神威藥業
SHINEWAY

CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 02877)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2010, the operating results of the Group were as follows:

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

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

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

– Earnings per share amounted to RMB51 cents;

– Declared interim dividend of RMB11 cents per share.

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 2010 with comparative figures for the six months ended 30 June 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2010

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. GENERAL

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

3. TURNOVER AND SEGMENT INFORMATION

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

Segment information has been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), Chairman of the Board of Directors of the Group, in order to allocate resources to segments and to assess their performance. The Group's operation was regarded as a single segment, being an enterprise engaged in research and development, manufacture and trading of Chinese pharmaceutical products. The financial information provided to the CODM does not contain profit or loss information of each product format and the CODM reviews the demand of pharmaceutical market and the operating results of the Group as a whole for performance assessment and resource allocation. Therefore, the operation of the Group constitutes one single reportable segment.

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	**749**	381
Depreciation of property, plant and equipment	**24,125**	21,667
Loss on disposal of property, plant and equipment	**27**	435
Allowance for doubtful debts	**2,203**	–
Government subsidies (included in other income) *(Note)*	**(34,374)**	(23,802)
Interest income from bank deposits	**(27,550)**	(20,183)

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

5. TAXATION

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

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

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

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

6. DIVIDENDS

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

Dividend declared

The directors of the Company (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 2010 and are calculated on the basis of 827,000,000 shares issued as at 30 August 2010 (For the six months ended 30 June 2009: RMB10 cents per share, amounting to approximately RMB82,700,000), which will be paid on 25 October 2010, to the shareholders whose names appear on the Company's register of members on 15 October 2010. The 2010 interim dividend has not been recognised as a liability as at 30 June 2010.

Dividend payable in cash in Hong Kong dollars will be converted from Renminbi at the telegraphic transfer exchange rates quoted by bank at 11:00 a.m. on 30 August 2010 (RMB1 = HK$1.1486). Accordingly, the amount payable on 25 October 2010 will be approximately HK$0.1263 per share.

7. EARNINGS PER SHARE

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

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

	Six months ended 30 June	
	2010	2009
Number of ordinary shares for the purpose of basic earnings per share	**827,000,000**	827,000,000

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

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired plant and machinery of RMB6,514,000 (2009: RMB7,287,000), office equipment of RMB1,968,000 (2009: RMB1,186,000), motor vehicles of RMB976,000 (2009: RMB1,015,000) and addition to construction in progress of RMB101,447,000 (2009: RMB52,249,000).

9. PREPAID LEASE PAYMENTS

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

10. DEPOSIT PAID FOR PREPAID LEASE PAYMENTS

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

11. OTHER FINANCIAL ASSETS

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

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

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

12. OTHER FINANCIAL LIABILITIES

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

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

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

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

13. SHARE CAPITAL

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

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

14. ACQUISITION OF SUBSIDIARIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15. RELATED PARTY TRANSACTIONS

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

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

Notes:

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

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

Compensation of key management personnel

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

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

16. COMMITMENTS

(a) Operating lease commitments

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

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

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

(b) Capital commitments

At 30 June 2010, capital expenditure of RMB342,917,000 in respect of acquisition of property, plant and equipment is contracted for but not provided in the condensed consolidated financial statements (31.12.2009: RMB144,816,000).

BUSINESS REVIEW

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

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

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

Injection Products

The pharmaceutical market has strong demand for Chinese medicine injections. For the first six months of 2010, the Group sold RMB569,597,000 of injection products, representing an increase of 51.1% from the same period of last year. Amongst these injection products, Qing Kai Ling Injection and Shu Xie Ning Injection, recorded growth in sales of 87.1% and 23.6% respectively, and Shen Mai Injection resumes growth of 20.1%. For the first six months of 2010, injection products accounted for 60.9% of the Group's total turnover as compared to 53.3% for the same period of last year.

In the first quarter of 2010, there was large demand for Qing Kai Ling Injection as the H1N1 was still commonly experienced all over China.

Soft Capsule Products

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

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

Granule Products

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

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

PROSPECT

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

To raise standards of production and quality control of Chinese medicine injections, the State Food and Drug Administration introduced a series of regulations, including the "Principles on Re-Evaluating Chinese Medicine Injections Safety – Quality Control" and "Guideline on Re-Evaluating Chinese Medicine Injections Safety– Basic Requirements on Technologies", marking its official commencement to re-evaluate Chinese medicine injections in full scale. This serves as a direction and support for the development of Chinese medicine injections. The Group believes that re-evaluation of Chinese medicine injections will raise the bar on production technological knowhow and quality standards of Chinese medicine injections. Unqualified manufacturing enterprises would be eliminated. Entry barriers of Chinese medicine injections will then be raised. The Group's advantages in Chinese medicine injections will become more prominent.

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

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

SHINEWAY MODERN CHINESE MEDICINE PARK

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

ACQUISITION STRATEGY

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

During the period, the Group completed two acquisitions after careful selection on the products and prospects on injection manufacturers.

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

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

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

DEPOSIT FOR PREPAID LEASE PAYMENTS

As at 30 June 2010, the Group has paid all the deposit of RMB74,666,000 for land use rights in Sichuan Qiong Lai industrial zone, with an area of 553,000 square meters. The Group is applying for land use license. The land can provide a sound foundation for long term development of the Group in western part of China. Currently, feasibility study has been carried out for planning and design of development of the land to meet the growth of Chinese Medicine market in coming years.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, bank deposits of the Group amounted to approximately RMB2,152,748,000 (31 December 2009: RMB2,318,189,000), of which RMB1,725,977,000 (31 December 2009: RMB1,627,649,000) was denominated in Renminbi, others being equivalent to RMB281,271,000 and RMB145,500,000 (31 December 2009: 604,295,000 and RMB84,621,000) were denominated in Australian Dollars and Hong Kong Dollars respectively. Except for trade and other payables, the Group did not have any other liabilities.

During the first six months in 2010, the Group did not enter into any derivative instrument investments.

The Group did not have any loans or bank borrowings as at 30 June 2010 and 2009. Accordingly the gearing ratio based on interest bearing debt for the first six months in 2010 and 2009 is nil.

The Directors believe that the financial position of the Group is healthy, with sufficient financial resources to meet the requirement for future development.

DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied and complied with the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules during the period ended 30 June 2010, except for the following deviations:

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

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

Mr. Li Zhenjiang has been both the Chairman and President of the Company, his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and President in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

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 2010.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and external auditors the accounting principles and policies adopted by the Group and the interim report for the six months ended 30 June 2010.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 14 October 2010 to 15 October 2010 (both days inclusive). In order to qualify for the 2010 interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 13 October 2010.

INTERIM REPORT

The interim report of 2010 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.hk) 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, 30 August 2010

As at the date of this announcement, the Board comprises Mr. Li Zhenjiang (Chairman), Ms. Wang Zhihua, Ms. Xin Yunxia and Mr. Li Huimin as executive Directors, Mr. Ren Dequan, Ms. Cheng Li and Mr. Sun Liutai as independent non-executive Directors.