Chinese medicine injections will raise the bar on production technological

Management Discussion and Analysis

knowhow and quality standards of Chinese medicine injections. Unqualified manufacturing enterprises would be eliminated. Entry barriers of Chinese medicine injections will then be raised. The Group's advantages in Chinese medicine injections will become more prominent.

A total of 30 medicines produced by the Group are included in the Essential Drug List <2009 version>, including our core products Qing Kai Ling Injection and Shen Mai Injection. With the Group's famous brand names and medicines of superb quality, the Group is determined to expedite our market coverage and penetration to clinics in rural and sub-urban areas.

Currently the PRC Government is still having discussions and investigation on the price examination and procedures on tendering, but no announcement is issued to the industry players so far. Accordingly, there are uncertainties to the market on whether any future pricing policy will be imposed. Although there are still strong demands for good quality medicine from the market, the Group is cautiously optimistic on the sales in the future.

GROWTH STRATEGIES

The pharmaceutical industry of China is undergoing rapid growth. The Government is infusing RMB850 billion to rationalize the country's health care system. The Government has spent over 90 billion through the Xin Nung He programme and other medical protection expenditures at the end of 2009. Driven by health care reform and 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 by implementing the following 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 Qing Kai Ling Injection, Shen Mai Injection, Shu Xie Ning Injection and Wu Fu Xin Nao Qing Soft Capsule.)

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

4. Expediting market entrance and accelerate sales growth of Liyan Jiedu Granule, Shujin, Tongluo Granule and Wu Fu Jiangzhi Tonghuo Soft Capsules

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

Management Discussion and Analysis

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 brand promotion to strengthen brand influence of "Shineway", "Wu Fu", "Shen Miao" and "Beisi"

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 centers

3. Continue to utilize the strength in our sales channels to vastly conduct academic seminars and 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. Despite slight adjustment of gross profit margin due to increase in cost of raw materials and power supply, the Group has long-term procurement contract with suppliers, and installs new equipment with higher efficiency as alleviation

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

Management Discussion and Analysis

Acquisition Strategy

We will focus our acquisition target on Chinese medicine companies that would further strengthen our leadership in modern Chinese medicines, and to create synergy to our business and results.

During the period, the Group completed two acquisitions after careful selection on products and prospects on injections manufacturers. The details of the acquisitions are set out on page 15 of this Interim Report.

The Group will enrich its product portfolio and support the expansion of production capacity to meet the market growth in future. However, contribution from the acquired companies will not be significant until 2011.

SHINEWAY MODERN CHINESE MEDICINE PARK

To cope with the opportunities from the pharmaceutical market in coming years, the Group has commenced construction of our Shineway Modern Chinese Medicine Park. We aim to build one of the most technologically advanced and largest in scale production headquarters of Chinese medicine in the country. Currently, a number of production workshops and facilities are being built, including a new granule and tablets workshop to increase production capacity of granules from 1.9 billion bags to 3.4 billion bags per annum, and the production capacity of tablets to 2.0 billion tablets per annum. The workshop is scheduled to complete for production by November 2010. In addition, construction of the new injection workshop which is designed according to the new GMP standards will be scheduled to complete in late 2011. Shineway will further advance in leading and strong foothold in manufacturing of modern Chinese Medicine in form of injections, soft capsules and granules.

FINANCIAL ANALYSIS

Turnover

For the first six months of 2010, the Group continued to produce Chinese medicine products of good efficacy and high quality and turnover had surged by 32.3%. Sales of our injection products increased 51.1% to RMB569,597,000, which is equivalent to 60.9% of the Group's total turnover. Sales of soft capsule products was up 3.1% to RMB200,172,000, accounting for 21.4% of the Group's total turnover. Sales of granule products jumped 24.8% to RMB150,333,000, accounting for 16.0% of the Group's total turnover. The Group had also sold RMB16,090,000 of medicines in other formats which was about 1.7% of the Group's turnover.

