神威藥業
SHINEWAY

CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 02877)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2011, the operating results of the Group were as follows:

– Turnover reached RMB1,048,266,000, an increase of 12% from the corresponding period of last year;

– Gross profit margin was 66.6% as compared to 69.5% of the corresponding period of last year;

– Profit for the period amounted to RMB438,527,000, an increase of 4.2% over the corresponding period of last year;

– Earnings per share amounted to RMB53 cents;

– Declared interim dividend of RMB11 cents per share.

RESULTS

The board of directors (the "Board") of China Shineway Pharmaceutical Group Limited (the "Company") are pleased to present the unaudited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 30 June 2011 with comparative figures for the six months ended 30 June 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
		RMB'000	*RMB'000*
	NOTES	**(Unaudited)**	(Unaudited)
Turnover	*3*	**1,048,266**	936,192
Cost of sales		**(350,171)**	(285,159)
Gross profit		**698,095**	651,033
Other income		**65,261**	35,761
Investment income		**28,164**	27,550
Net exchange loss		**(1,740)**	(7,025)
Distribution costs		**(124,644)**	(136,032)
Administrative expenses		**(84,347)**	(64,472)
Research and development costs		**(13,677)**	(6,291)
Profit before taxation		**567,112**	500,524
Taxation	*4*	**(128,585)**	(79,833)
Profit and total comprehensive income for the period	*5*	**438,527**	420,691
Profit and total comprehensive income for the period attributable to owners of the Company		**438,527**	420,691
Earnings per share – basic	*7*	**RMB53 cents**	RMB51 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	NOTES	30.6.2011 RMB'000 (Unaudited)	31.12.2010 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**944,073**	776,781
Prepaid lease payments	9	**152,399**	153,496
Intangible assets		**1,798**	2,165
Goodwill		**91,663**	91,663
Deferred tax assets		**25,129**	6,633
		1,215,062	1,030,738
Current assets			
Inventories		**242,946**	191,925
Trade receivables	10	**10,535**	6,956
Bills receivables	10	**420,096**	263,761
Prepayments, deposits and other receivables		**104,157**	94,670
Investments in debt securities	11	**126,620**	–
Pledged bank deposits		**27,061**	35,068
Bank balances and cash		**2,007,876**	2,349,021
		2,939,291	2,941,401
Current liabilities			
Trade payables	12	**234,057**	167,760
Bills payables	12	**27,061**	35,068
Other payables and accrued expenses		**298,996**	399,367
Amounts due to related companies		**9,009**	9,020
Deferred income		**2,600**	2,600
Tax liabilities		**61,484**	52,943
		633,207	666,758
Net current assets		**2,306,084**	2,274,643
Total assets less current liabilities		**3,521,146**	3,305,381
Non-current liabilities			
Deferred tax liabilities		**17,606**	1,138
Deferred income		**74,666**	74,666
		92,272	75,804
		3,428,874	3,229,577
Capital and reserves			
Share capital	13	**87,662**	87,662
Reserves		**3,340,612**	3,141,915
Equity attributable to owners of the Company		**3,428,274**	3,229,577
Non-controlling interests		**600**	–
		3,428,874	3,229,577

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. GENERAL

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's financial statements for the year ended 31 December 2010.

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

The application of the new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

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

IFRS 7 (Amendments)	Disclosures – Transfers of financial assets[1]
IFRS 9	Financial instruments[2]
IFRS 10	Consolidated financial statements[2]
IFRS 11	Joint arrangements[2]
IFRS 12	Disclosures of interests in other entities[2]
IFRS 13	Fair value measurement[2]
IAS 1 (Amendments)	Presentation of items of other comprehension income[3]
IAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[4]
IAS 19 (Revised 2011)	Employee benefits[2]
IAS 27 (Revised 2011)	Separate financial statements[2]
IAS 28 (Revised 2011)	Investments in associates and joint ventures[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2012

The directors of the Company anticipate that the application of these new and revised standards will have no material impact on the results and financial position of the Group.

