



CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED

中國神威藥業集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2877)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

Financial Highlights

For the six months ended 30 June 2005, the operating results of the Group were as follows:

- Turnover amounted to approximately RMB371,735,000 during the period, an increase of approximately 10.5% over the corresponding period last year;
- Operating profit amounted to approximately RMB182,025,000, an increase of approximately 13.0% over the corresponding period last year;
- Profit attributable to shareholders amounted to approximately RMB170,761,000, an increase of approximately 16.9% over the corresponding period last year;
- Earnings per share amounted to approximately RMB0.21, a decrease of 12.5% over the corresponding period last year; a decrease in EPS is due to the issue of 230,000,000 new shares in December 2004 during the Company's initial public offering. Taken out such effect, the EPS of the Company would be RMB0.28, representing a growth of 16.7%.
- Interim dividend per share amounted to RMB10 cents.
- As at 30 June 2005, bank balances and cash amounted to approximately RMB1,181,973,000, with no bank borrowings.

RESULTS

The board of directors (the “Board”) of China Shineway Pharmaceutical Group Limited (the “Company”) are pleased to present the unaudited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ended 30 June 2005 with comparative figures for the six months ended 30 June 2004 as follows:

Condensed Consolidated Income Statement For the six months ended 30 June 2005

		Six months ended 30 June	
		2005	2004
		RMB'000	RMB'000
	NOTES	(Unaudited)	(Audited)
Turnover	3	371,735	336,546
Cost of sales		<u>(120,063)</u>	<u>(117,240)</u>
Gross profit		251,672	219,306
Other operating income		6,645	167
Distribution costs		(48,309)	(39,395)
Administrative expenses		<u>(27,983)</u>	<u>(18,927)</u>
Profit before taxation	4	182,025	161,151
Income tax	5	<u>(5,725)</u>	<u>(7,987)</u>
Net profit for the period		<u>176,300</u>	<u>153,164</u>
Attributable to:			
Equity holders of the Company		170,761	146,061
Minority interests		<u>5,539</u>	<u>7,103</u>
		<u>176,300</u>	<u>153,164</u>
Dividend	6	<u>(82,700)</u>	<u>—</u>
Distribution		<u>—</u>	<u>(398,327)</u>
Earnings per share - basic	7	<u>RMB0.21</u>	<u>RMB0.24</u>

Condensed Consolidated Balance Sheet
At 30 June 2005

		30.6.2005	31.12.2004
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>NOTES</i>	(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	8	228,725	179,618
Goodwill		58,479	—
Deposit for purchase of building		—	11,022
Deferred tax assets		<u>8,081</u>	<u>8,982</u>
		<u>295,285</u>	<u>199,622</u>
Current assets			
Inventories		21,043	18,165
Trade and other receivables	9	206,373	205,676
Amounts due from related companies		255	358
Bank balances and cash		<u>1,181,973</u>	<u>1,146,592</u>
		<u>1,409,644</u>	<u>1,370,791</u>
Current liabilities			
Trade and other payables	10	113,798	131,290
Amounts due to Shineway Medical and Shineway Lang Fang		2,805	—
Tax liabilities		<u>4,681</u>	<u>1,023</u>
		<u>121,284</u>	<u>132,313</u>
Net current assets		<u>1,288,360</u>	<u>1,238,478</u>
		<u>1,583,645</u>	<u>1,438,100</u>
Capital and reserves			
Share capital	11	87,980	87,980
Reserves		<u>1,495,665</u>	<u>1,324,747</u>
Equity attributable to equity holders of the Company		1,583,645	1,412,727
Minority interests		<u>—</u>	<u>23,542</u>
Total equity		<u>1,583,645</u>	<u>1,436,269</u>
Non-current liabilities			
Amount due to Shineway Medical		—	1,568
Amount due to Shineway Lang Fang		<u>—</u>	<u>263</u>
		<u>—</u>	<u>1,831</u>
		<u>1,583,645</u>	<u>1,438,100</u>

NOTES

1. GENERAL

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with International Accounting Standard 34 “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised International Financial Reporting Standards (“Standards”) issued by the International Accounting Standards Board (the “IASB”) and the Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) (“Interpretation”) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The application of the Standards has resulted in a change in the presentation of income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The adoption of these new and revised Standards and Interpretations has had no material effect on how the results for the current or prior accounting period are prepared. Accordingly, no prior period adjustment has been made.

