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 2007

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2007, the operating results of the Group were as follows:

– Turnover amounted to approximately RMB461,451,000, an increase of approximately 10.3% over the corresponding period of last year;

– Gross profit margin increased from 69.7% to 72.4% as compared to the corresponding period of last year;

– Profit attributable to shareholders amounted to approximately RMB198,315,000, an increase of approximately 14.5% over the corresponding period of last year;

– Earnings per share amounted to RMB24 cents, an increase of approximately 14.3% over the corresponding period of last year;

– Interim dividend per share amounted to RMB11 cents, representing a payout rate of approximately 45.8% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2007.

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 2007 with comparative figures for the six months ended 30 June 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		Six months ended 30 June	
		2007	2006
		RMB'000	*RMB'000*
	NOTES	**(Unaudited)**	(Unaudited)
Turnover	*3*	**461,451**	418,313
Cost of sales		**(127,449)**	(126,812)
Gross profit		**334,002**	291,501
Other income		**56,740**	12,987
Distribution costs		**(97,996)**	(75,843)
Administrative expenses		**(57,743)**	(29,149)
Profit before taxation	*4*	**235,003**	199,496
Income tax	*5*	**(36,688)**	(26,292)
Profit for the period, attributable to equity holders of the Company		**198,315**	173,204
Dividends paid	*6*	**99,240**	99,240
Dividend declared	*6*	**90,970**	82,700
Earnings per share - basic	*7*	**RMB24 cents**	RMB21 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	NOTES	**30.6.2007** ***RMB'000*** **(Unaudited)**	31.12.2006 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment	*8*	**251,855**	224,368
Land use rights	*9*	**20,680**	5,618
Goodwill		**58,479**	58,479
Deferred tax assets		**8,835**	9,198
		339,849	297,663
Current assets			
Inventories		**56,905**	38,197
Bills receivables	*10*	**113,800**	63,301
Trade receivables	*10*	**6,236**	3,346
Prepayments, deposits and other receivables		**50,292**	21,340
Pledged bank deposits		**411**	1,882
Bank balances and cash		**1,561,974**	1,582,014
		1,789,618	1,710,080
Current liabilities			
Trade payables	*11*	**78,080**	73,173
Bills payables	*11*	**411**	2,973
Other payables, receipt in advance and accrued charges		**137,962**	142,388
Amount due to a related company		**11,577**	587
Government grants received		**5,800**	5,800
Tax liabilities		**27,309**	13,569
		261,139	238,490
Net current assets		**1,528,479**	1,471,590
Total assets less current liabilities		**1,868,328**	1,769,253
Capital and reserves			
Share capital	*12*	**87,662**	87,662
Reserves		**1,780,666**	1,681,591
Equity attributable to equity holders of the Company		**1,868,328**	1,769,253

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

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 Standards 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 2006 except as described below.

In the current period, the Group has adopted, for the first time, a new and an amended International Financial Reporting Standard ("Standard") 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 1 January 2007.

The adoption of the new Standards had no material effect on how the results or financial position of the Group for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

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

IAS 23 (Revised)	Borrowing costs [1]
IFRS 8	Operating segments [1]
IFRIC 11	IFRS 2 – Group and treasury share transactions [2]
IFRIC 12	Service concession arrangements [3]
IFRIC 13	Customer loyalty programmes [4]
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 March 2007.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

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	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of land use rights	**236**	164
Depreciation and amortisation of property, plant and equipment	**17,294**	11,755
Loss on disposal of property, plant and equipment	**–**	12
Research and development costs	**2,432**	2,354
Exchange loss (gain)	**21,241**	(756)
Interest income	**(20,673)**	(12,426)
Gain on disposal of trading listed investments	**(35,218)**	–
Dividend income from trading listed investments	**(581)**	–

5. INCOME TAX

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**36,325**	25,752
Deferred tax	**363**	540
	36,688	26,292

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 year of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004.

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

In March 2007, the National People's Congress promulgated the Corporate Income Tax Law of the PRC (the new "CIT") which will be effective from 1 January 2008. The new CIT will impose a single income tax rate of 25% for both domestic and foreign invested enterprises. The existing Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (the "FIE and FE tax laws") and Provisional Regulations of the PRC on Enterprise Income Tax (collectively referred to as the "existing tax laws") will be abolished simultaneously. Currently, the Company and its subsidiaries applied tax rates prevailing in the relevant jurisdictions. The Corporate Income Tax Law has provided a 5-year transitional period for those entities that applied FIE and FE tax laws in previous years. As there are still no detail implementation rulings released, the Company will continue to assess the impact of such new law.

