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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 2010**

HIGHLIGHTS

- Turnover increased by 24.8% from last year to RMB2,038,379,000.
- Profit for the year increased by 7.1% from last year to RMB821,756,000.
- Profit for the year increased mainly attributable to volume growth of various products and increase in operating income.
- Earnings per share increased by 6.5% to RMB0.99 compared with RMB0.93 in 2009.
- Recommended final dividend of RMB12 cents per share and special dividend of RMB17 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 2010 with comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

		2010	2009
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	2,038,379	1,633,223
Cost of sales		(603,371)	(455,132)
Gross profit		1,435,008	1,178,091
Other income		77,497	57,093
Investment income and gain	4	45,667	46,145
Net exchange gain	5	2,310	125,350
Distribution costs		(350,132)	(353,200)
Administrative expenses		(196,669)	(136,066)
Research and development costs		(21,873)	(33,397)
Profit before taxation		991,808	884,016
Taxation	6	(170,052)	(116,712)
Profit and total comprehensive income for the year	7	<u>821,756</u>	<u>767,304</u>
Earnings per share – basic	8	<u>99 cents</u>	<u>93 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	<i>Notes</i>	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment		776,781	456,746
Prepaid lease payments		153,496	62,078
Intangible assets		2,165	317
Goodwill		91,663	58,479
Deferred tax assets	<i>10</i>	6,633	7,481
		1,030,738	585,101
Current assets			
Inventories		191,925	136,308
Trade receivables	<i>11</i>	6,956	5,873
Bills receivables	<i>11</i>	263,761	75,588
Prepayments, deposits and other receivables		94,670	62,130
Pledged bank deposits		35,068	86,739
Bank balances and cash		2,349,021	2,318,189
		2,941,401	2,684,827
Current liabilities			
Trade payables	<i>12</i>	167,760	138,451
Bills payables	<i>12</i>	35,068	86,739
Other payables and accrued expenses		399,367	293,830
Amounts due to related companies		9,020	9,011
Deferred income	<i>13</i>	2,600	550
Tax liabilities		52,943	19,266
		666,758	547,847
Net current assets		2,274,643	2,136,980
Total assets less current liabilities		3,305,381	2,722,081
Non-current liabilities			
Deferred tax liabilities	<i>10</i>	1,138	—
Deferred income	<i>13</i>	74,666	—
		75,804	—
		3,229,577	2,722,081
Capital and reserves			
Share capital		87,662	87,662
Reserves		3,141,915	2,634,419
Total equity		3,229,577	2,722,081

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 (THE “IFRSs”)

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as “new and revised IFRSs”) issued by the International Accounting Standards Board (the “IASB”) and IFRS Interpretation Committee (formerly known as the International Financial Reporting Interpretations Committee) (the “IFRIC”) of the IASB.

IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRSs 5 as part of Improvements to IFRSs issued in 2008
IAS 27 (Revised 2008)	Consolidated and separate financial statements
IAS 39 (Amendment)	Eligible hedged items
IFRS 2 (Amendment)	Group cash-settled share-based payment transactions
IFRS 3 (Revised 2008)	Business combinations
IFRIC 17	Distributions of non-cash assets to owners

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.

Amendment to IAS 17 “Leases”

As part of improvements to 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 leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to IAS 17 has removed such a requirement. 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. The adoption of Amendment to IAS 17 “Leases” had no material impact on the consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs issued in 2010 ¹
IFRS 7 (Amendments)	Disclosures – Transfers of financial assets ³
IFRS 9	Financial instruments ⁴
IAS 12 (Amendments)	Deferred tax: Recovery of underlying assets ⁵
IAS 24 (as revised in 2009)	Related party disclosures ⁶
IAS 32 (Amendments)	Classification of rights issue ⁷
IFRIC – INT 14 (Amendments)	Prepayments of a minimum funding requirement ⁶
IFRIC – INT 19	Extinguishing financial liabilities with equity instruments ²

¹ Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, appropriate.

² Effective for annual periods beginning on or after 1 July 2010.

³ Effective for annual periods beginning on or after 1 July 2011.

⁴ Effective for annual periods beginning on or after 1 January 2013.

⁵ Effective for annual periods beginning on or after 1 January 2012.