At the date of authorisation of these condensed financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC 3	Emission Rights
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Right to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
Amendment to IAS 19	Actuarial Gains & Losses
Amendment to IAS 39	Cash Flow Hedges of Forecast Intragroup Transactions Fair Value Option Financial Guarantee Contracts

The Group has commenced considering the potential impact of the above new and amendments to IFRSs but is not yet in a position to determine whether these new and amendments to IFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new and amendments to IFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. TURNOVER AND SEGMENT INFORMATION

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

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

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Profit before taxation has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	13,965	9,700
(Gain)/loss on disposal of property, plant and equipment	(1)	494
Research and development costs	<u>1,593</u>	<u>907</u>

5. INCOME TAX

	Six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Current tax:		
PRC Enterprise Income Tax	(4,824)	(11,213)
Deferred tax	<u>(901)</u>	<u>3,226</u>
	<u>(5,725)</u>	<u>(7,987)</u>

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

Pursuant to the relevant law and regulations in the PRC, Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Co., Ltd. ("Hebei Shineway") are entitled to exemption from PRC Enterprise Income Tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The first profit-making period of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004.

Pursuant to 國發1988 26號, the PRC Enterprise Income Tax rate applicable to Shineway Pharmaceutical Sales Co., Ltd. (“Shineway Sales”) is 15% on its assessable profit.

6. DIVIDEND

The directors have determined an interim dividend of RMB10 cents per share in respect of the six months ended 30 June 2005 (1.1.2004 to 30.6.2004: Nil) should be paid to the shareholders whose names appear on the Company’s register of members on 7 September 2005.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Net profit for the period attributable to the equity holders of the Company and earnings for the purposes of basic earnings per share	<u>170,761</u>	<u>146,061</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>830,000,000</u>	<u>600,000,000</u>

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

8. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired certain property, plant and equipment at a cost of RMB62,833,000. During the period, the Group disposed of certain property, plant and equipment with a carrying amount of RMB97,000 for proceeds of RMB98,000, resulting in a gain on disposal of RMB1,000.

9. TRADE AND OTHER RECEIVABLES

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

	30.6.2005	31.12.2004
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Within 6 months	2,528	7,140
Over 6 months but less than 1 year	<u>—</u>	<u>—</u>
	2,528	7,140
Bills receivable, due within 6 months	191,854	187,040
Other receivables, deposit and prepayments	<u>11,991</u>	<u>11,496</u>
	<u>206,373</u>	<u>205,676</u>

10. TRADE AND OTHER PAYABLES

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

	30.6.2005 <i>RMB'000</i> (Unaudited)	31.12.2004 <i>RMB'000</i> (Audited)
Within 6 months	41,074	31,407
Over 6 months but less than 1 year	3,820	1,060
Over 1 year but less than 2 years	304	346
Over 2 years	<u>410</u>	<u>316</u>
	45,608	33,129
Other payables	<u>68,190</u>	<u>98,161</u>
	<u><u>113,798</u></u>	<u><u>131,290</u></u>

11. SHARE CAPITAL

	Number of shares <i>'000</i>	Amount <i>RMB'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
On 14 August 2004	50	414
Redenomination and subdivision of shares	3,850	—
Increase during the year	<u>4,996,100</u>	<u>529,586</u>
Balance at 31 December 2004 and 30 June 2005	<u><u>5,000,000</u></u>	<u><u>530,000</u></u>
Issued and fully paid:		
Allotted and issued on the date of incorporation	—	—
Redenomination and subdivision of shares	8	—
Issue of shares on group reorganisation	599,992	63,600
Issue of shares by placing, public offering and exercise of over-allotment option	<u>230,000</u>	<u>24,380</u>
Balance at 31 December 2004 and 30 June 2005	<u><u>830,000</u></u>	<u><u>87,980</u></u>

