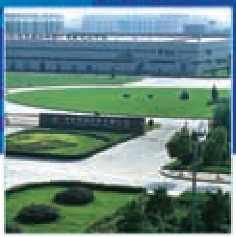
China Shineway Pharmaceutical Group Limited
中國神威藥業集團有限公司
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 02877

Leading Modern **Chinese Medicine**



ANNUAL REPORT 09

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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. Sun Liutai (appointed on 9 February 2010)
Mr. Ma Kwai Yuen, Terence
(resigned on 17 December 2009)

Audit Committee

Mr. Sun Liutai *(Committee Chairman)*
(appointed on 9 February 2010)
Mr. Ren Dequan
Ms. Cheng Li
Mr. Ma Kwai Yuen, Terence
(resigned on 17 December 2009)

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Mr. Sun Liutai (appointed on 9 February 2010)
Ms. Xin Yunxia
Mr. Ma Kwai Yuen, Terence
(resigned on 17 December 2009)

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 Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609, 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

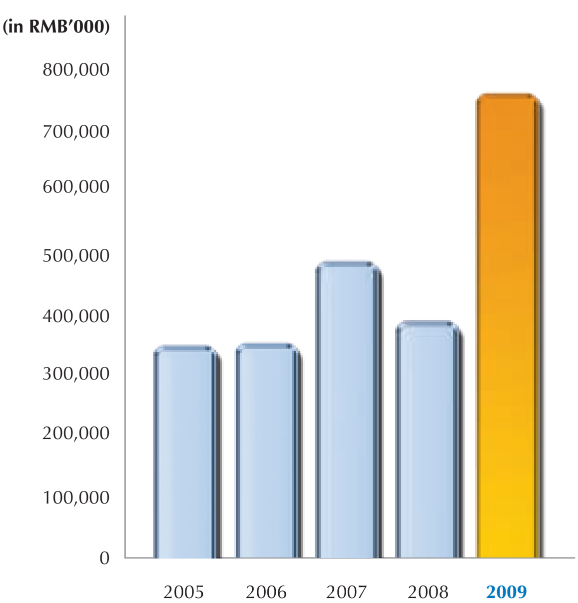
www.shineway.com.hk
www.shineway.com

Financial Highlights

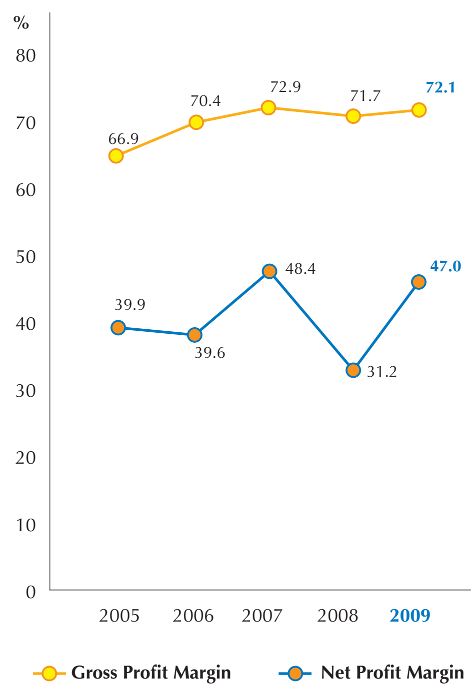
(in RMB'000)

	2005	2006	2007	2008	**2009**
RESULTS					
Turnover	831,379	841,475	1,012,885	1,275,179	**1,633,223**
Gross profit	556,607	592,300	738,038	914,317	**1,178,091**
Profit before taxation	342,452	387,034	575,941	476,214	**884,016**
Profit attributable to shareholders	331,467	332,977	490,641	398,242	**767,304**
Basic earnings per share	RMB 0.40	RMB 0.40	RMB 0.59	RMB 0.48	**RMB 0.93**
Dividends	181,940	181,940	314,260	206,750	**305,990**
ASSETS AND LIABILITIES					
Total assets	1,845,248	2,007,743	2,408,737	2,426,457	**3,269,928**
Total liabilities	(215,000)	(238,490)	(339,462)	(289,740)	**(547,847)**
Shareholders' equity	1,630,248	1,769,253	2,069,275	2,136,717	**2,722,081**

