



神威藥業
SHINEWAY

CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2877)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2006, the operating results of the Group were as follows:

- Turnover amounted to approximately RMB418,313,000 during the period, an increase of approximately 12.5% over the corresponding period of last year;
- Operating profit amounted to approximately RMB199,496,000, an increase of approximately 9.6% over the corresponding period of last year;
- Profit attributable to shareholders amounted to approximately RMB173,204,000, an increase of approximately 1.4% over the corresponding period of last year;
- Earnings per share amounted to RMB0.21, which is approximately the same as the corresponding period of last year;
- Interim dividend per share amounted to RMB10 cents, representing a payout rate of 47.7% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2006.

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 2006 with comparative figures for the six months ended 30 June 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		Six months ended 30 June	
		2006	2005
		RMB'000	RMB'000
	NOTES	(Unaudited)	(Unaudited)
Turnover	3	418,313	371,735
Cost of sales		(126,812)	(120,063)
Gross profit		291,501	251,672
Other income		12,987	6,645
Distribution costs		(75,843)	(48,309)
Administrative expenses		(29,149)	(27,983)
Profit before taxation	4	199,496	182,025
Income tax	5	(26,292)	(5,725)
Profit for the period		173,204	176,300
Attributable to:			
Equity holders of the Company		173,204	170,761
Minority interests		–	5,539
		173,204	176,300
Dividends paid	6	99,240	–
Dividend declared	6	82,700	82,700
Earnings per share – basic	7	RMB0.21	RMB0.21

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

		30.6.2006 RMB'000 (Unaudited)	31.12.2005 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	236,775	231,193
Land use rights		5,781	5,946
Goodwill		58,479	58,479
Deferred tax assets		10,919	11,459
		<u>311,954</u>	<u>307,077</u>
Current assets			
Inventories		46,168	35,451
Trade receivables	9	3,248	2,998
Bills receivables	9	65,610	134,348
Prepayments, deposits and other receivables		27,399	17,614
Amounts due from related companies		–	155
Pledged bank deposits		9,316	–
Bank balances and cash		1,466,804	1,347,605
		<u>1,618,545</u>	<u>1,538,171</u>
Current liabilities			
Trade payables	10	91,739	58,101
Bills payables	10	18,135	–
Other payables, receipt in advance and accrued charges		104,120	148,596
Government grants received		5,400	5,400
Amount due to a related company		234	–
Tax liabilities		6,665	2,903
		<u>226,293</u>	<u>215,000</u>
Net current assets		<u>1,392,252</u>	<u>1,323,171</u>
Total assets less current liabilities		<u>1,704,206</u>	<u>1,630,248</u>
Capital and reserves			
Share capital	11	87,662	87,662
Reserves		1,616,544	1,542,586
Equity attributable to equity holders of the Company		<u>1,704,206</u>	<u>1,630,248</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. GENERAL

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2005 except as described below.

In the current period, the Group has adopted, for the first time, the following new and revised International Financial Reporting Standards (“Standards”) issued by the International Accounting Standards Board (the “IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) (“Interpretations”) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006, respectively.

IAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
IAS 21 (Amendment)	Net investment in a foreign operation
IAS 39 (Amendment)	Cash flow hedge of forecast intragroup transactions
IAS 39 (Amendment)	The fair value option
IAS 39 & IFRS 4 (Amendment)	Financial guarantee contracts
IFRS 6	Exploration for and evaluation of mineral resources
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
IFRIC 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment

The adoption of these 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.

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

IAS 1 (Amendment)	Capital disclosures ¹
IFRIC 7	Applying the restatement approach under IAS 29 “Financial Reporting in Hyperinflationary Economies” ²
IFRIC 8	Scope of IFRS 2 ³
IFRIC 9	Reassessment of embedded derivatives ⁴
IFRS 7	Financial instruments: Disclosures ¹

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

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	
2006	2005
<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)	(Unaudited)

Profit before taxation has been arrived at after charging (crediting):

Depreciation and amortisation of property, plant and equipment	11,755	13,965
Loss (gain) on write-off/disposal of property, plant and equipment	12	(1)
Research and development costs	2,354	1,593
Interest income	(12,426)	(6,645)
	<u>11,755</u>	<u>13,965</u>

5. INCOME TAX

Six months ended 30 June	
2006	2005
<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)	(Unaudited)

Current tax:

PRC Enterprise Income Tax	25,752	4,824
Deferred tax	540	901
	<u>26,292</u>	<u>5,725</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, the subsidiaries, Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Co., Ltd. ("Hebei Shineway") are entitled to exemption from PRC Enterprise Income Tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The first profit-making period of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004.