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

12. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Sale of goods to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (note a)	901	842
Sale of goods to Hebei Shineway Medical Co., Ltd. (note a)	—	15
Sales of goods from Shineway Packing Company Limited ("Shineway Packing") (note b)	—	22
Purchase of goods from Shineway Packing (note b)	—	4,790
Service fee to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") (note c)	3,301	1,568
Service fee to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (note c)	555	263
Purchase of 20% equity interest in Shineway Sales (note d)	<u>80,800</u>	<u>—</u>

Notes:

- (a) Shineway Medical, which is owned by the beneficial shareholder of the Company, holds 80% equity interest in the related companies. The directors are of the opinion that the above transactions were carried out with reference to the cost incurred.
- (b) Shineway Medical, which is owned by the beneficial shareholder of the Company, holds 25% equity interest in Shineway Packaging. During the year ended 31 December, 2004, Shineway Medical disposed of its entire interest in Shineway Packaging. The directors are of the opinion that the above transactions were carried out with reference to the cost incurred.
- (c) The transactions were carried out at cost.
- (d) Pursuant to the equity interest transfer agreement dated 30 March 2005 entered into between Shineway Lang Fang, a 70% subsidiary of Shineway Medical, and Yuan Da, a wholly owned subsidiary of the Company. The Group acquired 20% equity interest in Shineway Sales from Shineway Lang Fang at a consideration of RMB80.8 million. The consideration was determined with reference to the net profit of Shineway Sales for the year ended 31 December 2004 and the price earnings ratio of the Group. The details of the determination of the consideration was set out in the circular of the Company dated 19 April 2005.

INDEPENDENT REVIEW OF AUDITORS

The interim results for the six months ended 30 June 2005 has been reviewed by the auditors of the Company, Deloitte Touche Tohmatsu. The independent review report is set out in the interim report of the Company.

INTERIM DIVIDEND

The Directors resolved to pay on 12 September 2005 an interim dividend of RMB10 cents per share for the six months ended 30 June 2005 to the shareholders named in the register of members of the Company on 7 September 2005 (for the six months ended 30 June 2004: Nil).

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 5 September 2005 to 7 September 2005 (both days inclusive). In order to qualify for the 2005 interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Register and Transfer Office, Computershare Hong Kong Investor Services Limited at 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 pm of 2 September 2005.

COMPANY OVERVIEW

The Group are principally engaged in research and development, production and sales of modern Chinese medicine mainly in injection, soft capsule and granule format each ready for immediate therapeutic use. The Group's products are mainly sold in the PRC market.

As at 30 June 2005, the Group regularly manufactured 32 prescription and 14 over-the-counter ("OTC") medicines. A new medicine, Xue Se Tong (血塞通) dropping pill for the treatment of cardiovascular disease was introduced during the period under review. Currently, the Group focuses on the development, production and sale of modern Chinese medicines, namely (i) medicines for the treatment of 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.

The Group's key products are listed below:

- Shen Mai (參麥) injection: for treatment of coronary heart disease, viral myocarditis and pulmonary heart disease
- Qing Kai Ling (清開靈) injection: a widely used anti-viral medicines for treatment of viral diseases including respiratory tract infection, viral hepatitis, cerebral haemorrhage and cerebral thrombosis
- Wu Fu Xin Nao Qing (五福心腦清) soft capsules: for prevention and treatment of coronary heart disease and cerebral arteriosclerosis
- Huo Xiang Zheng Qi (藿香正氣) soft capsules: for prevention and treatment of heat stroke, stomach ache, nausea and diarrhoea
- Huang Qi (黃芪) injection: medicine for cardiovascular disease and anti-viral — for treatment of viral myocarditis, heart malfunction and hepatitis
- Shu Xie Ning (舒血寧) injection: cardiovascular disease medicine

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2005, the Group recorded a turnover growth of 10.5%, amounted to RMB371,735,000. Net profit amounted to RMB170,761,000, representing a year-on-year increase of 16.9%.

Injection products

During the first six months of 2005, the Group sold approximately RMB205,922,000 of injection products, representing a 23.9% increase from the same period last year. The growth mainly comes from a higher sales of Shen Mai injection and Qing Kai Ling injection during the period which recorded an increase of 23.3% and 19.5% respectively. The strong growth is attributed to the Group's strategies of the careful selection of primary distributors, which further enhanced the development of distribution network and thereby increasing market coverage.

