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**CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 02877)**

**ANNOUNCEMENT OF ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

**HIGHLIGHTS**

- Turnover increased by 28.1% from last year to RMB1,633,223,000.
- Profit for the year increased by 92.7% from last year to RMB767,304,000.
- Profit for the year increased mainly attributable to volume growth of various products, increase in operating income, and net exchange gain derived from the Group's bank deposits in Australian Dollars.
- Earnings per share increased by 93.8% to RMB0.93 compared with RMB0.48 in 2008.
- Recommended final dividend of RMB12 cents per share and special dividend of RMB15 cents per share.

## RESULTS

The board of directors (the “Board”) of China Shineway Pharmaceutical Group Limited (the “Company”) is pleased to present the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 December 2009 with comparative figures as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2009*

	<i>Notes</i>	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Turnover	3	<b>1,633,223</b>	1,275,179
Cost of sales		<u><b>(455,132)</b></u>	<u>(360,862)</u>
Gross profit		<b>1,178,091</b>	914,317
Other income		<b>57,093</b>	37,247
Investment income and gain	4	<b>46,145</b>	32,700
Net exchange gain (loss)	5	<b>125,350</b>	(131,812)
Distribution costs		<b>(353,200)</b>	(276,338)
Administrative expenses		<b>(136,066)</b>	(85,905)
Research and development costs		<u><b>(33,397)</b></u>	<u>(13,995)</u>
Profit before taxation	6	<b>884,016</b>	476,214
Taxation	7	<u><b>(116,712)</b></u>	<u>(77,972)</u>
Profit for the year		<b>767,304</b>	398,242
Other comprehensive income			
Exchange differences arising on translation of foreign operation		<u>—</u>	<u>(33,130)</u>
Total comprehensive income for the year		<u><b>767,304</b></u>	<u>365,112</u>
Earnings per share - basic	8	<u><b>93 cents</b></u>	<u>48 cents</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	<i>Notes</i>	<b>2009</b> <b>RMB'000</b>	2008 <b>RMB'000</b>
Non-current assets			
Property, plant and equipment		<b>456,746</b>	326,323
Prepaid lease payments		<b>62,078</b>	19,219
Intangible assets		<b>317</b>	–
Goodwill		<b>58,479</b>	58,479
Deferred tax assets	<i>10</i>	<b>7,481</b>	8,664
		<b>585,101</b>	412,685
Current assets			
Inventories		<b>136,308</b>	76,324
Bills receivables	<i>11</i>	<b>75,588</b>	297,954
Trade receivables	<i>11</i>	<b>5,873</b>	10,714
Prepayments, deposits and other receivables		<b>62,130</b>	43,136
Pledged bank deposits		<b>86,739</b>	–
Bank balances and cash		<b>2,318,189</b>	1,585,644
		<b>2,684,827</b>	2,013,772
Current liabilities			
Bills payables	<i>12</i>	<b>86,739</b>	–
Trade payables	<i>12</i>	<b>138,451</b>	64,137
Other payables and accrued expenses		<b>293,830</b>	197,460
Amounts due to related companies		<b>9,011</b>	9,628
Government grants receipt in advance		<b>550</b>	6,980
Tax liabilities		<b>19,266</b>	11,535
		<b>547,847</b>	289,740
Net current assets		<b>2,136,980</b>	1,724,032
Total assets less current liabilities		<b>2,722,081</b>	2,136,717
Capital and reserves			
Share capital		<b>87,662</b>	87,662
Reserves		<b>2,634,419</b>	2,049,055
Total equity		<b>2,722,081</b>	2,136,717

Notes:

## 1. GENERAL

The Company is a public limited company registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands on 14 August 2002 and its shares have been listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Forway Investment Limited, a company incorporated in the British Virgin Islands (“BVI”) with limited liability. The address of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the annual report.

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its subsidiaries are engaged in research and development, manufacturing and trading of Chinese pharmaceutical products.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations (“new and revised IFRSs”) issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) of IASB.

