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

Annual Report 2008

LEADING MODERN
CHINESE MEDICINE

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman of the Board)*
Ms. Wang Zhihua
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Hung, Randy King Kuen

Independent Non-executive Directors

Mr. Ren Dequan
Ms. Cheng Li
Mr. Ma Kwai Yuen, Terence (appointed on 6 May 2008)
Mr. Li Kung Man (resigned on 30 May 2008)

Audit Committee

Mr. Ma Kwai Yuen, Terence *(Committee Chairman)* (appointed on 6 May 2008)
Mr. Ren Dequan
Ms. Cheng Li
Mr. Li Kung Man (resigned on 30 May 2008)

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Mr. Ma Kwai Yuen, Terence (appointed on 6 May 2008)
Ms. Xin Yunxia
Mr. Li Kung Man (resigned on 30 May 2008)

AUTHORIZED REPRESENTATIVES

Ms. Wang Zhihua
Mr. Li Huimin

COMPANY SECRETARY

Ms. Wong Mei Shan

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE

Luan Cheng, Shijiazhuang
Hebei Province, The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 5201, 52/F., Central Plaza
18 Harbour Road, Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, KY1-1107
Grand Cayman, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Bank of East Asia, Limited

The Hongkong and Shanghai Banking Corporation Limited

Bank of China, Zhong Shan Branch
Shijiazhuang, Hebei Province

Bank of China, Lang Fang Branch
Lang Fang City, Hebei Province

LEGAL ADVISERS

As to Hong Kong Law
Woo Kwan Lee & Lo

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

STOCK CODE

02877 (listed on the Main Board of The Stock Exchange of Hong Kong Limited)

WEBSITES

www.shineway.com.hk
www.shineway.com

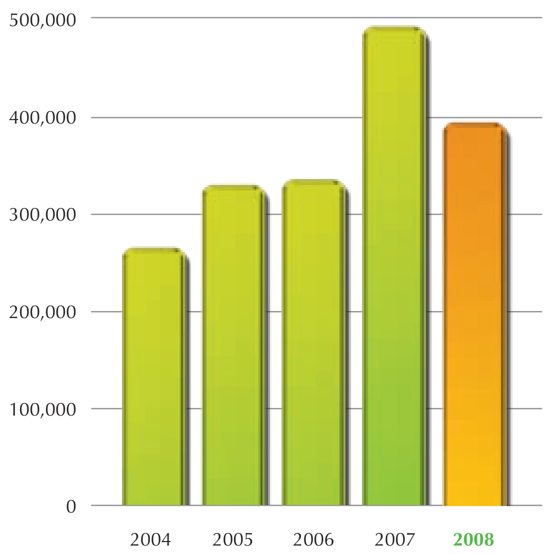
Financial Highlights

(in RMB´000)

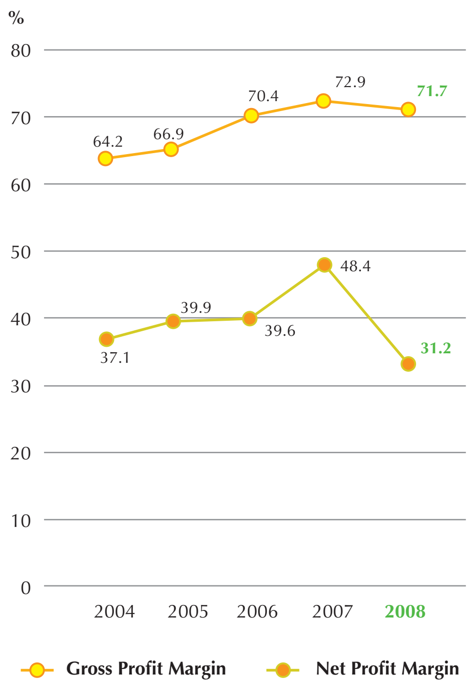
	2004	2005	2006	2007	**2008**
RESULTS					
Turnover	703,575	831,379	841,475	1,012,885	**1,275,179**
Gross profit	451,577	556,607	592,300	738,038	**914,317**
Profit before taxation	280,809	342,452	387,034	575,941	**476,214**
Profit attributable to shareholders	260,793	331,467	332,977	490,641	**398,242**
Basic earnings per share	RMB 0.42	RMB 0.40	RMB 0.40	RMB 0.59	**RMB 0.48**
Dividends	0	181,940	181,940	314,260	**206,750**
ASSETS AND LIABILITIES					
Total assets	1,570,413	1,845,248	2,007,743	2,408,737	**2,426,457**
Total liabilities	(134,144)	(215,000)	(238,490)	(339,462)	**(289,740)**
Minority interests	(23,542)	0	0	0	**0**
Shareholders' equity	1,412,727	1,630,248	1,769,253	2,069,275	**2,136,717**

Profit Attributable to Shareholders

(in RMB´000)



Gross and Net Profit Margins



Major Achievements and Awards

Major Achievements and Awards of China Shineway in 2008

January

- New Injection workshop commenced operations. Total capacity now reaches 2 billion vials per annum to cater for business growth
- Forbes named China Shineway as one of the Emerging Chinese Enterprises of 2008

February

- China Shineway was honored as China Outstanding Integrity Enterprise again
- China Shineway was selected as the first batch of innovative enterprises of Hebei Province

March

- Shineway ranked among the "500 Most Valuable Trademarks in China"
- Stage two of China Shineway's ERP project commenced

April

- China Shineway received two science and technology awards from the Hebei Province Pharmaceutical Industry Association

May

- China Shineway was selected as a "Top 100 Pharmaceutical Companies" in China again

June

- China Shineway's Modern Technology and Quality Control Centre received accreditation of ISO/IEC 17025

August

- Shineway's Jiangzhi Tongluo Soft Capsule and Shujin Tongluo Granule were included in the first batch of "Innovative New Products" of Hebei Province

Major Achievements and Awards

September

- Shineway signed a memorandum of understanding with the University of Western Sydney for Complementary Medicine and the Experimental and Research Centre of Xiyuan Hospital of the China Academy of Chinese Medicine Sciences on joint research of a new Chinese medicine

- The China Red Cross honored China Shineway with "China Red Cross Medal" for our contribution in the Sichuan earthquake

October

- Our "Chinese Medicine Hi-Tech Integration and Automatic Control System in Production Process" project won the "Ten Years Achievement Award" of the National Development and Reform Commission of China

- Shineway received a "Corporate Social Responsibility Outstanding Award" in the 2008 Social Responsibility Forum

- Shineway was honored as the "Leading Enterprise of Pharmaceutical Manufacturing Industry in Hebei Province" and as one of the "Top 50 Most Profitable Enterprises in Hebei Province" by the Federation of Industrial Economic of Hebei Province

November

- Our research on the "Application of Centella Selected Triterpenes in Preventing Membranous Nephropathy" was awarded with a certificate of invention patent by the State Intellectual Property Office

- Shenmai Injection of China Shineway was included in the list of The Ministry of Science and Technology of China's 2008-2009 National Torch Program

December

- Xingsu Zhike Soft Capsules, a new medicine researched and developed by China Shineway, received a new medicine certificate and production license.

- China Shineway was named as a "2008 Hong Kong Outstanding Enterprise"

- China Shineway received an honor as one of "The Hong Kong's 100 Most Influential Brands"

Chairman's Statement

Li Zhenjiang
Chairman of the Board

Dear shareholders,

On behalf of the Board of Directors of China Shineway Pharmaceutical Group Limited (the "Company" or "China Shineway") together with its subsidiaries (the "Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2008.

During 2008, sales of the Group increased by 25.9% from last year. All of our core products achieve continuous growth. Among them, sales of Qing Kai Ling Injection, Shen Mai Injection, Wu Fu Xin Nao Qing Soft Capsule and Shu Xie Ning Injection together surged by 22.9%. Sales of our five emerging products including Hou Xiang Zheng Qi Soft Capsule, Pediatric Qing Fei Hua Tan Granule, Huang Qi Injection, Qing Kai Ling Injection, and Liyan Jiedu Granule posted a 47.5% growth. Newly launched products such as Jiangzhi Tongluo Soft Capsule, Shujin Tongluo Granule, and Xiesaitong Dripping Pill together extended a 73.0% sales growth. Operating income increased by 34.8% as compared to last year. Nonetheless, volatility and instability of global financial markets caused the Group to incur net exchange loss on our foreign currency bank deposits. Consequently, the Group's profit for the year is lowered by 18.8% as compared to last year.

During the year, the Group continued to receive wide recognition from the PRC government and general public. The Group's "Wu Fu" trademark has been statutorily certified as a "China Famous Trademark" and our "Shen Miao" trademark is also conferred as "Hebei Province Well-Known Trademark". In addition, the Group has been named as "Forbes 2008 Emerging Chinese Enterprise", "2008 Hong Kong Outstanding Enterprise", "Chinese Enterprise of Outstanding Integrity" along with many other honors.

Chairman's Statement

China Shineway has been relentlessly investing into advanced technologies and innovations. We are now upgrading our Chinese medicine extraction workshops to increase extraction capacity to 10,000 tonne per annum and to equip the workshops with automated near-infra-red detection systems capable of real time monitoring of extraction quality. The upgrade of our extraction workshops are designated by the National Development and Reform Commission of the PRC as a model project, the first of its kind in the country. Construction of our new research and development center and headquarters building in Lang Fang are progressing. A number of production workshops and facilities are also being upgraded with new technologies and additional capacities with a goal to fulfill the increasing demand for modern Chinese medicines.

The Group has strived to strengthen our work in research and development. During the year, we initiated two new research projects and received new medicine certificates for three new products – Lian Shen Tong Lin tablet, Qi Huang Tong Mi soft capsule, Xingsu Zhike soft capsule. Lian Shen Tong Lin tablet is believed to be the first modern Chinese medicine for the treatment of non-gonococcal urethritis. Its excellent therapeutic effect has been broadly praised by medical practitioners. The Group has entered into a memorandum of understanding with an university in Australia to work on an international cooperation of research in modern Chinese medicine. This joint research project aims to develop a new medicine for the treatment of Alzheimer's disease.

Near the end of the year, several Chinese medicine injection products of other manufacturers were reported to cause adverse drug reaction during clinical application. Criticism against the use of Chinese medicine injections without merit quickly spreaded out. While authorities concluded that these adverse drug reactions were isolated incidents, negative media reports against Chinese medicine injections have inevitably affected the public. The situation is not a healthy sign for the future development of Chinese medicine injections.

Technologies used to produce Chinese medicine injections are the most advanced among all modern Chinese medicine formulations. Swift bioavailability and prompt therapeutic effect make Chinese medicine injections ideal for treatment of medical emergency. Chinese medicine injections have been advancing rapidly and become an important direction toward modernization of Chinese medicine and an opportunity to enter into the main stream international medical practice.

The Group's Chinese medicine injections are all produced with superb quality. We are the only Chinese medicine injection manufacturer being named by authorities as a "Model Enterprise of Quality Medicine Management". As the country strengthens scrutiny and raises standards on Chinese medicine injections, those with inferior production knowhow and quality would likely be banished. Consequently, large scale pharmaceutical manufacturers which produce Chinese medicine injections of superb quality and advanced technologies will excel.

Chairman's Statement

The pharmaceutical industry is undergoing rapid growth. The PRC government has ascertained its plan to allocate RMB 850 billion to reform the country's health care system with details to be announced soon. Market for medicines will expand swiftly. Riding on such favorable business environment, China Shineway pledges to continue our pursuit on the research and development of modern Chinese medicines with good efficacy, superb quality and affordable price, and to continue our missions to lead and expedite modernization of Chinese medicines and shine the pharmaceutical industry.

APPRECIATION

On behalf of the Board, I would like to thank our business partners, customers and shareholders for their support, and our employees for their diligent work in the past year. The Group's achievements are inseparable from the effort made by our employees. With solid foundation and our sternness in innovation, China Shineway is positioned to deliver good results.

Li Zhenjiang
Chairman of the Board

Hong Kong, 31 March 2009

Management Discussion and Analysis

BUSINESS REVIEW

The Group's business in modern Chinese medicine injection, soft capsule and granule products continued to grow. For the fiscal year 2008, the Group recorded a turnover of RMB 1,275,179,000, an increase of 25.9% from previously year. Sales by product format for the year are set out as follows:

	Sales	Growth rate	Product mix
Injections	RMB 723,631,000	22.3%	56.7%
Soft Capsules	RMB 335,036,000	26.9%	26.3%
Granules	RMB 194,587,000	41.6%	15.3%
Other product formats	RMB 21,925,000	11.0%	1.7%

The Group reported RMB 538,079,000 of operating profit, an increase of 34.8% from last year.