Profit Attributable to Shareholders



Gross and Net Profit Margins



Major Achievements and Awards

Major Achievements and Awards of China Shineway in 2009

January

- Lian Shen Tong Lin Granule and Qi Huang Tong Mi Soft Capsule received new medicine certificates and production permits from the State Food and Drug Administration

- China Shineway is named as one of the "Enterprises with Upmost Corporate Social Responsibilities" from the Hebei Province, and Mr. Li Zhenjiang, our Chairman and President, is named as a "Top 10 Outstanding Individual of Corporate Social Responsibilities"

February

- The Intermediate People's Court of Shijiazhuang, Hebei Province, has confirmed its statutory recognition of China Shineway's "Wu Fu" trademark as China Famous Trademark

- The British Standard Institute (BSI) renewed China Shineway's certificates in Quality Management System (ISO9001), Environment Management System (ISO9001) and Occupational Health and Safety Management System (OHSAS18001)

March

- China Shineway was honored as the 2008 Innovative Small and Medium Size Enterprise of Hebei Province

- China Shineway received GMP certificate from the Republic of Sudan

April

- China Shineway was honored as "iPower 500 Enterprise of China"

May

- China Shineway commenced construction of "Modern Chinese Medicine Industrial Park"

- Qing Kai Ling Injection and Huo Xiang Zheng Qi Soft Capsule of China Shineway are recommended by the Ministry of Health for treatment of A(H1-N1) influenza

- China Shineway was honored as one of the "Top 20 Most Competitive Enterprises in the Pharmaceutical Industry of China"

- Shineway Pharmaceutical Co., Limited and Hebei Shineway Pharmaceutical Co., Limited were both assessed as high-tech enterprises

Major Achievements and Awards

June

- China Shineway is named as one of "Top 100 Privately-Owned Enterprises of Hebei Province" again

- Liyan Jiedu Granule, Pediatric Qing Fei Hua Tan Granule and Shujin Tongluo Granule received medicine licenses from the Health Sciences Authority of Singapore

- China Shineway received invention patent from the State Intellectual Property Office on medical application of curcuma longa extract to prevent or delay chronic renal failure

July

- Two quality control units of China Shineway received "National Honors of Outstanding Quality Control of Pharmaceutical Industry"

August

- 30 products of China Shineway are included in the "Essential Drug List"

September

- China Shineway received two invention patents in the area of treating kidney illness

- China Shineway was honored as a "Top 100 Growth Enterprise" in China

October

- China Shineway commenced safety re-evaluation work on Shen Mai Injection

November

- Pediatric Qing Fei Hua Tan Granule, Qing Kai Ling Injection, Qing Kai Ling Soft Capsule, Coryza Soft Capsule and Liyan Jiedu Granule of China Shineway are included in the recommended list of "Hebei Province Chinese Medicine Prevention and Treatment on A(H1-N1) Influenza"

Major Achievements and Awards

Major Achievements and Awards of China Shineway in 2009

December

- The market capitalization of China Shineway surpassed HK$10 billion and ranked as the largest Hong Kong listed pharmaceutical manufacturer in term of market capitalization

- China Shineway was named as a Hong Kong Outstanding Enterprise 2009

- China Shineway received invention patent on "a compound for the treatment of mammary hyperplasia and its extraction and preparation methods"

- China Shineway obtained regulatory approval for the construction of Chinese Medicine Injection Engineering & Research Center from Hebei Province

- Qing Kai Ling Injection and Huo Xiang Zheng Qi Soft Capsule produced by China Shineway are listed as recommended medicines in the "Traditional Chinese Medicine Guide on Children A(H1-N1) Influenza Prevention and Treatment"

- The Vietnamese Ministry of Health granted medicine permit to Shu Xue Ning Injection of China Shineway

Chairman's Statement

Dear shareholders,

On behalf of the board of Directors (the "Board") 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 2009.

