神威藥業
SHINEWAY

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 2011

HIGHLIGHTS

- Turnover decreased by 2.6% from last year to RMB1,984,542,000.
- Profit for the year decreased by 8.1% from last year to RMB755,576,000.
- Profit for the year decreased mainly caused by the decline in sales and decrease in operating profit.
- Earnings per share decreased by 8.1% to RMB0.91 compared with RMB0.99 in 2010.
- Recommended final dividend of RMB12 cents per share and special dividend of RMB14 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 2011 with comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	**2011** *RMB'000*	2010 *RMB'000*
Turnover	*3*	**1,984,542**	2,038,379
Cost of sales		**(682,459)**	(603,371)
Gross profit		**1,302,083**	1,435,008
Other income		**123,760**	77,497
Investment income	*4*	**68,523**	45,667
Net exchange (loss) gain		**(2,837)**	2,310
Distribution costs		**(255,398)**	(350,132)
Administrative expenses		**(229,244)**	(196,669)
Research and development costs		**(57,387)**	(21,873)
Profit before taxation		**949,500**	991,808
Taxation	*5*	**(193,924)**	(170,052)
Profit and total comprehensive income for the year	*6*	**755,576**	821,756
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**755,600**	821,756
Non-controlling interests		**(24)**	–
		755,576	821,756
Earnings per share – basic	*7*	**91 cents**	99 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment		**1,108,304**	776,781
Prepaid lease payments		**150,449**	153,496
Intangible assets		**1,430**	2,165
Goodwill		**91,663**	91,663
Deferred tax assets	9	**25,825**	6,633
		1,377,671	1,030,738
Current assets			
Inventories		**282,772**	191,925
Trade receivables	10	**13,397**	6,956
Bills receivables	10	**404,320**	263,761
Prepayments, deposits and other receivables		**98,163**	94,670
Pledged bank deposits		**27,839**	35,068
Bank balances and cash		**2,172,812**	2,349,021
		2,999,303	2,941,401
Current liabilities			
Trade payables	11	**261,950**	167,760
Bills payables	11	**27,839**	35,068
Other payables and accrued expenses		**303,491**	399,367
Amounts due to related companies		**9,009**	9,020
Deferred income	12	**3,100**	2,600
Tax liabilities		**40,890**	52,943
		646,279	666,758
Net current assets		**2,353,024**	2,274,643
Total assets less current liabilities		**3,730,695**	3,305,381
Non-current liabilities			
Deferred tax liabilities	9	**1,076**	1,138
Deferred income	12	**74,666**	74,666
		75,742	75,804
		3,654,953	3,229,577
Capital and reserves			
Share capital		**87,662**	87,662
Reserves		**3,566,715**	3,141,915
Equity attributable to owners of the Company		**3,654,377**	3,229,577
Non-controlling interests		**576**	–
		3,654,953	3,229,577

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, Cap. 22 (Law 3 of 1961, as consolidated and revised) 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 IFRSs (hereinafter collectively referred to as "new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and IFRS Interpretation Committee (the "IFRIC") of the IASB.

Amendments to IFRSs	Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009)	Related party disclosures
Amendments to IAS 32	Classification of rights issues
Amendments to IFRIC 14	Prepayments of a minimum funding requirement
IFRIC 19	Extinguishing financial liabilities with equity instruments

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 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.

Amendments to IFRS 7	Disclosures – Transfers of financial assets[1]
Amendments to IFRS 7	Disclosures – Offsetting financial assets and financial liabilities[2]
Amendments to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures[3]
IFRS 9	Financial instruments[3]
IFRS 10	Consolidated financial statements[2]
IFRS 11	Joint arrangements[2]
IFRS 12	Disclosure of interests in other entities[2]
IFRS 13	Fair value measurement[2]
Amendments to IAS 1	Presentation of items of other comprehensive income[5]
Amendments to IAS 12	Deferred tax – Recovery of underlying assets[4]
IAS 19 (as revised in 2011)	Employee benefits[2]
IAS 27 (as revised in 2011)	Separate financial statements[2]
IAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
Amendments to IAS 32	Offsetting financial assets and financial liabilities[6]
IFRIC 20	Stripping costs in the production phase of a surface mine[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 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

IFRS 10 replaces the parts of IAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements. SIC 12 "Consolidation – Special purpose entities" has been withdrawn upon the issuance of IFRS 10. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

The directors anticipate that the IFRS 10 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the application of the IFRS 10 is not expected to have any material impact to the Group's consolidated financial statements.