During the period, sales of medicines for treating cardiovascular illness, anti-viral, gastroenterological medicines and medicines for treating other illnesses respectively accounted for 40.3% (for the corresponding period of 2009: 47.3%), 36.1% (for the corresponding period of 2009: 28.5%), 7.7% (for the corresponding period of 2009: 8.1%) and 15.9% (for the corresponding period of 2009: 16.1%) of the Group's total turnover.

Sales of prescription and OTC medicines of the Group for the first six months of 2010 were RMB722,151,000 and RMB214,041,000, equal to 77.1% and 22.9% of the Group's turnover respectively.

Management Discussion and Analysis

Cost of Sales

Cost of sales for the first six months of 2010 was RMB285,159,000, equals to 30.5% of turnover. Direct materials, direct labour and other production costs accounted for 54.6%, 5.9% and 39.5% of the total production costs respectively.

Gross Profit Margin

During the first six months of 2010, the Group's overall gross profit margin decreased slightly to 69.5% as compared to 70.5% from the same period of last year.

The slight adjustment of gross profit margin was mainly a result of increase in raw materials, power supply and labour costs. 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 government subsidies of RMB35,761,000 (for the corresponding period of 2009: RMB26,219,000). The government subsidies mainly represented incentives received from government for investments in relevant regions in PRC by the Group.

Investment Gain

Investment gain mainly includes interest income from bank deposits of RMB27,550,000 (for the corresponding period of 2009: RMB20,183,000). The growth was mainly due to increase of bank deposits and interests in China.

Distribution Costs

Distribution costs for the first six months of 2010 increased by 42.1% from the corresponding period of last year and were equal to 14.5% of the Group's turnover (for the corresponding period of 2009: 13.5%). The increase was mainly due to the increase of distribution promotion expenses by double. Distributor promotion expenses which accounted for 5.7% of the Group's turnover (for the corresponding period of 2009: 4.0%), mainly included promotion cost subsidies to distributors with reference to sales growth target for the year.

Administrative Expenses

Administrative expenses increased by 57.4%, as compared to the first six months of last year, which is in line with our growth in business activities. Administrative expenses accounted for 6.9% of the Group's turnover (for the corresponding period of 2009: 5.8%). Administrative expenses also comprised of salaries and wages and non-production depreciation expenses which accounted for 1.4% and 0.7% respectively (for the corresponding period of 2009: 1.6% and 0.6%) of the Group's turnover.

Management Discussion and Analysis

Net Exchange Loss

The Group posted a net exchange loss of RMB7,025,000 for the first six months of 2010. Included in the amount were exchange loss of RMB3,813,000 resulted from change of exchange rate between bank deposit in Australian Dollars and Renminbi and exchange loss of RMB3,212,000 from change of exchange rate between Hong Kong Dollars and Renminbi.

Taxation

The income tax expense is recognised based on management's best estimated weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual tax rate used is 15% for the periods under review.

Pursuant to Guoshuihan (2010) No. 203, the PRC Enterprise Income Tax ("PRC EIT") rate applicable to Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") is 15% on their taxable income for the year.

Pursuant to Preferential Policy on the Economic and Technology Development Zone of Lhase, Tibet, the PRC EIT rate applicable to Xizang Shineway Pharmaceutical Co., Limited is 12% and 15% on its taxable income ("Tax Holiday") for the year ended 31 December 2009 and the year ending 31 December 2010, respectively. Year 2010 is the last year of Tax Holiday.

Dividends

The Board of Directors of the Company (the "Board") resolved to pay an interim dividend of RMB11 cents per share, amounting to approximately RMB90,970,000, for the six months ended 30 June 2010 to the shareholders whose names appear on the register of member of the Company on 15 October 2010 (for which such interim dividend will be paid on 25 October 2010).

Capital Structure

For the six months ended 30 June 2010, there was no change in the capital structure and issued share capital of the Group.

