神威藥業
SHINEWAY

CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED
中國神威藥業集團有限公司

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

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

HIGHLIGHTS

- Turnover increased by 7.4% from last year to RMB2,132,249,000.
- Profit for the year decreased by 14.3% from last year to RMB647,655,000.
- Profit for the year decreased mainly caused by the decrease in operating profit.
- Earnings per share decreased by 14.3% to RMB0.78 compared with RMB0.91 in 2011.
- Recommended final dividend of RMB0.12 per share and special dividend of RMB0.09 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 2012 with comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Turnover	3	**2,132,249**	1,984,542
Cost of sales		**(740,303)**	(682,459)
Gross profit		**1,391,946**	1,302,083
Other income		**76,289**	123,760
Investment income	4	**80,007**	68,523
Net exchange loss		**(4,733)**	(2,837)
Distribution costs		**(423,258)**	(255,398)
Administrative expenses		**(252,762)**	(229,244)
Research and development costs		**(68,046)**	(57,387)
Share of profit of an associate		**293**	–
Profit before taxation		**799,736**	949,500
Taxation	5	**(152,081)**	(193,924)
Profit and total comprehensive income for the year	6	**647,655**	755,576
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**647,704**	755,600
Non-controlling interests		**(49)**	(24)
		647,655	755,576
Earnings per share – basic	7	**78 cents**	91 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment		**1,398,248**	1,108,304
Prepaid lease payments		**148,005**	150,449
Intangible assets		**738**	1,430
Interest in an associate		**17,013**	–
Goodwill		**91,663**	91,663
Deferred tax assets	9	**25,924**	25,825
		1,681,591	1,377,671
Current assets			
Inventories		**203,965**	282,772
Trade receivables	10	**20,385**	13,397
Bills receivables	10	**501,233**	404,320
Prepayments, deposits and other receivables		**103,610**	98,163
Pledged bank deposits		**19,860**	27,839
Bank balances and cash		**2,212,391**	2,172,812
		3,061,444	2,999,303
Current liabilities			
Trade payables	11	**255,071**	261,950
Bills payables	11	**19,731**	27,839
Other payables and accrued expenses		**328,923**	303,491
Amount due to a related company		**9,009**	9,009
Deferred income	12	**4,099**	3,100
Tax liabilities		**38,234**	40,890
		655,067	646,279
Net current assets		**2,406,377**	2,353,024
Total assets less current liabilities		**4,087,968**	3,730,695
Non-current liabilities			
Deferred tax liabilities	9	**1,014**	1,076
Deferred income	12	**90,336**	74,666
		91,350	75,742
		3,996,618	3,654,953
Capital and reserves			
Share capital		**87,662**	87,662
Reserves		**3,908,429**	3,566,715
Equity attributable to owners of the Company		**3,996,091**	3,654,377
Non-controlling interests		**527**	576
		3,996,618	3,654,953

Notes:

1. GENERAL

The Company is a listed 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 and associate are engaged in research and development, manufacturing and trading of Chinese pharmaceutical products.

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

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”).

Amendments to IAS 12	Deferred tax: Recovery of underlying asset
Amendments to IFRS 7	Financial instruments: Disclosures – Transfers of financial assets

The adoption of the amendments to 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 issued 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 IFRSs	Annual improvements to IFRSs 2009 – 2011 cycle[1]
Amendments to IFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities[2]
IFRS 9	Financial instruments[3]
IFRS 10	Consolidated financial statements[1]
IFRS 11	Joint arrangements[1]
IFRS 12	Disclosure of interests in other entities[1]
IFRS 13	Fair value measurement[1]
IAS 19 (as revised in 2011)	Employee benefits[1]
IAS 27 (as revised in 2011)	Separate financial statements[1]
IAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to IAS 1	Presentation of items of other comprehensive income[4]
Amendments to IAS 32	Offsetting financial assets and financial liabilities[2]
IFRIC 20	Stripping costs in the production phase of a surface mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

The directors of the Company anticipate that the application of the new and 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:

	2012	2011
	RMB'000	*RMB'000*
Injections	**1,238,486**	1,142,468
Soft capsules	**446,739**	435,919
Granules	**366,300**	339,887
Others	**80,724**	66,268
	2,132,249	1,984,542

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 2012 and 2011, there was no customer with turnover accounted for more than 10% of the Group's total turnover.

4. INVESTMENT INCOME

	2012	2011
	RMB'000	*RMB'000*
Interest on bank deposits	**31,553**	41,114
Investment income from debt-related products	**6,070**	3,135
Investment income from short-term debt-related products	**42,384**	24,274
	80,007	68,523

5. TAXATION

	2012	2011
	RMB'000	*RMB'000*
The charge comprise:		
Current tax – PRC Enterprise Income Tax		
Current year	**123,965**	174,416
(Over)underprovision in prior years	**(8,306)**	14,781
Withholding tax paid on distributed profits	**36,583**	23,981
	152,242	213,178
Deferred tax	**(161)**	(19,254)
	152,081	193,924

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the year. The Company and its subsidiaries operating in Hong Kong do not have assessable profits, accordingly, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements.