⁶ Effective for annual periods beginning on or after 1 January 2011.

⁷ Effective for annual periods beginning on or after 1 February 2010.

The directors of the Company anticipate that the application of the above 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's operation was regarded as a single segment, being an enterprise engaged in research and development, manufacture and trading of Chinese pharmaceutical products. The Chairman of the Board of Directors of the Group, being the chief operating decision maker, 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 presented as they are not regularly provided to the chief operating decision maker. Therefore, the operation of the Group constitutes one single reportable segment.

4. INVESTMENT INCOME AND GAIN

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Interest on bank deposits	45,667	46,060
Net gain from held-for-trading investments	—	85
	<u>45,667</u>	<u>46,145</u>

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

5. NET EXCHANGE GAIN

	2010 RMB'000	2009 RMB'000
Exchange gain due to change in exchange rate between Australian Dollars ("AUD") and RMB	16,304	134,066
Exchange loss due to change in exchange rate between Hong Kong Dollars ("HKD") and RMB	<u>(13,994)</u>	<u>(8,716)</u>
	<u>2,310</u>	<u>125,350</u>

6. TAXATION

	2010 RMB'000	2009 RMB'000
The charge comprise:		
Current tax – PRC Enterprise Income Tax		
Current year	166,518	116,483
Under(over)provision in prior year	<u>2,788</u>	<u>(954)</u>
	169,306	115,529
Deferred tax (<i>note 10</i>)	<u>746</u>	<u>1,183</u>
	<u>170,052</u>	<u>116,712</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 year.

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., Hebei Shineway Pharmaceutical Co., Ltd. and Shineway Pharmaceutical (Zhangjiakou) Co., Ltd. is 15% on their taxable income for both years.

Pursuant to the 藏政發 (2008) 78號 and the 藏政發 (2011) 14號 the PRC EIT rate applicable to Xizang Shineway Pharmaceutical Co., Ltd. is 12% for the year ended 31 December 2009 and 15% from 2010 to 2020 on its taxable income.

7. PROFIT FOR THE YEAR

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Profit for the year has been arrived at after charging:		
Allowance for bad and doubtful debt	2,087	—
Amortisation of intangible assets	495	3
Auditor's remuneration	1,896	1,690
Depreciation of property, plant and equipment	52,532	45,324
Loss on disposal of property, plant and equipment	67	—
Operating lease rentals in respect of land use rights	3,302	1,267
Pension costs (including directors' pension costs)	19,012	13,233
Rental expenses under operating lease in respect of rented premises	2,558	1,929
Staff costs, other than pension costs (including directors' remuneration)	134,060	113,548
and after crediting:		
Gain on disposal of property, plant and equipment	—	334
Government subsidies (included in other income) (<i>Note</i>)	<u>75,965</u>	<u>55,209</u>

Note: The government grants represent the amounts received from the local government of the People's Republic of China ("PRC") by the subsidiaries of the Company. In 2010, government grant of (a) RMB69,886,000 (2009: RMB48,429,000) represents incentive received in relation to business development and expansion in relevant regions in the PRC; and (b) RMB6,079,000 (2009: RMB6,780,000) represents recognition of deferred income upon completion of related research activities (note 13).

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:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Earnings for the purpose of basic earnings per share	<u>821,756</u>	<u>767,304</u>
	Number of ordinary shares	
	2010	2009
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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Dividends recognised as distribution during the year:		
Final dividend paid for 2009 of RMB12 cents (2008: RMB12 cents) per share	99,240	99,240
Special dividend paid for 2009 of RMB15 cent (2008: nil) per share	124,050	–
Interim dividend paid for 2010 of RMB11 cents (2009: RMB10 cents) per share	90,970	82,700
	<u>314,260</u>	<u>181,940</u>
Dividends proposed		
Proposed final dividend of RMB12 cents (2009: RMB12 cents) per share	99,240	99,240
Proposed special dividend of RMB17 cents (2009: RMB15 cents) per share	140,590	124,050
	<u>239,830</u>	<u>223,290</u>