Profit for fiscal year 2008 is RMB 398,242,000, representing a decrease of 18.8% as compared to last year. The decline in profit is mainly attributable to net exchange loss of RMB 131,812,000 derived from the Group's bank deposits in Hong Kong and Australian Dollars as a result of market volatility in the respective exchange rates.

Injection Products

Market demand for Chinese medicine injection products continues to soar. During 2008, the Group sold RMB 723,631,000 of injection products, an increase of 22.3% from last year. Amongst these injection products, Qing Kai Ling injection, Shu Xie Ning injection, and Shen Mai injection recorded growth in sales of 23.8%, 48.5% and 10.6% respectively. Injection products account for approximately 56.7% of the Group's total turnover of 2008 as compared to 58.4% of last year.

The pharmaceutical market has strong demand for Chinese medicine injections. The Group's production capacity for injection products now reaches 2 billion vials per annum. The Group believes that it is presently the largest Chinese medicine injection manufacturer in the PRC in terms of sales volume and production capacity. A number of the Group's injection products are designated by regulatory agencies as "State Protected Chinese Medicine" and "Good Quality/Good Price".

Management Discussion and Analysis

During the year, several injection products of other manufacturers were reported for their adverse drug reaction. Relevant regulatory agencies in the PRC have then issued a "Notice of Control in the Manufacturing and Clinical Use Administration of Chinese Medicine Injections" aiming to strengthen production quality and safety in use of Chinese medicine injections. The Notice requires more rigorous safety and quality assurance standards on Chinese medicine injections, elevates entry barriers, and provides further guidance on clinical uses in order to reduce incidents of adverse reaction caused by negligence in drug application. The Group believes that as the country strengthens scrutiny and raises standards on Chinese medicine injections, those with inferior production knowhow and quality would likely be banished. Consequently, large scale pharmaceutical manufacturers which produce Chinese medicine injections of superb quality and advanced technologies will excel.

Soft Capsule Products

During the year, the Group recorded RMB 335,036,000 on sales of soft capsule products, an increase of 26.9% from last year. Sales of Wu Fu Xin Nao Qing soft capsule, Huo Xiang Zheng Qi soft capsule, and Qing Kai Ling soft capsule increased by 20.9%, 37.5% and 53.8% respectively as compared to last year.

Soft Capsule products account for 26.3% of the Group's turnover in 2008, as compared to 26.1% in last year. The Group's production capacity for soft capsule products is presently at 3.5 billion capsules per annum. The Group believes that it is currently the largest Chinese medicine soft capsule manufacturer in the PRC in terms of sales volume and production capacity.

In the coming year, the Group will continue to strengthen our advertising and promoting effort on soft capsule products to advance their business growth.

Granule Products

Sales of granule products in 2008 had increased by 41.6% as compared to last year, amounting to RMB 194,587,000. Granule products of the Group have been well-liked by the public. Among them, Pediatric Qing Fei Hua Tan granule and Pediatric Huatan Zhike granule recorded sales increases of 100.6% and 39.3% from last year. The growth can be attributable to the Group's strategies to unify our granule brand names and market positioning, as well as strengthening advertising and market promotion effort.

Granule products account for 15.3% of the Group's turnover in 2008 as compared to 13.6% in 2007.

Key Products

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

The Group's sales of Qing Kai Ling injection, as compared to last year, increased by 23.8% to RMB 310,671,000. The product accounts for 24.4% of the Group's turnover. The Group believes that it is the largest manufacturer of Qing Kai Ling injection in the PRC based on sales volume.

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

The Group believes that as the government is expanding the country's health care systems and coverage in rural and urban areas, market demand for Qing Kai Ling injection will increase significantly. The Group will further strengthen our marketing and promotion efforts at the points of sales and rationalize distribution channels to ensure the product's continuous growth.

Management Discussion and Analysis

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

Sales of Shen Mai injection was RMB 207,204,000 in 2008, an increase of 10.6% from last year. The product accounts for 16.2% of the Group's turnover. The Group believes that it is the largest manufacturer of Shen Mai injection in the PRC based on sales volume.

Shen Mai injection is a "State Protected Chinese Medicine" and is included 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.

The Group's Shen Mai injection is widely used in clinical applications and is very popular among medical institutions and practitioners. As the government is expanding health care systems and coverage in rural and urban areas, market demand for Shen Mai injection is expected to increase.

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

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

As compared to last year, sales of Wu Fu Xin Nao Qing soft capsule had increased by 20.9% to RMB 181,607,000, accounting for 14.2% of the Group's turnover. The Group believes that it is the largest manufacturer of Wu Fu Xin Nao Qing soft capsule in the PRC based on sales volume.

Wu Fu Xin Nao Qing soft capsule is one of the lowest in cost of average daily dosage among similar cardiovascular medicines and the product has been very popular. During the year, authorities have statutorily declared the "Wu Fu" trademark as a "China Famous Trademark". The Group will continue to strengthen our effort on promotion and support at the points of sales to broaden its sales.

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

Sales of Shu Xie Ning injection reached RMB 136,868,000 in 2008, an increase of 48.5% as compared to last year. The product now accounts for 10.8% of the Group's turnover.

Shu Xie Ning injection is designated as a "State Protected Chinese Medicine" and a "Good Qualify/Good Price" product by the PRC authorities. It 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, Shu Xie Ning injection has become a core product of the Group and is expected to achieve continuous growth in the coming years.

Emerging Products

Huo Xiang Zheng Qi soft capsule – for prevention and treatment of heat stroke, stomach ache, nausea and diarrhea

Sales of Huo Xiang Zheng Qi soft capsule in 2008 was increased by 37.5% as compared to last year, with a revenue of RMB 69,491,000. The product accounts for 5.4% of the Group's turnover for the year. Due to its effective efficacy and the high bioavailability of soft capsule, Huo Xiang Zheng Qi soft capsule is a very popular non-prescription medicine with great market potential.

Huo Xiang Zheng Qi soft capsule is listed in the national catalogues of medical insurance and occupational injury insurance. It is also recommended by the Ministry of Health of the PRC for treating human transmitted avian flu.

The Group will continue to strengthen support at the points of sales, and also increases our promotion effort to expand market coverage and strive for better growth of this product.

Management Discussion and Analysis

Huang Qi injection – medicine for cardiovascular diseases and anti-viral – for treatment of viral myocarditis, heart malfunction and hepatitis

As compared to last year, sales of Huang Qi injection increased by 14.8% to RMB 33,773,000 in 2008. The product now accounts for 2.6% of the Group's turnover.

Huang Qi injection is listed in the national catalogues of medical insurance and occupational injury insurance. It is also named as a "Hi-Tech Product" by the PRC authorities. Viral myocarditis has been uprising in recent years. With a proven efficacy on such illness, Huang Qi injection has strong market potential and growth in sales is expected in the coming years.

Qing Kai Ling soft capsule – for treatment of high fever, viral influenza and respiratory tract infection

Sales of Qing Kai Ling soft capsule recorded sales of RMB 36,915,000, an increase of 53.8% from last year. The product now accounts for 2.9% of the Group's turnover for the year.

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

Leveraging on brand synergy of Qing Kai Ling injection, the Group will continue to boost its promotional and marketing efforts to enhance sales momentum of this product.

Pediatric Granule Series

The Group has a series of granule products for children infected by respiratory related diseases. As a result of the Group's initiatives to increase advertising and joint promotional campaign with chain drug stores, sales of these pediatric granule products increased immensely during the year. Among these children granule products are Pediatric Qing Fei Hua Tan granule and Pediatric Huatan Zhike granule which posted total sales of RMB 64,788,000 and RMB 21,819,000 respectively, an increase of 100.6% and 39.3% from last year.

The Group will continue to strengthen our marketing effort on these popular pediatric granule products to deliver better sales growth.

CAPITAL EXPENDITURES

During the year, the Group has initiated a number of capital investment projects targeted to boost production capacities and competitive advantage in expectation of stronger demand from the pharmaceutical market:

1. Increase capacity and upgrade facilities of our extraction workshops. This will increase extraction capacity from 5,400 tonne to 10,000 tonne per annum. The new extraction facilities will be equipped with automated near infra-red detection systems capable of real time monitoring of extraction quality. This is the country's first such model project designated by the National Development and Reform Commission of the PRC. This project is budgeted for about RMB 54,000,000. The Group expects to complete this model project in 2009.

2. Acquire 397 acres of land property located next to our Shijiazhuang headquarters. Total costs are expected to be about RMB 44,000,000.

3. Construct a new granule and tablets workshop to increase production capacity of granules from 1.9 billion bags to 5.5 billion bags per annum, and the production capacity of tablets to 2.1 billion tablets per annum. Total costs of the new workshop are expected to be RMB 150,000,000 with construction to be completed in 2010.

4. Construct a new administration building, red suckling flowers processing workshop, water recycle plant, power station and miscellaneous facilities for a total of RMB 110,000,000 and is expected to be completed in 2010.

Construction of our new research and development and quality assurance center and headquarter building in Lang Fang are still progressing. Their main structures are expected to be completed in 2009.

Management Discussion and Analysis

RESEARCH AND DEVELOPMENT

The Group received new medicine certificates for 3 new products – Lian Shen Tong Lin tablet, Qi Huang Tong Mi soft capsule, Xingsu Zhike soft capsule. Lian Shen Tong Lin tablet is believed to be the first modern Chinese medicine for the treatment of non-gonococcal urethritis. Its excellent therapeutic effect has been broadly praised by medical practitioners.

During the year, there are 19 product research projects which are either undergoing pharmaceutical and clinical trial or have completed clinical trial. Among these projects, 8 projects are related to treatment of various cardiovascular diseases, 1 project for treatment of digestive system illnesses and 2 projects for anti-viral treatment. All of these research projects are progressed as planned.

The Group has entered into a memorandum of understanding with an university in Australia to initiate an international cooperation of research in Chinese medicine. The joint research project aims to develop a new medicine for the treatment of Alzheimer's disease.

PATENT APPLICATIONS

The Group continues to pursue for intellectual property rights. During the year, the Group received an invention patent on the "Application of Centella Selected Triterpenes in Preventing Membranous Nephropathy" from the Intellectual Property Office of the PRC.

As at the date of the Annual Report, the Group has obtained 7 patents for our inventions, and 9 invention patent applications are pending for approval.

STATE PROTECTED CHINESE MEDICINES

As at 31 December 2008, the Group had 9 medicines listed as State Protected Chinese Medicines including Shen Mai injection, Shu Xie Ning injection, Guan Xin Ning injection, Pediatric Qing Fei Hua Tan granule and Li Yan Jie Du granule.

PROSPECT

Financial Tsunami has caused slow down in global economy. In such an unfavorable business atmosphere, Chinese pharmaceutical industry is seen as one of the sectors that can sustain economic growth in the coming years.

In January 2009, the State Council of PRC has, in principal, resolved on the "Opinions on Medical Reform" and "2009-2011 Implementation Plan of Medical Reform" which serve to define the goals of revamping the health care system. The government also announced its plan to allocate RMB 850 billion as budget for implementation of medical reform, in order to provide universal medical insurance coverage to the public residing in the cities and rural areas, to improve the standards of basic health care needs and service quality and to provide relief on medical costs.

Medical reform will likely bring new opportunities to the pharmaceutical industry. The pharmaceutical market will grow as the country increases its spending on health care.

Chinese medicine injection is an important milestone of the modernization of Chinese medicine. Adverse incidents of Chinese medicine injections will trigger the country's determination to expedite reform. The Ministry of Health, the State Food and Drug Administration and the State Administration of Traditional Chinese Medicine has then published a "Notice for Strengthening Production and Clinical Application of Chinese Medicine Injections" to guide the safety use of Chinese medicine injections. The next step will likely be focused on eradicating manufacturers of poor production quality. Bars for registration of medicine production will further be raised, leading to higher product quality and consolidation of the pharmaceutical industry.

The pharmaceutical industry has entered into a turning point. Changes in regulations and market reform will displace those that lack production technologies and commitment on product quality. On the other hand, large scale pharmaceutical manufacturers with products of superb quality and advanced technologies will be given the opportunities to excel. As medical reform being implemented, consolidation of the industry will intensify. Industry resource will lean to those with niche and expertise. As a leading manufacturer of modern Chinese medicine, the Group will likely benefit from the medical reform.

GROWTH STRATEGIES

The Group will continue to implement the following growth strategies and strives to achieve better growth and return:

1. Product mix enhancement – while increasing sales contribution from core products, (namely Qing Kai Ling Injection, Shen Mai Injection, Wu Fu Xin Nao Qing Soft Capsule, and Shu Xie Ning Injection), the Group will continue to nurture a number of our emerging products (such as Qing Kai Ling Soft Capsule, Pediatric Qing Fei Hua Tan Granule, Huo Xiang Zheng Qi Soft Capsule and Huang Qi Injection) to broaden core products portfolio.

