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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

(appointed on 6 May 2008)

Mr. Li Kung Man (resigned on 30 May 2008)

AUDIT COMMITTEE

Mr. Ma Kwai Yuen, Terence (*Committee Chairman*)

(appointed on 30 May 2008)

Mr. Ren Dequan

Ms. Cheng Li

Mr. Li Kung Man (resigned on 30 May 2008)

REMUNERATION COMMITTEE

Ms. Cheng Li (*Committee Chairman*)

Mr. Ma Kwai Yuen, Terence

(appointed on 30 May 2008)

Ms. Xin Yunxia

Mr. Li Kung Man (resigned on 30 May 2008)

AUTHORIZED REPRESENTATIVES

Ms. Wang Zhihua

Mr. Li Huimin

QUALIFIED ACCOUNTANT

Ms. Wong Mei Shan

COMPANY SECRETARY

Ms. Wong Mei Shan

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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Hutchins Drive

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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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Wanchai

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705

KY1-1107

Grand Cayman

Cayman Islands

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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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

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The Stock Exchange of Hong Kong Limited)

WEBSITES

www.shineway.com.hk
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Financial Highlights

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2008, the operating results of the Group were as follows:

- Turnover amounted to approximately RMB642,359,000, an increase of approximately 39.2% over the corresponding period of last year;
- Gross profit margin increased from 72.4% to 72.7% as compared to the corresponding period of last year;
- Profit attributable to shareholders amounted to approximately RMB268,454,000, an increase of approximately 35.4% over the corresponding period of last year;
- Earnings per share amounted to RMB32 cents;
- Interim dividend amounted to RMB12 cents per share and special dividend amounted to RMB1 cent per share, representing a payout rate of approximately 40.6% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2008.

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 2008, the Group regularly manufactured 27 prescription and 18 over-the-counter (“OTC”) medicines which accounted for approximately 77.4% and 22.6% 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 2008, approximately 46.5% 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 31.7% and 21.8% 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
- Huo Xiang Zheng Qi soft capsule: for prevention and treatment of heat stroke, stomach ache, nausea and diarrhoea
- Huang Qi injection: medicine for cardiovascular diseases and anti-viral, for treatment of viral myocarditis, heart malfunction and hepatitis

As at 30 June 2008, 34 products in total of the Group were included in the medical insurance catalogue.

Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 June 2008, the Group recorded an increase in turnover by 39.2%, amounting to approximately RMB642,359,000. An analysis of sales by product format is set out as follows:

	Sales	Sales mix	Growth rate
Injections	RMB358,940,000	55.9%	37.4%
Soft Capsules	RMB176,884,000	27.5%	34.3%
Granules	RMB95,460,000	14.9%	59.8%
Other formats	RMB11,075,000	1.7%	25.6%

For the six months ended 30 June 2008, the Group's operating profit increased 35.6% over the corresponding period of last year, to approximately RMB318,594,000. Net profit attributable to the equity holders of the Group for the first six months in 2008 amounted to approximately RMB268,454,000, representing an increase of 35.4% over the corresponding period in 2007. The increase in net profit is mainly attributable to the robust growth in sales volume of our products across the board.

Injection Products

For the first six months of 2008, the Group sold approximately RMB358,940,000 of injection products, representing an increase of 37.4% over the same period of last year. Amongst these injection products, Qing Kai Ling Injection, Shen Mai Injection and Shu Xie Ning Injection recorded sales growth of 37.2%, 21.5% and 65.6% respectively. The increase is primarily due to continuous market demand of Chinese medicine injections, and the Group's strategic focus on Chinese medicine injection products.

For the first six months of 2008, injection products accounted for 55.9% of total turnover as compared to 56.6% of total turnover for the same period of last year. The Group continued to maintain strategic focus in the business of injection products and implement strategies to strengthen distribution network and points of sales to increase market coverage and penetration. The newly promulgated "Basic Technological Requirements on Chinese Medicines and Natural Medicine Injections" increases entry barriers of the production of Chinese medicine injections and accelerate consolidation of the industry. The Group's leading position and advantages from our focus on Chinese medicine injections are becoming more distinctive. As quality standards of Chinese medicine injections rise, demand for clinical applications of Chinese medicine injections will continue to soar. Injection products will remain as the product format of the Group with the highest growth potential.

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.

Management Discussion and Analysis

Soft Capsule Products

For the first six months in 2008, sales of the Group's soft capsule products amounted to approximately RMB176,884,000, representing an increase of approximately 34.3% 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 approximately 27.1%, 34.7% and 63.4% respectively, as compared to the same period of last year.

During the relevant period, the Group fostered strong growth of soft capsule products by boosting their marketing campaigns and stepping up sales promotion activities and initiatives.

Soft capsule products accounted for approximately 27.5% of the Group's turnover for the first six months in 2008 as compared to 28.5% 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.