In respect of the year ended 31 December 2010, the directors proposed that a final dividend of RMB12 cents (2009: RMB12 cents) and a special dividend of RMB17 cents (2009: RMB15 cents) per share will be paid on 8 June 2011, to shareholders whose names appear on the register of members of the Company on 31 May 2011. These dividends are subject to approval by shareholders at the forthcoming 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 23 March 2011 (RMB1 = HK\$1.1871). Accordingly, the amount payable on 8 June 2010 will be:

Proposed dividend: Final – RMB12 cents per share; approximately HK\$0.1425 per share
Special – RMB17 cents per share; approximately HK\$0.2018 per share

10. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2010 RMB'000	2009 RMB'000
Deferred tax assets	6,633	7,481
Deferred tax liabilities	(1,138)	—
	<u>5,495</u>	<u>7,481</u>

The followings are the major deferred tax liabilities and assets recognised and movement thereon during the current and prior years.

	Accelerated tax depreciation RMB'000	Others RMB'000	Total RMB'000
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>
At 31 December 2009	5,653	1,828	7,481
Charge to profit or loss	(44)	(702)	(746)
Acquisition of subsidiaries	<u>—</u>	<u>(1,240)</u>	<u>(1,240)</u>
At 31 December 2010	<u>5,609</u>	<u>(114)</u>	<u>5,495</u>

At the end of the reporting period, the Group has unused tax losses of approximately RMB82,696,000 (2009: RMB74,915,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Unrecognised tax losses of RMB2,984,000 will expire in 2015. Other tax losses may be carried forward indefinitely.

Under the EIT Law of the 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 RMB1,819,653,000 (2009: RMB998,862,000) 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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Trade receivables	9,043	5,873
Less: Allowance for doubtful debts	<u>(2,087)</u>	<u>—</u>
	6,956	5,873
Bills receivables	<u>263,761</u>	<u>75,588</u>
	<u>270,717</u>	<u>81,461</u>

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 trade and bills receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period.

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
0 – 180 days	<u>270,717</u>	<u>81,461</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. Except for the allowance for doubtful debts recognised amounting to RMB2,087,000 in 2010, there is no other adverse change in the credit quality of the customers from the date of credit was initially granted. All of the trade receivables are not past due.

Movement in the total allowance for doubtful debts

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
1 January	—	—
Impairment loss recognised	<u>2,087</u>	<u>—</u>
31 December	<u>2,087</u>	<u>—</u>

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB2,087,000 (2009: nil) which have either been placed under liquidation or are in financial difficulties. The Group does not hold any collateral over these balances.

12. TRADE AND BILLS PAYABLES

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Trade payables	167,760	138,451
Bills payables	35,068	86,739
	<u>202,828</u>	<u>225,190</u>

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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Within 6 months	175,947	210,768
Over 6 months but less than 1 year	5,521	4,013
Over 1 year but less than 2 years	12,828	8,699
Over 2 years	8,532	1,710
	<u>202,828</u>	<u>225,190</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.

13. DEFERRED INCOME

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
At 1 January	550	6,980
Addition during the year	82,795	350
Recognised as other income	<u>(6,079)</u>	<u>(6,780)</u>
At 31 December	<u><u>77,266</u></u>	<u><u>550</u></u>
Analysed for reporting purpose as		
Current liabilities	2,600	550
Non-current liabilities	<u>74,666</u>	<u>—</u>
	<u><u>77,266</u></u>	<u><u>550</u></u>

Included in the deferred income as at 31 December 2010 are government subsidies amounting to RMB2,600,000 (2009: RMB550,000) received in relation to research and development expenses on certain new products. The grant is recognised as deferred income because there is an obligation to repay the grant if the related research is not successfully completed. The amounts will be recognised in profit or loss when the related research is successfully completed.

In 2010, the Group received a government grant amounting to RMB74,666,000 in relation to a development project, including the construction of production premises and acquisition of plant and machineries, in the 邛崃醫藥產業園 (Qionglai Pharmaceutical Area) in Sichuan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for management's intended use. The Group has an obligation to repay the grant if the grant is not utilised for the development project.