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

3. TURNOVER AND SEGMENT INFORMATION

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.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2011	2010
	RMB'000	*RMB'000*
Injections	**1,142,468**	1,275,134
Soft capsules	**435,919**	385,773
Granules	**339,887**	327,686
Others	**66,268**	49,786
	1,984,542	2,038,379

Geographical information

Sales of the Group to external customers were substantially made in the People's Republic of China (the "PRC") including Hong Kong.

All non-current assets of the Group including goodwill are located in the PRC including Hong Kong.

Information about major customers

For each of the year ended 31 December 2011 and 2010, there was no customer with turnover accounted for more than 10% of the Group's total turnover.

4. INVESTMENT INCOME

	2011	2010
	RMB'000	*RMB'000*
Interest on bank deposits	**41,114**	45,667
Interest on investments in debt securities	**27,409**	–
	68,523	45,667

All investments in debt securities are entered and matured during the year ended 31 December 2011 with effective interest rate ranged from 2.5% to 6% per annum.

5. TAXATION

	2011	2010
	RMB'000	*RMB'000*
The charge comprise:		
Current tax – PRC Enterprise Income Tax		
Current year	**174,416**	166,518
Underprovision in prior years	**14,781**	2,788
Withholding tax paid on distributed profits	**23,981**	–
	213,178	169,306
Deferred tax *(note 9)*	**(19,254)**	746
	193,924	170,052

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.

Certain subsidiaries which are operating in the Western China or recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC Enterprise Income Tax at concessionary rate of 15% for both years. The tax concessions granted to certain subsidiaries operating in the Western China will expire in 2020.

Included in the current tax amount for the year ended 31 December 2011 is an amount of RMB18,667,000 in relation to a government grant received in 2010, which was recognised as deferred income as at 31 December 2010. During the current year, the tax authority imposed tax on such government grant. A corresponding deferred tax asset has been recognised in the current year which will be reversed to profit or loss when the deferred income is recognised in the profit or loss.

6. PROFIT FOR THE YEAR

	2011	2010
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging:		
Directors' emoluments	**35,596**	46,793
Other staff costs	**118,002**	87,270
Other staff's pension costs	**36,834**	19,009
	190,432	153,072
Allowance for bad and doubtful debts	**–**	2,087
Amortisation of intangible assets	**735**	495
Auditor's remuneration	**1,860**	1,896
Depreciation of property, plant and equipment	**64,948**	52,532
Loss on disposal of property, plant and equipment	**105**	67
Operating lease rentals in respect of land use rights	**3,608**	3,302
Rental expenses under operating lease in respect of rented premises	**2,433**	2,558
and after crediting:		
Government subsidies (included in other income) *(Note)*	**120,471**	75,965
Reversal of allowance for bad and doubtful debts	**1,963**	–

Note: The government grants represent the amounts received from the local government by the subsidiaries of the Company. In 2011, government grant of (a) RMB110,916,000 (2010: RMB69,886,000) represents incentive received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB9,555,000 (2010: RMB6,079,000) represents recognition of deferred income upon completion of related research activities (note 12).

7. EARNINGS PER SHARE

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

	2011	2010
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**755,600**	821,756

	Number of ordinary shares	
	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 is presented as the Company did not have any potential dilutive ordinary shares outstanding.

8. DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
Final dividend paid for 2010 of RMB12 cents (2009: RMB12 cents) per share	**99,240**	99,240
Special dividend paid for 2010 of RMB17 cents (2009: RMB15 cents) per share	**140,590**	124,050
Interim dividend paid for 2011 of RMB11 cents (2010: RMB11 cents) per share	**90,970**	90,970
	330,800	314,260
Dividends proposed		
Proposed final dividend of RMB12 cents (2010: RMB12 cents) per share	**99,240**	99,240
Proposed special dividend of RMB14 cents (2010: RMB17 cents) per share	**115,780**	140,590
	215,020	239,830

In respect of the year ended 31 December 2011, the directors of the Company proposed, subject to approval by Shareholders at the forthcoming Annual General Meeting, that a final dividend of RMB12 cents (2010: RMB12 cents) per share and a special dividend of RMB14 cents (2010: RMB17 cents) per share will be paid out of the share premium account of the Company on 20 June 2012, to Shareholders whose names appear on the register of members of the Company on 7 June 2012. These dividends are subject to approval by the shareholders at the forthcoming Annual General Meeting (as defined hereinbelow) 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 telegraphic transfer exchange rates quoted by bank at 10:30 a.m. on 27 March 2012 (RMB1=HK1.2284). Accordingly, the amount payable on 20 June 2012 will be:

Proposed dividend: Final – RMB12 cents per share; approximately HK$0.1474 per share
Special – RMB14 cents per share; approximately HK$0.1720 per share

9. 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:

	2011	2010
	RMB'000	*RMB'000*
Deferred tax assets	**25,825**	6,633
Deferred tax liabilities	**(1,076)**	(1,138)
	24,749	5,495

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

	Accelerated tax depreciation	**Deferred income**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010	5,653	–	1,828	7,481
Charge to profit or loss	(44)	–	(702)	(746)
Acquisition of subsidiaries	–	–	(1,240)	(1,240)
At 31 December 2010	5,609	–	(114)	5,495
(Charge) credit to profit or loss	(146)	18,667	733	19,254
At 31 December 2011	5,463	18,667	619	24,749

At the end of the reporting period, the Group has unused tax losses of approximately RMB90,086,000 (2010: RMB82,696,000) 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 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 RMB2,173,205,000 (2010: RMB1,819,653,000) 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.

10. TRADE AND BILLS RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**13,521**	9,043
Less: Allowance for doubtful debts	**(124)**	(2,087)
	13,397	6,956
Bills receivables	**404,320**	263,761
	417,717	270,717

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.

	2011	2010
	RMB'000	*RMB'000*
0 – 180 days	**417,717**	270,717

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 amounting to RMB124,000 in 2011 (2010: RMB2,087,000), 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

	2011	2010
	RMB'000	*RMB'000*
1 January	**2,087**	–
Allowance recognised	**–**	2,087
Reversal of allowance recognised	**(1,963)**	–
31 December	**124**	2,087

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB124,000 (2010: RMB2,087,000) which have either been placed under liquidation or are in financial difficulties. The Group does not hold any collateral over these balances.

11. TRADE AND BILLS PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**261,950**	167,760
Bills payables	**27,839**	35,068
	289,789	202,828

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

	2011	2010
	RMB'000	*RMB'000*
Within 6 months	**235,147**	175,947
Over 6 months but less than 1 year	**20,077**	5,521
Over 1 year but less than 2 years	**17,560**	12,828
Over 2 years	**17,005**	8,532
	289,789	202,828

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.

12. DEFERRED INCOME

	2011	2010
	RMB'000	*RMB'000*
At 1 January	**77,266**	550
Addition during the year	**10,055**	82,795
Recognised as other income	**(9,555)**	(6,079)
At 31 December	**77,766**	77,266
Analysed for reporting purpose as		
Current liabilities	**3,100**	2,600
Non-current liabilities	**74,666**	74,666
	77,766	77,266

Included in the deferred income at 31 December 2011 are government subsidies amounting to RMB3,100,000 (2010: RMB2,600,000) in relation to research and development expenses on certain new products not yet recognised. 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. During the year, the Group received RMB10,055,000 (2010: RMB82,795,000) government subsidies in relation to research and development expenses and recognised RMB9,555,000 (2010: RMB6,079,000) in profit or loss as the related researches are successfully completed.