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 both years.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

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 EIT 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 for the year ended 31 December 2011 was 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 year ended 31 December 2011, the tax authority imposed tax on such government subsidy. A corresponding deferred tax asset has been recognised during the year ended 31 December 2011 which will be reversed to profit or loss when the deferred income is recognised in the profit or loss.

6. PROFIT FOR THE YEAR

	2012	2011
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging:		
Directors' emoluments	**31,343**	35,596
Other staff costs	**142,495**	118,002
Other staff's pension costs	**44,204**	36,834
	218,042	190,432
Amortisation of intangible assets	**692**	735
Amortisation of prepaid lease payments	**3,629**	3,608
Auditor's remuneration	**1,528**	1,860
Depreciation of property, plant and equipment	**77,681**	64,948
Loss on disposal of property, plant and equipment	**39**	105
Rental expenses under operating lease in respect of rented premises	**2,430**	2,433
and after crediting:		
Government subsidies (included in other income) *(Note)*	**76,021**	120,471
Reversal of allowance for bad and doubtful debts	**–**	1,963

Note: The government subsidies represent the amounts received from the local government by the subsidiaries of the Company. In 2012, government subsidies of (a) RMB71,901,000 (2011: RMB110,916,000) represent incentives received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB4,120,000 (2011: RMB9,555,000) represent recognition of deferred income upon completion of related research activities.

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:

	2012	2011
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**647,704**	755,600

	Number of ordinary shares	
	2012	2011
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

	2012	2011
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year:		
Final dividend paid for 2011 of RMB12 cents (2010: RMB12 cents for 2010) per share	**99,240**	99,240
Special dividend paid for 2011 of RMB14 cents (2010: RMB17 cents for 2010) per share	**115,780**	140,590
Interim dividend paid for 2012 of RMB11 cents (2011: RMB11 cents for 2011) per share	**90,970**	90,970
	305,990	330,800
Dividends proposed:		
Proposed final dividend of RMB12 cents (2011: RMB12 cents) per share	**99,240**	99,240
Proposed special dividend of RMB9 cents (2011: RMB14 cents) per share	**74,430**	115,780
	173,670	215,020

The final dividend of RMB12 cents per share and special dividend of RMB9 cents per share, totalling RMB21 cents have been proposed by the directors and is subject to approval by the shareholders in the general meeting.

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:

	2012	2011
	RMB'000	*RMB'000*
Deferred tax assets	**25,924**	25,825
Deferred tax liabilities	**(1,014)**	(1,076)
	24,910	24,749

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 2011	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
(Charge) credit to profit or loss	(146)	–	307	161
At 31 December 2012	5,317	18,667	926	24,910

At the end of the reporting period, the Group has unused tax losses of approximately RMB94,026,000 (2011: RMB90,086,000) 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 RMB2,329,945,000 (2011: RMB2,173,205,000) 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

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**20,509**	13,521
Less: Allowance for doubtful debts	**(124)**	(124)
	20,385	13,397
Bills receivables	**501,233**	404,320
	521,618	417,717

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.

	2012	2011
	RMB'000	*RMB'000*
Within 6 months	**521,556**	417,717
Over 6 months but less than 1 year	**62**	–
	521,618	417,717

11. TRADE AND BILLS PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**255,071**	261,950
Bills payables	**19,731**	27,839
	274,802	289,789

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

	2012	2011
	RMB'000	*RMB'000*
Within 6 months	**234,446**	235,147
Over 6 months but less than 1 year	**12,630**	20,077
Over 1 year but less than 2 years	**15,793**	17,560
Over 2 years	**11,933**	17,005
	274,802	289,789

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

	2012	2011
	RMB'000	*RMB'000*
At 1 January	**77,766**	77,266
Addition during the year	**20,789**	10,055
Recognised as other income	**(4,120)**	(9,555)
At 31 December	**94,435**	77,766
Analysed for reporting purpose as		
Current liabilities	**4,099**	3,100
Non-current liabilities	**90,336**	74,666
	94,435	77,766

Included in the deferred income at 31 December 2012 are government subsidies amounting to RMB19,769,000 (2011: RMB3,100,000) in relation to research and development expenses on certain new products not yet recognised. The subsidy is recognised as deferred income because there is an obligation to repay the subsidy if the related research is not successfully completed. The amount will be recognised in profit or loss when the related research is successfully completed. During the year, the Group received RMB20,789,000 (2011: RMB10,055,000) government subsidies in relation to research and development expenses and recognised RMB4,120,000 (2011: RMB9,555,000) in profit or loss as the related researches are successfully completed.