MANAGEMENT DISCUSSION AND ANALYSIS

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 capsules and granule products continued to grow. For the year 2010, the Group recorded a turnover of RMB2,038,379,000, an increase of 24.8% from previous year. Sales by product form for the year are set out as follows:

	Sales (RMB)	Growth Rate	Product Mix
Injections	1,275,134,000	36.9%	62.6%
Soft Capsules	385,773,000	-1.1%	18.9%
Granules	327,686,000	17.1%	16.1%
Other product formats	49,786,000	57.9%	2.4%

The Group's net profit for 2010 is RMB821,756,000, representing an increase of 7.1% from year 2009. The increase in profit was mainly from the growth of product sale and rise in operating profit.

Injection Products

During 2010, the Group sold RMB1,275,134,000 of injection products, an increase of 36.9% from year 2009. Amongst these injection products, Qing Kai Ling injection, recorded the highest sales growth compared with last year and is the key product of the Group. Injection products accounted for 62.6% of the Group's turnover in 2010, while they contributed 57.1% of the turnover in prior year.

There are continued market demands for Chinese medicine injection products. The Group's annual production capacity for injection product is now 2 billion vials. The Group believes that it is currently the largest Chinese medicine injections 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" products. Meanwhile, the construction of the new injection production workshop is targeted to be completed by late 2011. Upon completion, the injection production capacity will be increased from the present of approximately 2 billion vials to 3.2 billion vials per annum.

In July 2009, the State Food and Drug Administration ("SFDA") has developed the "Principles on Re-Evaluating Chinese Medicine Injection Safety-Quality Control" and series of relevant laws and regulations to increase the production and quality control standards of Chinese medicine injection. The re-evaluation of Chinese medicine injection has been started. The Group believes the state re-evaluation will significantly enhance the production technologies and quality standards of Chinese medicine injection. Each re-evaluation will cost few to ten millions. Those production companies with lack of production technologies, low quality control, low production rate and unable to start the re-evaluation of Chinese medicine injection will be eliminated. Entry barrier to Chinese medicine injection would be significantly increased and hence quality will be increased substantially. The good curative effect of Chinese medicine injection will be recognized by the market and the Group's quality, cost, size and brand will become more prominent.

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 RMB385,773,000 on sales of soft capsules products, a decrease of 1.1% from last year. The decrease was mainly motivated by the drop in sales of Wu Fu Xin Nao Qing Soft Capsules and Qing Kai Ling Soft Capsules as compared with last year. The reason of the decrease in sales of Wu Fu Xin Nao Qing was principally attributable to its bundle sales with Qing Kai Ling injections in 2009 and there were inventories in the market in 2010. Qing Kai Ling Soft injection products experienced high market demand in prior year, the production and sales of Qing Kai Ling Soft Capsules were both affected in 2010.

Soft Capsule products accounted for 18.9% of the Group's turnover in 2010, as compared to 23.9% in last year. The Group's current production capacity for soft capsules is 3.5 billion capsules per annum. The Group believes that it is currently the largest Chinese medicine soft capsules manufacturer in the PRC in terms of sales volume and production capacity.

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

Granule Products

Sales of granule products in 2010 increased by 17.1%, amounted to RMB327,686,000. Among them, Pediatric Qing Fei Hua Tan Granule and Pediatric Huatan Zhike Granule both recorded year-on-year sales increase. The growth was attributable to the Group's market positioning with the use of medicine for children using "Shen Miao" brand, as well as strengthening advertising and market promotion effort.

Granule products accounted for 16.1% of the Group's turnover in 2010 as compared to 17.1% in 2009.

Following the completion of production workshop at the end of 2010, the Group's annual production capacity has now increased to 3.4 billion bags. The Group believes that it is currently the largest Chinese medicine granules manufacturer in PRC in terms of sales volume and production capacity.

Key Products

In 2010, the five key products of the Group that contributed more than RMB100 million in annual sales to the Group's revenue on individual basis were Qing Kai Ling Injection, Shen Mai Injection, Shu Xie Ning Injection, Wu Fu Xin Nao Qing Soft Capsules and Pediatric Qing Fei Hua Tan Granule.

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

Our Qing Kai Ling Injection increased more than 50% in sales from last year and is the major contributor to the Group's turnover.

Qing Kai Ling Injection is listed in the National Catalogue 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 continues to rationalize distribution network to further enhance market coverage and penetration as well as strengthening marketing and promotion effort at the point of sales. Qing Kai Ling Injection will sustain strength growth.