Acquisition of Subsidiaries

In April 2010, the Group acquired Zhangjiakou Changcheng Pharmaceutical Limited ("ZCP Co.") (subsequently changed name to Shineway Pharmaceutical (Zhangjiakou) Co., Ltd) at a consideration of RMB55,424,600 which is referenced to the net asset value of ZCP Co.. Its major products are Hua Moyan Granule, Fufang Gancao Tablet and Fufang Shexiang Injection. In order to improve the efficiency and production quality of ZCP Co., the Group has strengthened its management and training, production has been resumed in July 2010. The Group will put the products in its national distribution network to enlarge its customer base.

Management Discussion and Analysis

The Group has acquired another company in April 2010, Sichuan Kalituo Pharmaceutical Limited ("Kalituo Pharmaceutical"), together with its wholly-owned subsidiary Chengdu Kalituo Technology Company Limited ("Kalituo Technology") for an aggregate consideration of RMB15,000,000 which is referenced to the net asset value of these companies. Its major products are Shuang Huang Lian Injection and Xiang Dan Injection. Currently Kalituo Pharmaceutical is under the process of technology make-over, and is undergoing trial run. Kalituo Technology is now setting up its business on sales and production of Chinese medicine. As Kalituo Pharmaceutical and Kalituo Technology have prime location in the Western part of China, it will be an important region for future sales areas of the Group.

Liquidity and Financial Resources

As at 30 June 2010, bank deposits of the Group, amounting to RMB2,152,748,000 (31 December 2009: RMB2,318,189,000) which comprised of RMB1,725,977,000 (31 December 2009: RMB1,627,649,000), were denominated in Renminbi. Others, being equivalent to RMB281,271,000 and RMB145,500,000 (31 December 2009: RMB604,295,000 and RMB84,621,000), were denominated in Australian Dollars and Hong Kong 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 as at 30 June 2010 increased by 37.0% and 185.4% respectively from 31 December 2009. Turnover days of bills and trade receivables were 17 days and 2 days respectively (for the corresponding period of 2009: 46 days and 3 days respectively).

Inventories

Inventories balance as at 30 June 2010 increased by 6.7% from 31 December 2009 in anticipation of stronger sales growth in the second half of 2010. By inventory categories, raw materials, work in progress and finished products respectively accounted for 34.6%, 28.8% and 36.6% of inventories as at 30 June 2010 (31 December 2009: 53.6%, 19.1% and 27.3% respectively).

Turnover days for finished products in the first six months of 2010 were 29 days (for the corresponding period of 2009: 18 days).

Property, Plant and Equipment

The property, plant and equipment in those subsidiaries acquired in the first half of this year amounted to RMB81,255,000 as at 30 June 2010. Besides, in the first six months of 2010, the Group has purchased plant and machinery of RMB6,514,000, office equipment of RMB1,968,000, motor vehicles of RMB976,000, and addition to construction in progress of RMB101,447,000 includes the Shineway Modern Chinese Medicine Park project.

Management Discussion and Analysis

For the six months ended 30 June 2010, depreciation for property, plant and equipment amounted to RMB24,125,000 as compared to RMB21,667,000 during the same period of last year.

Goodwill

Goodwill is comprised of the Group's acquisition of the remaining 20% ownership equity interests of Shineway Pharmaceutical Sales Company Limited ("Shineway Sales") in 2005, and the acquisition of 100% equity interests of ZCP Co. and Kalituo Pharmaceutical in 2010.

Trade Payables

During the period under review, turnover days of trade payables were 103 days (for the corresponding period of 2009: 71 days).

Loans and Bank Borrowings

The Group did not have any loans or bank borrowings as at 30 June 2010 (31 December 2009: Nil). Accordingly the gearing ratio with reference to interest bearing debt for the period is nil (31 December 2009: Nil).