2. Increase investments in research and development – to form a pipeline of broad span innovative products.

3. Increase advertising and promotions – to strengthen brand equities of "Shineway", "Wu Fu" and "Shen Miao".

4. Rationalization of distribution channels – the Group will foster closer strategic cooperation with cross regional distributors which have strong distribution capabilities to increase market coverage and penetration, in particular the "Third Point of Sale Zones" (hospitals of factories and mining fields, community clinics and rural healthcare centers).

Management Discussion and Analysis

5. Strengthening support at the points of sales – the Group will continue to expand its prescription medicines and OTC teams to provide sales support at the points of sales of targeted hospitals and pharmaceutical stores.

6. Implementation of regional expansion strategies – while utilizing its advantageous position in northern China markets, the Group will strengthen its resources in other key strategic regions (mainly the Huanbo Bay coastal areas, the Yangtze River Delta and Pearl River Delta).

7. Continue to pursue for opportunities in acquisitions and capital investments in a prudent manner.

FINANCIAL ANALYSIS

Turnover

The Group's turnover increased by 25.9% from last year due to strong growth of our products across the board.

Sales of injection products reached RMB 723,631,000, an increase of 22.3% as compared with 2007. Sales of injection products now account for 56.7% of the Group's turnover. Sales of soft capsule products were RMB 335,036,000, representing an increase of 26.9%. Soft capsule products now account for approximately 26.3% of the Group's turnover. Sales of granule products amounted to RMB 194,587,000, an increase of 41.6% from last year. Granule products now account for 15.3% of the Group's turnover. Sales of the Group's products of other formats were RMB 21,925,000 which approximates to 1.7% of the Group's turnover.

Sales of the Group's four core products now accounts for 65.7% of the Group turnover. Among them are Qing Kai Ling injection which sales increased by 23.8% to RMB 310,671,000, Shen Mai injection with increased sales by 10.6% to RMB 207,204,000. Sales of Wu Fu Xin Nao Qing soft capsule also increased 20.9% to RMB 181,607,000. Sales of Shu Xie Ning injection increased 48.5% to RMB 136,868,000.

During the year, turnover of medicines for cardiovascular diseases, anti-viral medicines, gastroenterological medicines and medicines for treating other illness respectively accounted for 49.2% (2007: 51.4%), 31.0% (2007: 30.8%), 5.4% (2007: 5.0%) and 14.4% (2007: 12.8%) of the Group's total turnover.

Turnover of prescription and non-prescription medicines of the Group were RMB 1,016,301,000 and RMB 258,878,000, accounting for approximately 79.7% and 20.3% of the total turnover respectively in 2008.

As at 31 December 2008, the Group had 34 products that were included in the national medical insurance catalogue.

Cost of Sales

Cost of sales in 2008 was RMB 360,862,000, amounting to 28.3% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 71.4%, 6.3% and 22.3% of total cost of sales.

Gross Margin

For 2008, average gross margins of injection products, soft capsule products and granule products were 75.4%, 76.3% and 52.0%, respectively. Overall gross margin changed slightly from 72.4% of last year to 71.7% as a result of increases in energy costs and higher prices of certain raw material. Leveraging on our economies of scale, effective internal control, and advanced production technology to achieve high extraction rate and production yield rate, the Group was able to maintain a stable overall gross margin despite the cost increases.

Distribution Costs

Distribution costs were 21.7% of turnover in 2008 as compared to 25.5% in last year. The decrease of distribution costs as a percentage of turnover is primarily due to the decrease of distributor promotion expenses by 8%. Distributor promotion expenses which accounted for 10.8% of turnover in 2008 and 14.8% in 2007, mainly include promotion cost subsidies to distributors. The Group has been strengthening our effort in promotion of products. As market demand was strong during the year, the Group inadvertently trimmed down distributor promotion expenses. On the other hand, expenditures such as advertising and exhibitions related to promotion of OTC products were stepped up. During 2008, advertising expenses represent 4.6% of the Group's turnover, as compared to 5.0% of last year.

Administrative Expenses

Administrative expenses increased by 23.4% from last year. Yet, administrative expenses in proportion to the Group's turnover remain stable at 7.8%, which is about the same compared to last year. The increase of administrative expenses is mainly due to the increase in research and development expenses by 80.0% from last year to expedite development of new products. Research and development expenses account for 0.7% of the Group's turnover in 2008 as compared to 0.5% in 2007.

Administrative expenses also comprised of nonproductive depreciation expenses of fixed assets which accounts for 0.4% of the Group's total turnover in 2008 and 0.6% in 2007.

Investment Income, Gains and Losses

The Group recorded interest income of RMB 39,231,000 for the year, as compared to RMB 38,340,000 for last year. The Group also posted a net loss held-for-trading investments of RMB 6,531,000 which relates to the loss from investing in China A shares investments in the first half of 2008. The Group has disposed of all such held for-trading investments.

Management Discussion and Analysis

Net Exchange Loss

Due to the volatility of global financial markets, the Group posted a net exchange loss of RMB 131,812,000 for 2008. Specifically, exchange loss resulted from change of exchange rate between Australian Dollars and Renminbi amounts to RMB 102,586,000. Exchange loss resulted from change of exchange rate between Hong Kong Dollars and Renminbi amounts to RMB 29,226,000.

Income Tax Rate

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of certain Group's subsidiaries in the PRC was reduced from 33% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 10% to 25% (2007: 10% to 33%).

Pursuant to the relevant law and regulations in the PRC, Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") are entitled to a 50% relief from the Enterprise Income Tax for the current and prior year. The first profit-making period of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004 and the full exemption from the Enterprise Income Tax ended on 31 December 2005.

Pursuant to the 藏財稅字(94) 117號, Xizang Shineway Pharmaceutical Co., Ltd. ("Xizang Shineway") was exempted from the Enterprise Income Tax for the period from 21 May 2007 to 20 May 2008. Pursuant to 西藏拉薩經濟技術開發區優惠政策, the Enterprise Income Tax rate applicable to Xizang Shineway is 10%, 12% and 15% on its assessable profit for the year ended 31 December 2008 and the years ending 31 December 2009 and 2010 respectively.

Dividends

Details of dividends and dividend policy are set out in the director's report on page 26 of this annual report.

Capital Structure

As at 31 December 2008, there was no change in the capital structure and issued share capital of the Group.

Liquidity and Financial Resources

As at 31 December 2008, bank deposits of the Group approximately amounted to RMB 1,585,644,000 (2007: RMB 1,678,442,000), of which RMB 754,557,000 (2007: RMB 1,110,132,000) were denominated in RMB, others being equivalent to RMB 449,980,000, RMB 379,414,000 and RMB 1,693,000 (2007: RMB 23,921,000, RMB 264,076,000 and RMB 280,313,000) were denominated in Australian Dollars, Hong Kong Dollars and United States Dollars respectively. Except for trade and other payables, the Group did not have any other liabilities.

For the year ended 31 December 2008, the Group recorded a net exchange loss of RMB 131,812,000 (2007: RMB 56,974,000) derived from the Group's bank deposits in Hong Kong Dollars and Australian Dollars as a result of market volatility in the respective exchange rates.

During the year, the Group did not enter into any derivative instrument investments.

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

Trade and Bills Receivables

As at 31 December 2008, trade and bills receivables increased by 20.8% and 21.7% respectively as compared to the balance as at 31 December 2007. This is due to the increasing preference of customers to settle orders of goods with bank bills to save financing costs in light of the tightening of lending. Turnover days of trade and bills receivables were 2.8 days and 77.6 days (2007: 2.2 days and 70.5 days respectively).

Inventories

As at 31 December 2008, inventories increased by 2.5%, as compared to the balance as at 31 December 2007. As at 31 December 2008, raw materials, work in progress and finished goods account for 65.1%, 14.9% and 20.0% of inventories respectively as compared to 40.6%, 27.4% and 32.0% as at 31 December 2007.

Turnover of finished goods inventories in 2008 is 20.4 days as compared to 25.3 days in 2007.

Property, Plant and Equipment

As at 31 December 2008, property, plant and equipment increased by 18.2% as compared to last year. The Group incurred capital expenditure in total of RMB 85,040,000 during the year. The amount consists of RMB 28,550,000 for increasing capacity and upgrading facilities for our extraction and other production related workshops, RMB 24,270,000 for purchasing production equipment and automobile and RMB 32,220,000 for construction of R&D center and administrative building as well as revamping of various workshops.

During the year, depreciation for property, plant and equipment totaled RMB 36,040,000 as compared to RMB 32,080,000 for last year.

Goodwill

Goodwill is related to the Group's acquisition of the remaining 20% ownership equity interests of Shineway Pharmaceutical Sales Co., Limited ("Shineway Sales") in 2005.

Management Discussion and Analysis

Trade Payables

Trade payable decreased during the year as the Group took advantage of the early payment discount to enhance cost control.

Loans and Bank Borrowings

The Group did not have any loans or bank borrowings as at 31 December 2008 (2007: Nil). Hence, the Group's gearing ratio based on interest bearing debt for the year is Nil (2007: Nil).

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2008 (2007: Nil).

Exposure to Fluctuations in Exchange Rates

Substantially all of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and majority of its bank deposits are in Renminbi, Hong Kong Dollars and Australian Dollars. As at 31 December 2008, the Group did not have any bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. According, the Group does not have material exposure to fluctuations in exchange rates other than the bank deposits denominated in Hong Kong Dollars and Australian Dollars as stated in note 6 to the Financial Statements.

Substantial Investment and Acquisition

During 2008, the Group did not have any substantial investment and acquisition.

Connected Transactions

Save as those disclosed in the Director Report on page 33 and page 34, the Group did not incur other connected transactions during the year.

Employees

As at 31 December 2008, the Group has 2,345 (2007: 2,307) employees. Remuneration was determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provided other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong were also enrolled in the mandatory provident fund scheme.

Directors and Senior Management

DIRECTORS

Executive Directors

LI Zhenjiang (李振江), aged 53, an independent non-executive Director, is an executive Director and one of the founders of the Group. Mr. Li obtained an EMBA degree from the Yangtze Commercial Institute. Mr. Li joined the predecessor of the Group in 1974 and has been the Chairman and President of the Group and its predecessor since 1984 with responsibility for business development and strategy. He has more than 20 years' experience in the operation and management of modern Chinese medicine enterprises. Mr. Li takes charge of the overall management of the Group and is also specifically responsible for the Group's research and development activities. Mr. Li is a Representative to the 10th and 11th National People's Congress. He was named as an Outstanding Entrepreneur in the PRC Pharmaceutical Industry in 1994, and as an Academician of Asian Knowledge Management Association in 2005 and has received a National Wu Yi Labour Award and special subsidies of the State Council. Mr. Li is the vice-chairman of the PRC Chinese Medicine Association. Mr. Li is also directors of several members of the Group.

WANG Zhihua (王志華) (alias 王志花), aged 53, is an executive Director and one of the founders of the Group. Ms. Wang graduated from Hebei Province Finance School in 1978 where she majored in industrial accountancy. Ms. Wang is primarily responsible for the Group's financial strategy and management. Ms. Wang joined the predecessor of the Group in 1982, where she focused on financial matters. She was the Deputy General Manager (finance and management) of Shineway Medical immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004. Ms. Wang has more than 20 years' experience in the industry with the Group.

XIN Yunxia (信蘊霞), aged 45, is an executive Director and one of the founders of the Group. Ms. Xin graduated from the Yangtze Commercial Institute with an EMBA degree. Ms. Xin is primarily responsible for the Group's human resources management and operation. Ms. Xin joined the predecessor of the Group in 1981, focused on administration. She was the Deputy General Manager (human resources management) of Shineway Medical immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004. Ms. Xin has more than 20 years experience in business management in the industry with the Group.

LI Huimin (李惠民), aged 41, an executive Director, graduated from Hebei Party School in 1997 where he majored in economic administration. He is primarily responsible for the marketing and sales of the Group's products and, since joining the Group in 1992, focused on sales and marketing. Immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004, Mr. Li was the sales and marketing manager of Shineway Medical. He has developed a deep understanding of sales management in the PRC Chinese medicine industry with more than 12 years' experience.

Directors and Senior Management

HUNG Randy King Kuen (孔敬權), aged 43, is an executive Director. He is a fellow certified public accountant and holds an MBA degree from the University of London, a bachelor's degree of science in accounting and a certificate of programming and data processing from the University of Southern California, a certificate of China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Hung joined the Group in June 2005 and is primarily responsible for corporate development and investor relation of the Group. Mr. Hung is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants, a member of the Hong Kong Securities Institutes and council member of the Hong Kong Institute of Directors. Mr. Hung is currently an independent non-executive director of two Hong Kong listed companies.