IAS 1 (Revised 2007)	Presentation of financial statements
IAS 23 (Revised 2007)	Borrowing costs
IAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
IFRS 2 (Amendment)	Vesting conditions and cancellations
IFRS 7 (Amendment)	Improving disclosures about financial instruments
IFRS 8	Operating segments
IFRIC 9 & IAS 39 (Amendments)	Embedded derivatives
IFRIC 13	Customer loyalty programmes
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 18	Transfers of assets from customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

Except as described below, the adoption of the new and revised IFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

## **New and revised IFRSs affecting presentation and disclosure only**

### *IAS 1 (Revised 2007) Presentation of financial statements*

IAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

### *IFRS 8 Operating segments*

IFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 3).

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Amendment to IFRS 5 as part of improvements to IFRSs May 2008 <sup>1</sup>
IFRSs (Amendments)	Improvements to IFRSs April 2009 <sup>2</sup>
IAS 24 (Revised)	Related party disclosures <sup>6</sup>
IAS 27 (Revised)	Consolidated and separate financial statements <sup>1</sup>
IAS 32 (Amendment)	Classification of rights issues <sup>4</sup>
IAS 39 (Amendment)	Eligible hedged items <sup>1</sup>
IFRS 1 (Amendment)	Additional exemptions for first-time adopters <sup>3</sup>
IFRS 1 (Amendment)	Limited exemption from comparative IFRS 7 disclosures for first-time adopters <sup>5</sup>
IFRS 2 (Amendment)	Group cash-settled share-based payment transactions <sup>3</sup>
IFRS 3 (Revised)	Business combinations <sup>1</sup>
IFRS 9	Financial instruments <sup>7</sup>
IFRIC 14 (Amendment)	Prepayment of a minimum funding requirement <sup>6</sup>
IFRIC 17	Distributions of non-cash assets to owners <sup>1</sup>
IFRIC 19	Extinguishing financial liabilities with equity instruments <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010.

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013.

The application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

IFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new or revised Standards, Amendments or Interpretations will have no material effect on the consolidated financial statements.

### **3. TURNOVER AND SEGMENT INFORMATION**

#### **Turnover**

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

#### **Operating segments**

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (IAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, there is no segmental analysis of business and geographical segments, because 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 application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments because the CODM, Chairman of the Board of Directors of the Group, reviews the revenue and the profit for the year of the Group as a whole for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is present as they are not regularly provided to the executive directors. Therefore, the operation of the Group constitutes one single reportable segment.

#### 4. INVESTMENT INCOME AND GAIN

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Interest on bank deposits	46,060	39,231
Net gain (loss) from held-for-trading investments	<u>85</u>	<u>(6,531)</u>
	<u><b>46,145</b></u>	<u><b>32,700</b></u>

During the year ended 31 December 2009, the Group disposed all held-for-trading investments.

#### 5. NET EXCHANGE GAIN (LOSS)

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Exchange gain (loss) due to change in exchange rate between Australian Dollars (“AUD”) and RMB	134,066	(102,586)
Exchange loss due to change in exchange rate between Hong Kong Dollars (“HKD”) and RMB	<u>(8,716)</u>	<u>(29,226)</u>
	<u><b>125,350</b></u>	<u><b>(131,812)</b></u>

#### 6. PROFIT BEFORE TAXATION

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Profit before taxation has been arrived at after charging:		
Auditor’s remuneration	1,690	1,983
Cost of recognised raw materials as expense	436,810	360,862
Depreciation of property, plant and equipment	45,324	36,041
Amortisation of intangible assets	3	–
Operating lease rentals in respect of land use rights	1,267	675
Staff costs, other than pension costs (including directors’ remuneration)	113,548	72,218
Pension costs (including directors’ pension costs)	13,233	8,500
Rental expenses under operating lease in respect of rented premises	1,929	1,827
(Gain) loss on disposal of property, plant and equipment	(334)	146
Donation	–	1,184
and after crediting:		
Government subsidies received (included in other income) ( <i>Note</i> )	<u><b>55,209</b></u>	<u><b>34,541</b></u>

*Note:* It mainly represented the incentives received from the Government of the People’s Republic of China (“PRC”) for investments in relevant regions in PRC by the Group.