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2010 (31 December 2009: 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 in the first six months of this year, volatility of Australian currency is stabilizing. As at 30 June 2010, 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 2010, the Group has 3,438 employees (31 December 2009: 2,961 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 of Hong Kong Limited (the "Stock Exchange") on the date of grant in excess of HK$5 million,

Other Information

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 ("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 exercised 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 2010 and as at the date of this report since adoption.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2010, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2010, 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 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 (the "Model Code") 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 (excluding Mr. Li Zhenjiang himself). Accordingly, Mr. Li Zhenjiang is deemed to be interested in such 476,374,416 Shares under the SFO.

Other Information

Save as disclosed above, as at 30 June 2010, 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.

SUBSTANTIAL SHAREHOLDERS

(a) Interest in the Company

As at 30 June 2010, 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%
Trustcorp Limited (Notes 1 and 2)	Trustee of discretionary trust	476,374,416	57.60%
Newcorp Limited (Note 1)	Interest in controlled corporation	476,374,416	57.60%

Notes:

(1) Interests of Forway, 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 (excluding Li Zhenjiang himself). Trustcorp Limited is wholly-owned by Newcorp Limited. Accordingly, Trustcorp Limited and Newcorp Limited are deemed to be interested in the 476,374,416 Shares under the SFO.

(3) On 12 January 2010, Matkon Limited ("Matkon"), a former substantial shareholder of the Company entered into a placing agreement to dispose of its entire shareholding of 111,621,644 Shares. Matkon ceased to own any Shares after 15 January 2010.

(b) Interest in other members of the Group

As at 30 June 2010, 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 2010, 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 2010, except for the following deviations:

With effect from 17 December 2009, Mr. Ma Kwai Yuen, Terence ("Mr. Ma") resigned as an Independent Non-Executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee. Following the resignation of Mr. Ma, the total number of Independent Non-Executive Directors and member of Audit Committee fell below the minimum number of three as required under Rules 3.10(1) and 3.21 of the Listing Rules. On 9 February 2010, Mr. Sun Liutai ("Mr. Sun"), who has appropriate professional qualifications and accounting and related financial management expertise as required under Rule 3.10(2) of the Listing Rules, was appointed as an Independent Non-Executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee in replacement of Mr. Ma within three months from 17 December 2009 as required under Rules 3.11 and 3.23 of the Listing Rules. Subsequent to Mr. Sun's appointment, the Company has three Independent Non-Executive Directors and three Audit Committee members, which are in compliance with the requirements set out in the Listing Rules.

The Code 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 shall nevertheless review the structure from time to time and shall consider appropriate adjustment should suitable circumstance arise.

COMPLIANCE WITH THE MODEL CODE

The Company adopts the Model Code in Appendix 10 to the Listing Rules 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 2010.

Other Information

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 2010.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 14 October 2010 to 15 October 2010 (both days inclusive). In order to qualify for the 2010 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 p.m. on 13 October 2010.

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, 30 August 2010

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
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 24 to 42, which comprises the condensed consolidated statement of financial position of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 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 34 "Interim Financial Reporting" ("IAS 34") 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
30 August 2010

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	NOTES	Six months ended 30 June **2010** **RMB'000** **(Unaudited)**	 2009 RMB'000 (Unaudited)
Turnover	3	**936,192**	707,817
Cost of sales		**(285,159)**	(208,723)
Gross profit		**651,033**	499,094
Other income		**35,761**	26,219
Investment gain		**27,550**	20,183
Net exchange (loss) gain		**(7,025)**	68,728
Distribution costs		**(136,032)**	(95,730)
Administrative expenses		**(64,472)**	(40,962)
Research and development costs		**(6,291)**	(9,176)
Profit before taxation	4	**500,524**	468,356
Taxation	5	**(79,833)**	(67,063)
Profit and total comprehensive income for the period		**420,691**	401,293
Earnings per share – basic	7	**RMB51 cents**	RMB49 cents