Independent Non-Executive Directors

REN Dequan (任德權), aged 65, an independent non-executive Director, graduated from East China Chemical Industry Institute (now known as East China Engineering University). He has previously served as the deputy general manager of China Medicinal Herbs Corporation, director of science and technology education of National Medicine Administrative Bureau, general manager of China Pharmaceuticals Corporation, assistant commissioner of National Chinese Medicine Administrative Bureau and assistant commissioner of National Drugs Surveillance Administrative Bureau. From March 2003 to March 2005, he was appointed as assistant commissioner of National Food and Drugs Surveillance Administrative Bureau. In 2005, he has retired and was appointed as the honorary president of the Modern Chinese Medicine International Association. Mr. Ren is currently a non-executive director of Shenzhen Neptunus Interlong Bio-technique Company Limited (Stock Code: 08329). Mr. Ren was appointed as an independent non-executive Director of the Company on 3 July 2006.

CHENG Li (程麗), aged 49, an independent non-executive Director, is a partner of Commerce & Finance Law Office. She has a legal science bachelor's degree and the legal science master's degree from the law department of Japan Special Training University. She also studied in Sino-Japanese Investment Trade Promotion Association. She joined Commerce & Finance Law Office in 1995 and became a partner of Commerce & Finance Law Office in 2005. She is currently a member of Beijing Lawyer Association. Ms. Cheng was appointed as an independent non-executive Director of the Company on 3 July 2006.

MA Kwai Yuen Terence (馬桂園), aged 56, an independent non-executive Director, is currently an executive director of a consulting company in Hong Kong. He has previously held positions as the corporate planning manager of Sino Land Company Limited and a consultant of Jardine Management Consulting Services Pty., Ltd. Currently, Mr. Ma is an independent non-executive director of China Aoyuan Property Group Limited (Stock Code: 03883), Vision Tech International Holdings Limited (Stock Code: 00922), Wang Sing International Holdings Group Limited (Stock Code: 02389) and PacMOS Technologies Holdings Limited (Stock Code: 01010), which are Hong Kong listed companies. He is a member of the Institute of Chartered Accountants in England & Wales, a fellow member of the Chartered Institute of Cost and Management Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Certified Practicing Accountants, Australia. Mr. Ma Kwai Yuen Terence has over 30 year of professional experience in accounting, financial management and business consultancy. Mr. Ma was appointed as an independent non-executive Director of the Company on 6 May 2008.

LI Kung Man (李公民), aged 52, is a fellow of the Chartered Association of Certified Accountants in the United Kingdom and an associate of the Hong Kong Institute of Certified Public Accountants. He graduated from Hong Kong Polytechnic University in 1980 with a Higher Diploma in Accountancy. Mr. Li Kung Man has accumulated over 20 years' experience in accounting and finance and has previously worked for CLP Holdings Ltd (Stock Code: 00002) and PricewaterhouseCoopers. He is currently a director of Freeway International Holdings Limited and Dewelty Mobile Limited. He is an independent non-executive director of AKM Industrial Company Limited (Stock Code: 08298), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Li Kung Man resigned as an independent non-executive Director on 30 May 2008.

SENIOR MANAGEMENT

CHEN Zhong (陳鍾), aged 42, graduated from Hebei Medical University in 1990 with a bachelor's degree in pharmacy. He joined the Group in 1990. From 1990 to 1992, Mr. Chen was responsible for development of new products. After spending two years managing the tablet workshop from 1993 to 1994, he managed the production technology division until 1997 and was then appointed the Chief Engineer for production from 1997 to 1999. Since 1999, Mr. Chen has been a Deputy General Manager responsible for production. Mr. Chen is responsible for the Group's production management and technology development.

WANG Qinli (王欽禮), aged 46, graduated from Henan Chinese Medical Institute with a bachelor's degree in Chinese medicine in 1986. Prior to joining the Group, Mr. Wang spent 10 years, from 1986 to 1996, working in technology and new medicine research at a pharmaceutical manufacturer in Henan Province, the PRC, where he reached the post of Head of New Medicine Research and Head of Technology Department. Mr. Wang joined the Group in 1996 as manager of the research and development department, and then was promoted to Deputy General Manager in 2003, responsible for overseeing the Group's quality control and research and development activities.

TSE Tak Kwong (謝德光), aged 52, is the Financial Controller of the Group. Mr. Tse obtained a Certificate in Accounting from the City College of Commerce in 1976. He joined the Group in 2003, prior to which he worked for an international accounting firm from 1979 to 2000. Between 2001 and 2003, Mr. Tse worked as a consultant providing accounting services. He has more than 20 years' experience in finance and accountancy.

COMPANY SECRETARY

WONG Mei Shan (汪美珊), aged 34, is the Company Secretary of the Group. Ms. Wong is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants. She has a bachelor degree in Accounting from the University of Science and Technology and a bachelor of Laws from the University of London. Ms. Wong joined the Group in 2006 and has extensive working experience in accounting. She has worked in a subsidiary of a listed company in Hong Kong as an accountant for 3 years. Prior to that, she had worked in two international accounting firms for 5 years and was an Assistant Manager when she left in 2002.

Directors' Report

The Board of Directors (the "Board") is pleased to present to the shareholders their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are research, development, manufacture and trading of modern Chinese medicines.

RESULTS

The results of the Group for the year ended 31 December 2008, prepared in accordance with the international accounting standards, are set out in the consolidated income statements on page 46 of this annual report.

DIVIDENDS

On 20 March 2006, the Board approved a dividend policy to distribute interim and final dividends to all the shareholders of the Company of not less than 40% of the distributable profit of the year.

An interim dividend of RMB 12 cents per share and special dividend of RMB 1 cent per share, amounting to RMB 107,510,000, was paid to the shareholders on 24 September 2008.

The Board now recommends a final dividend of RMB 12 cents per share for the year ended 31 December 2008, to be paid on 18 May 2009, to the shareholders whose names appear on the register of members of the Company on 15 May 2009. The proposed final dividend will be voted by shareholders at the annual shareholders' meeting to be held on 15 May 2009.

Paid interim dividend, paid special interim dividend and recommended final dividend during 2008 in aggregate, amounting to RMB 25 cents, are equal to approximately 52.1% of net profit attributable to shareholders of 2008.

FINANCIAL HIGHLIGHTS

A summary of the results and assets and liabilities for the last five years, as extracted from the relevant audited financial statements, is set out on page 3 of this annual report. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL AND RESERVES

Details of the movement in share capital and reserves of the Company during the year are set out in the consolidated statement of changes in equity and also in note 24 and note 26 to the consolidated financial statements. At the balance sheet date, the Company's reserves available for distribution to shareholders amounted to RMB 1,234,041,000 (2007: RMB 1,246,151,000). The Company has not issued any shares during the year.

DEBENTURES

The Company has not issued any debentures during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Li Zhenjiang
Ms. Wang Zhihua
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Hung Randy King Kuen

Independent Non-Executive Directors:

Mr. Ren Dequan	
Ms. Cheng Li	
Mr. Ma Kwai Yuen, Terence	(appointed on 6 May 2008)
Mr. Li Kung Man	(resigned on 30 May 2008)

The biographical details of the directors are set out on page 23 to page 25 of this annual report.

Each of Mr. Li Zhenjiang, Ms. Wang Zhihua, Ms. Xin Yunxia and Mr. Li Huimin has entered into a service contract with the Company for a term of two years commencing from 1 October 2008, and Mr. Hung Randy King Kuen has entered into a service contract with the Company for a term commencing from 1 June 2008 to 31 May 2011. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive directors has been appointed for a term of two years. The appointment of each of the independent non-executive directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

Other than disclosed above, none of the directors has entered into or has proposed to enter into any service contract with the Company or any of its subsidiaries which is not expiring or determinable by the employing company within one year without payment of compensation other than statutory compensation.

The Company had received confirmation from each of the independent non-executive directors of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considered all independent non-executive directors to be independent.

Pursuant to Article 87(1) of the Company's Articles of Association, Ms. Xin Yunxia and Ms. Cheng Li will retire from the Board at the forthcoming annual general meeting. Pursuant to Article 86(3) of the Company's Articles of Association, Mr. Ma Kwai Yuen, Terence, will hold office until the forthcoming annual general meeting. The above-mentioned Directors, being eligible for re-election, will offer themselves for re-election at the forthcoming annual general meeting.

Details of directors' emoluments on a named basis are set out in note 11 to the consolidated financial statements on page 67 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 30 to the consolidated financial statements, no contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2008, the interests and short positions of the Directors and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register referred therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows: Mr. Li Zhenjiang, a Director, is deemed to be interested in 476,374,416 shares of the Company ("Shares") representing approximately 57.60% of the issued share capital of the Company. These 476,374,416 Shares are held by Forway Investment Limited ("Forway"). Forway is owned as to 100% by Trustcorp Limited, a trust company, in its capacity as the trustee of The Li Family 2004 Trust. The Li Family 2004 Trust is a discretionary trust, the founder (as defined in the SFO) of which is Mr. Li Zhenjiang and the discretionary objects of which are family members of Mr. Li Zhenjiang. Accordingly, Mr. Li Zhenjiang is deemed to be interested in such 476,374,416 Shares under the SFO.

Save as disclosed above, as at 31 December 2008, none of the directors of the Company or their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies, fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

(a) Interest in the Company

On 17 July 2008, Sinovest International Investment Limited ("Sinovest"), holding 600,000,000 Shares (representing approximately 72.55% of the entire issued share capital of the Company), has effected a distribution in specie to its shareholders of its entire shareholding in the Company by the transfer of 600,000,000 Shares to Forway, Matkon Limited ("Matkon") and Happy Fly Ltd., based on their respective shareholdings in Sinovest as at 17 July 2008. Under such distribution in specie, each of Forway, Matkon and Happy Fly Ltd. is entitled to receive 476,374,416 Shares, 111,621,644 Shares and 12,003,940 Shares respectively, representing approximately 57.60%, 13.50% and 1.45% respectively of the entire issued share capital of the Company.

Following the distribution in specie, Sinovest ceased to be a shareholder of the Company.

As at 31 December 2008, interest of every person (not being a director or chief executive of the Company) in the shares and underlying shares in the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
Forway	Beneficial owner	476,374,416	57.60%
Matkon	Beneficial owner	111,621,644	13.50%
Trustcorp Limited (Notes 1 and 2)	Trustee of discretionary trust	587,996,060	71.10%
David Henry Christopher HILL (Notes 1 and 3)	Interest of controlled corporation	587,996,060	71.10%
David William ROBERTS (Notes 1 and 4)	Interest of controlled corporation	587,996,060	71.10%
Rebecca Ann HILL (Notes 1, 3 and 5)	Interest of spouse	587,996,060	71.10%
Chartered Asset Management Pte Ltd	Beneficial owner	41,414,000	5.01%

Notes:

(1) All interests of Trustcorp Limited, David Henry Christopher HILL, David William ROBERTS and Rebecca Ann HILL in the Shares were duplicated.

(2) The entire issued share capital of Forway is owned by Trustcorp Limited in its capacity as the trustee of The Li Family 2004 Trust, a discretionary trust, the founder (as defined in the SFO) of which is Li Zhenjiang and the discretionary objects of which are family members of Li Zhenjiang. The entire issued share capital of Matkon is owned by Trustcorp Limited in its capacity as the trustee of The Shineway Employee 2003 Trust, a discretionary trust, the discretionary objects of which are 330 employees of the Group. Accordingly, Trustcrop Limited is deemed to be interested in the 587,996,060 Shares under the SFO.

(3) The following is a breakdown of the interests in the Shares held by David Henry Christopher HILL:

			Total interest in Shares	
Name of controlled corporation	**Name of controlling shareholder**	**Percentage of control**	**Direct interest**	**Indirect interest**
Newcorp Holdings Ltd.	David Henry Christopher HILL	35	–	587,996,060
Newcorp Ltd.	Newcorp Holdings Ltd.	100	–	587,996,060
Trustcorp Limited	Newcorp Ltd.	100	–	587,996,060
Forway Investment Limited	Trustcorp Limited	100	476,374,416	–
Matkon Limited	Trustcorp Limited	100	111,621,644	–

(4) The following is a breakdown of the interests in the Shares held by David William ROBERTS:

			Total interest in Shares	
Name of controlled corporation	**Name of controlling shareholder**	**Percentage of control**	**Direct interest**	**Indirect interest**
Newcorp Holdings Ltd.	David William ROBERTS	35	–	587,996,060
Newcorp Ltd.	Newcorp Holdings Ltd.	100	–	587,996,060
Trustcorp Limited	Newcorp Ltd.	100	–	587,996,060
Forway Investment Limited	Trustcorp Limited	100	476,374,416	–
Matkon Limited	Trustcorp Limited	100	111,621,644	–

(5) This interest is in fact the same block of 587,996,060 Shares as disclosed by David Henry Christopher HILL.