Granule Products

For the first six months in 2008, sales of granules products increased by approximately 59.8% as compared to the corresponding period of last year, amounting to approximately RMB95,460,000. The increase can be attributable to the implementation of the Group's strategy to strengthen marketing campaign on popular granules to cultivate their strong growth.

Granule products accounted for approximately 14.9% of the Group's turnover for the first six months in 2008 as compared to 13.0% in the same period of 2007. The Group's production capacity of granule products now reaches 1.5 billion bags per annum. The Group believes that it is the largest Chinese medicine granule products manufacturer in the PRC in terms of sales volume and production capacity.

Key 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 approximately 37.2% to approximately RMB156,519,000 in the first six months this year, representing 24.4% of total turnover.

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 also recommended by the Ministry of Health of the PRC for treating human transmitted avian 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. Recently, it was named as a "High Tech Product with Utmost Market Value".

Management Discussion and Analysis

The Group believes that as the country invests immensely to expand coverage of health care in rural areas and community medical facilities, market demand for Qing Kai Ling Injection will continue to surge. 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. In addition, the Group is committed to strengthen marketing and promotion effort at the points of sales. Qing Kai Ling Injection is expected to sustain its strong growth.

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

For the first six months in 2008, sales of Shen Mai Injection reached approximately RMB95,929,000, representing an increase of 21.5% from the same period of last year, and accounted for approximately 14.9% of the Group's turnover.

Shen Mai Injection 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 human transmitted avian flu.

The Group's Shen Mai Injection has been widely used in clinical applications and is very popular among medical institutions and practitioners. 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 enhance its sales growth.

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

As compared to the same period of last year, sales of Wu Fu Xin Nao Qing Soft Capsule increased by approximately 27.1% to RMB84,176,000, accounted for approximately 13.1% of the Group's turnover for first the six months of the year.

Wu Fu Xin Nao Qing Soft Capsule is considered as one of the top ten oral Chinese medicines for the treatment of cardiovascular illness in the PRC. Being the lowest in cost of average daily dosage among similar cardiovascular Chinese medicines, the product has been very popular.

Leveraging on the strong brand name "Wu Fu", 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.

Management Discussion and Analysis

Emerging Products

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

For the first six months of 2008, sales of Shu Xie Ning Injection reached RMB66,489,000, representing an increase of 65.6% as compared to the same period of last year, and accounted for 10.4% of total turnover of the Group.

Shu Xie Ning Injection is mandated in the “National Catalogues of Medical Insurance and Occupational Injury Insurance”. According to an independent survey, Shu Xie Ning Injection is one of the major clinical used medicines for treating cardio-cerebrovascular disease, and one of the top three most purchased Chinese medicines by hospitals in China. Qing Kai Ling Injection produced by the Group is designated by state authorities as a “Good Quality/Good Price” product and it is also a “State Protected Chinese Medicine”. The Group is leveraging our brand advantages in Chinese medicine injections to enhance market coverage of this product. At the same time, the Group is also strengthening our promotion effort, cultivating strategic distributors and rationalizing distribution structure. Shu Xie Ning Injection will continue its strong growth.

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

For the first six months of 2008, sales of Huo Xiang Zheng Qi Soft Capsule increased by 34.7% to RMB51,884,000, representing 8.1% of the Group’s turnover.

Huo Xiang Zheng Qi Soft Capsule 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 human transmitted avian 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 partnering with strategic distributors and pharmaceutical chain stores, strengthening advertising and promotion, and boosting market coverage and support at point of sales to ensure strong growth of Huo Xiang Zheng Qi Soft Capsule.

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

For the first six months of 2008, sales of Huang Qi Injection increased by 62.5% to approximately RMB19,818,000, representing 3.1% 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.

Management Discussion and Analysis

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

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

For the first six months of 2008, sales of Qing Kai Ling soft capsule amounted to approximately RMB17,835,000, representing an increase of approximately 63.4% as compared to the same period of last year, accounted for approximately 2.8% 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 been also recommended by the Ministry of Health of the PRC for treating human transmitted avian flu.

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

Pediatric Granule Series

The Group owns a series of granule products for children infected by respiratory related diseases. For the first six months, sales of these pediatric granule products increased by 76.7% from the corresponding period of last year to reach a turnover of RMB56,837,000, as a result of the Group's initiatives to increase advertising and joint promotional campaign with chain drug stores. Among these children granule products, Pediatric Qing Fei Hua Tan Granule recorded a sales of RMB32,825,000, an increase of 121.2% from the corresponding period of last year. Sales growth momentum of this pediatric granule series is expected to continue as the Group continues to strengthen its marketing effort.

RESEARCH AND DEVELOPMENT

Currently, there are 23 product research projects which are either undergoing or completed with pharmaceutical and clinical trial. Among these research projects are 9 products for treatment of cardiovascular diseases, 3 products for treatment of digestive system illnesses and 4 products for anti-viral treatment. All of these research projects are progressed in line as planned.