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

In 2010, sales of Shen Mai Injection recorded an increase compared with last year.

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 names 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.

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

In 2010, sales of Shu Xie Ning Injection increased compared with last year.

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 strategies distributors and rationalize distribution channels to achieve continuously strong growth.

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

Sales of Wu Fu Nin Nao Qing Soft Capsules decreased slightly compared with last year.

Wu Fu Xin Nao Qing Soft Capsules 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 Capsules 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 point of sales to broaden its sale.

Pediatric Qing Fei Hua Tan Granule – for children infected by respiratory related disease

Sales of Pediatric Qing Fei Hua Tan Granule went up compared with last year.

Pediatric Qing Fei Hua Tan Granule is a “State Protected Chinese Medicine”. It has superb curative effect and is the first A(H1-N1) flu 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.

Other Products

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

In 2010, sales of Huo Xiang Zheng Qi Soft Capsule increased compared with last year.

Huo Xiang Zheng Qi Soft Capsules 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 point 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 Capsules.

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

In 2010, sales of Huang Qi Injection increased compared with last year.

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 Capsules – for treatment of high fever, viral influenza and respiratory tract infection

Sales of Qing Kai Ling Soft Capsules decreased compared with last year.

Qing Kai Ling Soft Capsule is both a prescription and non-prescription medicine. It is included in the 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.

ACQUISITION OF SUBSIDIARIES

In April 2010, the Group acquired Zhangjiakou Changcheng Pharmaceutical Limited, subsequently changed name to Shineway Pharmaceutical (Zhangjiakou) Co., Ltd (“Shineway Zhangjiakou”), at a consideration of RMB55,424,600 which is referenced to the net asset value of Shineway Zhangjiakou. Its major products are Hua Moyan Granule, Fufang Gancao Tablet and Fufang Shexiang Injection. In order to improve the efficiency and production quality of Shineway Zhangjiakou, the Group has strengthened its management and 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 these companies. Its major product is Xiang Dan injection. 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.

CAPITAL EXPENDITURES

In order to meet the surging demands from the pharmaceutical market, the Group has commenced construction of our Shineway Modern Chinese Medicine Park, with an aim to build one of the most technologically advanced and largest in scale production headquarters of modern Chinese medicine in the country. At present, the accelerated construction of a number of production workshops and facilities are underway, including construction of extraction workshops, injection workshops, along with a new composite administrative building in the headquarter, etc. involving an investment of approximately RMB600 million in 2011.

Furthermore, the Group's large scale Chinese medicine extraction workshop and injection workshop under construction will further increase the capacities by another approximately 10,000 tonnes of herbs and approximately 1.2 billion vials of injection per annum. The workshops are designed and constructed in accordance with new GMP standards, and the total investment involved was approximately RMB350 million and RMB250 million, respectively. The constructions are scheduled to be completed in the year 2011.

RESEARCH AND DEVELOPMENT

Currently, there are 10 product research projects undergoing pharmaceutical and clinical trial, 3 of which are for the treatment of cardiovascular diseases, 2 for the treatment of genitourinary system, 1 for the treatment of digestive system illnesses, 1 for the treatment of gynaecological diseases, 1 for the treatment of orthopedics, 1 for cancer adjuvant illnesses and a joint research project with a university in Australia to develop new medicines for the treatment of Alzheimer's disease. The Group has two launched products which are now under launched product re-evaluation. A special project team is established to explore new products investment opportunity studies.

During the year, Shineway Pharmaceutical Limited and Hebei Shineway Pharmaceutical Limited underwent assessment and were approved as Provincial Grade Hi-Tech Enterprises in Hebei Province.

The Group's new research and development center in Yanjiao Development Zone, Langfang, Beijing has completed construction and installation of equipment is underway. Our research and development team will be moved to the new facility this year.

To raise the quality standards of Chinese medicine injection products, the Company has submitted its application to become the sole "Chinese Medicine Injection Engineering Technology Research Center" of Hebei Province.

PATENT APPLICATIONS

The Group continued to strengthen the protection of its intellectual property rights. During the year, the Group received 4 invention patents from the Intellectual Property Office of the PRC.