(b) Interest in other members of the Group

As at 31 December 2008, so far as the directors or the chief executives of the Company are aware, no person will be directly or indirectly interested in 5% or more of the nominal value of any class of shares carrying rights to vote in general meetings of any other member of the Group.

As at 31 December 2008, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The existing share option scheme (the "Scheme"), which was adopted by the Company pursuant to a written resolution of the sole shareholder of the Company passed on 10 November 2004 is for the primary purpose of providing a flexible means of giving incentives to, rewarding, remunerating, compensating and/or providing benefits to the following participants, and for such other purposes as the Board may approve from time to time:

(i) any executive or non-executive director including any independent non-executive director or any employee (whether full-time or part-time) of any member of the Group;

(ii) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or any employee, executive or non-executive director of any member of the Group;

(iii) any consultant, professional and other advisers to any member of the Group;

(iv) any chief executive or substantial shareholder of any member of the Group;

(v) any associate of any director, chief executive or substantial shareholder of any member of the Group; and

(vi) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up Options.

The total number of shares in respect of which options may be granted under the Scheme is 82,700,000 shares, which is equivalent to 10% of the total number of shares of the Company in issue on the date of commencement of dealings in the shares of the Company on the Stock Exchange.

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme and any other share option scheme (if any) adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue unless otherwise approved by the Company's shareholders. Where any grant of options to a substantial shareholder, an independent non-executive director, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent nonexecutive director of the Company) would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the shares of the Company in issue; and

(ii) having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant in excess of HK$5 million,

such grant of option shall be subject to prior approval of the shareholders of the Company who are not connected persons of the Company as defined in the Listing Rules.

An option must be exercised within 10 years from the date of grant or such shorter period as the Board may notify to the grantee.

Option granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per option. Options may be exercise at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Scheme has a life of 10 years and will expire on 9 November 2014 unless otherwise terminated in accordance with the terms of the Scheme.

However, no option was granted, exercised, cancelled or lapsed during the year and as at the date of this report since adoption.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2008, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and five largest customers of the Group were 4.2% and 15.7% respectively of the Group's turnover for the year.

The aggregate purchases attributable to the largest supplier and five largest suppliers of the Group were 4.1% and 16.4% respectively of the Group's purchases for the year.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors owns more than 5% of the Company share capital) has any interests in the five largest customers or suppliers of the Group.

CONNECTED TRANSACTIONS

During the year, the Group had the following continuing connected transactions that were subject to the Listing Rules' reporting requirements for disclosure in this Annual Report:

Sales to Hebei Shineway Chain Drugstores Co., Ltd ("Shineway Drugstores")

On 29 December 2006, Shineway Sales, subsidiary of the Company, and Shineway Drugstores, a connected person of the Company by virtue of being ultimately controlled by Mr. Li Zhenjiang, an executive director of the Company entered into a new supply agreement (the "New Supply Agreement"). According to the New Supply Agreement, the total amount of the annual sales by Shineway Sales to Shineway Drugstores will not exceed RMB 1,000,000 for each of 3 years ending until 31 December 2009. For the year ended 31 December 2008, sales by Shineway Sales to Shineway Drugstores amounted to approximately RMB 153,000 (2007: Nil).

Tenancy Agreement Between Shineway Sales and Shineway Medical Science & Technology Co., Ltd ("Shineway Medical")

A tenancy agreement (the "Tenancy Agreement") was entered between Shineway Sales and Shineway Medical, a connected person of the Company by virtue of being ultimately controlled by Mr. Li Zhenjiang, an executive director of the Company. Pursuant to the Tenancy Agreement, Shineway Medical has conditionally leased to Shineway Sales a portion of office space with an area of approximately 514 square meters in the office owned by Shineway Medical for a period of 3 years from 26 September 2005. For the year ended 31 December 2008, rental expenditure paid by Shineway Sales to Shineway Medical amounted to approximately RMB 619,000 (2007: RMB 469,000).

General Services Agreement Between Shineway Pharmaceutical Co,, Limited ("Shineway Pharmaceutical") and Shineway Medical

On 29 December 2006, China Shineway, subsidiary of the Company, and Shineway Medical entered into a general services agreement ("General Services Agreement I"). Pursuant to the General Services Agreement I, Shineway Medical has agreed to provide Shineway Pharmaceutical with property management services, staff benefits facilities and production support services for a term commencing from 1 January 2007 until 31 December 2009. The transaction amount and cap amount of such transaction for the year ended 31 December 2008 are RMB 7,094,000 and RMB 7,200,000 respectively (2007: RMB 6,955,000 and RMB 7,100,000 respectively).

General Services Agreement between Hebei Shineway and Shineway Medical Science & Technology (Lang Fang) Co., Ltd ("Shineway Lang Fang")

On 29 December 2006, Hebei Shineway, a subsidiary of the Company, and Shineway Lang Fang entered into a general services agreement ("General Services Agreement II"). Mr. Li Zhenjiang, an executive director of the company, is the controlling shareholder of Shineway Medical, which holds 70% of equity interest in Shineway Lang Fang. Accordingly, Shineway Lang Fang is a connected person of the Company within the meaning of the Listing Rules. Pursuant to the General Services Agreement II, Shineway Lang Fang has agreed to provide Hebei Shineway with property management services, staff benefits facilities and production support services for a term commencing from 1 January 2007 until 31 December 2009. Both the transaction amount and cap amount of such transaction for the year ended 31 December 2008 are RMB 1,400,000 (2007: RMB 1,174,000 and RMB 1,300,000 respectively).

The aggregate annual considerations of the New Supply Agreement and Tenancy Agreement are below HK$1,000,000 and hence fall within the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules. Moreover, both General Service Agreements involved transaction amounts on annual basis of less than 0.1% for each of the percentage ratios (other than the profits ratio) under Rule 14.07 of the Listing Rules, and hence fall within the de minimis exemption under Rule 14A.33(3) of the Listing Rules. Therefore, all of the above continuing connected transactions are exempt from the reporting, announcement and independent shareholders' approval requirements.

The Directors confirm that for the above Connected Transactions, the Company complied with the disclosure, reporting and shareholders approval requirements in Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have reviewed the continuing connected transactions disclosed above and have considered the procedures performed by the auditor of the Company in reviewing them and confirmed that:

(a) the transactions have been entered into by the relevant member of the Group in the ordinary and usual course of business of the Group;

(b) the transactions have been entered into on an arm's length basis and on normal commercial terms (to the extent that there are comparable transactions) or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, or terms not less favourable to the Group than terms available to or from (as the case may be) independent third parties; and

(c) the transactions have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualification and competence.

The emolument of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The directors' fees, basic salaries, housing allowances, other allowances and benefits in kind are disclosed in note 11 to the consolidated financial statements.

The contributions to pension schemes for directors and past directors for the financial year are disclosed in note 11 to the consolidated financial statements.

Pursuant to the directors' service contracts with the Company, all executive directors, except one, may be entitled to a discretionary bonus to be determined by the Board (or its duly appointed remuneration committee) at its absolute discretion having regard to the performance of the Group, provided that the aggregate amount of the bonus payable to those directors in respect of any financial year shall not exceed 5% of the audited consolidated net profit after taxation but before extraordinary items of the Company for the relevant financial year.

There were no compensation paid during the financial year or receivable by directors or past directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

PENSION SCHEMES

The pension schemes of the Company and its subsidiaries are primarily in form of contributions to the Hong Kong mandatory provident fund and China statutory public welfare fund.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year of 2008.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to RMB 1,184,000 (2007: Nil).

AUDITOR

During the year, Messrs. Deloitte Touche Tohmatsu was appointed as auditor of the Company. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

LI ZHENJIANG
CHAIRMAN OF THE BOARD

Hong Kong, 31 March 2009

Corporate Governance Report

Dear Shareholders,

China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collective referred to as the "Group") are firmly committed to statutory and regulatory corporate governance standards and adhere to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness.

The Board of Directors (the "Board" or the "Directors") believes that good corporate governance practices are essential elements in guiding the growth and management of the business of the Group. Therefore the Board reviews its corporate governance practices from time to time to ensure that they protect the shareholders' interest, comply with legal and professional standards and reflect the latest local and international circumstances and development. The Board will continue to commit itself to achieving a high quality of corporate governance.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended 31 December 2008 and up to the date of publication of this annual report, 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 as stated in paragraphs headed "Chairman and Chief Executive Officer" and "Effective Communication" below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the full set of Model Code set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by directors (the "Model Code"). The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are privy to price sensitive information of the Group. The interests in the Company's securities held by the Directors as at 31 December 2008 as set out on page 28 and the extent of applications of the Model Code are disclosed in this Corporate Governance Report. Based on specific inquiries made by the company secretary of the Company, all directors confirmed that they had complied with the Model Code regarding directors' securities transactions during the year and up to the date of publication of the Annual Report.

THE BOARD OF DIRECTORS

The Board of Directors represents shareholders in overseeing the Group's business. The Directors recognise their responsibilities to enhance shareholders' value and to conduct themselves in accordance with their duty of care and loyalty.

Corporate Governance Report

Throughout the financial year ended 31 December 2008, the Board had at least eight directors consisting of five Executive Directors and three Independent Non-executive Directors (except during May 2008, there were four Independent Non-executive Directors for the period of time). Pursuant to the requirements of the Listing Rules, the Company has received written confirmation from each Independent Non-Executive Director of his/her independence. The Group considered them to be independent. The names of the directors and their respective biographies are set out on pages 23 to 25 of this annual report. The information is also published on the Company's websites.

The Board oversees the Group's strategic development, and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. All Board members have access to appropriate business documents and information about the Group on a timely basis. All directors and board committees have access to external legal counsel and other professionals for independent advice at the Group's expense if they require it.

Two board committees, namely, the audit committee and the remuneration committee, have been established to oversee particular aspects of the Group's affairs. The Board has delegated the day-to-day management and operations of the Group's businesses to the management of the Company and its subsidiaries respectively. Major corporate matters that are specifically delegated by the Board to the management include the preparation of financial statements for board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements, rules and regulations.

The Board had met four times this year to review the financial performance of the Group, major issues (whether or not required by the Listing Rules) and also on other occasions when board decisions were required. The views of Independent Non-Executive Directors were actively solicited by the Group if they were unable to attend meetings of the Board.

The major issues which were brought before the Board for their decisions during the year include:

1. formulation of operational strategies and review of its financial performance and results and the internal control system;

2. policies relating to key business and financial objectives of the Group;

3. proposals related to potential acquisitions, investments, or any significant capital expenditures; and

4. the declaration of any interim dividend and recommendation to shareholders on final dividend.

Corporate Governance Report

The names of the directors and individual attendance of each director at each board meeting is as follows:

		Attendance
Executive Directors		
Mr. Li Zhenjiang *(Chairman of the Board)*		4/4
Ms. Wang Zhihua		4/4
Ms. Xin Yunxia		4/4
Mr. Li Huimin		4/4
Mr. Hung Randy King Kuen		4/4
Independent Non-executive Directors		
Mr. Ren Dequan		4/4
Ms. Cheng Li		4/4
Mr. Ma Kwai Yuen, Terence	(appointed on 6 May 2008)	3/4
Mr. Li Kung Man	(resigned on 30 May 2008)	1/4

The Directors acknowledged that they are responsible for the preparation of the accounts which give a true and fair view of the affairs of the Group. The auditor is responsible to form an independent opinion, based on their audits, on the Group's financial statements and express their opinions.

The Board has the overall responsibility to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investments and the Company's assets. The internal audit department has been conducting regular review of the system's effectiveness and reports to the Directors and the audit committee on its material findings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code provision A.2.1 stipulates that the roles of chairman of the board (the "Chairman") and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive officer should be clearly established and set out in writing. The Company does not use the title "Chief Executive Officer". The duty of Chief Executive Officer has been assumed by the President of the Company.

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

EFFECTIVE COMMUNICATION

The Code provision E.1.2 stipulates that the Chairman should attend the annual general meeting ("AGM") of the Company. The Chairman did not attend the 2008 AGM due to other business engagement. Another executive director had chaired the 2008 AGM and answered questions from shareholders. The chairmans of the Audit Committee and Remuneration Committee was also available to answer questions at the 2008 AGM.

NON-EXECUTIVE DIRECTORS

Each of the non-executive directors has entered into a service contract with the Company for a term of two years or till retirement by rotation in accordance with the Company's Articles of Association, if earlier.