The year of 2009 was a new starting point for the pharmaceutical industry. The implementation of health care reform, the introduction and launching of "Essential Drug List (Grassroots Health Care Facilities Use of Supplies) – Year 2009 Version" (the "Essential Drug List"), the adjustments of National Catalogues of Medical Insurance, the drug tendering and procurements, the regulatory audits of medicine production, the re-evaluation on Chinese medicine injections, etc. have brought the pharmaceutical industry into unease. Pharmaceutical companies were coping with scrutiny and challenges. Furthermore, negative publicity on poor quality Chinese medicine injections produced by a few shoddy manufacturers along with improper use of drugs by some grassroots hospitals had led to unprecedented crisis of confidence on Chinese medicine injections. Under such adversity, China Shineway prudently geared our focus on improving and strengthening ourselves. We overcame capacity shortages and many other constraints. At the end, we performed well and were able to generate RMB1.63 billion of sales revenue, an increase of 28.1% from last year. During the A(H1-N1) influenza outbreak, we estimated that more than 5 million people used quality products of China Shineway on a daily basis. Our Qing Kai Ling Injection, Qing Kai Ling Soft Capsule and Pediatric Qing Fei Hua Tan Granule could hardly caught up with their strong demand. Accordingly, sales of Qing Kai Ling Injection, increased by 36.4% and Shu Xue Ning Injection increased by 46.5%. Pediatric Qing Fei Hua Tan Granule, which increased by 91.1%, became our fifth product with sales surpassing RMB100 million. Our net profit for year 2009 increased by 92.7% from last year to RMB767,304,000.

In May 2009, construction of Shineway Modern Chinese Medicine Industrial Park officially commenced. The first-phase of this project, covering approximately 400 Chinese acres of land, will further solidify our leading position in modern Chinese medicine injections, soft capsules and granules. At present, construction of new composite production workshop, sewage treatment stations, power centers and a number of other projects on the industrial park are nearly completed. Furthermore, construction of new Chinese medicine extraction workshop, injection workshop, and logistic center will also commence in 2010.

Following "Shineway" accreditation as a China Famous Trademark in 2002, our "Wu Fu" trademark was certified as a China Famous Trademark during the year. We are the first in Hebei Province having two China Famous Trademarks. In addition, our "Bei Si" and "Shen Miao" trademarks were also certified as Hebei Province Famous Trademarks. Our brand influence is proliferating.

During the year, the State Food and Drug Administration officially initiated its program on re-evaluation of Chinese medicine injections. As a market leader of Chinese medicine injections, we kicked off the re-evaluation with Shen Mai Injection, which became the first medicine to participate on the program. China Shineway was also engaged by the National Development and Reform Commission to undertake a model project on standardization of quality of Chinese medicine injection, which will provide unprecedented means to implement quality controls on production of Chinese medicine injections. We also became the only modern Chinese medicine manufacturing company with regulatory approval to build the "Chinese Medicine Injection Engineering and Technology Research Center" in Hebei Province with the goal of further raising quality standards of Chinese medicine injections.

2010 is a year for China Shineway to immensely invest and capitalize business opportunities. Our goals are firm and our strategic directions are well set. China Shineway has outstanding corporate culture, famous brand names, solid execution capability and a diligent and loyal workforce. Despite the competitive environment of pharmaceutical industry, we are well prepared to deliver superb performance!

China Shineway's accomplishments are inseparable from our staff's hard work. On behalf of the Board, I would like to extend my sincere greetings and high respect to our diligent staff for their dedication and effort!

Li Zhenjiang
Chairman of the Board

Hong Kong, 29 March 2010

BUSINESS REVIEW

With well-known brand names, quality products and effective implementation of growth strategies, sales of the Group's modern Chinese medicine injection, soft capsule and granule products continued to grow. For 2009, the Group recorded a turnover of RMB1,633,223,000, an increase of 28.1% from previous year. Sales by product form for the year are set out as follows:

	Sales	Growth rate	Product mix
Injections	RMB931,694,000	28.8%	57.1%
Soft Capsules	RMB390,182,000	16.5%	23.9%
Granules	RMB279,814,000	43.8%	17.1%
Other product formats	RMB31,533,000	43.8%	1.9%

The Group's net profit for 2009 is RMB767,304,000, a sharp increase of 92.7% from last year. The increase in profit is mainly attributable to volume growth of various products, surged operating income, and net exchange gain derived from the Group's bank deposits in Australian Dollars.

In August 2009, the Ministry of Health introduced the Essential Drug List. A total of 30 medicines of the Group are included in the List.

Injection Products

The pharmaceutical market has strong demand for Chinese medicine injections. During 2009, the Group sold RMB931,694,000 of injection products, an increase of 28.8% from last year. Amongst these injection products, Qing Kai Ling Injection, Shu Xie Ning Injection, and Shen Mai Injection recorded growth in sales of 36.4%, 46.4% and 13.8% respectively. For 2009, injection products accounted for 57.1% of the Group's total turnover as compared to 56.7% of last year.