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	NOTES	30.6.2010 RMB'000 (Unaudited)	31.12.2009 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**620,552**	456,746
Prepaid lease payments	9	**83,769**	62,078
Deposit paid for prepaid lease payments	10	**74,666**	–
Intangible assets		**2,532**	317
Goodwill		**91,663**	58,479
Deferred tax assets		**9,887**	7,481
		883,069	585,101
Current assets			
Inventories		**145,500**	136,308
Bills receivables	11	**103,586**	75,588
Trade receivables	11	**16,762**	5,873
Prepayments, deposits and other receivables		**81,394**	62,130
Pledged bank deposits		**143,001**	86,739
Bank balances and cash		**2,152,748**	2,318,189
		2,642,991	2,684,827
Current liabilities			
Bills payables	12	**143,001**	86,739
Trade payables	12	**185,101**	138,451
Other payables and accrued expenses		**216,504**	293,830
Amounts due to related companies		**9,009**	9,011
Government grants receipt in advance		**550**	550
Tax liabilities		**51,173**	19,266
Deferred tax liabilities		**1,240**	–
		606,578	547,847
Net current assets		**2,036,413**	2,136,980
		2,919,482	2,722,081
Capital and reserves			
Share capital	13	**87,662**	87,662
Reserves		**2,831,820**	2,634,419
		2,919,482	2,722,081

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Share capital RMB'000	Share premium RMB'000	Merger 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 2010	**87,662**	**982,408**	**83,758**	**361,585**	**154,760**	**1,051,908**	**2,722,081**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**420,691**	**420,691**
Transfers	**–**	**–**	**–**	**14,087**	**28,914**	**(43,001)**	**–**
Dividend amount recognised as distributions	**–**	**–**	**–**	**–**	**–**	**(223,290)**	**(223,290)**
At 30 June 2010 (unaudited)	**87,662**	**982,408**	**83,758**	**375,672**	**183,674**	**1,206,308**	**2,919,482**
At 1 January 2009	87,662	982,408	83,758	235,361	132,000	615,528	2,136,717
Profit and total comprehensive income for the period	–	–	–	–	–	401,293	401,293
Transfers	–	–	–	100,998	22,760	(123,758)	–
Dividends amount recognised as distributions	–	–	–	–	–	(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 2010

	NOTE	Six months ended 30 June **2010** **RMB'000** **(Unaudited)**	 2009 RMB'000 (Unaudited)
Net cash from operating activities		**360,445**	602,009
Net cash used in investing activities:			
Interest received		**27,550**	20,097
Purchase of property, plant and equipment and land use rights		**(110,905)**	(106,688)
Deposit paid for prepaid lease payments		**(73,206)**	–
Acquisition of subsidiaries	14	**(66,239)**	–
Purchase of intangible assets		**(80)**	–
Increase in pledged bank deposits		**(143,001)**	–
Decrease in pledged bank deposits		**86,739**	–
		(279,142)	(86,591)
Net cash used in financing activities:			
Dividends paid		**(223,290)**	(99,240)
Repayment of loans from staffs		**(16,430)**	–
		(239,720)	(99,240)
Net (decrease) increase in cash and cash equivalents		**(158,417)**	416,178
Cash and cash equivalents at beginning of the period		**2,318,189**	1,585,644
Effect of foreign exchange rate changes		**(7,024)**	68,728
Cash and cash equivalents at end of the period, representing bank balances and cash		**2,152,748**	2,070,550

Condensed Interim Financial Report

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

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 ("IASB").

The Group's interim financial information is presented in Renminbi ("RMB") which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2009 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new or revised standards, amendments and interpretations ("new or revised IFRSs") issued by the IASB.