REMUNERATION OF DIRECTORS

The Company established a remuneration committee on 10 November 2004 with written terms of reference as disclosed on the Company's websites. The primary duties of the remuneration committee include the following:

I. To make recommendation to the Board on (a) the Company's policy and structure for all remuneration of directors and senior management, and (b) the Company's establishment of a formal and transparent procedure for developing policy on such remuneration;

2. To determine the specific remuneration packages of all Executive Directors, and senior management, including benefits in kind, pension right, compensation payment (including any compensation for loss or termination of office or appointment);

3. To make recommendation to the Board on the remuneration of Non-executive Directors;

4. To have due consideration of all relevant factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

5. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

6. To review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. To review and approve the compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

8. To ensure that no director or any of his associates is involved in deciding his own remuneration.

Corporate Governance Report

During the year under review, the members of remuneration committee comprised independent non-executive Directors Ms. Cheng Li, Mr. Li Kung Man (who resigned on 30 May 2008) and Mr. Ma Kwai Yuen, Terence, (who was appointed on 6 May 2008), and an executive Director Ms. Xin Yunxia. Ms. Cheng Li is the chairman of the remuneration committee. The remuneration committee met on two occasions during the year to consider and approve the service contracts of executive Directors and Independent Non-Executive Directors, review the long term incentive scheme of the Group, and assess the performance of executive directors.

Individual attendance of each remuneration committee member is as follows:

		Attendance
Ms. Cheng Li *(Chairman)*		2/2
Mr. Ma Kwai Yuen, Terence	(appointed on 6 May 2008)	1/2
Ms. Xin Yunxia		2/2
Mr. Li Kung Man	(resigned on 30 May 2008)	1/2

The emolument policy of the employees of the Group was set up by the Remuneration Committee on the basis of their merit, qualification and competence.

The emolument of the directors of the Company are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Further details on the emolument policy and basis of determining the emolument payable to the Directors are disclosed on page 34 of this annual report.

The Group's share option scheme as described on page 31 of this annual report is adopted as the Group's long term incentive scheme.

NOMINATION OF DIRECTORS

The Directors are aware of their collective and individual responsibilities to its shareholders for the well-being and success of the Company. During the year under review, the Executive Directors are charged with the responsibility to consider and to assess candidates for directorships on the Board based on their characters, qualifications and experience appropriate for the businesses of the Group. The recommendations of the Executive Directors are then put forward for consideration and adoption by the board as a whole, including Independent Non-Executive Directors.

During the year, the Executive Directors, along with Independent Non-Executive Directors had considered and accepted the resignation of an Independent Non-Executive Director and nomination of an Independent Non-Executive Director who joined the Group in May 2008.

All Directors are appointed for a fixed term. The Articles of Association of the Company required that one-third of the Directors (including Executive and Non-Executive Directors) shall retire each year. The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring director is eligible for re-election.

INTERNAL CONTROL

The Board is responsible for ensuring that sound and effective internal control systems are maintained within the Group. The Company and its subsidiaries have adopted a set of internal control procedures and policies to safeguard the assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations. The internal control systems are designed to ensure that the financial and operational functions, compliance control, material control, asset management and risk management functions are in place and functioning effectively.

The Board and the audit committee have delegated the Group's internal audit department to conduct periodic review of the effectiveness of the internal control systems of the Company and its subsidiaries, covering all material controls, including financial, operational and compliance controls as well as risk management functions.

Based on the assessments made by the Group's internal audit department, the Board considered that the internal control systems of the Company and its subsidiaries are effective and the audit committee has found no material deficiencies on the internal control based on the assessments made by the Group's internal audit department.

AUDITOR'S REMUNERATION

Annually since 2004, Deloitte Touche Tohmatsu has been appointed as the Group's external auditor by shareholders. During the year, the fees charged to the accounts of the Company and its subsidiaries for Deloitte Touche Tohmatsu's statutory audit services amounted to HK$1,480,000 (2007: HK$1,480,000), and in addition to a total of HK$368,000 (2007: HK$368,000) for other services, including the review of interim financial statements.

AUDIT COMMITTEE

As at 31 December 2008, the audit committee members comprise Mr. Ma Kwai Yuen, Terence, Mr. Ren Dequan and Ms. Cheng Li. All of the members of the audit committee are Independent Non-Executive Directors. Mr. Ma Kwai Yuen, Terence, who has appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the audit committee since 30 May 2008. No member of this committee is a member of the former or external auditor of the Company. The committee members possess diversified industry experience.

The audit committee's primary responsibilities include overseeing the relationship with the Company's external auditor, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted a term of reference of the audit committee which complies with the provisions of the Code. The terms of reference of the audit committee is available on the Company's websites.

Individual attendance of each audit committee member during the year is as follows:

		Attendance
Mr. Ma Kwai Yuen, Terence	(appointed on 6 May 2008)	1/2
Mr. Ren Dequan		2/2
Ms. Cheng Li		2/2
Mr. Li Kung Man	(resigned on 30 May 2008)	1/2

The audit committee met on two occasions during the year and the report on the work performed by the audit committee can be found on page 43 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

The Group attaches great priority to communicate with shareholders and investors. Since our listing on the Main Board of the Exchange in December 2004, the Group has regularly met with investors to increase corporate transparency. During the year, the Group met and/or held telephone conferences with a number of investors and participated in institutional investor conferences. We held a number of site visits for investors. Since June 2005, we have distributed "Shineway Newsflash" to investors on a monthly basis.

To foster effective communications, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its websites.

Since October 2005, to enable the shareholders to better evaluate the operations and performance of the Group, the Group has been announcing quarterly financial Information on turnover in due course after the relevant period ended.

The Company regards the Annual General Meeting ("AGM") as an important event as it provides an important opportunity for direct communication between the Board and shareholders. Directors and senior management will make an effort to attend the AGM. The Chairman of the Board, as well as the respective Chairmans of the audit committee and the remuneration committee and external auditor will usually be available during the AGM to address shareholders' queries. All shareholders are given at least 20 clear business days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings. Questioning by the shareholders at such meetings are encouraged and welcomed.

CODE OF CONDUCT

Employees of the Group have maintained high level of ethical standards. The Group published an employee handbook, setting out standards of professional and ethical conduct for all employees of the Group. Trainings on the contents of the employee handbook have been held regularly. The employees at all levels are expected to act in an honest, diligent and responsible manner.

Audit Committee Report

Dear Shareholders,

The committee formally met two times during the year and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditor as and when necessary, to consider the external auditor's proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgmental areas, accounting principles and practice adopted by the Group; review the external auditor's management letter and management's response; and review the Group's adherence to the Code on Corporate Governance Practices as set out at Appendix 14 to the Listing Rules.

The audit committee recommended the Board to reappoint Deloitte Touche Tohmatsu as external auditor for the fiscal year 2009 and recommended to approve the interim and annual reports.

MEMBERS OF AUDIT COMMITTEE

Mr. Ma Kwai Yuen, Terence *(Chairman)*	(appointed on 6 May 2008)
Mr. Ren Dequan	
Ms. Cheng Li	
Mr. Li Kung Man	(resigned on 30 May 2008)

31 March 2009

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF 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)

We have audited the consolidated financial statements of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 84, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Turnover	7	**1,275,179**	1,012,885
Cost of sales		**(360,862)**	(274,847)
Gross profit		**914,317**	738,038
Investment income, gains and losses	8	**32,700**	207,241
Other income		**37,247**	26,644
Distribution costs		**(276,338)**	(258,079)
Net exchange loss	9	**(131,812)**	(56,974)
Other administrative expenses		**(99,900)**	(80,929)
Profit before taxation	10	**476,214**	575,941
Income tax	12	**(77,972)**	(85,300)
Profit for the year		**398,242**	490,641
Earnings per share – basic	13	**RMB 0.48**	RMB 0.59
Dividends recognised as distribution during the year:	14		
Final dividend		**90,970**	82,700
Special dividends		**140,590**	16,540
Interim dividend		**99,240**	90,970
		330,800	190,210
Dividends proposed:			
Final dividend		**99,240**	90,970
Special dividend		**–**	132,320
		99,240	223,290

Consolidated Balance Sheet

AT 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	15	**326,323**	278,547
Land use rights	16	**19,219**	19,894
Goodwill	17	**58,479**	58,479
Deferred tax assets	18	**8,664**	7,329
		412,685	364,249
Current assets			
Inventories	19	**76,324**	78,352
Bills receivables	20	**297,954**	244,820
Trade receivables	20	**10,714**	8,865
Prepayment, deposits and other receivables		**43,136**	34,009
Bank balances and cash	20	**1,585,644**	1,678,442
		2,013,772	2,044,488
Current liabilities			
Trade payables	21	**64,137**	89,172
Other payables and accrued expenses		**197,460**	198,095
Amounts due to related companies	22	**9,628**	10,063
Government grants received	23	**6,980**	6,380
Tax liabilities		**11,535**	35,752
		289,740	339,462
Net current assets		**1,724,032**	1,705,026
Total assets less current liabilities		**2,136,717**	2,069,275
Capital and reserves			
Share capital	24	**87,662**	87,662
Reserves	26	**2,049,055**	1,981,613
Total equity		**2,136,717**	2,069,275

The consolidated financial statements on pages 46 to 84 were approved and authorised for issue by the Board of Directors on 31 March 2009 and are signed on its behalf by:

LI ZHENJIANG	**WANG ZHIHUA**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital RMB'000 (note 24)	Share premium RMB'000	Merger reserve RMB'000 (note 26)	Exchange reserve RMB'000	Statutory surplus reserve fund RMB'000 (note 26)	Discretionary surplus reserve fund RMB'000 (note 26)	Accumulated profits RMB'000	Total RMB'000
At 1 January 2007	87,662	982,408	83,758	(32,721)	141,292	121,000	385,854	1,769,253
Exchange differences arising on translation of foreign operations directly recognised in equity	–	–	–	(409)	–	–	–	(409)
Profit for the year	–	–	–	–	–	–	490,641	490,641
Net (expense) income recognised for the year	–	–	–	(409)	–	–	490,641	490,232
Transfers	–	–	–	–	68,711	11,000	(79,711)	–
Dividends paid	–	–	–	–	–	–	(190,210)	(190,210)
At 31 December 2007	87,662	982,408	83,758	(33,130)	210,003	132,000	606,574	2,069,275
Transfers	–	–	–	33,130	–	–	(33,130)	–
Profit for the year	–	–	–	–	–	–	398,242	398,242
Net income recognised for the year	–	–	–	33,130	–	–	365,112	398,242
Transfers	–	–	–	–	25,358	–	(25,358)	–
Dividends paid	–	–	–	–	–	–	(330,800)	(330,800)
At 31 December 2008	87,662	982,408	83,758	–	235,361	132,000	615,528	2,136,717

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Operating activities		
Profit before taxation	**476,214**	575,941
Adjustments for:		
Depreciation of property, plant and equipment	**36,041**	32,084
Loss on disposal of property, plant and equipment	**146**	–
Interest income	**(39,231)**	(38,340)
Operating lease rentals in respect of land use rights	**675**	675
Unrealised exchange loss	**131,812**	61,824
Operating cash flows before movements in working capital	**605,657**	632,184
Decrease (increase) in inventories	**2,028**	(40,155)
Increase in bills receivables	**(53,134)**	(181,519)
Increase in trade and other receivables, prepayment and deposits	**(19,642)**	(16,493)
(Decrease) increase in trade and other payables and accrued expenses	**(25,670)**	68,733
(Decrease) increase in amounts due to related companies	**(435)**	468
Cash generated from operations	**508,804**	463,218
PRC Enterprise Income Tax paid	**(103,524)**	(61,248)
Net cash from operating activities	**405,280**	401,970
Investing activities		
Decrease in pledged bank deposits	**–**	1,882
Government grants received	**600**	580
Interest received	**47,897**	36,645
Purchase of property, plant and equipment	**(84,156)**	(86,325)
Purchase of land use rights	**–**	(6,290)
Proceeds from disposal of property, plant and equipment	**169**	–
Net cash used in investing activities	**(35,490)**	(53,508)
Financing activity		
Dividends paid	**(330,800)**	(190,210)
Cash used in financing activity	**(330,800)**	(190,210)
Net increase in cash and cash equivalents	**38,990**	158,252
Cash and cash equivalents at beginning of the year	**1,678,442**	1,582,014
Effect of exchange rate changes	**(131,788)**	(61,824)
Cash and cash equivalents at end of the year, representing bank balances and cash	**1,585,644**	1,678,442

Notes to the Financial Statements
For the year ended 31 December 2008

1. GENERAL

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

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

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in the note 31 to the consolidated financial statements.

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

In the current year, the Group has applied, for the first time, the following amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB which are effective for the Group's financial year beginning on 1 January 2008.