Market demand for Chinese medicine injection products continues to soar. 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 injections manufacturer in the PRC in terms of sales volume and production capacity. A number of the Group's injection products are designated by regulatory agencies as "State Protected Chinese Medicine" and "Good Quality/Good Price". At the same time, the Group has commenced construction of another injection production workshop targeted to be completed by late 2011. Upon completion, it is estimated that the production capacity will increase from 2 billion vials at present to 3.2 billion vials per annum.

In August 2009, state authorities of the PRC announced the commencement of essential drug system. The Ministry of Health released Essential Drug List. Seven Chinese medicine injections are included in the Essential Drug List, including Qing Kai Ling Injection, Shen Mai Injection, Dan Shen Injection and Chai Wu Injection produced by the Group. Inclusion of Chinese medicine injections in the Essential Drug List symbolizes the government's recognition and support on Chinese medicine injections. It is anticipated that clinical use of Chinese medicine injections will grow more rapidly with the implementation of the Essential Drug List.

Management Discussion and Analysis

To raise standards of production and quality control of Chinese medicine injections, the State Food and Drug Administration introduced a series of regulations, including the "Principles on Re-Evaluating Chinese Medicine Injections Safety – Quality Control" and "Guideline on Re-Evaluating Chinese Medicine Injections Safety– Basic Requirements on Technologies", marking its official commencement to re-evaluate Chinese medicine injections in full scale. This serves to pave the direction on the development and support of Chinese medicine injections. The Group believes that re-evaluation of Chinese medicine injections will lead to the raising of the bars on production technological knowhow and quality standards. Those who are not able to comply with re-evaluation principles and guidelines would be directed to cease production. Entry barriers of Chinese medicine injections will then be raised. The Group's advantages in Chinese medicine injections will become more significant.

In the coming year, the Group will continue to expand our point of sales and further strengthen promotion efforts of end user market to ensure better growth of our injection products.

Soft Capsule Products

During the year, the Group recorded RMB390,182,000 on sales of soft capsule products, an increase of 16.5% 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 15.9%, 13.9% and 50.9% respectively as compared to last year.

Soft Capsule products account for 23.9% of the Group's turnover in 2009, as compared to 26.3% 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.

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

Granule Products

Sales of granule products in 2009 had increased by 43.8% as compared to previous year, amounting to RMB279,814,000. Among them, Pediatric Qing Fei Hua Tan Granule and Pediatric Huatan Zhike Granule recorded sales increases of 91.1% and 31.9% respectively 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 17.1% of the Group's turnover in 2009 as compared to 15.3% in 2008.

The Group's production capacity of granule products now reaches 1.9 billion bags per annum. To cope with growing market demand of our granule products, the Group is now building a new production workshop which is expected to increase production capacity of granule products to 3.4 billion bags per annum. The new workshop is expected to be completed in 2010.

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

Sales of our Qing Kai Ling Injection had increased by 36.4% to RMB423,781,000 as comparable to last year. This product now accounts for 25.9% of the Group's turnover.

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 it is the largest manufacturer of Qing Kai Ling Injection in the PRC based on sales volume.

Qing Kai Ling Injection has been included by the Ministry of Health in the Essential Drug List. The Group believes that as the country implements the Essential Drug List, market demand for Qing Kai Ling Injection is expected to grow vastly. The Group will continue to rationalize distribution network to further enhance market coverage and penetration as well as strengthen marketing and promotion effort at the points of sales. Qing Kai Ling Injection will sustain strong growth.

Management Discussion and Analysis

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

For 2009, sales of Shen Mai Injection were RMB235,768,000, an increase of 13.8% as compared to last year. This product now accounts for 14.4% of the Group's turnover.

Shen Mai Injection is included in the National Catalogues of Medical Insurance and Occupational Injury Insurance. It is also included in the recommendation of the Ministry of Health of the PRC for treating human transmitted avian flu and the Essential Drug List.

The Group believes that it is the largest manufacturer of Shen Mai Injection in the PRC based on sales volume. The Group's Shen Mai Injection is widely used in clinical applications and is very popular among medical institutions and practitioners. As the government is expanding health care systems and coverage in rural and urban areas and implements the Essential Drug List, market demand for Shen Mai Injection will certainly increase.