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

Management Discussion and Analysis

PATENT APPLICATIONS

Currently, the Group has obtained 5 patents for its inventions and 14 invention patent applications are under review.

STATE PROTECTED CHINESE MEDICINES

As of 30 June 2008, the Group has a total of 12 “State Protected Chinese Medicines” under the relevant regulatory protection scheme.

PROSPECT

The pharmaceutical industry is bonded to the health of Chinese people. With the continuous proliferation of people’s living standards and health consciousness, consumption of pharmaceutical products in China will continue to rise. As the country is progressing on the development of new rural cooperative and community health insurance coverage, market potential of rural areas and community health care is emerging and market size for pharmaceutical products is swiftly expanding.

Medical reform is likely to further benefit business environment of the pharmaceutical market. The Chinese government has continuously strengthened its monitoring and regulatory control on pharmaceutical companies. New policies on drug registration, and electronic surveillance of blood, vaccines, bio-medical and injection products symbolize the determination of the government to apply stringent measures to ensure strict compliance of drug regulations. The pharmaceutical industry is evolving toward a market of conformity. Under pledge of quality and safety assurance, regulatory authorities deploy officials to conduct on site inspections and scrutiny of medicine samples. These initiatives provide an optimal business environment for companies that have always complied with laws and regulations and further enhance the development of a healthy pharmaceutical industry. The amended GMP certification standards and “Anti-Water Pollution Standards for Pharmaceutical Industry” are now in effect. These two standards will further trigger the need to upgrade the technologies and capabilities of pharmaceutical companies, thereby benefiting larger companies which have resources and competitive advantages.

As the country relentlessly increases its spending into building health care facilities and health insurance coverage, demand for modern Chinese medicines will continue to surge. The Chinese government is devoted on promoting the development of Chinese medicines. By introducing policies and elevating investments of resources, the Chinese government is determined to accelerate the modernization of Chinese medicines, thereby promoting innovation and fostering the business of Chinese medicines. As a leading modern Chinese medicine enterprise, the Group will continuously develop and provide modern Chinese medicine injections, soft capsules and granules products with good efficacy, superb quality and affordable pricing for people in China.

Management Discussion and Analysis

The Group will continue to strengthen our capabilities in research and investments in advanced technologies to develop innovative products with superb quality. In addition, the Group is determined to leverage our leading position in modern Chinese medicines to further enhance our brand equities by strengthening advertising and market promotion effort. The Group will further rationalize our partnership with strategic distributors and chain pharmacies to expand our market coverage and deepen market penetration to foster our business and operating results.

GROWTH STRATEGIES

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

1. Product mix enhancement – while increasing sales contribution from core products, (namely Shen Mai Injection, Qing Kai Ling Injection and Wu Fu Xin Nao Qing Soft Capsule), the Group will continue to nurture emerging products (such as Shu Xie Ning Injection, Huo Xiang Zheng Qi Soft Capsule, Huang Qi Injection, Qing Kai Ling Soft Capsule and Pediatric Qing Fei Hua Tan Granule) to broaden core products portfolio.
2. Increase investments in research and development – to form a pipeline of broad span innovative products.
3. Increase advertising and promotions – to strengthen brand equities of “Shineway”, “Wu Fu” and “Shen Miao”.
4. Rationalization of distribution channels – the Group will foster closer strategic cooperation with cross-regional distributors which have strong distribution capabilities to increase market coverage and penetration, in particular the “Third Point of Sale Zones” (hospitals of factories and mining fields, community clinics and rural healthcare centers).
5. Strengthening support at the points of sales – the Group will continue to expand its prescription medicines and OTC teams to provide sales support at the points of sales of targeted hospitals and pharmaceutical stores.
6. Implementation of regional expansion strategies – while utilizing its advantageous position in northern China markets, the Group will strengthen its resources in other key strategic regions (mainly the Pearl River Delta, the Yangtze River Delta and Huanbo Bay coastal areas).
7. The Group will continue to evaluate acquisition and capital investment opportunities in a prudent manner.

Management Discussion and Analysis

FINANCIAL ANALYSIS

Turnover

For the first six months of 2008, the Group continued to produce Chinese medicine products of good efficacy and high quality. Turnovers of injection products increased by 37.4% to RMB358,940,000, accounted for 55.9% of the Group's total turnover. Turnovers of soft capsule products increased by 34.3% to RMB176,884,000, accounted for 27.5% of the Group's total turnover. Turnovers of granule products increased by 59.8% to RMB95,460,000, accounted for 14.9% of the Group's total turnover. The Group had also sold approximately RMB11,075,000 of medicines in other formats which accounted for approximately 1.7% of the Group's turnover.

During the same period, turnover of medicines for treating cardiovascular illness, anti-viral, gastroenteritis medicines and medicines for treating other illnesses respectively accounted for approximately 46.5% (for the corresponding period of 2007: 48.7%), 31.7% (for the corresponding period of 2007: 30.7%), 8.1% (for the corresponding period of 2007: 8.3%), and 13.7% (for the corresponding period of 2007: 12.3%) of the Group's total turnover.