## 7. TAXATION

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
The (charge) credit comprise:		
Current tax - PRC Enterprise Income Tax		
Current year	(116,483)	(70,388)
Over (under)provision in prior year	<u>954</u>	<u>(8,919)</u>
	(115,529)	(79,307)
Deferred tax ( <i>note 10</i> )	<u>(1,183)</u>	<u>1,335</u>
	<u><u>(116,712)</u></u>	<u><u>(77,972)</u></u>

The provision for PRC Enterprise Income Tax (“PRC EIT”) is based on the estimated taxable income for PRC taxation purpose at the rate of taxation applicable for the period.

Under the Law of the People’s Republic of China on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the 國稅函(2009)203號, the 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 西藏拉薩經濟技術開發區優惠政策, the PRC EIT rate applicable to Xizang Shineway is 10%, 12% and 15% on its taxable income for the years ended 31 December 2008 and 2009 and the year ending 31 December 2010 respectively.

## 8. EARNINGS PER SHARE

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

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Earnings for the purpose of basic earnings per share	<u>767,304</u>	<u>398,242</u>
	<b>Number of ordinary shares</b>	
	2009	2008
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>827,000,000</u>	<u>827,000,000</u>

No diluted earnings per share is presented as the Company did not have any potential ordinary shares outstanding.

## 9. DIVIDENDS

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Dividends recognised as distribution during the year:		
Final dividend paid for 2008 of RMB12 cents (2007: RMB11 cents) per share	99,240	90,970
Special dividend paid for 2008 of nil cent (2007: RMB16 cents) per share	–	132,320
Interim dividend paid for 2009 of RMB10 cents (2008: RMB12 cents) per share	82,700	99,240
Special interim dividend paid for 2009 of nil cent (2008: RMB1 cent) per share	–	8,270
	<u>181,940</u>	<u>330,800</u>
Dividends proposed		
Proposed final dividend of RMB12 cents (2008: RMB12 cents) per share	99,240	99,240
Proposed special dividend of RMB15 cents (2008: nil) per share	124,050	–
	<u>223,290</u>	<u>99,240</u>

In respect of the year ended 31 December 2009, the directors proposed that a final dividend of RMB12 cents (2008: RMB12 cents) and a special dividend of RMB15 cents (2008: Nil) per share will be paid on 3 June 2010, to shareholders whose names appear on the register of members of the Company on 27 May 2010. These dividends are subject to approval by shareholders at the Annual General Meeting and have not been included as liabilities in the consolidated financial statements.

Dividends payable in cash in Hong Kong dollars will be converted from RMB at the forward exchange rates quoted by bank at 10:30 a.m. on 29 March 2010 (RMB1 = HK\$1.1345). Accordingly, the amount payable on 3 June 2010 will be:

Proposed dividend: Final – RMB12 cents per share; approximately HK\$0.1361 per share  
Special – RMB15 cents per share; approximately HK\$0.1702 per share

## 10. DEFERRED TAXATION

The followings are the major deferred tax assets recognised and movement thereon during the year.

	<b>Accelerated tax depreciation</b> <i>RMB'000</i>	<b>Others</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2008	5,946	1,383	7,329
(Charge) credit to profit or loss	<u>(147)</u>	<u>1,482</u>	<u>1,335</u>
At 1 January 2009	5,799	2,865	8,664
Charge to profit or loss	<u>(146)</u>	<u>(1,037)</u>	<u>(1,183)</u>
<b>At 31 December 2009</b>	<b><u>5,653</u></b>	<b><u>1,828</u></b>	<b><u>7,481</u></b>