At 31 December 2012 and 2011, the deferred income included a government subsidy 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 period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2012 is a critical year of refinement of medical reform in the PRC. Many policies related to drugs and medicine including the pharmaceutical industry plan, policy regarding medicine bid and the reform of public hospitals and pricing policy of drugs, have launched and are closely attended by the market. These events imposed challenges to the Group and the Group experienced a rise in its turnover and a decline in profit. For the year 2012, the Group recorded a turnover of RMB2,132,249,000, an increase of 7.4% from previous year. Sales by product form for the year are set out as follows:

	Sales *(RMB)*	**Growth Rate**	**Product Mix**
Injections	1,238,486,000	8.4%	58.1%
Soft Capsules	446,739,000	2.5%	21.0%
Granules	366,300,000	7.8%	17.2%
Other product formats	80,724,000	21.8%	3.7%

The Group's profit attributable to owners of the Company for 2012 is RMB647,704,000, representing a drop of 14.3% from year 2011. The decrease in profit was mainly caused by price adjustments of certain products and increase in expenses.

Injection Products

During 2012, the Group sold RMB1,238,486,000 of injection products, an increase of 8.4% from year 2011. Amongst these injection products, Qing Kai Ling injection remained the key product of the Group. Injection products accounted for 58.1% of the Group's turnover in 2012, while they contributed 57.6% 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 "Good Quality/Good Price" products. Meanwhile, the construction of the new injection production workshop has completed with the new GMP certification gained and is expected to formally operate in 2013. 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-evaluation will significantly enhance the production technologies and quality standards of Chinese medicine injection. 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 RMB446,739,000 on sales of soft capsule products, an increase of 2.5% from last year. The increase was mainly driven by the rise in sales of Wu Fu Xin Nao Qing Soft Capsule and Qing Kai Ling Soft Capsule as compared with last year.

Soft Capsule products accounted for 21.0% of the Group's turnover in 2012, as compared to 22.0% 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 2012 increased by 7.8%, amounted to RMB366,300,000. The increase was mainly attributable to the year-on-year sales increase of Fen An Ka Min Granule, Pediatric Anfen Huang La Min Granule and Huamoyan Granule.

Granule products accounted for 17.2% of the Group's turnover in 2012 as compared to 17.1% in 2011.

The Group's new granule and tablet workshop commenced production in previous year 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 2012 increased by 21.8% compared to last year, amounted to RMB80,724,000. The increase was mainly attributable to the increase in sales of Fufang Gancao Pian, Fufang Anfen Wanan Pian and Naolibao Tablet as compared with last year.

Key Products

The six key products of the Group were Qing Kai Ling Injection, Shen Mai Injection, Shu Xie Ning Injection, Wu Fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule 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 increase 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 selected as the National Reserved Medicine, also 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 Antibacterial Medicines to be issued by the Ministry of Health of the PRC, which will restrict the overuse of antibacterial 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 2012, 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 and the Essential Drug List. It is also included in the recommendation of the Ministry of Health of the PRC for treating Avian Flu and the A(H1-N1) Flu.

The Group believes that it is the largest manufacturer of Shen Mai Injection in the PRC based on sales volume. 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 2012, sales of Shu Xie Ning Injection increased compared with last year.

Shu Xie Ning Injection is designated as a "Good Quality/Good Price" product by the PRC authorities. It is included in the National Catalogues of Medical Insurance and Occupational Injury Insurance and is one of the first tier medicines for treatment of cardiovascular diseases. The Group will continue to further enhance market coverage and penetration, foster marketing effort at the points of sales, and look for strategic 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 Xin Nao Qing Soft Capsule in this year increased compared with last year.

Wu Fu Xin Nao Qing Soft Capsule is ranked among the top ten cardiovascular Chinese medicines in the country. The "Wu Fu" trademark was certified as a "China Famous Trademark". It is also one of the lowest in cost of average daily dosage among similar cardiovascular medicines. 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.

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

In 2012, sales of Huo Xiang Zheng Qi Soft Capsule decreased 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 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.

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

Sales of Pediatric Qing Fei Hua Tan Granule in 2012 dropped compared with last year.

Pediatric Qing Fei Hua Tan Granule has superb curative effect and 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. The "Shen Miao" trademark was certified as a "China Famous Trademark".

Emerging Products

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

In 2012, 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. Viral myocarditis has become more prevalent 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 and 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.

Benefited greatly by the synergistic effect of Qing Kai Ling Injection, 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

Sales of Huamoyan Granule in current year increased compared with last 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

During the year, sales of the Group's 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.

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

During the year, sales of Jiangzhi Tongluo Soft Capsule increased compared with last year.

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 revitalisation of blood and "Qi" circulation and for lowering blood cholesterol. 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.