Turnovers of prescription and OTC medicines of the Group for the first six months of 2008 were approximately RMB496,950,000 and RMB145,409,000 respectively, accounted for approximately 77.4% and 22.6% of the Group's total turnover for the same period respectively.

Cost of Sales

Cost of sales of the Group for the first six months of 2008 was RMB175,621,000, equal to approximately 27.3% of the total turnover. Direct materials, direct labour and other production costs accounted for approximately 74.5%, 6.7% and 18.8% of the total production costs respectively.

Gross Profit Margin

During the first six months of 2008, the Group's overall gross profit margin increased to approximately 72.7% as compared to 72.4% over the corresponding period of last year. The Group's average gross profit margins of injection products, soft capsule products and granule products were approximately 76.3%, 77.7% and 52.8% respectively. The overall gross profit margin remains stable mainly as a result of economies of scale, effective internal control, and advanced production technology to achieve high extraction rate and production yield rate.

Other Income

Other income mainly includes interest income from bank deposits of approximately RMB16,460,000, and government subsidies received of approximately RMB14,817,000 (for the corresponding period of 2007: RMB20,673,000 and RMB20,000 respectively). The government subsidies mainly represented the incentives received from PRC government for investments in relevant regions in PRC by the Group.

Management Discussion and Analysis

Investment Loss

During the first six months of 2008, the Group allocated a portion of funds generated from PRC operation to invest in the “A” share market of PRC.

Despite interest income generated from investment deposits of approximately RMB1,313,000 (for the corresponding period of 2007: approximately RMB990,000) and dividends income from held-for-trading investments of approximately RMB67,000 (for the corresponding period of 2007: approximately RMB581,000), the Group has incurred net investment loss of approximately RMB6,438,000 (for the corresponding period of 2007: net investment gain of approximately RMB36,789,000).

As at 30 June 2008, the Group disposed all held-for-trading investments.

Distribution Costs

Distribution costs for the first six months of 2008 increased by approximately 4.4% when compared to the corresponding period of last year, representing approximately 15.9% of the Group’s turnover (for the corresponding period of 2007: 21.2%). The Group had strengthened its effort in the promotion of its products at the points of sales through active participation in exhibitions, seminars and trainings, and thus resulting in an increase in the related expenses. Nonetheless, distributor promotion expenses decreased by approximately 14.4% for the period under review. Distributor promotion expenses which accounted for approximately 7.0% of the Group’s turnover (for the corresponding period of 2007: 11.5%), mainly included promotion cost subsidies to distributors with reference to sales growth target for the year.

Administrative Expenses

Administrative expenses for the reporting period increased by approximately 25.8%, as compared to the first six months of last year. Administrative expenses accounted for approximately 7.1% of the Group’s turnover (for the corresponding period of 2007: 12.5%). The increase of the administrative expenses was mainly due to the increase of research and development expenses. During the reporting period, research and development expenses was RMB9,192,000 (for the corresponding period of 2007: 2,432,000). Administrative expenses also comprised of salaries and wages and non-production depreciation expenses which accounted for 1.8% and 0.5% respectively (for the corresponding period of 2007: 2.9% and 0.7%) of the Group’s total turnover.

Income Tax

Pursuant to the relevant law and regulations in the PRC, Shineway Pharmaceutical Co., Ltd. (“Shineway Pharmaceutical”) and Hebei Shineway Pharmaceutical Co., Ltd. (“Hebei Shineway”) are entitled to a 50% relief from PRC Enterprise Income Tax (“PRC EIT”) for current year. The first profit-making period of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004 and the full exemption from PRC EIT ended on 31 December 2005. Pursuant to 財稅 2008 21號, the PRC EIT rate applicable to Shineway Pharmaceutical Sales Company Limited (“Shineway Sales”) is 18% on its assessable profit.

Pursuant to the 藏財稅字 (94) 117號, Xizang Shineway Pharmaceutical Co., Ltd. (“Xizang Shineway”) was exempted from the PRC EIT for the period from 21 May 2007 to 31 December 2007. 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 is 10% on its assessable profit.

Management Discussion and Analysis

Dividends

The Board resolved to pay an interim dividend of RMB12 cents per share and special dividend of RMB1 cent per share for the six months ended 30 June 2008 to the shareholders whose names appear on the register of member of the Company on 19 September 2008 (for which such interim dividend and special dividend will be paid on 24 September 2008), representing a payout rate of approximately 40.6% of net profit attributable to the equity holders for the period.

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

Capital Structure

For the six months ended 30 June 2008, there was no change in the capital structure and issued share capital of the Group.