Pursuant to National Tax Document 1988 No. 26, the PRC Enterprise Income Tax rate applicable to a subsidiary, Shineway Pharmaceutical Sales Co., Ltd. ("Shineway Sales"), is 15% on its assessable profit.

6. DIVIDENDS

Dividend paid

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

	Six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Final – RMB10 cents (2005: nil) per share	82,700	–
Special – RMB2 cents (2005: nil) per share	16,540	–
	<u>99,240</u>	<u>–</u>

Dividend declared

The directors declare an interim dividend of RMB10 cents per share, amounting to approximately RMB82,700,000 in respect of the six months ended 30 June 2006 (1.1.2005 to 30.6.2005: RMB10 cents per share, amounting to approximately RMB82,700,000), which will be paid to the shareholders whose names appear on the Company's register of members on 4 September 2006. 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 RMB at the telegraphic transfer exchange rates quoted by bank at 11:00 a.m. on 16 August 2006 (RMB1 = HK\$0.9704). Accordingly, the amount payable on 5 September 2006 will be approximately HK\$0.0970 per share.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Net profit for the period attributable to the equity holders of the Company and earnings for the purposes of basic earnings per share	<u>173,204</u>	<u>170,761</u>
	Six months ended 30 June	
	2006	2005
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>827,000,000</u>	<u>830,000,000</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 RMB17,349,000.

9. TRADE AND BILLS RECEIVABLES

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

	30.6.2006 <i>RMB'000</i> (Unaudited)	31.12.2005 <i>RMB'000</i> (Audited)
Within 6 months	3,128	2,998
Over 6 months but less than 1 year	120	–
	<u>3,248</u>	<u>2,998</u>

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

10. TRADE AND BILLS PAYABLES

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

	30.6.2006 <i>RMB'000</i> (Unaudited)	31.12.2005 <i>RMB'000</i> (Audited)
Within 6 months	86,865	54,644
Over 6 months but less than 1 year	1,911	2,769
Over 1 year but less than 2 years	2,605	276
Over 2 years	358	412
	<u>91,739</u>	<u>58,101</u>

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

11. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of HK\$0.10 each		
Authorised:		
Balance at 1 January 2005, 31 December 2005 and 30 June 2006	<u>5,000,000</u>	<u>530,000</u>
Issued and fully paid:		
Balance at 1 January 2005	830,000	87,980
Cancellation upon repurchase of own shares	<u>(3,000)</u>	<u>(318)</u>
Balance at 31 December 2005 and 30 June 2006	<u>827,000</u>	<u>87,662</u>

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

12. PLEDGE OF ASSETS

As at 30 June 2006, the Group has pledged bills receivables of approximately RMB10,050,000 and bank deposits of approximately RMB9,316,000 to secure the bank credit facilities (as at 31 December 2005: nil).

13. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Sale of goods to Hebei Shineway Chain Dragstores Co., Ltd. ("Shineway Drugstores") (Note a)	279	901
Rental expenses paid to a related company, Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	235	–
Service fee to Shineway Medical	3,478	3,301
Service fee to a related company, Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang")	587	555
Purchase of 20% equity interest in Shineway Sales (Note b)	–	80,846

Notes:

- (a) Shineway Medical, which is owned by the controlling shareholder of the Company, holds 80% equity interest in the related companies.
- (b) 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 International Limited ("Yuan Da"), a wholly-owned subsidiary of the Company. Yuan Da acquired an additional 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 goodwill arisen from the acquisition of minority interests of a subsidiary amounted to RMB58.5 million. The details of the determination of the consideration was set out in the circular of the Company dated 19 April 2005.