IAS 39 & IFRS 7 (Amendments)	Reclassification of financial assets
IFRIC 11	IFRS 2: Group and treasury share transactions
IFRIC 12	Service concession arrangements
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The application of the new IFRSs had no material effect on how the results and the financial position for the current or prior periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but not yet effective. The directors of the Company anticipate that the application of these new and revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

IFRSs (Amendments)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of financial statements[2]
IAS 23 (Revised)	Borrowing costs[2]
IAS 27 (Revised)	Consolidated and separate financial statements[3]
IAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
IAS 39 (Amendment)	Eligible hedged items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[2]
IFRS 2 (Amendment)	Vesting conditions and cancellations[2]
IFRS 3 (Revised)	Business combinations[3]
IFRS 7 (Amendments)	Improving disclosures about financial instruments[2]
IFRS 8	Operating segments[2]
IFRIC 9 & IAS 39 (Amendments)	Embedded derivatives[4]
IFRIC 13	Customer loyalty programmes[5]
IFRIC 15	Agreements for the construction of real estate[2]
IFRIC 16	Hedges of a net investment in a foreign operation[6]
IFRIC 17	Distributions of non-cash assets to owners[3]
IFRIC 18	Transfer of assets from customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers on or after 1 July 2009

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the IASB and the IFRIC. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis which are measured at fair values, as explained in the principal accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is stated at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Land use rights

Payments for obtaining land use rights are considered as operating lease payment and charged to consolidated income statement over the period of the right using the straight line method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising from an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business recognised at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;

- the ability to use or sell the intangible asset;

- how the intangible asset will generate probable future economic benefits;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure (Continued)

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets excluding goodwill (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following two categories, including held-for-trading investments and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Held-for-trading investments
A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Held-for-trading investments (Continued)

Held-for-trading investments are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Bills receivables, trade and other receivables and bank balances and cash that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than held for trading investments, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as bills receivables and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period normally ranging from six months to one year, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expenses.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental payable under operating leases are charged to the consolidated income statement on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2008, the carrying amount of goodwill is RMB 58,479,000 (2007: RMB 58,479,000). Details of the recoverable amount calculated are disclosed in note 17. Changes in estimation of the value in use would materially affect the carrying amounts of goodwill in the consolidated balance sheet and might give rise to impairment loss recognised in respect of goodwill in the consolidated income statement.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders. During the year ended 31 December 2008 and 2007, the Group has been generating operating profit to sustain its operation and development, as such, the Group has not raised external debt. The Group's overall strategy remains unchanged from prior year.

Accordingly, the capital structure of the Group only consists of equity attributable to equity holders of the Company, comprising issued share capital and various reserves during the years ended 31 December 2008 and 2007.

The Group actively and regularly reviews and manages its capital structure and makes adjustments to it in light of the changes in the Group's business and economic conditions.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008	2007
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,910,900**	1,954,541
Financial liabilities		
Amortised cost	**213,683**	223,466

Financial risk management objectives and policies

The Group's major financial instruments include bills receivables, trade and other receivables, bank balances and cash and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, fair value interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

Several subsidiaries of the Company have foreign currency bank balances, which expose the Group to foreign currency risk. Approximately 52% (2007: 30%) of the Group's bank balances are denominated in currencies other than the functional currency of the relevant group entities.

Sensitivity analysis

The Group is mainly exposed to the currencies of HKD, AUD and USD as disclosed in Note 9 with the functional currency of those subsidiaries in RMB. The following table details the Group's sensitivity to a 5% (2007: 5%) increase and decrease in RMB against HKD and USD and 10% (2007: 10%) increase and decrease in RMB against AUD. 5% and 10% (2007: 5% and 10%) are the sensitivity rates used which represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% and 10% change in relevant foreign currency rates. A negative number below indicates a decrease in profit for the year where RMB strengthens 5% or 10% (2007: 5% or 10%) against the relevant currencies. For a 5% or 10% (2007: 5% or 10%) weakening of RMB against the relevant currencies, there would be an equal and opposite impact on the profit for the year.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Sensitivity analysis (Continued)

	HKD Impact		AUD Impact		USD Impact	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Decrease in profit for the year	**(14,184)**	(12,544)	**(33,749)**	(327)	**(63)**	(14,016)

Fair value interest rate risk

Interest bearing financial assets are mainly bank deposits which are all short-term in nature and carry fixed interest rates. Therefore, the Group is not exposed to significant fair value interest rate risk due to the short maturity of financial assets. The Group currently does not have an interest rate hedging policy and will consider enter into interest rate hedging should the need rise.

Other price risk

During the year, the Group was exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments operating in different industry sectors quoted in the Shanghai Stock Exchange. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. The Group has disposed of those investments before year end and is not exposed to other price risk at the balance sheet dates.

Credit risk

The Group's principal financial assets are bills receivables, trade and other receivables and bank balances and cash. The maximum exposure to credit risk in the event that the counter parties fail to perform their obligations as at end of financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's concentration of credit risk by geographical locations is mainly in the People's Republic of China ("PRC"), which accounted for 97% (2007: 97%) of the total trade receivables as at 31 December 2008.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on trade receivables, the Group does not have any other significant concentration of credit risk on liquid funds.

Liquidity risk

The directors of the Company has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. In the past, the Group relied on the funding generated from its operation.

The Group manages its liquidity by matching maturity profiles of financial assets and liabilities. The earliest date on which the Group can be required to pay the financial liabilities is less than 6 months from the respective balance sheet date while the Group expects to recover all the financial assets within 6 months from the respective balance sheet date.

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

7. TURNOVER AND SEGMENT INFORMATION

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

The Group's operation is regarded as a single segment, being an enterprise engaged in research and development, manufacture and trading of Chinese pharmaceutical products. Over 90% of the Group's sales are made in the PRC and over 90% of the Group's segment assets are situated in the PRC during the year. Accordingly, no segmental analysis of business and geographical segments is presented for the year.

8. INVESTMENT INCOME, GAINS AND LOSSES

	2008 **RMB'000**	2007 RMB'000
Interest on bank deposits	**39,231**	38,340
Net (loss) gain from held-for-trading investments	**(6,531)**	168,901
	32,700	207,241

During the years ended 31 December 2007 and 31 December 2008, the Group disposed all held-for-trading investments.

9. NET EXCHANGE LOSS

	2008 **RMB'000**	2007 RMB'000
Exchange loss (gain) due to change of exchange rate between AUD and RMB	**102,586**	(4,849)
Exchange loss due to change of exchange rate between HKD and RMB	**29,226**	61,823
Total	**131,812**	56,974

10. PROFIT BEFORE TAXATION

	2008 RMB'000	2007 RMB'000
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	**1,983**	1,822
Cost of inventories recognised as expense	**265,062**	212,615
Depreciation of property, plant and equipment	**36,041**	32,084
Operating lease rentals in respect of land use rights	**675**	675
Staff costs (including directors' remuneration (see note 11))	**72,218**	56,704
Pension costs	**8,500**	5,579
Minimum lease payments under operating lease in respect of rented premises	**1,827**	2,202
Research and development costs (included in other administrative expenses)	**13,995**	4,930
Loss on disposal of property, plant and equipment	**146**	–
Donations	**1,184**	–
and after crediting:		
Government subsidies received (included in other income) (Note)	**34,541**	23,990

Note: It mainly represented the incentives received from Government of the PRC for investments in relevant regions in PRC by the Group.

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' remuneration:

Year ended 31 December 2008

	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Pension costs RMB'000	Performance related incentive payments RMB'000	Total remuneration RMB'000
Name of executive directors:					
Li Zhenjiang	**47**	**1,422**	**–**	**–**	**1,469**
Wang Zhihua	**47**	**622**	**–**	**–**	**669**
Xin Yunxia	**47**	**622**	**–**	**–**	**669**
Li Huimin	**47**	**643**	**–**	**–**	**690**
Hung Randy King Kuen	**47**	**1,101**	**11**	**294**	**1,453**
Name of independent non-executive directors:					
Ren Dequan	**117**	**–**	**–**	**–**	**117**
Cheng Li	**117**	**–**	**–**	**–**	**117**
Ma Kwai Yuen, Terence	**78**	**–**	**–**	**–**	**78**
Li Kung Man	**49**	**–**	**–**	**–**	**49**
	596	**4,410**	**11**	**294**	**5,311**

Year ended 31 December 2007

	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Pension costs RMB'000	Performance related incentive payments RMB'000	Total remuneration RMB'000
Name of executive directors:					
Li Zhenjiang	48	1,460	–	–	1,508
Wang Zhihua	48	639	–	–	687
Xin Yunxia	48	639	–	–	687
Li Huimin	48	662	–	53	763
Hung Randy King Kuen	48	1,313	12	67	1,440
Name of independent non-executive directors:					
Ren Dequan	115	–	–	–	115
Cheng Li	115	–	–	–	115
Li Kung Man	115	–	–	–	115
	585	4,713	12	120	5,430

11. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

Employees' remuneration:

The five highest paid individuals of the Group included 5 directors for the year (2007: 4), details of whose remuneration are set out above. In 2007, the remuneration of the remaining 1 employee was as follows:

	RMB'000
Salaries, allowance and other benefits	1,843
Pension costs	92
	1,935

Emoluments of these directors and employees were within the following bands:

	2008		2007	
	Number of		Number of	
	Directors	**Employees**	Directors	Employees
RMB 500,001 – RMB 1,000,000	**3**	**–**	2	–
RMB 1,000,001 – RMB 1,500,000	**2**	**–**	1	–
RMB 1,500,001 – RMB 2,000,000	**–**	**–**	1	1
	5	**–**	4	1

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and supervisors has waived any remuneration during the year.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

12. INCOME TAX

	2008 RMB'000	2007 RMB'000
Current tax:		
PRC Enterprise Income Tax	**(70,388)**	(83,431)
Underprovision in prior year	**(8,919)**	–
	(79,307)	(83,431)
Deferred tax: (note 18)		
Current year	**1,335**	1
Attributable to a change in tax rate	**–**	(1,870)
	1,335	(1,869)
	(77,972)	(85,300)

The provision for PRC Enterprise Income Tax is calculated based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable for the year.

12. INCOME TAX (Continued)

The reconciliation of tax charge to the profit before taxation per the consolidated income statement for the year is as follows:

	2008		2007	
	RMB'000	%	RMB'000	%
Profit before taxation	476,214		575,941	
Tax at the applicable tax rate of 25% (2007: 33%)	(119,054)	(25.0)	(190,061)	(33.0)
Tax effect of expenses not deductible for tax purpose	(27,680)	(5.8)	(22,880)	(4.0)
Tax effect of incomes not taxable for tax purpose	6,032	1.3	18,803	3.3
Tax loss not recognised	(3,274)	(0.7)	(2,226)	(0.4)
Tax effect on tax exemption	11,544	2.4	5,355	0.9
Income tax on concessionary rate	67,786	14.2	107,750	18.7
Effect of different tax rates of subsidiaries operating in other jurisdiction	(4,421)	(0.9)	–	–
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	–	–	(1,870)	(0.3)
Underprovision in prior year	(8,919)	(1.9)	–	–
Others	14	0.0	(171)	(0.0)
Taxation charge and effective tax rate for the year	(77,972)	(16.4)	(85,300)	(14.8)

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of certain Group's subsidiaries in the PRC was reduced from 33% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 10% to 25% (2007: 10% to 33%).

12. INCOME TAX (Continued)

Pursuant to the relevant law and regulations in the PRC, Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") are entitled to a 50% relief from the Enterprise Income Tax for the current and prior year. The first profit-making period of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004 and the full exemption from the Enterprise Income Tax ended on 31 December 2005.

Pursuant to the 藏財稅字 (94) 117號, Xizang Shineway Pharmaceutical Co., Ltd. ("Xizang Shineway") was exempted from the Enterprise Income Tax for the period from 21 May 2007 to 20 May 2008. Pursuant to 西藏拉薩經濟技術開發區優惠政策, the Enterprise Income Tax rate applicable to Xizang Shineway is 10%, 12% and 15% on its assessable profit for the year ended 31 December 2008 and the years ending 31 December 2009 and 2010 respectively.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2008 **RMB'000**	2007 RMB'000
Earnings for the purposes of basic earnings per share	**398,242**	490,641

	Number of ordinary shares	
	2008	2007
Number of ordinary shares for the purposes 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 ordinary shares outstanding.

14. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Dividends recognised as distribution during the year:		
Final dividend paid for 2007 of RMB 11 cents (2006: RMB 10 cents) per share	**90,970**	82,700
Special dividend paid for 2007 of RMB 16 cents (2006: RMB 2 cents) per share	**132,320**	16,540
Interim dividend paid for 2008 of RMB 12 cents (2007: RMB 11 cents) per share	**99,240**	90,970
Special interim dividend paid for 2008 of RMB 1 cent (2007: nil) per share	**8,270**	–
	330,800	190,210
Dividends proposed:		
Proposed final dividend of RMB 12 cents (2007: RMB 11 cents) per share	**99,240**	90,970
Proposed special dividend: nil (2007: RMB 16 cents) per share	**–**	132,320
	99,240	223,290

The dividends will be paid on 18 May 2009 to the shareholders of the Company whose names appear on the Register of Members on 15 May 2009.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2007	165,472	181,085	8,732	2,364	8,202	365,855
Additions	–	18,468	4,303	311	63,243	86,325
Reclassifications	29,469	29,056	2,178	–	(60,703)	–
Currency realignment	–	–	(118)	–	–	(118)
At 1 January 2008	194,941	228,609	15,095	2,675	10,742	452,062
Additions	–	12,148	1,243	1,400	69,365	84,156
Reclassifications	3,606	2,668	1,275	–	(7,549)	–
Disposals	–	(1,590)	(144)	(23)	–	(1,757)
Currency realignment	–	–	(59)	–	–	(59)
At 31 December 2008	198,547	241,835	17,410	4,052	72,558	534,402
DEPRECIATION						
At 1 January 2007	37,572	100,116	3,430	369	–	141,487
Provided for the year	7,775	20,848	2,129	1,332	–	32,084
Currency realignments	–	–	(56)	–	–	(56)
At 1 January 2008	45,347	120,964	5,503	1,701	–	173,515
Provided for the year	9,022	23,588	2,646	785	–	36,041
Eliminated on disposal	–	(1,304)	(117)	(21)	–	(1,442)
Currency realignments	–	–	(35)	–	–	(35)
At 31 December 2008	54,369	143,248	7,997	2,465	–	208,079
CARRYING VALUES						
At 31 December 2008	144,178	98,587	9,413	1,587	72,558	326,323
At 31 December 2007	149,594	107,645	9,592	974	10,742	278,547

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The following rates are used for the depreciation of property, plant and equipment other than construction in progress:

Buildings	5%
Plant and machinery	10% – 33%
Office equipment	20%
Motor vehicles	33%

16. LAND USE RIGHTS

	2008	2007
	RMB'000	RMB'000
CARRYING VALUE		
At 1 January	**20,569**	5,946
Addition during the year	**–**	15,298
Expense for the year	**(675)**	(675)
At 31 December	**19,894**	20,569
Analysed for reporting purposes as:		
Current portion (included in other receivables)	**675**	675
Non-current portion	**19,219**	19,894
	19,894	20,569

The amount represents the payment for medium term land use rights situated in the PRC, amortise over the periods ranging from 45 to 50 years.

17. GOODWILL

	RMB'000
At 1 January 2007, 1 January 2008 and 31 December 2008	58,479

For the purpose of impairment testing, goodwill has been allocated to one cash-generating unit ("CGU") including three subsidiaries with principal activity of trading Chinese pharmaceutical products. These three subsidiaries are Shineway Pharmaceutical Sales Co., Ltd ("Shineway Sales"), Shineway Pharmaceutical (Hainan) Co., Limited, ("Hainan Shineway") and Xizang Shineway. During the year ended 31 December 2008, management of the Group determines that there are no impairments of its CGU containing goodwill.

The basis of the recoverable amounts of the above CGU and their major underlying assumptions are summarised below:

The recoverable amount of the above CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on most recent financial budgets approved by management covering a five-year period, and discount rate of 13% (2007: 12%), with an estimated constant growth rate of 6% which does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

18. DEFERRED TAXATION

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

	Accelerated tax depreciation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	7,962	1,236	9,198
Effect of change in tax rate	(1,870)	–	(1,870)
(Charged) credited to the consolidated income statement for the year	(146)	147	1
At 1 January 2008	5,946	1,383	7,329
(Charged) credited to the consolidated income statement for the year	(147)	1,482	1,335
At 31 December 2008	**5,799**	**2,865**	**8,664**

At the balance sheet date, the Group has unused tax losses of approximately RMB 32,501,000 (2007: RMB 17,845,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB 52,557,000 (2007: Nil) 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.

19. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**49,705**	31,803
Work in progress	**11,353**	21,486
Finished goods	**15,266**	25,063
	76,324	78,352

All inventories were carried at cost at the respective balance sheet dates.

20. OTHER FINANCIAL ASSETS

	2008 RMB'000	2007 RMB'000
Bills receivables and trade receivables:		
Bills receivables	**297,954**	244,820
Trade receivables	**10,714**	8,865
	308,668	253,685

The Group allows a credit period normally ranging from six months to one year to its trade customers. The bills receivables and trade receivables are of the age within six months at the balance sheet dates.

Before accepting any new customer, the Group has appointed a special team to monitor the potential customer's credit quality and defines credit limits by customer, which are reviewed every year. No impairment loss has been provided as there is no adverse change in the credit quality of the customers from the date of credit was initially granted. More than 90% of the trade receivables are neither past due nor impaired.

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. The effective interest rate ranged from 0.72% to 5.63% (2007: from 0.72% to 4.86%) per annum.

At the balance sheet date, certain bank balances and cash of RMB 754,557,000 (2007: RMB 1,110,132,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is regulated by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Included in bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entity to which they relate.

	2008 RMB'000	2007 RMB'000
Australian Dollars	**449,980**	23,921
Hong Kong Dollars	**379,414**	264,076
United States Dollars	**1,693**	280,313

21. OTHER FINANCIAL LIABILITIES

	2008 RMB'000	2007 RMB'000
Trade payables	**64,137**	89,172

An aged analysis of the Group's trade payables at the balance sheet date is as follows:

	2008 RMB'000	2007 RMB'000
Within 6 months	**57,079**	83,744
Over 6 months but less than 1 year	**3,625**	5,258
Over 1 year but less than 2 years	**3,263**	108
Over 2 years	**170**	62
	64,137	89,172

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

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

	2008 RMB'000	2007 RMB'000
Hong Kong Dollars	**4,726**	5,248

22. AMOUNTS DUE TO RELATED COMPANIES

	2008 RMB'000	2007 RMB'000
Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang")	**9,009**	9,594
Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	**619**	469
	9,628	10,063

The amounts due to related companies are unsecured, interest-free and repayable on demand.

23. GOVERNMENT GRANTS RECEIVED

	2008	2007
	RMB'000	RMB'000
At 1 January	**6,380**	5,800
Addition during the year	**600**	580
At 31 December	**6,980**	6,380

The amounts represent government subsidies received in advance in relation to research and development expenses on certain new products. The grant is recognised as deferred income because there is an obligation to repay the grant if the related research is not successfully completed.

24. SHARE CAPITAL

	Number of shares	**Amount**
	'000	RMB'000
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 31 December 2007 and 31 December 2008	5,000,000	530,000
Issued and fully paid:		
Balance at 31 December 2007 and 31 December 2008	827,000	87,662

25. SHARE OPTIONS

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 10 November 2004 for the primary purpose of providing incentives to:

(a) director or employee of any members of the Group;

(b) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or employee of any member of the Group;

(c) any consultant, professional and other advisers to any member of the Group;

(d) any chief executive or substantial shareholder of any member of the Group;

(e) any associate of any director, chief executive or substantial shareholder of any member of the Group; and

(f) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up options.

The Scheme will expire on 9 November 2014. Under the Scheme, the Board of Directors of the Company may grant options to eligible person to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent non-executive director of the Company) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Option granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per option. Options may be exercise at any time from the date of grant of the share option to the 10 anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

No option has been granted since adoption.

26. RESERVES

(a) Basis of appropriations to reserves

The transfers to statutory surplus reserve fund and discretionary surplus reserve fund are based on the profit in the financial statements prepared under Chinese Accounting Standards.

(b) Statutory surplus reserve fund

Shineway Pharmaceutical, Hebei Shineway and Shineway Sales's Articles of Association ("Articles") require the appropriation of 10% of its profit after taxation each year to the statutory surplus reserve fund until the balance reaches 50% of the registered share capital. According to the provision of the Articles, in normal circumstances, the statutory surplus reserve fund shall only be used for making up losses, capitalisation into share capital and expansion of production and operation. For the capitalisation of statutory surplus reserve fund into share capital, the remaining amount of such reserve fund shall not be less than 25% of the registered share capital.

(c) Discretionary surplus reserve fund

Pursuant to the Articles, Shineway Pharmaceutical, Hebei Shineway, Shineway Sales, Hainan Shineway and Xizang Shineway shall make allocation from its profit after taxation and appropriations to the discretionary surplus reserve fund at the rate decided by the shareholders annually. In normal circumstances, the discretionary surplus reserve fund shall only be used for making up losses, capitalisation into share capital and expansion of Shineway Pharmaceutical, Hebei Shineway, Shineway Sales, Shineway Hainan and Xizang Shineway's production and operation.

(d) Merger reserve

Merger reserve of the Group represents the difference between the net asset value of Yuan Da International Limited ("Yuan Da") and Hong Zhan International Limited ("Hong Zhan") and the nominal amount of the Company's shares which were issued as consideration for the acquisition of Yuan Da and Hong Zhan at the time of the group reorganisation in 2004.

27. OPERATING LEASE

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2008	2007
	RMB'000	RMB'000
Within one year	**2,121**	1,729
In the second to fifth year inclusive	**1,002**	2,351
	3,123	4,080

Operating lease payments represent rentals payable by the Group for certain of its warehouse, staff quarters and offices. Leases are negotiated for terms ranged from 1 to 3 years with fixed rental.

Included in the operating lease commitment, RMB 619,000 (2007: RMB 352,000) as fall due within one year is payable to Shineway Medical.

28. RETIREMENT BENEFITS PLANS

The employees of the Group participate in retirement and medicare insurances in accordance with the PRC laws and related regulations. When an employee joins the Group, he is enrolled with the local retirement plan. Contributions to the retirement insurance, borne by the Group and the employee jointly at the proportions stipulated by the local Municipal Government, are paid to the social insurance institutions monthly. When the employee retires, he receives his retirement funds from the insurance company directly and is also entitled to enjoy medical benefits after retirement provided by the insurance company. Other than this, the Group has no obligation for any related retirement benefits.

The total expense recognised in the consolidated income statement of RMB 8,500,000 (2007: RMB 5,579,000) represents contributions payable to this plan by the Group at rates specified in the rules of the plan.

29. CAPITAL COMMITMENTS

	2008	2007
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**69,572**	8,756

30. RELATED PARTY TRANSACTIONS

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

	2008	2007
	RMB'000	RMB'000
Trading transactions:		
Rental expenditure paid to Shineway Medical (note a)	**619**	469
Service fee to Shineway Lang Fang (note b)	**1,400**	1,174
Service fee to Shineway Medical (note a)	**7,094**	6,955
Sale of goods to Hebei Shineway Chain Drugstores Co., Ltd.		
("Shineway Drugstores") (note a)	**153**	–
Purchase from Shineway Lang Fang (note b)		
– Research & Development Centre	**–**	8,662
– Related land use rights	**–**	15,298

Notes:

(a) Shineway Medical, which is owned by the controlling shareholder of the Company, holds 80% equity interest in Shineway Drugstores.

(b) Shineway Medical owns 70% equity interest in Shineway Lang Fang.

Compensation of key management personnel

Remuneration paid for key management personnel include solely the directors of the Company as disclosed in note 11.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

31. SUBSIDIARIES

Details of the subsidiaries at 31 December 2007 and 31 December 2008 are as follows:

Name of company	Place of incorporation and operation/Date of incorporation	Issued and fully paid/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Directly	Indirectly	
Yuan Da International Limited	British Virgin Islands ("BVI") and Hong Kong/ 20 November 2002	Share US$10,000	100%	–	Investment holding
Hong Zhan International Limited	BVI and Hong Kong/ 20 November 2002	Share US$10,000	100%	–	Investment holding
Shineway Pharmaceutical Sales Co., Limited (Note a)	PRC/ 3 March 2003 for a term of 30 years	Registered capital RMB 98,533,542	–	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical Co., Limited (Note b)	PRC/ 30 December 2003 for a term of 30 years	Registered capital US$25,000,000	–	100%	Research and development, manufacture and trading of Chinese pharmaceutical products
Hebei Shineway Pharmaceutical Co., Limited (Note b)	PRC/ 30 December 2003 for a term of 30 years	Registered capital US$12,000,000	–	100%	Manufacture and trading of Chinese pharmaceutical products
China Shineway Pharmaceutical (Hong Kong) Limited	Hong Kong/ 21 April 2004	Share HK$1	–	100%	Trading of Chinese pharmaceutical products and investment holding
Xizang Shineway Pharmaceutical Co., Limited (Note b)	PRC/ 7 November 2006 for a term of 10 years	Registered capital US$1,250,000	–	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Hainan) Co., Limited (Note b)	PRC/ 21 May 2007 for a term of 10 years	Registered capital US$3,900,000	–	100%	Trading of Chinese pharmaceutical products

Notes:

(a) With effect from 30 March 2005, Shineway Sales has become a foreign wholly-owned enterprise after the equity interest transfer.

(b) Shineway Pharmaceutical, Hebei Shineway, Xizang Shineway and Hainan Shineway are foreign wholly-owned enterprises.