The Group applies IFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. It allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as "minority" interests). The requirements in IAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

The impact of adoption of IFRS 3 (Revised 2008) on the acquisition during the current period has been related to the acquisition-related costs. It requires acquisition-related costs to be accounted for separately from the business combination. As a result, the Group has recognised these costs as an expense in profit or loss whereas previously accounted for as part of the cost of acquisition. The acquisition costs in the current period were insignificant.

Except for as described above, the application of IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to other IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Results of the Group in future periods may be affected by future transactions for which IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to the other IFRSs are applicable.

As part of the improvements to International Financial Reporting Standards ("IFRSs") issued in 2009, IAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendment to IAS 17, the Group was required to classify leasehold land as operating leases and to present the prepayment as leasehold land in the consolidated statement of financial position. The amendment to IAS 17 has removed such a requirement that leasehold land must be classified as operating leases. The amendment requires that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. In accordance with the transitional provisions set out in the amendment to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. After reassessment, the directors of the Company concluded that no reclassification was necessary.

The application of the other new and revised IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised International Accounting Standards ("IASs"), IFRSs, amendments or interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs 2010[1]
IAS 24 (Revised)	Related party disclosures[4]
IAS 32 (Amendment)	Classification of rights issues[2]
IFRS 1 (Amendment)	Limited exemption from comparative IFRS 7 disclosures for first-time adopters[3]
IFRS 9	Financial instruments[5]
IFRIC – INT 14 (Amendment)	Prepayments of a minimum funding requirement[4]
IFRIC – INT 19	Extinguishing financial liabilities with equity instruments[3]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 February 2010.
[3] Effective for annual periods beginning on or after 1 July 2010.
[4] Effective for annual periods beginning on or after 1 January 2011.
[5] Effective for annual periods beginning on or after 1 January 2013.

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the condensed consolidated financial statements of the Group.

3. TURNOVER AND SEGMENT INFORMATION

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

Segment information has been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), Chairman of the Board of Directors of the Group, in order to allocate resources to segments and to assess their performance. 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 financial information provided to the CODM does not contain profit or loss information of each product format and the CODM 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	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	**749**	381
Depreciation of property, plant and equipment	**24,125**	21,667
Loss on disposal of property, plant and equipment	**27**	435
Allowance for doubtful debts	**2,203**	–
Government subsidies (included in other income) (Note)	**(34,374)**	(23,802)
Interest income from bank deposits	**(27,550)**	(20,183)

Note: It mainly represented the business encouragement subsidies received from the People's Republic of China ("PRC") Government to encourage the business activities of pharmaceutical industry in PRC.

5. TAXATION

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**82,239**	61,198
Underprovision in prior year	**–**	3,657
Deferred tax	**(2,406)**	2,208
	79,833	67,063

The income tax expense is recognised based on management's best estimated weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual tax rate used is 15% for the periods under review.

Pursuant to Guoshuihan (2010) No. 203, the PRC Enterprise Income Tax ("PRC EIT") rate applicable to Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") is 15% on their taxable income for the year.

Pursuant to Preferential Policy on the Economic and Technology Development Zone of Lhasa, Tibet, the PRC EIT rate applicable to Xizang Shineway Pharmaceutical Co., Limited is 12% and 15% on its taxable income ("Tax Holiday") for the year ended 31 December 2009 and the year ending 31 December 2010, respectively. Year 2010 is the last year of Tax Holiday.

6. DIVIDENDS

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends		
– 2009 final dividend of RMB12 cents (2008: RMB12 cents) per share paid	**99,240**	99,240
– 2009 special dividend of RMB15 cents (2008: nil) per share paid	**124,050**	–
	223,290	99,240
– 2010 interim dividend of RMB11 cents (2009: RMB10 cents) per share	**90,970**	82,700

Dividend declared

The interim dividend of RMB11 cents per share which was proposed by the directors of the Company for the period and are calculated on the basis of 827,000,000 shares in issue as at 30 August 2010.

7. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	**420,691**	401,293

	Six months ended 30 June	
	2010	2009
Number of ordinary shares for the purpose 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 plant and machinery of RMB6,514,000 (six months ended 30 June 2009: RMB7,287,000), office equipment of RMB1,968,000 (six months ended 30 June 2009: RMB1,186,000), motor vehicles of RMB976,000 (six months ended 30 June 2009: RMB1,015,000) and addition to construction in progress of RMB101,447,000 (six months ended 30 June 2009: RMB52,249,000).

9. PREPAID LEASE PAYMENTS

	30.6.2010	31.12.2009
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At beginning of the period/year	**63,345**	19,894
Addition for the period/year	**–**	44,718
Acquired on acquisition of subsidiaries	**22,800**	–
Release to statement of comprehensive income for the period/year	**(749)**	(1,267)
At end of the period/year	**85,396**	63,345
Leasehold land outside Hong Kong		
Current portion (included in other receivables)	**1,627**	1,267
Non-current portion	**83,769**	62,078
	85,396	63,345

10. DEPOSIT PAID FOR PREPAID LEASE PAYMENTS

The amount represents deposit paid for land use right in the PRC. The legal title has not been transferred to the Group at the end of the reporting period.

11. OTHER FINANCIAL ASSETS

	30.6.2010 RMB'000 (Unaudited)	31.12.2009 RMB'000 (Audited)
Bills receivables	103,586	75,588
Trade receivables	16,762	5,873
	120,348	81,461

The Group allows credit period normally ranging from six months to one year to its trade customers. An aged analysis of the bills and trade receivables based on the invoice date is as follows:

	30.6.2010 RMB'000 (Unaudited)	31.12.2009 RMB'000 (Audited)
0 – 180 days	120,348	81,461

12. OTHER FINANCIAL LIABILITIES

	30.6.2010 RMB'000 (Unaudited)	31.12.2009 RMB'000 (Audited)
Bills payables	143,001	86,739
Trade payables	185,101	138,451
	328,102	225,190

12. OTHER FINANCIAL LIABILITIES *(Continued)*

An aged analysis of the Group's trade and bills payables at 30 June 2010 is as follows:

	30.6.2010 **RMB'000** **(Unaudited)**	31.12.2009 RMB'000 (Audited)
Within 6 months	**238,248**	210,768
Over 6 months but less than 1 year	**73,075**	4,013
Over 1 year but less than 2 years	**16,779**	8,699
Over 2 years	**–**	1,710
	328,102	225,190

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

13. SHARE CAPITAL

	Number of shares '000	**Amount** RMB'000
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2009, 31 December 2009 and 30 June 2010	5,000,000	530,000
Issued and fully paid:		
Balance at 1 January 2009, 31 December 2009 and 30 June 2010	827,000	87,662

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

14. ACQUISITION OF SUBSIDIARIES

(a) In April 2010, the Group acquired 100% equity interest of 張家口長城藥業有限責任公司 (Zhangjiakou Changcheng Pharmaceutical Limited) ("ZCP Co.") for a consideration of RMB55,424,600. The principal activity of ZCP Co. is engaged in manufacture and trading of Chinese pharmaceutical products. This transaction has been accounted for using the acquisition method of accounting.

The aggregate net assets acquired and the goodwill arising from such acquisition are as follows:

	Amounts recognised at acquisition date
	RMB'000
Net assets acquired:	
Property, plant and equipment	60,718
Prepaid lease payments	18,400
Intangible assets	1,330
Inventories	1,226
Trade receivables	2,261
Other receivables	304
Cash and bank balances	270
Trade payables	(4,489)
Other payables	(29,007)
Loans from staffs	(18,140)
Tax liabilities	(954)
Deferred tax liabilities	(1,240)
Net assets acquired	30,679
Goodwill arising on acquisition	24,746
Total consideration	55,425
Net cash outflow arising on acquisition:	
Cash consideration	(55,425)
Cash and bank balances acquired	270
	(55,155)

14. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

The goodwill on acquisition of ZCP Co. allows the Group to extend its market presence in Hebei Province and the anticipated future operating synergies from the combination.