3. TURNOVER AND SEGMENT INFORMATION

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

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. TAXATION

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**109,221**	82,239
Underprovision in prior year	**13,892**	–
Withholding tax paid on distributed profits	**7,500**	–
Deferred tax	**(2,028)**	(2,406)
	128,585	79,833

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

Pursuant to 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 periods.

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 15% from 2010 to 2020 on its taxable income.

Included in the current tax amount is an amount of RMB18,667,000 in relation to a government grant received in the prior year. During the current period end, the tax authority imposed tax on the government grant which was recognised as deferred income as at 31 December 2010. A corresponding deferred tax asset has been recognised in the current period which will be reversed to profit or loss when the deferred income is recognised in the profit or loss.

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Allowance for doubtful debts	**–**	2,203
Amortisation of prepaid lease payments	**1,703**	749
Depreciation of property, plant and equipment	**31,654**	24,125
Government subsidies (included in other income) *(Note)*	**(65,045)**	(34,374)
Interest income from bank deposits	**(28,164)**	(27,550)
Loss on disposal of property, plant and equipment	**18**	27

Note: The government grants represent incentives received from the local government of the PRC by the subsidiaries in relation to business development and expansion in relevant regions in the PRC.

6. DIVIDENDS

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Dividends		
– 2010 final dividend of RMB12 cents (2009: RMB12 cents) per share paid	**99,240**	99,240
– 2010 special dividend of RMB17 cents (2009: RMB15 cents) per share paid	**140,590**	124,050
	239,830	223,290
– 2011 interim dividend of RMB11 cents (2010: RMB11 cents) per share	**90,970**	90,970

Dividend Declared

The directors of the Company (the "Directors") declare an interim dividend of RMB11 cents per share amounting to approximately RMB90,970,000 in respect of the six months ended 30 June 2011 and are calculated on the basis of 827,000,000 shares issued as at 31 August 2011 (For the six months ended 30 June 2010: RMB11 cents per share, amounting to approximately RMB90,970,000), which will be paid on 31 October 2011, to the shareholders whose names appear on the Company's register of members on 20 October 2011. The 2011 interim dividend has not been recognised as a liability as at 30 June 2011.

Dividend payable in cash in Hong Kong dollars will be converted from Renminbi at the telegraphic transfer exchange rates quoted by bank at 10:30 a.m. on 31 August 2011 (RMB1 = HK$1.2220). Accordingly, the amount payable on 31 October 2011 will be HK$0.1344 per share.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	**438,527**	420,691

	Six months ended 30 June	
	2011	2010
Number of ordinary shares for the purpose of basic earnings per share	**827,000,000**	827,000,000

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

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired plant and machinery of RMB9,097,000 (2010: RMB6,514,000), office equipment of RMB1,773,000 (2010: RMB1,968,000), motor vehicles of Nil (2010: RMB976,000) and made additions to construction in progress of RMB188,126,000 (2010: RMB101,447,000).

9. PREPAID LEASE PAYMENTS

	30.6.2011	31.12.2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At beginning of the period/year	**157,509**	63,345
Acquired on acquisition of subsidiaries	**–**	22,800
Additions during the period/year	**–**	74,666
Expense for the period/year	**(1,703)**	(3,302)
At end of the period/year	**155,806**	157,509
Medium-term leasehold land in PRC		
Current portion (included in other receivables)	**3,407**	4,013
Non-current portion	**152,399**	153,496
	155,806	157,509

10. OTHER FINANCIAL ASSETS

	30.6.2011	31.12.2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	10,535	6,956
Bills receivables	420,096	263,761
	430,631	270,717

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

	30.6.2011	31.12.2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 – 180 days	430,631	270,717

11. INVESTMENTS IN DEBT SECURITIES

	30.6.2011	31.12.2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Investment in debt securities represented:		
Investment plans	126,620	–

As at 30 June 2011, the amount represented unlisted investment plans arranged by the bank for investment in various debt securities. The underlying debt securities invested by the bank are unlisted corporate entities' bills receivables.

The Group is entitled to a 100% principal protection clause for the investment plans of the unlisted corporate entities' bills receivables. The interest income from the investment plans are determined based on the interest income generated from the underlying debt securities.