At 31 December 2010 and 2011, the deferred income included a government grant amounting to RMB74,666,000 received in 2010 in relation to a development project, including the construction of production premises and acquisition of plant and machineries, in the 邛崍醫藥產業園 ("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. No deferred income is transferred to profit or loss as the related development project has not been completed at the end of the reporting periods.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

China's pharmaceutical industry is stepping into the first year of "Golden Ten Year" in 2011. The uncertainties in the policy regarding medicine bid imposed challenges to the Group and the Group experienced drop in its turnover and profit. For the year 2011, the Group recorded a turnover of RMB1,984,542,000, a drop of 2.6% from previous year. Sales by product form for the year are set out as follows:

	Sales *(RMB)*	**Growth Rate**	**Product Mix**
Injections	1,142,468,000	-10.4%	57.6%
Soft Capsules	435,919,000	13.0%	22.0%
Granules	339,887,000	3.7%	17.1%
Other product formats	66,268,000	33.1%	3.3%

The Group's profit attributable to owners of the Company for 2011 is RMB755,600,000, representing a drop of 8.1% from year 2010. The decrease in profit was mainly caused by the decline in sales, as well as decrease in operating profit.

Injection Products

During 2011, the Group sold RMB1,142,468,000 of injection products, a decrease of 10.4% from year 2010. Amongst these injection products, Qing Kai Ling injection remained the key product of the Group. Injection products accounted for 57.6% of the Group's turnover in 2011, while they contributed 62.6% 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 at its final testing stage and is expected to commence production in the middle of 2012. The injection production capacity will then 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-evalution will significantly enhance the production technologies and quality standards of Chinese medicine injection. Each re-evaluation will cost few to ten millions RMB. 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 RMB435,919,000 on sales of soft capsule products, an increase of 13.0% from last year. The increase was mainly driven by the soar in sales of Huo Xiang Zheng Qi Soft Capsule as compared with last year. Meanwhile, Wu Fu Xin Nao Qing Soft Capsule regained its sales momentum in 2011.

Soft Capsule products accounted for 22.0% of the Group's turnover in 2011, as compared to 18.9% 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 2011 increased by 3.7%, amounted to RMB339,887,000. The increase was mainly attributable to the launch of a new product, Huamoyan Granule. On the other hand, Liyan Jiedu Granule, Tongmai Granule, Ganmao Qingre Granule and Shujin Tongluo Granule also recorded year-on-year sales increase.

Granule products accounted for 17.1% of the Group's turnover in 2011 as compared to 16.1% in 2010.

The Group's new granule and tablet workshop commenced production in 2011 with annual production capacity for granule products of 3.4 billion bags per annum. The Group believes that it is currently the largest Chinese medicine granules manufacturer in PRC in terms of sales volume and production capacity.

Other Products

Sales of other products in 2011 increased by 33.1% compared to last year, amounted to RMB66,268,000. The increase was mainly attributable to the launch of a new tablet product, namely Fufang Gancao Pin.

Key Products

In 2011, the six 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 Capsule, Pediatric Qing Fei Hua Tan Granule and Huo Xiang Zheng Qi Soft Capsule.

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 decrease in sales from last year and is the major contributor to the Group's turnover.

Qing Kai Ling Injection is listed in the "National Catalogues of Medical Insurance and Occupational Injury Insurance". It 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 and the A(H1-N1) 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.

Qing Kai Ling Injection has been included by the Ministry of Health in the Essential Drug List in 2010. The Group believes with vigorously investment in building the New Rural Cooperative Medical Care System by the State, Urban Resident Basic Medical Insurance and implementing the Essential Drug List by the PRC, as well as the Measures for the Administration on the Clinical Application of Antibacterical Medicines to be issued by the Ministry of Health of the PRC, which will restrict the overuse of antibacterical medicines in clinics, market demand of heat clearing and anti-toxic Chinese medicine, especially for Qing Kai Ling Injection, is expected to grow vastly. The Group believes that it is the largest manufacturer of Qing Kai Ling Injection in the PRC based on sales volume and sales amount. The Group will further enhance market coverage and penetration of end networks, as well as to strengthen marketing and promotion effort at the points of sales. Qing Kai Ling Injection will sustain steady growth.

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

In 2011, 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. 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 2011, 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 continuous growth.

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

Sales of Wu Fu Nin Nao Qing Soft Capsule in this year increased 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. The Group will continue to strengthen our effort on promoting the "Wu Fu" brand and deepen our end-user market coverage and exercise more support to our distributors by increasing promotional activities 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 in 2011 dropped 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.