6. DIVIDENDS

Dividend paid

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

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final – RMB10 cents (2006: RMB10 cents) per share	**82,700**	82,700
Special – RMB2 cents (2006: RMB2 cents) per share	**16,540**	16,540
	99,240	99,240

Dividend declared

The directors declare an interim dividend of RMB11 cents per share amounting to approximately RMB90,970,000 in respect of the six months ended 30 June 2007 (1.1.2006 to 30.6.2006: 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 14 September 2007. 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 23 August 2007 (RMB = HK1.0285). Accordingly, the amount payable on 18 September 2007 will be approximately HK$0.1131 per share.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period attributable to the equity holders of the Company and earnings for the purposes of basic earnings per share	**198,315**	173,204

	Six months ended 30 June	
	2007	2006
Number of ordinary shares for the purposes of basic earnings per share	**827,000,000**	827,000,000

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

8. ADDITIONS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired plant and machinery at a cost of RMB9,835,000 (2006: RMB865,000), office equipment at a cost of RMB3,760,000 (2006: RMB599,000) and addition to construction in progress of RMB30,915,000 (2006: RMB15,373,000).

9. LAND USE RIGHTS

	30.6.2007	31.12.2006
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At beginning of the period/year	**5,946**	6,274
Addition for the period	**15,300**	–
Release to income statement	**(236)**	(328)
At end of the period/year	**21,010**	5,946
Leasehold land outside Hong Kong		
Current portion (included in other receivables)	**330**	328
Non-current portion	**20,680**	5,618
	21,010	5,946

10. 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:

	30.6.2007	31.12.2006
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 6 months	**6,171**	3,346
Over 6 months but less than 1 year	**65**	–
	6,236	3,346

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

11. TRADE AND BILLS PAYABLES

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

	30.6.2007	31.12.2006
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 6 months	**74,469**	68,241
Over 6 months but less than 1 year	**1,758**	3,724
Over 1 year but less than 2 years	**1,330**	1,198
Over 2 years	**523**	10
	78,080	73,173

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

12. SHARE CAPITAL

	Number of shares *'000*	Amount *RMB'000*
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2006, 31 December 2006 and 30 June 2007	**5,000,000**	530,000
Issued and fully paid:		
Balance at 1 January 2006, 31 December 2006 and 30 June 2007	**827,000**	87,662

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

13. PLEDGE OF ASSETS

At 30 June 2007, the Group has pledged bank deposits of approximately RMB411,000 to secure the bank credit facilities (31.12.2006: Bills receivables of RMB1,368,000 and bank deposits of RMB1,882,000).

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2007 ***RMB'000*** **(Unaudited)**	2006 *RMB'000* (Unaudited)
Sale of goods to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") *(Note a)*	**36**	279
Rental expenses paid to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") *(Note a)*	**235**	235
Service fee to Shineway Medical *(Note a)*	**3,478**	3,478
Service fee to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") *(Note b)*	**587**	587
Purchase of research centre and land use rights from Shineway Lang Fang *(Note b)*	**23,960**	–

Notes:

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

(b) Shineway Lang Fang being a 70% subsidiary of Shineway Medical.

15. **COMMITMENTS**

(a) **Operating lease commitments**

At 30 June 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2007	31.12.2006
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**1,744**	1,211
In the second to fifth year inclusive	**3,339**	391
	5,083	1,602

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 2007, capital expenditure of RMB23,889,000 in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements (31.12.2006: RMB2,545,000).

BUSINESS REVIEW

For the six months ended 30 June 2007, the Group recorded a turnover growth of approximately 10.3%, amounting to approximately RMB461,451,000. An analysis of the sales by product format for the first six months in 2007 is set out as follows:

	Sales	**Sales mix**	**Growth rate**
Injections	RMB261,175,000	56.6%	18.6%
Soft Capsules	RMB131,736,000	28.5%	-7.2%
Granules	RMB59,722,000	13.0%	21.1%
Other formats	RMB8,818,000	1.9%	26.8%

The Group's operating profit for the six months ended 30 June 2007 was approximately RMB235,003,000, representing an increase of approximately 17.8% over the corresponding period of last year. Net profit attributable to the equity holders of the Group for the first six months in 2007 amounted to approximately RMB198,315,000, representing an increase of approximately 14.5% over the corresponding period in 2006. The growth in net profit was mainly attributable to the increase in turnover and gross margin, and the contribution of investment income during the period.

Injection Products

For the first six months of 2007, the Group sold approximately RMB261,175,000 of injection products, representing an increase of approximately 18.6% over the same period of last year. Amongst these injection products, Qing Kai Ling injection and Shu Xie Ning injection recorded sales growth of approximately 16.5% and 154.1% respectively. Nonetheless sales of Shen Mai injection declined by approximately 6.0% during the period. The Group will continue to focus on the business of injection products and implement strategies to strengthen the development of distribution network and points of sales to increase market coverage. Market demand for Chinese medicine injection products remains strong and injection products will continue to be the product format of the Group with the highest growth potential.

Injection products accounted for approximately 56.6% of total turnover for the first six months of 2007 as compared to 52.6% of total turnover for the same period of last year. The Group believes that it is presently the largest Chinese medicine injection manufacturer in the PRC in terms of sales volume and production capacity.