At the end of the reporting period, the Group has unused tax losses of approximately RMB74,915,000 (2008: RMB32,501,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unrecognised tax losses of RMB3,375,000 will expire in 2015. Other losses may be carried forward indefinitely.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB644,785,000 (2008: RMB52,557,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 11. TRADE AND BILLS RECEIVABLES

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Bills receivables and trade receivables:		
Bills receivables	75,588	297,954
Trade receivables	<u>5,873</u>	<u>10,714</u>
	<b><u>81,461</u></b>	<b><u>308,668</u></b>

The Group allows a credit period normally ranging from six months to one year to its trade customers. The following is an aged analysis of bills receivables and trade receivables presented based on the invoice date at the end of the reporting period.

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
0 - 180 days	<u><b>81,461</b></u>	<u>308,668</u>

Before accepting any new customer, the Group has appointed a special team to monitor the potential customer's credit quality and defines credit limits by customer, which are reviewed every year. No impairment loss has been provided as there is no adverse change in the credit quality of the customers from the date of credit was initially granted. All of the trade receivables are neither past due nor impaired.

## 12. TRADE AND BILLS PAYABLES

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Bills payables	<b>86,739</b>	–
Trade payables	<u><b>138,451</b></u>	<u>64,137</u>
	<u><b>225,190</b></u>	<u>64,137</u>

An aged analysis of the Group's trade and bills payables at the end of the reporting period is as follows:

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Within 6 months	<b>210,768</b>	57,079
Over 6 months but less than 1 year	<b>4,013</b>	3,625
Over 1 year but less than 2 years	<b>8,699</b>	3,263
Over 2 years	<u><b>1,710</b></u>	<u>170</u>
	<u><b>225,190</b></u>	<u>64,137</u>

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

Included in trade and bills payables are the following amounts denominated in currency other than the functional currency of the relevant group entity.

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Hong Kong Dollars	<u><b>1,871</b></u>	<u>4,726</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

With marvelous 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 2009, the Group recorded a turnover of RMB1,633,223,000, an increase of 28.1% from previous year. Sales by product form for the year are set out as follows:

	<b>Sales</b>	<b>Growth rate</b>	<b>Product mix</b>
Injections	RMB931,694,000	28.8%	57.1%
Soft Capsules	RMB390,182,000	16.5%	23.9%
Granules	RMB279,814,000	43.8%	17.1%
Other product formats	RMB31,533,000	43.8%	1.9%

The Group's profit for the year 2009 is RMB767,304,000, a sharp increase of 92.7% from last year. The increase in profit is mainly attributable to volume growth of various products, surged operating income, and net exchange gain derived from the Group's bank deposits in Australian Dollars.

In August 2009, the Ministry of Health introduced the Essential Drug List. A total of 30 medicines of the Group are included in the List.

### Injection Products

The pharmaceutical market has strong demand for Chinese medicine injections. During 2009, the Group sold RMB931,694,000 of injection products, an increase of 28.8% from last year. Amongst these injection products, Qing Kai Ling injection, Shu Xie Ning injection, and Shen Mai injection recorded growth in sales of 36.4%, 46.4% and 13.8% respectively. For 2009, injection products account for 57.1% of the Group's total turnover as compared to 56.7% of last year.

Market demand for Chinese medicine injection products continues to soar. The Group's production capacity for injection products now reaches 2 billion vials per annum. The Group believes that it is presently the largest Chinese medicine injection manufacturer in the PRC in terms of sales volume and production capacity. A number of the Group's injection products are designated by regulatory agencies as "State Protected Chinese Medicine" and "Good Quality/Good Price". At the same time, the Group has commenced construction of another injection production workshop targeted to be completed by late 2011. Upon completion, it is estimated that the production capacity will increase from 2 billion vials at present to 3.2 billion vials per annum.