The receivables acquired (which principally comprised trade and other receivables) with the fair value and contractual amounts of RMB2,565,000.

The fair value of the property, plant and equipment, intangible assets and prepaid lease payments acquired, and goodwill, have been determined on a provisional basis, awaiting the completion of the valuation of the assets and liabilities.

ZCP Co. has contributed a loss of RMB3,726,000 to the Group's profit attributable to owners of the Company for the period from the date of its being acquired as subsidiary to 30 June 2010. No revenue has contributed by ZCP Co. for the period from the date of acquisition to 30 June 2010.

If the acquisition of ZCP Co. had been completed on 1 January 2010, the Group's turnover and profit for the period would be insignificantly affected. The proforma information is for illustrative purpose only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

(b) In April 2010, the Group acquired 100% equity interest of 四川康利托製藥有限公司 (Sichuan Kalituo Pharmaceutical Limited) ("Kalituo Pharmaceutical") for a consideration of RMB15,000,000. The principal activity of Kalituo Pharmaceutical and its subsidiary are engaged in manufacture and trading of Chinese pharmaceutical products. This transaction has been accounted for using the acquisition method of accounting.

14. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

The aggregate net assets acquired and the goodwill arising from such acquisition are as follows:

	Amounts recognised at acquisition date RMB'000
Net assets acquired:	
Property, plant and equipment	16,335
Prepaid lease payments	4,400
Intangible assets	933
Deposit paid for acquisition of prepaid lease payments	1,460
Inventories	4,723
Other receivables	17,394
Cash and bank balances	3,916
Trade payables	(2,005)
Other payables	(40,594)
Net assets acquired	6,562
Goodwill arising on acquisition	8,438
Total consideration	15,000
Net cash outflow arising on acquisition:	
Cash consideration	(15,000)
Cash and bank balances acquired	3,916
	(11,084)

The goodwill on acquisition of Kalituo Pharmaceutical and its subsidiary allows the Group to extend its market presence in Sichuan Province and anticipated future operating synergies from the combination.

The receivables acquired (which principally comprised other receivables) with the fair value and contractual amounts of RMB17,394,000.

14. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

The fair value of the property, plant and equipment, intangible assets and prepaid lease payments acquired, and goodwill, have been determined on a provisional basis, awaiting the completion of the valuation of the assets and liabilities.

Kalituo Pharmaceutical and its subsidiary has contributed revenue of RMB661,000 and loss of RMB475,000 to the Group's profit attributable to owners of the Company for the period from the date of its being acquired as subsidiary to 30 June 2010.

If the acquisition of Kalituo Pharmaceutical and its subsidiary had been completed on 1 January 2010, the Group's turnover and profit for the period would be insignificantly affected. The proforma information is for illustrative purpose only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of goods to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (Note a)	**105**	126
Rental expenses paid to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (Note a)	**310**	310
Service fee to Shineway Medical (Note a)	**3,269**	3,618
Service fee to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note b)	**839**	750

Notes:

(a) Shineway Medical, which is owned by the controlling shareholder of the Company is the controlling shareholder of Shineway Drugstores.

(b) Shineway Medical is the controlling shareholder of Shineway Lang Fang.

15. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	**2,253**	2,248
Post-employment benefits	**5**	5
	2,258	2,253

16. COMMITMENTS

(a) *Operating lease commitments*

At 30 June 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2010	31.12.2009
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	**2,126**	1,767
In the second to fifth year inclusive	**3,257**	631
	5,383	2,398

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 2010, capital expenditure of RMB342,917,000 in respect of acquisition of property, plant and equipment is contracted for but not provided in the condensed consolidated financial statements (31.12.2009: RMB144,816,000).