Injection products accounted for approximately 55.4% of turnover for the first six months of 2005 as compared to 51% of turnover for the same period in 2004. The Group believes that it is now the largest Chinese medicine injection manufacturer in PRC in term of sales volume and production capacity.

Soft capsule products

For the first six months of 2005, sales of the Group's soft capsule products amounted to approximately RMB119,184,000, a decrease of 1.8%, or RMB2,173,000, as compared with the corresponding period last year. It was mainly attributable to a 22.9% sales decline in Wu Fu Xing Nao Qing soft capsules as compared with the corresponding period of last year. This was caused by the Group's efforts in the rationalisation of its distribution network in the beginning of this year to promote further efficiency. These included careful selection of primarily distributors, channel consolidation and secure pricing management, with a view to protecting long term profitability of the Group and returns for distributors at all levels. This strategy has taken effect and sales of Wu Fu Xing Nao Qing is now back to normal.

During the reporting period, the sales of Huo Xiang Zheng Qi soft capsules reached RMB32 million, an increase of 158% over the corresponding period last year.

Granule products

For the first six months in 2005, sales of granules experienced a slight decline of 2.8% as compared with the corresponding period of last year, amounting to approximately RMB42,514,000. The decline is due to strategic arrangement to maintain stable sales in the first half of the year and to pave way for accomplishing growth in the second half of the year.

Key Products

Shen Mai injection — *for treatment of coronary heart disease, viral myocarditis and pulmonary heart disease*

Sales of one of the Group's key strategic products, Shen Mai injection, increased by 23.3% from the same period last year to reach RMB104.6 million for the first six months in 2005. The growth of sales in Shen Mai injection was mainly attributable to the strong demand of the products from the medical market as a result of the product's strong brand name and quality. The Group also implemented strategies with primary focuses on enhancing market penetration in the northern and central regions as well as the emerging markets in the eastern and southern regions of China. The Group believes that it is the largest manufacturer and supplier of Shen Mai injection in China in term of sales volume. According to an independent survey, Shen Mai injection is ranked number one in hospital purchase of Chinese medicines in the PRC. The Group believes this product has an enormous growth potential.

Qing Kai Ling injection — *a widely used anti-viral medicines for treatment of viral diseases including respiratory tract infection, viral hepatitis, cerebral haemorrhage and cerebral thrombosis*

Sales of one of the Group's key strategic products, Qing Kai Ling injection, increased by 19.4% to RMB80.9 million, accounting for 21.7% of the Group's turnover. The Group is the largest manufacturer of Qing Kai Ling injection in the PRC. The growth of this product is mainly attributable to the Group's strong distribution network in the northern and central regions and emerging markets in the eastern and southern regions of China. The Group believed that its alliance with strategic national distributors would strengthen the marketing and promotion of this product and therefore ensuring the product's continuous growth.

Wu Fu Xin Nao Qing soft capsules — *for prevention and treatment of coronary heart disease and cerebral arteriosclerosis*

The sales of Wu Fu Xin Nao Qing soft capsules declined by approximately 22.9% to RMB63.6 million, as compared to the corresponding period last year and accounting for 17% of the Group's total turnover. The sales decline of this product was explained in the paragraph headed "Soft capsule" above.

Leveraging on the strong brand name "Wu Fu", the Group will continue to increase its management and support of terminal customers, and increase sales promotion. The Group believes that this product can resume its growth trend after the full effects of the distribution network management becomes apparent.

Emerging Products

Huo Xiang Zheng Qi soft capsules — *for prevention and treatment of heat stroke, stomach ache, nausea and diarrhoea*

During the first six months of 2005, the Group recorded impressive growth of 158% in sales of Huo Xiang Zheng Qi soft capsules with a revenue of RMB32.1 million. It accounted for 8.6% of the Group's total turnover. Huo Xiang Zheng Qi soft capsules is an extremely

popular non-prescription product due to its effective efficacy and the high absorption rate of soft capsules. The product is a State Protect Chinese Medicine. The growth of this product was mainly attributable to the Group's brand name advantage, the effective implementation of channel strategy and terminal customer pulling strategy.