In August 2009, state authorities of the PRC announced the commencement of essential drug system. The Ministry of Health released “Essential Drug List (Grass-root Health Care Facilities Use of Supplies) – Year 2009 Version (the “Essential Drug List”). Seven Chinese medicine injections are included in the Essential Drug List, including Qing Kai Ling Injection, Shen Mai Injection, Dan Zhan Injection and Chai Wu Injection produced by the Group. Inclusion of Chinese medicine injections in the Essential Drug List symbolizes the government’s recognition and support on Chinese medicine injections. It is anticipated that clinical use of Chinese medicine injections will grow more rapidly with the implementation of the Essential Drug List.

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 to pave the direction on the development and support of Chinese medicine injections. The Group believes that re-evaluation of Chinese medicine injections will lead to the raising of the bars on production technological knowhow and quality standards. Those who are not able to comply with re-evaluation principles and guidelines would be directed to cease production. Entry barriers of Chinese medicine injections will then be raised. The Group’s advantages in Chinese medicine injections will become more significant.

In the coming year, the Group will continue to expand our point of sales and further strengthen promotion efforts of end user market to ensure better growth of our injection products.

### **Soft Capsule Products**

During the year, the Group recorded RMB390,182,000 on sales of soft capsule products, an increase of 16.5% from last year. Sales of Wu Fu Xin Nao Qing soft capsule, Huo Xiang Zheng Qi soft capsule, and Qing Kai Ling soft capsule increased by 15.9%, 13.9% and 50.9% respectively as compared to last year.

Soft Capsule products account for 23.9% of the Group’s turnover in 2009, as compared to 26.3% in last year. 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.

The Group will continue to strengthen our brand promotion and marketing effort on our soft capsule products to advance their business growth in the coming year.

## **Granule Products**

Sales of granule products in 2009 had increased by 43.8% as compared to previous year, amounting to RMB279,814,000. Among them, Pediatric Qing Fei Hua Tan Granule and Pediatric Huatan Zhike Granule recorded sales increases of 91.1% and 31.9% respectively from last year. The growth can be attributable to the Group's strategies to unify our granule brand names and market positioning, as well as strengthening advertising and market promotion effort.

Granule products account for 17.1% of the Group's turnover in 2009 as compared to 15.3% in 2008.

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 2010.

## **Key Products**

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

Sales of our Qing Kai Ling Injection had increased by 36.4% to RMB423,781,000 as comparable to last year. This product now accounts for 25.9% of the Group's turnover.

Qing Kai Ling Injection is listed in the national catalogues of medical insurance and occupational injury insurance, and is designated by the State Administration of Traditional Chinese Medicine as an indispensable Chinese medicine for the emergency wards of Chinese hospitals. It is also recommended by the Ministry of Health of the PRC for treating human transmitted avian flu. The product has broad clinical applications. Qing Kai Ling Injection produced by the Group is a famous anti-viral medicine and has been named as "Good Quality/Good Price" and "State High-Tech Product" by the authorities. The Group believes that it is the largest manufacturer of Qing Kai Ling Injection in the PRC based on sales volume.

Qing Kai Ling Injection has been included by the Ministry of Health in the Essential Drug List. The Group believes that as the country implements the Essential Drug List, market demand for Qing Kai Ling Injection is expected to grow vastly. The Group will continue to rationalize distribution network to further enhance market coverage and penetration as well as strengthen marketing and promotion effort at the points of sales. Qing Kai Ling Injection will sustain strong growth.

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

For 2009, sales of Shen Mai Injection were RMB235,768,000, an increase of 13.8% as compared to last year. This product now accounts for 14.4% of the Group's turnover.

Shen Mai Injection is included in the national catalogues of medical insurance and occupational injury insurance. It is also included in the recommendation of the Ministry of Health of the PRC for treating human transmitted avian flu and the Essential Drug List.

The Group believes that it is the largest manufacturer of Shen Mai Injection in the PRC based on sales volume. The Group's Shen Mai Injection is widely used in clinical applications and is very popular among medical institutions and practitioners. As the government is expanding health care systems and coverage in rural and urban areas and implements the Essential Drug List, market demand for Shen Mai Injection will certainly increase.