As at the date of this announcement, the Group has obtained 18 patents for our inventions, and a total of 11 patent applications are pending for approval.

STATE PROTECTED CHINESE MEDICINES

As of 31 December 2010, the Group had 9 products listed as State Protected Chinese Medicines, including Shu Xie Ning Injection, Guan Xin Ning Injection and Pediatric Qing Fei Hua Tan Granule.

PROSPECT

China's pharmaceutical industry is stepping into a "golden decade" of rapid development, owing to the common effect of economic development, new healthcare reform, population aging, urbanization, unleash of demand from grass roots population and consumption upgrade. According to the projection of Southern Medical Economic Research Institute administered under the SFDA, China's pharmaceutical industry shall attain a Compound Annual Growth Rate ("CAGR") of 22% in respect to its gross industrial output value in the next decade, more than doubling the GDP growth rate. This figure shall reach 7.3813 trillion in 2019. Demand in the next decade will also maintain a CAGR of approximately 20%, making China possibly the second largest pharmaceutical market in the world by 2020, second only to the United States.

China's pharmaceutical industry underwent rapid development in 2010. The state government has implemented a comprehensive healthcare system and will invest RMB850 billion in the healthcare system. With the implementation of the healthcare system reform and the launch of the Essential Drug List and tender of drugs and medicine at provinces level, the pharmaceutical market will expand further in the future.

The PRC government has launched a series of policies regarding the pharmaceutical industry in the last two years, and, following the introduction of healthcare reform and the 12th five-year plan, it is expected that more policies are yet to be introduced. Therefore policies will be the foundation determining factor in the growth of the pharmaceutical industry in the short term. Leading enterprises in the pharmaceutical industry will maintain their growth in three ways, by enjoying the high growth rate of the industry, seizing the market share of the withdrawing competitors, and expansion through mergers and acquisitions.

During the 12th five-year plan, the PRC government will step up its support to the development and modernization of Chinese medicines and respective industries. In November 2010, the state introduced a series of policies favoring the development of Chinese medicine enterprises, such as the "opinion on accelerating structural alteration of the pharmaceutical industry", and set out targets for the Chinese medicine industry which include the "modernization and internationalization of Chinese medicines", and the "development of 50 strains or more of modern Chinese medicines that are effective, clear as

to their constituents and working mechanism, safe, and are of advanced formulations as well as stable and controllable quality”. The development of Chinese medicine injection products, as an important variety of Chinese medicines are in line with the modernization path the former has taken, and thus will benefit from the support of the state to the Chinese medicine industry.

On the other hand, 2010 is also a year of complication for China’s pharmaceutical industry due to a number of uncertainties. Rumors in relation to the retail price alteration of medicines included in the Essential Drug List by the National Development and Reform Commission of the PRC were spreading in the market. In November, price reduction on certain Western medicines was introduced. In December 2010, the National Development and Reform Commission announced the average purchase price of representative formulations for 513 specifications of essential drugs, and that the state was in the process of unifying the price of exclusive drugs and essential drugs that has a stable price and abundant supply after numerous centralized purchasing.

In addition, new GMP standards had been announced in 2011 with effective from 1 March 2011 to guarantee the quality of modern Chinese medicines. The new GMP standards draw reference from the GMP standards of European Union, U.S. Food and Drug Administration and GMP standards of World Health Organization, and represent significant upgrade over the old GMP standards. The raise in hardware standard is especially high in bacteria-free medicine such as Chinese medicine injections, further emphasizing bacteria-free manufacturing processes where the requirements on purification and cleanliness are also lifted. Large sums of investment are to be engaged in the renewal and modification of factories and equipment. As for software requirements, demand on personnel management, discrepancy handling, quality management and audit on suppliers are considerably raised as well. By upgrading hardware, equipment, ancillary software, and standardizing working procedures, demand on enterprises’ scale, cost-control capability and operating standards increased subsequently. With an expected investment of millions to tens of millions of capital in modifications, enterprises that record low profits or at loss will not be able to survive. In the coming three to five years, new GMP standards will be mandatorily deployed, raising the bar in competition within the industry and phasing out small pharmaceutical enterprises, effectively resolving the current situation where pharmaceutical companies are mostly small-scale and scattered. As a result, the industry will be more centralized and develop under a standardized framework.