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

The sales of Huang Qi injection increased by 55.7% to reach RMB10.9 million. It is one of our growth products. Since the beginning of this year, the Group has increased its marketing and promotion effort of this product. With its superb product quality, this product is expected to be a RMB100 million product.

Shu Xie Ning injection — cardiovascular disease medicine

Shu Xie Ning injection recorded sale of RMB3.6 million during the first half of 2005. The product was put into mass production in early 2005. According to an independent survey, Shu Xie Ning injection is the third largest purchase of Chinese medicine by hospitals in China. The Group had successfully entered this particular product market with its business experience in injection, established brand name, economies of scale and technology advantages. This product is expected to achieve a substantial growth over the coming years. In the meantime, the Group has applied for the registration of Shu Xie Ning injection as a State Protected Chinese Medicine in July 2005, so as to lay down the foundation for cultivating it to become one of the Group's benchmarked products.

Research and Development

Achievements

During the period under review, the Company obtained a Certificate of New Medicine for Xue Se Tong dropping pill which offers a protection period of 5 years.

Furthermore, the Company has obtained certificates of State Protected Chinese Medicine with a protection period from 2005 to 2012 for Indigowoad Root oral tablet, Guan Xin Ling injection and Paediatric Hua Tan Zhi Ke granule

During the period under review, Jiang Zhi Tong Luo soft capsule was named as one of the 2005 State Key New Products by the Ministry of Science and Technology.

In progress

Currently, there are 17 potential new products research projects which are either undergoing pharmaceutical and clinical trial or have completed clinical trial. Among these projects are 5 products used for treatment of cardiovascular diseases, 2 products for treatment of digestive system, 1 product for anti-viral treatment and 1 product for treatment of cervical vertebra diseases. All of these research projects are progressed in line as planned.

Expansion of Distribution Network

During the first six months of 2005, the Group started to foster strategic alliance with key national distributors. These key national distributors control around 60% of the medicine wholesale market in China. Through this alliance, the Group will be able to accelerate its expansion and coverage in the PRC.

Changes in Regulatory Environment

At present, unofficial information reveals that price cap of medicines in the state insurance catalogue may be adjusted downward. Currently, the Group is not aware of any formal notification from PRC regulatory bodies in this regard. The Group believes that even if such price reduction occurs, it will not have material impact to its earnings as average retail price of the Group's insurance covered products are significantly lower than the current price cap stated in the state insurance catalogue.

There were recent announcements on changes in regulatory policies to dedicate provincial pricing bureau the authority to set retail price cap of OTC products. The Group believes that this change will only increase the efficiency of price approval process while promoting the reasonableness of medicine prices, thereby establishing a healthier market. The Group believes that there would not be any material impact to its earnings from such change of price setting authority.

Expanding Production and Storage Capacity

The Group has completed the expansion of its extraction capacity from 1,800 tonnes to 5,400 tonnes per annum. In light of expecting strong demand of injection products, the Company is now conducting planning to construct a new injection workshop to double its existing injection production capacity. The workshop is expected to be completed in the end of next year.

To cope with the growth of business, the Group commenced the construction of a large-scale logistic centre in the first half of the year. It serves to increase the capacity of flow of goods to customers to cater for the increasing business volume. The new logistic centre is expected to be completed in the beginning of 2006.

Capital Expenditures

For the six months ended 30 June 2005, the capital expenditures of the Group were as follows:

- 1) Approximately RMB51 million for the acquisition of a newly constructed Chinese medicine extraction workshop in January 2005 and increases the Group's Chinese medicine extraction capacity to 5,400 tonnes per annum. The Group believes that if it is now the enterprise with the largest Chinese medicine extraction capacity in the country.

- 2) Approximately RMB80.8 million for the acquisition of the remaining 20% in equity of Shineway Pharmaceutical Sales Co., Ltd. (“Shineway Sales”). After the acquisition, the Group holds a 100% in equity of Shineway Sales and has eliminated the related minority interest and increased its net profit.