Leveraging on our strong brand name and effective marketing strategy, the Group will strive to further expand market share and penetration for Shen Mai Injection to generate further growth in the coming years.

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

Sales of Wu Fu Xin Nao Qing Soft Capsule had increased by 15.9% to RMB210,407,000. This product now accounts for 12.9% of the Group's turnover.

Wu Fu Xin Nao Qing Soft Capsule is ranked among the top ten cardiovascular Chinese medicines in the country. It is also one of the lowest in cost of average daily dosage among similar cardiovascular medicines. Therefore, this product has always been very popular. During the year, the "Wu Fu" trademark was certified as a "China Famous Trademark". The Group believes that it is the largest manufacturer of Wu Fu Xin Nao Qing soft capsule in the PRC based on sales volume.

The Group will continue to strengthen our effort on promoting the "Wu Fu" brand and foster support at the points of sales to broaden its sales.

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

For 2009, sales of Shu Xie Ning Injection reached RMB200,481,000, an increase of 46.5% from last year. This product now accounts for 12.3% of the Group's turnover.

Shu Xie Ning Injection is designated as a "State Protected Chinese Medicine" and a "Good Quality/Good Price" product by the PRC authorities. It is included in the national catalogues of medical insurance and occupational injury insurance. Shu Xie Ning Injection is a major clinical Chinese medicine for treating cardio-cerebrovascular disease. Leveraging on our niche in production technologies and economies of scale in Chinese medicine injections, the Group will continue to further enhance market coverage and penetration, foster marketing effort at the points of sales, and develop strategic distributors and rationalize distribution channels to achieve continuously strong growth.

## **Emerging Products**

### *Pediatric Qing Fei Hua Tan Granule – for children infected by respiratory related diseases*

Sales of Pediatric Qing Fei Hua Tan Granule was RMB123,778,000 in 2009, an increase of 91.1% as compared to last year. This product now accounts for 7.6% of the Group's turnover.

Pediatric Qing Fei Hua Tan Granule is a "State Protected Chinese Medicine". It has superb curative effect and is the first H1N1(A) medicine recommended by Hebei Province State Food & Drug Administration for children. Pediatric Qing Fei Hua Tan Granule has become a famous brand of children coughing medicine. The Group will continue to increase advertising and joint promotional campaign with chain drug stores to ensure sales growth momentum of this product.

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

During 2009, sales of Huo Xiang Zheng Qi Soft Capsule increased by 13.9% as compared to last year, with a revenue of RMB79,117,000. This product accounts for 4.8% of the Group's turnover for the year.

Huo Xiang Zheng Qi Soft Capsule is listed in the national catalogues of medical insurance and occupational injury insurance. It is also recommended by the Ministry of Health of the PRC for treating human transmitted avian flu. Due to its effective efficacy and the high bioavailability of soft capsule, Huo Xiang Zheng Qi Soft Capsule is a very popular non-prescription medicine with great market potential.

The Group will continue to strengthen our support at the points of sales, and also foster our promotion effort to expand market coverage. Furthermore, we will expedite partnership with strategic distributors and chain drug stores, and increase promotion to strive for better growth of Huo Xiang Zheng Qi Soft Capsule.

### *Huang Qi Injection – for treatment of viral myocarditis, heart malfunction and hepatitis*

Sales of Huang Qi Injection had increased by 21.5% in 2009 to RMB41,044,000. The product now accounts for 2.5% of the Group's turnover.

Huang Qi Injection is listed in the national catalogues of medical insurance and occupational injury insurance. It is also named as a "Hi-Tech Product" by the PRC authorities. Viral myocarditis has been uprising in recent years. With a proven efficacy on such illness, Huang Qi injection has strong market potential. The Group will continue to further enhance market coverage and penetration, foster marketing effort at the points of sales. Growth in sales of Huang Qi Injection is expected in the coming years.