The investment plans were stated at amortised cost less any impairment loss. They will mature in October 2011 at a fixed interest rate of 4.5% per annum.

12. OTHER FINANCIAL LIABILITIES

	30.6.2011	31.12.2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**234,057**	167,760
Bills payables	**27,061**	35,068
	261,118	202,828

An aged analysis of the Group's trade and bills payables at 30 June 2011 is as follows:

	30.6.2011	31.12.2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 6 months	**215,718**	175,947
Over 6 months but less than 1 year	**32,819**	5,521
Over 1 year but less than 2 years	**1,321**	12,828
Over 2 years	**11,260**	8,532
	261,118	202,828

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

13. SHARE CAPITAL

	Number of shares	Amount
	'000	*RMB'000*
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2010, 31 December 2010 and 30 June 2011	**5,000,000**	530,000
Issued and fully paid:		
Balance at 1 January 2010, 31 December 2010 and 30 June 2011	**827,000**	87,662

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

14. ACQUISITION OF SUBSIDIARIES

In April 2010, the Group acquired a 100% equity interest in Shineway Pharmaceutical (Zhangjiakou) Company Limited and a 100% equity interest in Sichuan Kalituo Pharmaceutical Limited. The details of the acquisitions have been disclosed in the annual report of the Group for the year ended 31 December 2010.

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sale of goods to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") *(Note)*	**891**	105
Rental expenses paid to Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") *(Note)*	**310**	310
Service fee to Shineway Medical *(Note)*	**3,335**	3,269
Service fee to Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") *(Note)*	**857**	839

Note: Shineway Drugstores, Shineway Medical and Shineway Lang Fang are all ultimately controlled by the controlling shareholder of the Company.

Compensation of key management personnel

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**1,843**	2,253
Post-employment benefits	**–**	5
	1,843	2,258

16. COMMITMENTS

(a) Operating lease commitments

At 30 June 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30.6.2011	31.12.2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**1,622**	2,007
In the second to fifth year inclusive	**1,899**	2,235
	3,521	4,242

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

(b) Capital commitments

At 30 June 2011, capital expenditure of RMB436,603,000 (31.12.2010: RMB505,822,000) in respect of acquisition of property, plant and equipment is contracted for but not provided in the condensed consolidated financial statements.

BUSINESS REVIEW

For the six months ended 30 June 2011, the Group recorded a turnover of RMB1,048,266,000, an increase of 12%. Sales by product form for the period are set out as follows:

	Sales	Product mix	Growth rate
Injections	RMB591,792,000	56.5%	3.9%
Soft Capsules	RMB238,226,000	22.7%	19.0%
Granules	RMB183,738,000	17.5%	22.2%
Other product formats	RMB34,510,000	3.3%	114.5%

The Group's net profit for the period ended 30 June 2011 is RMB438,527,000 representing an increase of 4.2% as compared to the corresponding period of last year. The percentage of growth in net profit is lower than the percentage of growth in turnover is mainly caused by increase in price of raw materials.

Injection Products

The pharmaceutical market has strong demand for Chinese medicine injections. For the first six months of 2011, the Group sold RMB591,792,000 of injection products, representing an increase of 3.9% from the same period of last year. Amongst these injection products, Shen Mai Injection, recorded growth in sales of 29.9%. For the first six months of 2011, injection products accounted for 56.5% of the Group's total turnover as compared to 60.9% for the same period of last year. In the first half of 2011, injection products only recorded a slight increase. This was due to the large demand for Qing Kai Ling Injection as the influenza A virus subtype H1-N1 ("A (H1-N1) Flu") was commonly experienced all over China in the first half of 2010. In absence of similar influenza breakout to the first half of last year and lost of Essential Drugs bids in some provinces in the PRC, the sales of Qing Kai Ling injection in the first half of 2011 decreased as compared to the same period last year.