14. COMMITMENTS

(a) Operating lease commitment

At 30 June 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2006 RMB'000 (Unaudited)	31.12.2005 RMB'000 (Audited)
Within one year	1,398	1,500
In the second to fifth year inclusive	752	1,385
	<u>2,150</u>	<u>2,885</u>

Operating lease payments represent rentals payable by the Group for certain of its warehouse, staff quarters and offices. Leases are negotiated for terms ranged from one to three years with fixed rental.

(b) Capital commitment

As at 30 June 2006, capital expenditure of RMB14,812,000 for the completion of a logistic centre, an injection workshop and related facilities was contracted for but not provided in the financial statements (31 December 2005: RMB12,056,000).

BUSINESS REVIEW

For the six months ended 30 June 2006, the Group recorded a turnover growth of 12.5%, amounting to RMB418,313,000. Sales by product format for the first six months in 2006 and their respective growth rates are as follows:

	Sales	Sales mix	Growth rate
Injections	RMB220,148,000	52.6%	6.9%
Soft Capsules	RMB141,882,000	33.9%	19.0%
Granules	RMB49,331,000	11.8%	16.0%
Other format	RMB6,952,000	1.7%	69.0%

Operating profit increased 9.6% over the corresponding period of last year, amounting to RMB199,496,000.

Net profit attributable to the equity holders of the Group for the period amounted to approximately RMB173,204,000, representing an increase of 1.4% over last year. The modest growth of net profit was mainly affected by the increase of income tax rate this year.

Injection Products

For the first six months of 2006, the Group sold approximately RMB220,148,000 of injection products, representing an increase of 6.9% from the same period of last year. Amongst these products, Qing Kai Ling injection, Shu Xie Ning injection, and Huang Qi injection recorded impressive growth of 21.1%, 332.8% and 50.3% in sales respectively. Nonetheless sales of Shen Mai injection decreased by 19.7% in the period. Hence, injection products did not reach the expected growth target for the reporting period. However, market demand for Chinese medicine injection products remains strong. The Group will continue to focus on the business of injection products and implement strategy to strengthen the development of distribution network and points of sales to increase market coverage. The Group believes that Chinese medicine injection products will continue to be the product format with the highest growth potential.

Injection products accounted for approximately 52.6% of total turnover for the first six months of 2006 as compared to 55.4% of total turnover for the same period of last year. The Group believes that it is presently the largest Chinese medicine injection manufacturer in PRC in term of sales volume and production capacity.

Soft Capsule Products

For the first six months in 2006, sales of the Group's soft capsule products amounted to approximately RMB141,882,000, an increase of 19.0% as compared with the corresponding period of last year. It was mainly attributable to the increase in sales of Wu Fu Xin Nao Qing soft capsule and Huo Xiang Zheng Qi soft capsule. During the period under review, sales of Wu Fu Xin Nao Qing soft capsule and Huo Xiang Zheng Qi soft capsule recorded an increase of 9.9% and 61.6% respectively over last year.

Soft Capsule products accounted for approximately 33.9% of turnover for the first six months in 2006 as compared to 32.1% in the same period of last year. The Group believes that it is now the largest Chinese medicine soft capsule manufacturer in PRC in terms of sales volume and production capacity.

Granule Products

For the first six months in 2006, sales of granules increased by 16.0% as compared with the corresponding period of last year, amounting to approximately RMB49,331,000. It was the results from the Group's strategy to strengthen the marketing of the more popular granules to ensure their stable growth. Granule products accounted for approximately 11.8% of turnover for the first six months in 2006 as compared to 11.4% in the same period of 2005.

CHANGES IN REGULATIONS OF THE INDUSTRY

In June this year, the price caps of 67 western anti-tumor medicines listed in the national catalogue of medical insurance were adjusted downward. Currently the Group is not aware of any formal notification from the national regulatory authority of any downward adjustment of price caps of the Chinese medicines. The Group believes that even if such downward adjustment occurs, it will not have material impact on its earnings as the average retail prices of most of the Group's products are considerably lower than the current price caps.