Going down the road, to cope with the growth of our business, approximately RMB50 million is expected to be used in the construction of the new logistic centre in the second half of the year. The Group is planning to construct a new injection workshop for approximately RMB80 million. Construction is expected to be completed by the end of 2006. It is anticipated that the Group’s annual output of injection will approximately double the current level to reach 2 billion vials.

Cost Control

During the first six months of 2005, the overall gross profit margin increased slightly by 2.5% to 67.7% as compared to the 65.2% over the corresponding period last year. The average gross profit margins of injection products, soft capsule products and granule products were 74.4%, 64.3% and 45.9% respectively. The improvement in gross profit margin is the result of economies of scale production, effective internal cost control, stringent control over the purchasing costs of raw materials and an advanced production know how to achieve high extraction rate and production pass rate. The higher sales mix percentage of injection products, as compared with the corresponding period of last year, was also attributable to the increase in the gross profit margin for the period under review.

Distribution Costs

To continually expand the key and emerging products’ coverage over major provinces and cities of the PRC, the Group has continued to increase the sales and promotion efforts. Corresponding with its marketing and promotional activities, the overall distribution costs grew 22.6% during the period when compared with the corresponding period of last year, representing 12.9% of the Group’s turnover (2004: 11.7%). Among these, advertising costs accounted for 67.3% of the distribution costs (2004: 62.2%), transportation and delivery cost was 14.5% (2004: 12.9%), salary was 12.7% (2004: 10.9%). Since there were an increase in the number of staff and market coverage, the advertising and promotion expenses have increased remarkably, the transportation and delivery cost and salary have recorded an moderate increase.

Administrative Expenses

The Group’s administrative expenses accounted for 7.5% of the sales amount for the period (2004: 5.6%) due to its expansion and additional cost as a listed company. Among these, salary accounted for 33.2% of the total management fee (2004: 28.0%), which was attributable to the recruitment of additional calibre management staff during the period. Services fee was 13.8% (2004: 9.7%) of the total management fee. This item represents services provided by Shineway Medical Science & Technology Co. Ltd. and Shineway Medical Science & Technology (Lang Fang) Co. Ltd. for welfare services to staff and factory building maintenance and was a new addition to the accounts in April last year, so it

increases the expenses during the period. Research and development expenses accounted for 5.7% (2004: 8.0%) and depreciation was 3.6% (2004: 8.2%). The overall increase in expenses was due to the newly incurred costs and expenses for the setting up of the Hong Kong office and related business after the listing in early December 2004.

FINANCIAL POSITION

Loans and Bank Borrowings

The Group did not have any loans and bank borrowings as at 30 June 2005.

Current Fund and Financial Resources

The bank deposit of the Group was amounted to approximately RMB1,182,000,000 as at 30 June 2005.

Pledge of Assets

The Group did not have pledge assets as at 30 June 2005.

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2005.

Risk on Foreign Exchange

The Group has not been affected by the risk on foreign exchange because its major business and production are conducted in the PRC.

Substantial investment and acquisition

For the six months ended 30 June 2005, the Group did not have any substantial investment and acquisition other than the purchase of Chinese medicine extraction workshop and the 20% equity interest in Shineway Sales.

Employees

As at 30 June 2005, the Group has 1,650 employees.

FUTURE OUTLOOK

The Chinese medicine market is developing rapidly as a result of: (1) continuous growth of China's GDP, (2) increase in average income per capita, (3) increasing investments in public health care in the PRC, (4) expanded eligibility in the medical insurance plan due to urbanisation, (5) aging population, and continuous increase in health consciousness. In addition, the continued support by the Government also facilitates the development of the industry. It is expected that during the period of the Eleventh Five-Year Plan, the medical

industry in China will continuously grow at a rate of about 17%. In addition, a recent report from Chinese Medicine Press predicted that the enforcement of GMP by the government will expedite the market to consolidate. The Group, as one of the foremost Chinese medicine companies in the industry, will be benefited from the development.