Soft Capsule Products

For the first six months of 2011, the Group recorded RMB238,226,000 on sales of soft capsule products, representing an increase of 19% from the same period of last year. Sales of Huo Xiang Zheng Qi Soft Capsule and Qing Kai Ling Soft Capsule recorded remarkable increase as compared to the same period of last year. On the other hand, Wu Fu Xin Nao Qing Soft Capsule regained its sales momentum in 2011.

Soft Capsule products accounted for 22.7% of the Group's turnover for the first six months of 2011, as compared to 21.4% for the same period of last year. As a majority of our soft capsule products has attained their market shares, a smooth growth in soft capsule sales is expected in the future. The Group's production capacity for soft capsule products is presently at 3.5 billion capsules per annum. The Group believes that it is currently the largest Chinese medicine soft capsule manufacturer in the PRC in terms of sales volume and production capacity.

Granule Products

Sales of granule products in the first six months of 2011 had increased by 22.2% as compared to the same period of last year, amounting RMB183,738,000. The growth can be attributable to the satisfactory growth of pediatric granule series and the launch of a new product, namely Huamoyan granule.

Granule products accounted for 17.5% of the Group's turnover for the first six months of 2011 as compared to 16.0% of the same period of 2010. Following the completion and operation of our new granule production workshop, the Group's production capacity of granule products now reaches 3.4 billion bags per annum. The Group believes that it is the largest Chinese medicine granule products manufacturer in the PRC in terms of sales volume and production capacity.

Other products

Sales of other products in the first six months of 2011 had increased by 114.5% as compared to the same period of last year, amounted to RMB34,510,000. The increase was mainly attributable to the launch of a new tablet product, namely Fufang Gancao Pian.

PROSPECT

Given the uncertainties remained in the policy regarding medicine bid, the PRC medicine industry is currently at its most complicated stage, which is expected to last for a period of time. The Anhui Model (安徽模式), which adopts the two-envelope system and the centralized bidding system of essential drugs at provincial level, was successively implemented in various provinces, resulting in a lower chance of successful bid for large-sized enterprises of general medicine (普藥) and continuous decrease in the bid price of essential medicine, which directly affected the sales income and profit of medicine enterprises. It should be noted that the National Development and Reform Commission is in the process of unifying the price of several essential drugs throughout the PRC. Compared the Shanghai Model (上海模式) with the Anhui Model, it complement the inadequacy of Anhui Model by means of enhancing quality. The introduction of these policies will turn around the situation of extremely low price of certain essential drugs and wicked competitions in pricing, thus benefiting large-sized enterprises of general medicine.

Under the synergy of economic growth, new medical reform, population ageing, urbanization, the emerging demands from grassroots and advanced consumption, the PRC medicine industry has stepped into its "Golden Ten Years" featuring rapid development. According to the projection of the Southern Branch of State Food and Drug Administration (國家藥監局南方所), the CAGR of the aggregate output value of the PRC medicine industry is expected to reach 22% and that of the PRC medicine market will also hover at approximately 20% in the next decade. The PRC will become the second largest medicine market in the world following the United States by 2020.

The PRC has launched a bundle of policies in relation to the medicine industry in recent two years and more policies are expected to be rolled out along with the advancement of medical reform and the introduction of the Twelfth Five-Year Plan. Policy will be the core factor determining the growth of medical industry in the short run. Every leading enterprise in different subdivided fields will continue to grow through sharing a relatively speedy expansion in the medicine industry, seizing the market share of eliminated companies and mergers and acquisitions.

During the Twelfth Five-Year Plan period, the PRC government will keep heightening its support for the Chinese medicine industry to facilitate its development into a modern Chinese medicine industry. As an important category of Chinese medicine, Chinese medicine injections are in line with the development direction of modern Chinese medicine and are bound to benefit from the support and attention given by the government to the industry.

The new version of GMP, which took effect from 1 March 2011, provides better guarantee for the quality of modern Chinese medicine. The PRC government has set a transition period for the implementation of the new version of GMP, which is 3 years for risky categories including Chinese medicine injections and 5 years for other categories. The enforcement of the new version of GMP in the coming 3 to 5 years will elevate the competition threshold in the industry and eliminate small pharmaceutical enterprises, which is conducive to resolving the current state where a large number of small and scattered pharmaceutical enterprises coexist and thus enhance the standardized and concentrated development of the industry.