Liquidity and Financial Resources

As at 30 June 2008, bank deposits of the Group amounted to approximately RMB1,510,638,000 which comprised of approximately RMB466,702,000, approximately HK\$1,069,916,000 (which is equivalent to approximately RMB941,526,000) and approximately AUS15,527,000 (which is equivalent to approximately RMB102,410,000). 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 2008 increased by approximately 34.3% and 119.6% respectively from 31 December 2007. Turnover days of bills and trade receivables were 82 days and 4 days respectively (for the corresponding period of 2007: 35 days and 2 days respectively).

Inventories

Inventories balance as at 30 June 2008 increased by approximately 30.9% as compared to the balance as at 31 December 2007 due to an expected increase in demand of sales in the second half of 2008. According to the analysis by inventory types on 30 June 2008, raw materials, work in progress and finished products accounted for approximately 46.7%, 17.4% and 35.9% (31.12.2007: 40.6%, 27.4% and 32.0% respectively) of inventories respectively.

Finished products inventories turnover days in the first six months of 2008 was 32 days (for the corresponding period of 2007: 62 days).

Management Discussion and Analysis

Property, Plant and Equipment

Property, plant and equipment for the first six months of 2008 grew by approximately 2.3% as compared to 31 December 2007. This was mainly due to the costs of approximately RMB12,409,000 for the construction of a research and development centre in the period.

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 was 86 days (for the corresponding period of 2007: 129 days).

Loans and Bank Borrowings

The Group did not have any loans or bank borrowings as at 30 June 2008 (31.12.2007: Nil). Accordingly the gearing ratio based on interest bearing debts for the period is Nil (31.12.2007: Nil).

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2008 (31.12.2007: Nil).

Exposure to Fluctuations in Exchange Rates

Despite the Group's Australian dollars bank deposits realized exchange gain in the first six months of 2008, the Group has incurred net exchange loss of approximately RMB24,855,000 from translating net assets denominated in Hong Kong dollars as exchange rate between Renminbi and Hong Kong dollars kept moving up in the first six months of 2008. The Group expected the exchange rate between Renminbi and Hong Kong dollars would become stable in the second half of this year.

Substantially all of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong dollars. The Group adopts a conservative financial policy and most of its bank deposits are in Renminbi and Hong Kong dollars. As at 30 June 2008, 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.

Management Discussion and Analysis

Employees

As at 30 June 2008, the Group has 2,317 employees (for the corresponding period of 2007: 2,123 employees). Remuneration is determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provides other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong are also enrolled in the mandatory provident fund scheme.

SHARE OPTION SCHEME

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

- (i) any executive or non-executive director including any independent non-executive director or any employee (whether full-time or part-time) of any member of the Group;
- (ii) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or any employee, executive or non-executive director of any member of the Group;
- (iii) any consultant, professional and other advisers to any member of the Group;
- (iv) any chief executive or substantial shareholder of any member of the Group;
- (v) any associate of any director, chief executive or substantial shareholder of any member of the Group; and
- (vi) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up options.

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

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme and any other share option scheme (if any) adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue unless otherwise approved by the Company's shareholders. Where any grant of options to a

Management Discussion and Analysis

substantial shareholder, an independent non-executive director, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent non-executive director of the Company) would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such person in any 12-month period up to and including the date of the grant:

- (i) representing in aggregate over 0.1% of the shares of the Company in issue; and
- (ii) having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant in excess of HK\$5 million,

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

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

Options granted must be taken up within 14 days from the date of offer, upon payment of HK\$1 per option. Options may be 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 Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30 June 2008, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

Management Discussion and Analysis

SUBSTANTIAL SHAREHOLDERS

(a) Interest in the Company

As at 30 June 2008, interest of every person (not being a director or chief executive of the Company) in the shares and underlying shares in the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (“the SFO”) were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
Sinovest International Investment Limited (“Sinovest”) (Notes 1 and 2)	Beneficial owner	600,000,000	72.55%
Forway Investment Limited (“Forway”) (Notes 1, 2 and 3)	Interest of a controlled corporation	600,000,000	72.55%
Trustcorp Limited (Notes 1 to 4)	Trustee of discretionary trust	600,000,000	72.55%
David Henry Christopher HILL (Notes 1 and 5)	Interest of controlled corporation	600,000,000	72.55%
David William ROBERTS (Notes 1 and 6)	Interest of controlled corporation	600,000,000	72.55%
Rebecca Ann HILL (Notes 1, 5 and 7)	Interest of spouse	600,000,000	72.55%
Chartered Asset Management Pte Ltd.	Beneficial owner	41,414,000	5.01%

Management Discussion and Analysis

Notes:

- (1) All interests of Sinovest, Forway, Trustcorp Limited, David Henry Christopher HILL, David William ROBERTS and Rebecca Ann HILL in the shares of the Company were duplicated.
- (2) The 600,000,000 shares of the Company are beneficially owned by Sinovest.
- (3) The issued share capital of Sinovest is owned as to approximately 79.4% by Forway. Accordingly Forway is deemed to be interested in the 600,000,000 shares of the Company under the SFO.
- (4) The entire issued share capital of Forway is owned by Trustcorp Limited in its capacity as the trustee of The Li Family 2004 Trust, a discretionary trust, the founder (as defined in the SFO) of which is Li Zhenjiang and the discretionary objects of which are family members of Li Zhenjiang. Accordingly, Trustcorp Limited is deemed to be interested in the 600,000,000 shares of the Company under the SFO.
- (5) The following is a breakdown of the interests in shares held by David Henry Christopher HILL:

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

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

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

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

Management Discussion and Analysis

(b) Interest in other members of the Group

As at 30 June 2008, 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 2008, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2008, the interests and short positions of the Directors and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register referred therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (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 600,000,000 Shares representing approximately 72.55% of the issued share capital of the Company. These 600,000,000 Shares are held by Sinovest, which is owned as to approximately 79.40% by 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 the 600,000,000 Shares under the SFO.

Save as disclosed above, as at 30 June 2008, none of the Directors or their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

Management Discussion and Analysis

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied and complied with the Code Provisions in the Code on Corporate Governance Practices (“the Code”) set out in Appendix 14 of the Listing Rules during the period ended 30 June 2008, except for the following deviations:

(a) Chairman and chief executive officer

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

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

(b) Effective communication

The code provision E1.2 stipulates that the Chairman should attend the annual general meeting (“AGM”) of the Company. The Chairman did not attend the 2007 AGM due to other business engagement. An executive director had chaired the 2007 AGM and answered questions from shareholders. The chairman of the Audit and Remuneration Committee was also available to answer questions at the 2007 AGM.

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 2008.

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 2008.

Management Discussion and Analysis

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 17 September 2008 to 19 September 2008 (both days inclusive). In order to qualify for the 2008 interim dividend and the 2008 special 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 16 September 2008.

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, 21 August 2008

Report on Review of Interim Financial Information



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 25 to 38, which comprises the condensed consolidated balance sheet of China Shineway Pharmaceutical Group Limited as of 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21 August 2008

Condensed Interim Financial Report

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	NOTES	Six months ended 30 June	
		2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Turnover	3	642,359	461,451
Cost of sales		<u>(175,621)</u>	<u>(127,449)</u>
Gross profit		466,738	334,002
Other income		31,538	19,951
Investment (loss) gain		(6,438)	36,789
Net exchange loss		(24,855)	(21,241)
Distribution costs		(102,295)	(97,996)
Administrative expenses		<u>(46,094)</u>	<u>(36,502)</u>
Profit before taxation	4	318,594	235,003
Income tax	5	<u>(50,140)</u>	<u>(36,688)</u>
Profit for the period		<u>268,454</u>	<u>198,315</u>
Dividends paid	6	<u>223,290</u>	<u>99,240</u>
Dividends declared	6		
Interim dividend		99,240	90,970
Special dividend		<u>8,270</u>	<u>–</u>
		<u>107,510</u>	<u>90,970</u>
Earnings per share - basic	7	<u>RMB32 cents</u>	<u>RMB24 cents</u>

Condensed Interim Financial Report

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2008

	NOTES	30.6.2008 RMB'000 (Unaudited)	31.12.2007 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	285,029	278,547
Land use rights	9	19,559	19,894
Goodwill		58,479	58,479
Deferred tax assets		7,519	7,329
		<u>370,586</u>	<u>364,249</u>
Current assets			
Inventories		102,582	78,352
Bills receivables	10	328,854	244,820
Trade receivables	10	19,466	8,865
Prepayments, deposits and other receivables		57,115	34,009
Bank balances and cash		1,510,638	1,678,442
		<u>2,018,655</u>	<u>2,044,488</u>
Current liabilities			
Trade payables	11	76,270	89,172
Other payables, receipt in advance and accrued charges		138,484	198,095
Amount due to a related company		9,594	10,063
Government grants received		6,380	6,380
Tax liabilities		35,690	35,752
		<u>266,418</u>	<u>339,462</u>
Net current assets		<u>1,752,237</u>	<u>1,705,026</u>
Total assets less current liabilities		<u>2,122,823</u>	<u>2,069,275</u>
Capital and reserves			
Share capital	12	87,662	87,662
Reserves		2,035,161	1,981,613
Total equity		<u>2,122,823</u>	<u>2,069,275</u>