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

Sales of Qing Kai Ling Soft Capsule recorded sales of RMB55,693,000, an increase of 50.9% as compared to last year. The product now accounts for 3.4% of the Group's turnover for the year.

Qing Kai Ling Soft Capsule is both a prescription and non-prescription medicine. It is a state protected Chinese medicine. It is included in the national catalogues of medical insurance and occupational injury insurance and also recommended by the Ministry of Health of the PRC for treating human transmitted avian flu.

The Group will further expedite partnership with strategic distributors and chain drug stores, and increase promotion effort to ensure sales momentum of this product.

*Liyan Jiedu Granule - Used for treatment of swollen and sore throat, fever and cough, etc. caused by acute or chronic tonsillitis, pharyngitis, stomatitis and parotiditis, etc.*

Sales of our Liyan Jiedu Granule had surged by 69.9% from last year to RMB23,716,000. This product now accounts for 1.4% of the Group's turnover.

Liyan Jiedu Granule is characterized by its fast absorption, strong anti-bacteria efficacy, no bad smell and taste and its outstanding anti-inflammatory antipyretic effect. It is one of the bright stars within our emerging product group.

## **CAPITAL EXPENDITURES**

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. Total costs of this new workshop are expected to be RMB250,000,000 with construction scheduled to be completed in 2010. In addition, we are currently building water recycle plant, power station and miscellaneous facilities, along with the new administrative building, for a total of RMB220,000,000. Constructions of these facilities are expected to be completed in 2010.

During the year, our Group had increased capacity and upgraded the facilities of our extraction workshops. Accordingly, our extraction capacity is raised from 5,400 tonnes to 10,000 tonnes per annum. The new extraction facilities will be equipped with automated detection technologies capable of real time monitoring quality of herb extracts. Such model project is the first one of the country as designated by the National Development and Reform Commission of the PRC.

The Group has also commenced construction of a new Chinese medicine extraction workshop and a new injection workshop. Capacities will further increase by another 10,000 tonnes of herbs and 1.2 billion vials of injection per annum. Total costs of the two workshops are estimated to be RMB350 million and RMB250 million respectively. The constructions are expected to be completed within 2011.

## **RESEARCH AND DEVELOPMENT**

During the year, there are 20 product research projects which are either undergoing pharmaceutical and clinical trial or have completed clinical trial. Among these projects, 12 projects are related to treatment of various cardiovascular diseases, 2 projects for anti-viral treatment, 1 project for treatment of digestive system illnesses and 1 project for gynaecological treatment. All of these research projects, including the joint research project with an university in Australia to develop a new medicine for the treatment of Alzheimer's disease are progressed as planned.

During the year, Shineway Pharmaceutical Limited and Hebei Shineway Pharmaceutical Limited were assessed and granted as Provincial Grade Hi-Tech Enterprises.

The building structure of the Group's new research and development center in Lang Fang, Beijing is completed and awaiting for installation of equipment.

With the goal of further raising quality standards of Chinese medicine injections, China Shineway has submitted its application to become the sole "Chinese Medicine Injection Engineering Technology Research Center" of Hebei Province.

## **PATENT APPLICATIONS**

The Group continues to pursue for intellectual property rights. During 2009, the Group received five invention patents from the Intellectual Property Office of the PRC.

As at the date of the Annual Report, the Group has obtained 14 patents for our inventions, and 4 invention patent applications are pending for approval.

## **STATE PROTECTED CHINESE MEDICINES**

As at 31 December 2009, the Group had 9 medicines listed as State Protected Chinese Medicines including Shu Xie Ning Injection, Guan Xin Ning Injection and Pediatric Qing Fei Hua Tan Granule.

## **PROSPECT**

In 2009, the PRC government announced the “Opinion on Deepening Medical and Health System Reform” and its supplementary documents-“2009-2011 Implementation Plan of In-Depth Reform on Healthcare Structure” and the “Essential Drugs List”. It has officially launched the reform to ultimately establish of universal coverage of insurance and a basic medical system to provide Chinese people comprehensive health care package.