The “2010 Pharmacopoeia” has been implemented since October 2010, raising the quality standard of most medicines and eliminating the low standard manufacturers in the industry. The new pharmacopoeia added or perfected inspection items in determining the effectiveness of Chinese medicines, considerably increasing the number of exclusive inspection items specific to the characteristics of Chinese medicines. The inspection methods and criteria are also more refined, adding restrictions to the amount of heavy metal and toxic elements present. The increased safety requirement and the quality control requirements in respect to the safety, effectiveness and quality controllability of products will pose a positive effect on the safety concern of Chinese medicine injections. The due implementation of the new pharmacopoeia will solve existing and prominent problems in the Chinese medicine industry, such as the use of alternative materials, the incorporation of other substances to add weight, colouring and adulteration, the use of inferior materials, excessive non-medical substances, excessive moisture and ashes, material inconsistency in medicine content. The integration of the Chinese medicine industry is hence expected.

Currently, 303 enterprises in China own 134 strains of Chinese medicine injections, and approval of 1,365 different specifications. The manufacturing and technological capability, as well as extraction methods of Chinese medicines, varies from enterprise to enterprise; low-level repetition is commonplace for numerous medicine strains. Through the re-evaluation of Chinese medicine injections, the entry bar for Chinese medicine injection manufacturers in the country is set at a high level, promoting the development of the entire industry from a chaotic state towards a “professional, intensified and standardized” direction. This in turn will foster the upgrade in the manufacturing of Chinese medicine injections, enhance production technology and equipment as well as quality standards, unify production processes, reduce low-level repetition in production, integrate the Chinese medicine injection market, ensure the quality of Chinese medicine injection to proceed towards a higher level, restore and enhance the reputation of Chinese medicine injection. During the shuffling of the industry, it is expected that only a handful of quality Chinese medicine injection manufacturers will be benefited and grow rapidly.

The reform and structural alteration in China’s healthcare system has commenced, favoring the standardization of the market and the rapid growth of the market for modern Chinese medicines. The state will step up regulatory efforts on the pharmaceutical industry, which, in light of the current situation in the Chinese medicine market, is advantageous to large pharmaceutical enterprises. Pharmaceutical enterprises enjoying a size advantage shall grow in terms of market share.

As China’s economic development continues to leap forward, the average per capita income of the nation’s citizen continues to increase as well. Raising health awareness of its people and the aging of its population are driving the demand for medicine higher. The Company is well positioned to grasp the opportunity brought along with the upheaval and the shuffling of the industry, make use of the industry policies to its advantage, proceed with mergers, acquisitions and integrations, expand its scale of sales and market share, so as to maximize the Company and its shareholders’ interests and return.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, bank deposits of the Group approximately amounted to RMB2,349,021,000 (2009: RMB2,318,189,000), of which RMB2,007,405,000 (2009: RMB1,627,649,000) were denominated in RMB, others being equivalent to RMB341,435,000 and RMB181,000 were denominated in Hong Kong Dollars and United States Dollars respectively (2009: RMB604,295,000, RMB84,621,000 and RMB1,624,000 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 resources to meet the requirement for future development.

ANNUAL GENERAL MEETING

The forthcoming Annual General Meeting of the Company will be held on Tuesday, 31 May 2011 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 Thursday, 26 May 2011 to Tuesday, 31 May 2011, both days inclusive, during which period no transfer of shares will be registered. In order to determine the entitlement to attend, act and vote at the forthcoming Annual General Meeting of the Company and to qualify for the proposed final and special dividends, all transfer documents accompanied by the relevant share certificates 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 Wednesday, 25 May 2011.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2010, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended 31 December 2010 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 to the Listing Rules, except for Code provision A.2.1 as described below.

The Code provision A.2.1 of the Code 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 (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 any appropriate adjustments should new circumstances 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 2010.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2010 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 2010 and Corporate Governance Report will be published on the Company's website (www.shineway.com.hk) and the website of the Stock Exchange (www.hkex.com.hk) on or before 26 April 2011.

APPRECIATION

The Company accomplishments are inseparable from the hard working of our staff. On behalf of the Board, 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, 23 March 2011

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.