Soft Capsule Products

For the first six months in 2007, sales of the Group's soft capsule products amounted to approximately RMB131,736,000, representing a decrease of approximately 7.2% over the corresponding period of last year. The slower sales came from Wu Fu Xin Nao Qing soft capsule and Huo Xiang Zheng Qi soft capsule which recorded a decrease of approximately 5.3% and 25.8% respectively as compared to the same period of last year.

Soft Capsule products accounted for approximately 28.5% of the Group's turnover for the first six months in 2007 as compared to 33.9% in the same period of last year. 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 2007, sales of granules increased by approximately 21.1% as compared to the corresponding period of last year, amounting to approximately RMB59,722,000. The increase can be attributable to the Group's strategy to strengthen marketing of popular granules to ensure their stable growth. Granule products accounted for approximately 13.0% of the Group's turnover for the first six months in 2007 as compared to 11.8% in the same period of 2006.

CHANGES IN REGULATIONS OF THE INDUSTRY

Early this year, regulatory authorities announced the adjustment of price caps on 278 Chinese medicines. Only 9 medicines of the Group are included in the adjustment list, including Qing Kai Ling injection, Shu Xie Ning injection, Deng Zhan Hua Su injection and Guan Xin Ning injection. Since these four injection products under the Shineway brand are labeled by the state authorities as "Good Quality/Good Price" products, the decrease of price caps for these four products are far less than the other brand without the "Good Quality/Good Price" status. Hence, the decrease of price caps on these products do not have material impact on the Group's earnings.

PROSPECT

During the reporting period, state authorities continued to rationalize the medicine market, and further administer regulatory measures to the pharmaceutical industry. Medicine manufacturers are instructed to re-register production permits of medicine formulas. Those medicine formulas which are unable to qualify during the re-registration process will have to be withdrawn from the market. New medicine application approval are mostly put on hold. At the same time, regulators are conducting haphazard on-site inspection to manufacturers under the "Drugs Production Quality Control Protocols" and have, on a trial basis, assigned on-site supervisors to selected manufacturers. Medicine manufacturers who cannot conform with these administrative measures and protocols are most likely unable to continue their business. Likewise, consolidation of the industry is expected to accelerate.

While medical reform is forthcoming, the PRC government's investments in the health care system are also on the rise, whereby gradually improving the insufficiency of medical resources at present. As the medical reform process accelerates, resources available for the medical industry will favor companies with strong niches, hence raising entry barriers and speeding up the advancement of industry structure.

Although the pharmaceutical market of the PRC is fermenting the transformation, key factors for its healthy growth remain unchanged. Medical reform will boost demand of medicines from the community health care and rural cooperative medical services. In addition, higher living standard, population growth and aging will continue to drive the growing needs of medicines. Pharmaceutical manufacturers with good products, strong research and development capacity and well built sales channels will definitely benefit from such market opportunity.

Modern Chinese medicines, as the main development focus of the country, are strongly supported by the government. National policies have explicitly set the key directions in modernization and internationalization of Chinese medicines. These directives include development of research and production technologies of modern Chinese medicines, effective protection and utilization of Chinese medicine resources, strengthening Chinese medicine intellectual property protection and establishing platform for international cooperation, with an aim to build a solid foundation for the development of modern Chinese medicines during "The Eleventh Five-Year Plan" for the health care industry.

DIVIDEND

The Board resolved to pay an interim dividend of RMB11 cents per share for the six months ended 30 June 2007 to the shareholders on the register of members of the Company on 18 September 2007, it represents a payout rate of approximately 45.8% of net profit attributable to the equity holders for the period.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30 June 2007, 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 Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") during the period ended 30 June 2007, except for the following deviations:

1. 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.

2. Independent non-executive director

One non-executive director, Mr Li Kung Man, has not been appointed for any specific terms. However, he is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws.

COMPLIANCE WITH THE MODEL CODE

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules ("the Model Code") as the code of conduct for directors in their dealing in the Company's securities. The Company made specific enquiries with each director and each of them confirmed that he or she had complied with the Model Code during the period ended 30 June 2007.

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 2007.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 11 September 2007 to 14 September 2007 (both days inclusive). In order to qualify for the 2007 interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on 10 September 2007.

INTERIM REPORT

The interim report of 2007 will be despatched to the shareholders at the appropriate time, it will also be available on the website of the Stock Exchange (www.hkex.com) and the Company's website (www.shineway.com.hk) in due course.

We are delighted by the trust and support of our shareholders and those who care about the Company. 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 the growth in our results during the period.

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

Hong Kong, 23 August 2007

As at the date of this announcement, the Board comprises Mr. Li Zhenjiang (Chairman), Ms. Wang Zhihua, Ms. Xin Yunxia, Mr. Li Huimin and Mr. Hung Randy King Kuen as executive directors, Mr. Ren Dequan, Mr. Li Kung Man and Ms. Cheng Li as independent non-executive directors.