With the rapid economic growth and an increasing per capita income in the PRC, health consciousness has been rising among the general public. Population ageing is also driving up the average level of medicine usage. Shineway Pharmaceutical has the capability to capture the opportunities brought by the industrial transformation and reshuffling to expand its sales scale and market share by fully applying industrial policies and conducting mergers, acquisitions and consolidations, so as to seek the maximum benefits and returns for Shineway Pharmaceutical and its shareholders.

INVESTMENTS IN DEBT SECURITIES

Investments in debt securities represents investment plans arranged by banks, the underlying investment product was bills issued by banks and the Group is entitled to 100% principal protection. The interest income from the investment plans are determined based on the interest income generated from the underlying product of investment.

The investment plans were stated at amortised cost less impairment loss. They will mature in October 2011 at a fixed interest rate of 4.5% per annum.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, bank deposits of the Group, amounting to RMB2,007,876,000 (31 December 2010: RMB2,349,021,000) which comprised of RMB1,956,173,000 (31 December 2010: RMB2,007,405,000), were denominated in Renminbi. Others, being equivalent to RMB51,519,000 and RMB184,000 (31 December 2010: RMB341,435,000 and RMB181,000), were denominated in Hong Kong Dollars and United States Dollars respectively.

During the first six months in 2011, the Group did not entered into any derivative instrument investments.

The Group did not have any loans or bank borrowings as at 30 June 2011 and 2010. Accordingly the gearing ratio based on interest bearing debt for the first six months in 2011 and 2010 is nil.

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

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of RMB11 cents per share amounting to approximately RMB90,970,000 in respect of the six months ended 30 June 2011 and are calculated on the basis of 827,000,000 shares issued as at 31 August 2011 (for the six months ended 30 June 2010: RMB11 cents per share, amounting to approximately RMB90,970,000), which will be paid on 31 October 2011, to the shareholders whose names appear on the Company's register of members on 20 October 2011.

The above interim dividend will be payable in cash in Hong Kong dollars and will be converted from Renminbi at the telegraphic transfer exchange rates quoted by bank at 10:30 a.m. on 31 August 2011 (RMB1=HK$1.2220). Accordingly, the amount payable on 31 October 2011 will be HK$0.1344 per share.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2011, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied and complied with the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2011, except for the following deviations:

1. Chairman and chief executive officer

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 Chairman and chief executive officer should be clearly established and set out in writing. The Company does not use the title "Chief Executive Officer". The duty of the chief executive officer has been assumed by the president of the Company (the "President").

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

2. **Effective communication**

The Code provision E.1.2 stipulates that the Chairman should attend the annual general meeting ("AGM") of the Company. The Chairman did not attend the 2010 AGM due to other business engagement. An executive director had chaired the 2010 AGM and answered questions from shareholders. The chairman of the Audit and Remuneration Committee was also available to answer questions at the 2010 AGM.

COMPLIANCE WITH THE MODEL CODE

The Company adopts the Model Code in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealing in the Company's securities. The Company made specific enquiries with each Director and each of them confirmed that he or she had complied with the Model Code during the period ended 30 June 2011.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and external auditors the accounting principles and policies adopted by the Group and the Interim Report for the six months ended 30 June 2011.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 19 October 2011 to 20 October 2011 (both days inclusive). In order to qualify for the 2011 interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 18 October 2011.

INTERIM REPORT

The interim report of 2011 will be despatched to the shareholders at the appropriate time, it will also be available on the website of the Stock Exchange (www.hkex.com.hk) and the Company's website (www.shineway.com.hk) in due course.

We are delighted by the trust and support of our shareholders and those who care about the Company. On behalf of the Board, we would like to take this opportunity to thank all of you, as well as our employees who made tremendous efforts to achieve the growth in our results during the period.

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

Hong Kong, 31 August 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. Randy Hung King Kuen as non-executive Director; Mr. Ren Dequan, Ms. Cheng Li and Mr. Sun Liutai as independent non-executive Directors.