In response to the occurrence of a series of incidents related to medicine safety from poor drug quality during the period, the regulatory authorities resolved to rectify the supervision and management of the medicine manufacturers and promulgated a number of regulations regarding the management of production process and product quality, which include "the Announcement of National Implementation regarding Special Inspection of Medicine Production" (《全國藥品生產專項檢查實施方案》), "The Provisional Regulations for Inspection of GMP Requirements" (《藥品GMP飛行檢查暫行規定》), "the Notice regarding Further Enhancement on the Supervision and Management of the Packing Materials for Medicines" (《關於進一步加強藥包材監督管理工作的通知》), "the Quality Management Guidelines on Production of Supplementary Materials for Medicines" (《藥用輔料生產質量管理規範》) etc. In order to strengthen the supervision and management of medicine manufacturers, the regulatory authorities will revoke the medicines production license or withdraw the GMP certificate from those manufacturers which do not comply with the requirements of the above new regulations. The Group is of the opinion that the rectification will increase public's confidence in use of medicines and facilitate healthy development of the pharmaceutical industry, though some medicine manufacturers which could not meet the regulatory standards will probably be shut down.

PROSPECT

The growth in pharmaceutical industry faces challenges in 2006. Recurring medical incidents due to poor medicine quality affected the public's confidence in the safety of drugs. The state authorities rectification of medicine procurement led to slow down in placing orders for top selling medicines in hospitals. However, along with the implementation of regulatory price cut, rectification of drugs procurement and closer scrutinization of the production and quality of medicines, many unreasonable and improper business practices will be eliminated. In the view of those medicine enterprises with renowned brand and products of good quality, implementation of the above initiatives, which is essentially a medical system reform, will accelerate market consolidation. As for the pharmaceutical industry, the initiatives of regulatory authorities will further facilitate and promote the healthy development of the industry.

In the pharmaceutical market of the PRC, large portion of the population are consuming modern Chinese medicines with good curative effect and quality. In the 11th Five-Year State Plan period, the PRC government is determined to increase investments in public health care, improve public health and medical service system, reasonably deploy medical resources, and continue its support to the development of the Chinese medicines and promote the modern Chinese medicine industry.

China is determined to expedite its development of community healthcare services by establishing a new type of rural cooperative health care system in pilot areas. This will likely shore up the continuous growth of demand in domestic medicine market. In those pilot rural areas, farmers only need to pay RMB10 per person per year to participate in the “New Farming Village Cooperative Medical Scheme”, to enjoy basic health care services. In March this year, the state council passed in principle “the Program for Establishing and Developing a Rural Health Care Service System”(《農村衛生服務體系建設與發展規劃》) and set a target that every farmer will be able to enjoy basic health care services by 2010. From 2006 onward, subsidies paid by the central and local governments to the “New Farming Village Cooperative Medical Scheme” have been increased to RMB40 per person per year. The scope of pilot areas will also expand to cover 40% of the country and further enhance to 60% by 2007. By 2008, pilot areas will be established to cover the whole nation. The goal is to establish “the New Farming Village Cooperative Medical Scheme” in almost all rural areas by 2010. “The New Farming Village Cooperative Medical Scheme” will become another robust growth point in medicine market.

The reform in medical system has started. The pharmaceutical market will likely to become more consolidated. Sizeable pharmaceutical enterprises will probably gain larger market share. The driving force and demand from the pharmaceutical economy will gain more strength. While the reform in medical system will keep the medicine market growing only steadily in 2006, it does not change the prospect of the Chinese medicine market. With the continuous growth of China’s GDP and its average income per capita, rising health awareness among the general public, an aging population that results in increased demand for medicines for treatment of chronic diseases, as well as the continuous support from the Chinese government, it is expected that the Chinese medicine market will continue to grow rapidly.

INTERIM DIVIDEND

The Directors resolved to pay an interim dividend of RMB10 cents per share on 5 September 2006 for the six months ended 30 June 2006 to the shareholders named in the register of members of the Company on 4 September 2006 (for the six months ended 30 June 2005: RMB10 cents per share).

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

For the six months ended 30 June 2006, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

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 (“Listing Rules”) of the Stock Exchange of Hong Kong Limited (“Stock Exchange”) during the period, except for the following deviation:

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

COMPLIANCE WITH MODEL CODE

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers 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 2006.

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 2006.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 1 September 2006 to 4 September 2006 (both days inclusive). In order to qualify for the 2006 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 Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 31 August 2006.

INTERIM REPORT

The interim report of 2006 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
Li Zhenjiang
Chairman

Hong Kong, 16 August 2006

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, Ms. Cheng Li, and Mr. Ren Dequan.