A total of more than 30 medicines produced by the Group are included in the “Essential Drugs List”, 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 bolstered by the health care reform. With the implementation of “Essential Drugs List” and the health care reform, medicines produced by the Group will be able to enter into the community hospitals and grass-root clinics in the rural market in a faster and larger scale.

Benefiting from economic growth, aging population, urbanization, and health care reform, the pharmaceutical industry’s future growth prospects are very visible. The infusion of RMB850 billion exemplifies the PRC Government’s determination and the likelihood that the next 10 years will be the golden era of the pharmaceutical industry. The year of 2009 is the first year of China’s medical reform. The implications of public policies introduced under the health care reform in 2009 will begin to show impact in 2010. This makes the year of 2010 will be a new beginning for China’s pharmaceutical industry. For China Shineway, we will continue to strengthen our research and development capabilities and increase investments in high technologies to develop innovative high-quality new products and to strengthen the Group’s leading position in modern Chinese medicine. Furthermore, the Group is determined to continuously foster marketing and promotion of our brand names. We are also aligning with strategic distributors and chain drug stores and expediting our effort to build end-customer network to expand market coverage and deepen market penetration, and ultimately escalate the Group’s business growth.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2009, bank deposits of the Group approximately amounted to RMB2,318,189,000 (2008: RMB1,585,644,000), of which RMB1,627,649,000 (2008: RMB754,557,000) were denominated in RMB, others being equivalent to RMB604,295,000, RMB84,621,000 and RMB1,624,000 (2008: RMB449,980,000, RMB379,414,000 and RMB1,693,000) were denominated in Australian Dollars, Hong Kong Dollars and United States Dollars respectively. Except for trade and other payables, the Group did not have any other liabilities.

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

## **ANNUAL GENERAL MEETING**

The 2009 Annual General Meeting of the Company will be held on Thursday, 27 May 2010 and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) in due course.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 24 May 2010 to Thursday, 27 May 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify the shareholders of the Company to attend, act and vote at the Annual General Meeting of the Company and to qualify the entitlement of the proposed final dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s Hong Kong branch share registrar, 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 Thursday, 20 May 2010.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s issued shares during the year.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has, throughout the year ended 31 December 2009 and up to the date of publication of this announcement, applied and complied with the principles in the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 of the Listing Rules, except for Code provision A.2.1 as described below.

With effect from 17 December 2009, Mr. Ma Kwai Yuen, Terence resigned as an Independent Non-Executive Director, chairman of the Audit Committee and member of the Remuneration Committee. Following the resignation of Mr. Ma Kwai Yuen, Terence, 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, 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 Kwai Yuen, Terence within three months from 17 December 2009 as required under Rules 3.11 and 3.23 of the Listing Rules. Subsequent to Mr. Sun Luitai’s appointment, the Company has three Independent Non-Executive Directors and three Audit Committee members, which is 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 the 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 financial year ended 31 December 2009.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2009 in conjunction with the Company’s auditors.

## **PUBLICATION OF FURTHER INFORMATION**

The Annual Report of the Company inclusive of the Directors’ Report and Audited Consolidated Financial Statements for the year ended 31 December 2009 and Corporate Governance Report will be published on the Company’s website ([www.shineway.com.hk](http://www.shineway.com.hk)) and the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on or before 22 April 2010.

## **APPRECIATION**

China Shineway’s accomplishments are inseparable from the hard working of our staff. On behalf of the board of directors, I would like to extend my sincere greetings and high respect to our diligent staff for their dedication and effort.

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

Hong Kong, 29 March 2010

*As at the date of this announcement, the executive Directors are Mr. Li Zhenjiang, Ms. Wang Zhihua, Ms. Xin Yunxia, Mr. Li Huimin and Mr. Hung Randy King Kuen and the independent non-executive Directors are Mr. Ren Dequan, Ms. Cheng Li and Mr. Sun Liutai.*