RESEARCH AND DEVELOPMENT

Currently, there are various research projects undergoing pharmaceutical and clinical trial, including 3 of which are for the treatment of cardiovascular diseases, 1 for the treatment of gynaecological diseases, 1 for the treatment of orthopedics, 2 for the treatment of cancer and a joint research project with a university in Australia to develop new medicines for the treatment of Alzheimer's disease. The Group has 12 launched Chinese medicine injection products which are now under launched product re-evaluation. A special project team is established to explore new products investment opportunity studies.

PATENT APPLICATIONS

The Group continued to strengthen the protection of its intellectual property rights. During 2012, the Group received 6 invention patents from the Intellectual Property Office of the PRC.

As at the date of the Annual Report, the Group has obtained 28 patents for our inventions, and a total of 23 patent applications are pending for approval.

STATE PROTECTED CHINESE MEDICINES

As of 31 December 2012, the Group had 5 products listed as State Protected Chinese Medicines, including Jiangzhi Tongluo Soft Capsule, Xuanmai Ganjie Lozenge, Jianyang Tablets, Yin Zhi Huang Injection and Shujin Tongluo Granule.

PROSPECT

2012 is a critical year of refinement of medical reform in the PRC, to encourage and support the development of medicine industry will be as the trend of future policy guidance with the advance of medical reform and the introduction of related policies of the Twelfth Five-Year Plan. The 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 medical industry, seizing the market share by eliminating companies and mergers and acquisitions. In following years, medicine industry will maintain a steady growth, the concentration of the industry will keep increasing, medicine tendering and purchasing will be ruled and adjusted, the government will strengthen the control on medicine price, such that the sale model under the new medical reform will be changed, competition in the pharmaceutical market is getting more and more intensified and the competition pattern would be changed, which will create both opportunities and challenges for enterprises.

According to the Twelfth Five-Year Plan of Chinese Medicine Enterprise Development, it is believed that a group of renowned Chinese medicine enterprises will be developed via the enlarged investments and the development of a more comprehensive investment safeguard system. 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.

Accelerated implementation of the new version of GMP could help to establish a more completed system of medicine production and supply, elevate the competition threshold in the industry and eliminate backward productivities, speed up the upgrading of the industry and promote maximum allocation of resources in medicine industry to dominant enterprises. Shineway's all under-processing formulations have obtained the pioneer approval under the new version of GMP, which build the leading position of the Group in the Chinese medicine industry.

With the rapid development of the economy and continuous increasing of per capita income, accelerated construction of the national medical insurance system, further expansion of basic health insurance coverage and continuous push in the implementation of basic medicine in China, the whole pharmaceutical market has been expanded and constantly improved the average medicine consumption level. Shineway made active respond to the changes of the policy and the competitive landscape of the medical reform by making full use of industrial policy, making innovation in marketing mode, intensifying research and development of new drugs, merging and integrating advantage resources of the industry, strengthening the terminal quality construction and marketing depth, firmly pushing forward the building of grassroots market, expanding the development in the middle to high-end market, and basing on the formulation of the two core driving forces, namely, marketing and R & D, increasing scale sales and market share as well as purchasing high efficiency of management and profit through various management methods such as creative operation and lower cost with high efficiency, which will bring the maximum interest and return for Shineway and its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, bank deposits of the Group approximately amounted to RMB2,212,391,000 (2011: RMB2,172,812,000), of which RMB2,155,943,000 (2011: RMB2,076,407,000) were denominated in RMB, others being equivalent to RMB56,300,000 and RMB148,000 (2011: RMB96,230,000 and RMB175,000) 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 Friday, 31 May 2013 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 2012, the directors proposed that a final dividend of RMB12 cents (2011: RMB12 cents) per share and a special dividend of RMB9 cents (2011: RMB14 cents) per share will be paid on 20 June 2013, to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 7 June 2013. 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 26 March 2013 (RMB1=HK1.251). Accordingly, the amount payable on 20 June 2013 will be:

Proposed dividend:	Final – RMB12 cents per share; approximately HK$0.1501 per share
	Special – RMB9 cents per share; approximately HK$0.1126 per share

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 29 May 2013 to Friday, 31 May 2013, 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 Tuesday, 28 May 2013.

The register of members will also be closed from Thursday, 6 June 2013 to Friday, 7 June 2013, 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 Wednesday, 5 June 2013.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2012, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

CORPORATE GOVERNANCE CODE

The Company has, throughout the year ended 31 December 2012 and up to the date of publication of this annual report, applied and complied with the principles in the Corporate Governance Code (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 2012.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2012.

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 2012 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 29 April 2013.

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, 26 March 2013

As at the date of this announcement, the Board comprises Mr. Li Zhenjiang (Chairman), Ms. Wang Zhihua, Ms. Xin Yunxia, Mr. Li Huimin and Ms. Lee Ching Ton Brandelyn 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.