Condensed Interim Financial Report

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	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 2007 (audited)	87,662	982,408	83,758	(32,721)	141,292	121,000	385,854	1,769,253
Profit for the period	-	-	-	-	-	-	198,315	198,315
Total recognised income for the period	-	-	-	-	-	-	198,315	198,315
Transfers	-	-	-	-	9,677	11,000	(20,677)	-
Dividends paid	-	-	-	-	-	-	(99,240)	(99,240)
At 30 June 2007 (unaudited)	87,662	982,408	83,758	(32,721)	150,969	132,000	464,252	1,868,328
Exchange difference on translation of foreign subsidiaries directly recognised in equity	-	-	-	(409)	-	-	-	(409)
Profit for the period	-	-	-	-	-	-	292,326	292,326
Total recognised (expense) income for the period	-	-	-	(409)	-	-	292,326	291,917
Transfers	-	-	-	-	59,034	-	(59,034)	-
Dividends paid	-	-	-	-	-	-	(90,970)	(90,970)
At 31 December 2007 and 1 January 2008 (audited)	87,662	982,408	83,758	(33,130)	210,003	132,000	606,574	2,069,275
Exchange difference on translation of foreign subsidiaries directly recognised in equity	-	-	-	8,384	-	-	-	8,384
Profit for the period	-	-	-	-	-	-	268,454	268,454
Total recognised 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

Condensed Interim Financial Report

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Six months ended 30 June	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Net cash from operating activities	<u>80,507</u>	<u>119,159</u>
Net cash used in investing activities:		
Interest received	16,209	19,849
Purchase of property, plant and equipment	(24,787)	(44,510)
Other investing cashflows	<u>-</u>	<u>(15,298)</u>
	<u>(8,578)</u>	<u>(39,959)</u>
Net cash used in financing activity:		
Dividends paid	<u>(223,290)</u>	<u>(99,240)</u>
Net decrease in cash and cash equivalents	(151,361)	(20,040)
Cash and cash equivalents at beginning of the period	1,678,442	1,582,014
Effect of foreign exchange rate changes	<u>(16,443)</u>	<u>-</u>
Cash and cash equivalents at end of the period, representing bank balances and cash	<u><u>1,510,638</u></u>	<u><u>1,561,974</u></u>

Condensed Interim Financial Report

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

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 2007.

In the current interim period, the Group has adopted, for the first time, new interpretations issued by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board, which are effective for the Group's financial year beginning on 1 January 2008.

The adoption of the new Interpretations 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.

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)	Improvements to IFRSs ¹
IAS 1 (Revised)	Presentation of financial statements ²
IAS 23 (Revised)	Borrowing costs ²
IAS 27 (Revised)	Consolidated and separate financial statements ³
IAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ²
IAS 39 (Amendment)	Eligible hedge items ³
IFRS 1 & IAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate ²
IFRS 2 (Amendment)	Vesting conditions and cancellations ²
IFRS 3 (Revised)	Business combinations ³

Condensed Interim Financial Report

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

IFRS 8	Operating segments ²
IFRIC 13	Customer loyalty programmes ⁴
IFRIC 15	Agreements for the construction of real estate ²
IFRIC 16	Hedges of a net investment in a foreign operation ⁵

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009.

² Effective for annual periods beginning on or after 1 January 2009.

³ Effective for annual periods beginning on or after 1 July 2009.

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

⁵ Effective for annual periods beginning on or after 1 October 2008.

The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. TURNOVER AND SEGMENT INFORMATION

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

The Group's operation is regarded as a single segment, being an enterprise engaged in research and development, manufacture and trading of Chinese pharmaceutical products. Over 90% of the Group's sales are made in the People's Republic of China (the "PRC") and over 90% of the Group's assets are situated in the PRC during the period. Accordingly, no segmental analysis of business and geographical segments is presented for the period.

Condensed Interim Financial Report

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of land use rights	335	236
Depreciation of property, plant and equipment	17,649	17,294
Loss on disposal of property, plant and equipment	84	-
Research and development costs	9,192	2,432
Government subsidies received (included in other income) (Note)	(14,817)	(20)
Interest income from bank deposits	(16,460)	(20,673)
Interest income from investment deposits	(1,313)	(990)
Loss (gain) from held-for-trading investments	7,818	(35,218)
Dividends from held-for-trading investments	(67)	(581)

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

5. INCOME TAX

	Six months ended 30 June	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Current tax:		
PRC Enterprise Income Tax	41,411	36,325
Underprovision in prior year	8,919	-
Deferred tax	(190)	363
	<u>50,140</u>	<u>36,688</u>

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.

Condensed Interim Financial Report

5. INCOME TAX (Continued)

Pursuant to the relevant law and regulations in the PRC, Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") are entitled to a 50% relief from PRC EIT for current year. The first profit-making period of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004 and the full exemption from PRC EIT ended on 31 December 2005. Pursuant to 財稅 2008 21號, the PRC EIT rate applicable to Shineway Pharmaceutical Sales Company Limited is 18% on its assessable profit.

Pursuant to the 藏財稅字 (94) 117 號, Xizang Shineway Pharmaceutical Co., Ltd. ("Xizang Shineway") was exempted from the PRC EIT for the period from 21 May 2007 to 31 December 2007. 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 is 10% on its assessable profit.