Growth Strategies

The Group will continue to implement its defined strategies and strives to achieve fruitful results in the second half of the year and beyond. The strategies are detailed as below:

1. Product mix enhancement - while increasing the revenue contribution from its core products such as Shen Mai, Wu Fu Xin Nao Qing and Qing Kai Ling, the Group will nurture emerging products to broaden its product portfolio, such as Huang Xi, Shu Xie Ning, Huo Xiang and Qing Kai Ling soft capsule, which are differentiated products in terms of their characteristics and dosage forms, further establishing the Group's brand presence.
2. Distribution channel structure refinement — The Group plans to foster closer strategic cooperation with cross-regional distributors which have strong distribution capabilities and strong financial position. It will also cooperate with selective primary and secondary distributors to establish a core regional distribution network with a view to stabilizing product prices amongst different channels and to increasing the operation efficiencies.
3. Strengthening of point of sales development — The Group is developing a professional team to oversee OTC point of sales network which comprises over 2,000 pharmacies in 24 provinces and regions. In addition, it is building up a team of professionals to oversee an Rx pharmacy point of sales network that comprises over 200 Grade 3A and hundreds of Grade 2A hospitals.
4. Implementation of regional growth strategies — The Group will ride on its strong presence in markets where it enjoyed a competitive edge (Northeastern, Northwestern and Northern China). Meanwhile, it will also explore opportunities in markets with strong demand for Chinese Medicines (Southern, Central and Eastern China) to increase the number of markets from which the Group derives revenues. Key strategic development regions include more affluent regions such as the Pearl River Delta region, the Yangtze River Delta River, Huangbuo Bay, Yangtze River costal areas and cities and regions along the Beijing and Guangzhou railway.
5. The Group will continue to execute its product research and development strategies, with increased investments in the development of products for the treatment of chronic diseases that commonly affect the middle and old aged, anti-viral diseases and diseases that mostly affect children.
6. The Group will continue to evaluate acquisition opportunities in a prudent manner

Putting the above into perspective, the Group believes that it will be able to leverage of high quality products and competitive pricing to continue to boost its business capability.

Dividend Policy

The Board currently intend to adopt a dividend policy to recommend annually in the foreseeable future the distribution to all the Shareholders of the Company of not less than 40% of the distributable profit of that year. Interim and final dividend will be distributed to the shareholders in September and June each year.

Purchase, Sell or Redemption of the Listed Shares of the Company

The Group repurchased 3,000,000 ordinary shares from the public market at a price of HK\$3.175-3.450 from 4 July to 14 July 2005, with a total cost of HK\$9,873,925. These shares have been cancelled. As the Board believes that the share price cannot reflect the value of the Company at that time, it therefore decided to conduct a repurchase.

Save for the above, for the six months ended 30 June 2005, the Company or its associates did not purchase, sell or redeem any shares of the Company.

Compliance with the Code on Corporate Governance Practices and Model Code

The Group has put great emphasis on corporate governance. Since our listing on the Main Board in December 2004, the Group has regularly met with investors to increase corporate transparency. During the first six months of the year, the Group met and/or held telephone conferences with a number of investors. We also participated in two institutional investor conferences. We issued two voluntary announcements. We held a number of site visits for investors. Since June of this year, we have distributed “Shineway Newsflash” to investors.

In addition to audit committee and remuneration committee, the Group has also established investment risk management committee to ensure reasonableness and thoughtfulness of investment decision as well as enhancement of the management and monitoring of investment projects.

The Company has complied with the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (“Listing Rules”) of the Stock Exchange of Hong Kong Limited (“Stock Exchange”) during the period.

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors (“Code”). After making a special inquiry with all directors, the Company confirms that all directors have complied with the standard as set out in the Code.

Interim Report

The interim report of 2005 will be despatched to the shareholders at the appropriate time and it is also available on the website of the Stock Exchange (www.hkex.com).

We are delighted by the trust and support of our shareholders and those who care about Shineway. On behalf of the board, we would like to take this opportunity to thank all of you, as well as our employees who made tremendous efforts to achieve such encouraging operating results during the period under review.

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

Hong Kong, 18 August 2005

As at the date of this announcement, the Board comprises five executive Directors namely, Mr. Li Zhenjiang (Chairman), Ms. Wang Zhihua, Ms. Xin Yunxia, Mr. Li Huimin and Mr. Hung Randy King Kuen and three independent non-executive Directors namely, Mr. Li Kung Man, Dr. Wang Jianping, and Prof. Zhou Chanfan.