Huo Xiang Zheng Qi Soft Capsule – for prevention and treatment of heat stroke, stomachache, nausea and diarrhoea, acclimatization sickness

In 2011, sales of Huo Xiang Zheng Qi Soft Capsule increased compared with last year.

Huo Xiang Zheng Qi Soft Capusles 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 and the A(H1-N1) Flu. Due to its effective efficacy and the high bioavailability of soft capsule, Huo Xiang Zheng Qi Soft Capsule is a very popular OTC Chinese medicine.

The Group will continue to expand end market coverage. Furthermore, we will expedite partnership with strategic distributors and chain drugstores, and increase promotion to strive for better growth of Huo Xiang Zheng Qi Soft Capsule.

Emerging Products

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

In 2011, sales of Huang Qi Injection decreased 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 Capsule – for treatment of high fever, viral influenza and respiratory tract infection

Sales of Qing Kai Ling Soft Capsule in current year increased 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.

Huamoyan Granule – for treatment of both acute and chronic synovitis and treatment after joints surgery

Huamoyan Granule is a new addition to the Group's product line during the year.

Synovitis is currently a relatively common type of arthropathy which widely affects the mid-aged group, senior citizens, athletes and patients after joint surgeries. Huamoyan Granule produced by the Group is the first innovative medicine approved by the State Food and Drug Administration for the treatment of synovitis. It is an original and self-developed product with proprietary formulations, marking a milestone for the treatment of synovitis and bringing the same to a new height. With the Group's intensified presence in the end market of hospitals and the advancement of the promotion to professionals and academics, this product has obtained sound performance and returns from the market with an on-going momentum for growth.

Shujin Tongluo Granule – for treatment of spondylosis, neck stiffness and symptoms such as pains of neck, shoulder and back

Sales of Shujin Tongluo Granule increased compared with last year.

The increase in the number of people who tilt down their heads during work has resulted in a growing prevalence of spondylosis nowadays, and the disease has also shown a trend of younger. Shujin Tongluo Granule produced by the Group is currently the only proprietary and multi-target Chinese medicine in the market which addresses both symptoms and root causes to continuously mitigate the symptoms of spondylosis. It also has a noticeable effect on curing both nerve root type and vertebral artery type of spondylosis, hence offering clinical doctors with a new choice for the treatment of spondylosis. After the ongoing academic promotion in recent years, Shujin Tongluo Granule has achieved strong market growth.

Wu Fu Jiangzhi Tongluo Soft Capsule – for treatment of symptoms such as hyperlipidemia, chest and hypochondrium pain and chest tightness

Sales of Wu Fu Jiangzhi Tongluo Soft Capsule increased compared with last year.

Wu Fu Jiangzhi Tongluo Soft Capsule produced by the Group is a national key new product jointly certified by four ministries and commissions, including the Ministry of Science and Technology of the PRC. It is used for the revitalization of blood and "Qi" circulation and for lowering blood cholesterol. Wu Fu Jiangzhi Tongluo Soft Capsule is superior to the existing blood cholesterol drugs in terms of effectiveness, and its liver protection ability provides what other similar clinical products lack, and is therefore a clear choice for patients undergoing long-term hyperlipidemia treatment. The Group will continue to promote the product to professionals and academics, provide physicians with information regarding the product and increase brand awareness so as to establish it as the best brand among other cholesterol-regulating drugs.

Fufang Shexiang Injection – for treatment of stroke and coma induced by nausea and phlegm and is effective in loosening phlegm, tranquilizing and calming the minds of patients

Fufang Shexiang Injection is a new addition to the Group's product line during the year.

Based upon the traditional formula of "Angong Niuhuang Wan", Fufang Shexiang Injection is a new generation of Chinese medicine widely used in the clinical treatment of various kinds of consciousness disturbance diseases. According to a number of literatures, Fufang Shexiang Injection is effective in easing brain damages as a result of cardiopulmonary resuscitation by treating it from multiple targets and in multiple aspects. This product represents a new approach to the treatment of brain damages caused by cardiopulmonary resuscitation and has high market potential in the future.