6. DIVIDENDS

Dividends paid

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

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final - RMB11 cents (2007: RMB10 cents) per share	90,970	82,700
Special - RMB16 cents (2007: RMB2 cents) per share	132,320	16,540
	<u>223,290</u>	<u>99,240</u>

Dividends declared

The directors declare an interim dividend of RMB12 cents per share and special dividend of RMB1 cent per share, amounting to approximately RMB107,510,000 in respect of the six months ended 30 June 2008 (1.1.2007 to 30.6.2007: RMB11 cents per share amounting to approximately RMB90,970,000), which will be paid to the shareholders whose names appear on the Company's register of members on 19 September 2008. The interim dividend has not been recognised as a liability at the balance sheet date.

Dividends payable in cash in Hong Kong dollars will be converted from Renminbi at the telegraphic transfer exchange rates quoted by bank at 11:00 a.m. on 21 August 2008 (RMB 1 = HK\$1.1378). Accordingly, the amount payable on 24 September 2008 will be:

Proposed dividends: Interim – RMB12 cents per share; approximately HK\$0.1365 per share
Special – RMB1 cent per share; approximately HK\$0.0114 per share

Condensed Interim Financial Report

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Profit for the period attributable to the equity holders of the Company and earnings for the purposes of basic earnings per share	<u>268,454</u>	<u>198,315</u>

	Six months ended 30 June	
	2008	2007
Number of ordinary shares for the purposes of basic earnings per share	<u>827,000,000</u>	<u>827,000,000</u>

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 RMB3,043,000 (2007: RMB nil), plant and machinery at a cost of RMB3,543,000 (2007: RMB9,835,000), office equipment at a cost of RMB2,227,000 (2007: RMB3,760,000), motor vehicles at a cost of RMB1,015,000 (2007: RMB nil) and addition to construction in progress of RMB14,959,000 (2007: RMB30,915,000).

Condensed Interim Financial Report

9. LAND USE RIGHTS

	30.6.2008 RMB'000 (Unaudited)	31.12.2007 RMB'000 (Audited)
At beginning of the period/year	20,569	5,946
Addition for the period/year	–	15,298
Expense for the period/year	<u>(335)</u>	<u>(675)</u>
At end of the period/year	<u><u>20,234</u></u>	<u><u>20,569</u></u>
Leasehold land outside Hong Kong		
Current portion (included in other receivables)	675	675
Non-current portion	<u>19,559</u>	<u>19,894</u>
	<u><u>20,234</u></u>	<u><u>20,569</u></u>

10. OTHER FINANCIAL ASSETS

	30.6.2008 RMB'000 (Unaudited)	31.12.2007 RMB'000 (Audited)
Bills receivables and trade receivables:		
Bills receivables	328,854	244,820
Trade receivables	<u>19,466</u>	<u>8,865</u>
	<u><u>348,320</u></u>	<u><u>253,685</u></u>

Condensed Interim Financial Report

10. OTHER FINANCIAL ASSETS (Continued)

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

	30.6.2008 RMB'000 (Unaudited)	31.12.2007 RMB'000 (Audited)
Within 6 months	19,364	8,865
Over 6 months but less than 1 year	102	—
	19,466	8,865

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

11. OTHER FINANCIAL LIABILITIES

	30.6.2008 RMB'000 (Unaudited)	31.12.2007 RMB'000 (Audited)
Trade payables	76,270	89,172

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

	30.6.2008 RMB'000 (Unaudited)	31.12.2007 RMB'000 (Audited)
Within 6 months	66,920	83,744
Over 6 months but less than 1 year	6,505	5,258
Over 1 year but less than 2 years	2,117	108
Over 2 years	728	62
	76,270	89,172

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.

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12. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
<hr/>		
Ordinary shares of HK\$0.10 each		
Authorised:		
Balance at 1 January 2007, 31 December 2007 and 30 June 2008	<u>5,000,000</u>	<u>530,000</u>
Issued and fully paid:		
Balance at 1 January 2007, 31 December 2007 and 30 June 2008	<u>827,000</u>	<u>87,662</u>
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There was no changes in the Company's authorised, issued and fully paid share capital during the period.

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13. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Sale of goods to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (Note a)	59	36
Rental expenses paid to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (Note a)	235	235
Service fee to Shineway Medical (Note a)	3,547	3,478
Service fee to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note b)	700	587
Purchase of research centre and land use rights from Shineway Lang Fang (Note b)	—	23,960
	<u> </u>	<u> </u>

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.

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	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Short-term benefits	2,470	2,574
Post-employment benefits	5	6
	<u> </u>	<u> </u>
	<u>2,475</u>	<u>2,580</u>

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14. COMMITMENTS

(a) Operating lease commitments

At 30 June 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2008 RMB'000 (Unaudited)	31.12.2007 RMB'000 (Audited)
Within one year	1,415	1,729
In the second to fifth year inclusive	1,594	2,351
	3,009	4,080

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 2008, capital expenditure of RMB58,428,000 in respect of acquisition of property, plant and equipment is contracted for but not provided in the condensed consolidated financial statements (2007: RMB8,756,000).