RESEARCH AND DEVELOPMENT

Currently, there are 10 new product research projects undergoing pharmaceutical and clinical trial, 3 of which are for the treatment of cardiovascular diseases, 2 for the treatment of genitourinary diseases, 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 6 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, the Group's new research and development center in Yanjiao Development Zone, Langfang, Beijing has completed construction and in operation.

PATENT APPLICATIONS

The Group continued to strengthen the protection of its intellectual property rights. During 2011, the Group received 2 invention patents from the Intellectual Property Office of the PRC.

As at the date of the Annual Report, the Group has obtained 21 patents for our inventions, and a total of 19 patent applications are pending for approval.

STATE PROTECTED CHINESE MEDICINES

As of 31 December 2011, the Group had 9 products listed as State Protected Chinese Medicines, including Shu Xie Ning Injection, Guan Xin Ning Injection, Pediatric Qing Fei Hua Tan Granule, Wu Fu Jianzhi Tongluo Soft Capsule, Xuanmai Ganjie Lozenge, Liyan Jiedu Granule, Jianyang Tablets, Yin Zhi Huang Injection and Jing Wu Granule.

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 complements 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 Compound Annual Growth Rate 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 is expected to be 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 medicine 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. China Shineway 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 China Shineway and its shareholders.

ESTABLISHMENT OF SUBSIDIARY

In May 2011, the Group has established a new subsidiary namely Shineway Pharmaceutical (Minle) Modern Agricultural Company Limited, with registered share capital of RMB2,000,000. This subsidiary was incorporated in PRC and Shineway owns 70% of its equity interest, the principal activities of which is to cultivate, process and trade of Chinese medicinal herb.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, bank deposits of the Group approximately amounted to RMB2,172,812,000 (2010: RMB2,349,021,000), of which RMB2,076,407,000 (2010: RMB2,007,405,000) were denominated in RMB, others being equivalent to RMB96,230,000 and RMB175,000 (2010: RMB341,435,000 and RMB181,000) were denominated in 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 (the "Annual General Meeting") will be held on Wednesday, 30 May 2012 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.

FINAL DIVIDEND AND SPECIAL DIVIDEND

In respect of the year ended 31 December 2011, the directors proposed that a final dividend of RMB12 cents (2010: RMB12 cents) per share and a special dividend of RMB14 cents (2010: RMB17 cents) per share will be paid out of the share premium account of the Company on 20 June 2012, to Shareholders of the Company (the "shareholder") whose names appear on the register of members of the Company on 7 June 2012. These dividends are subject to approval by the shareholders at the forthcoming Annual General Meeting.

Dividends payable in cash in Hong Kong dollars will be converted from RMB at the telegraphic transfer exchange rates quoted by bank at 10:30 a.m. on 27 March 2012 (RMB1=HK1.2284). Accordingly, the amount payable on 20 June 2012 will be:

Proposed dividend:	Final – RMB12 cents per share; approximately HK$0.1474 per share
	Special – RMB14 cents per share; approximately HK$0.1720 per share

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 28 May 2012 to Wednesday, 30 May 2012, both days inclusive, for the purpose of determining Shareholders' eligibility to attend, act and vote at the Annual General Meeting, during which period no transfer of shares will be registered. In order to determine the entitlement to attend, act and vote at the Annual General Meeting, 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 Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 25 May 2012.

The register of members will also be closed from Tuesday, 5 June 2012 to Thursday, 7 June 2012, both days inclusive, for the purpose of determining Shareholders' entitlement to the proposed final dividend and special dividend, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and special dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with Computershare Hong Kong Investor Services Limited at the above address, for registration no later than 4:30 p.m. on Monday, 4 June 2012.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2011, 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 2011 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 the deviations below.

1. 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.

2. The Code provision E1.2 stipulates that the Chairman should attend the Annual General Meeting of the Company. The Chairman did not attend the 2011 Annual General Meeting due to other business engagement. Another executive director had chaired the 2011 Annual General Meeting and answered questions from shareholders. The chairmans of the Audit Committee and Remuneration Committee were also available to answer questions at the 2011 Annual General Meeting.

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 2011.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2011.

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 2011 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 20 April 2012.

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, 27 March 2012

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. Hung Randy King Kuen as non-executive director, Mr. Ren Dequan, Ms. Cheng Li and Mr. Sun Liutai as independent non-executive directors.