Leveraging on our strong brand 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

Sales of Wu Fu Xin Nao Qing Soft Capsule had increased by 15.9% to RMB210,407,000. This product now accounts for 12.9% of the Group's turnover.

Wu Fu Xin Nao Qing Soft Capsule is ranked among the top ten cardiovascular Chinese medicines in the country. It is also one of the lowest in cost of average daily dosage among similar cardiovascular medicines. Therefore, this product has always been very popular. During the year, the "Wu Fu" trademark was certified as a "China Famous Trademark". The Group believes that it is the largest manufacturer of Wu Fu Xin Nao Qing Soft Capsule in the PRC based on sales volume.

The Group will continue to strengthen our effort on promoting the "Wu Fu" brand and foster support at the points of sales to broaden its sales.

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

For 2009, sales of Shu Xie Ning Injection reached RMB200,481,000, an increase of 46.5% from last year. This product now accounts for 12.3% 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 included in the National Catalogues of Medical Insurance and Occupational Injury Insurance. Shu Xie Ning Injection is a major clinical Chinese medicine for treating cardio-cerebrovascular disease. Leveraging on our niche in production technologies and economies of scale in Chinese medicine injections, the Group will continue to further enhance market coverage and penetration, foster marketing effort at the points of sales, and develop strategic distributors and rationalize distribution channels to achieve continuously strong growth.

Emerging Products

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

Sales of Pediatric Qing Fei Hua Tan Granule was RMB123,778,000 in 2009, an increase of 91.1% as compared to last year. This product now accounts for 7.6% of the Group's turnover.

Pediatric Qing Fei Hua Tan Granule is a "State Protected Chinese Medicine". It has superb curative effect and is the first A(H1-N1) flu medicine recommended by Hebei Province State Food & Drug Administration for children. Pediatric Qing Fei Hua Tan Granule has become a famous brand of children coughing medicine. The Group will continue to increase advertising and joint promotional campaign with chain drug stores to ensure sales growth momentum of this product.

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

During 2009, sales of Huo Xiang Zheng Qi Soft Capsule increased by 13.9% as compared to last year, with a revenue of RMB79,117,000. The product accounts for 4.8% of the Group's turnover for the year.

Management Discussion and Analysis

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. Due to its effective efficacy and the high bioavailability of soft capsule, Huo Xiang Zheng Qi Soft Capsule is a very popular non-prescription medicine with great market potential.

The Group will continue to strengthen our support at the points of sales, and also foster our promotion effort to expand market coverage. Furthermore, we will expedite partnership with strategic distributors and chain drug stores, and increase promotion to strive for better growth of Huo Xiang Zheng Qi Soft Capsule.

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

Sales of Huang Qi Injection had increased by 21.5% in 2009 to RMB41,044,000. The product now accounts for 2.5% 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. The Group will continue to further enhance market coverage and penetration, foster marketing effort at the points of sales. Growth in sales of Huang Qi Injection is expected in the coming years.

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

Sales of Qing Kai Ling Soft Capsule recorded sales of RMB55,693,000, an increase of 50.9% as compared to last year. The product now accounts for 3.4% 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 Occupational Injury Insurance and also recommended by the Ministry of Health of the PRC for treating human transmitted avian flu.

The Group will further expedite partnership with strategic distributors and chain drug stores, and increase promotion effort to ensure sales momentum of this product.

Management Discussion and Analysis

Liyan Jiedu Granule – for treatment of swollen and sore throat, fever and cough, etc. caused by acute or chronic tonsillitis, pharyngitis, stomatitis and parotiditis, etc.

Sales of our Liyan Jiedu Granule had surged by 69.9% from last year to RMB23,716,000. This product now accounts for 1.4% of the Group's turnover.

Liyan Jiedu Granule is characterized by its fast absorption, strong anti-bacteria efficacy, no bad smell and taste and its outstanding anti-inflammatory antipyretic effect. It is one of the bright stars within our emerging product group.

CAPITAL EXPENDITURES

To cope with the opportunities from the pharmaceutical market in the coming years, the Group has commenced construction of our Shineway Modern Chinese Medicine Park. We aim to build one of the most technologically advanced and largest in scale production headquarters of Chinese medicine in the country. Currently, a number of production workshops and facilities are being built, including a new granule and tablets workshop to increase production capacity of granules from 1.9 billion bags to 3.4 billion bags per annum, and the production capacity of tablets to 2.0 billion tablets per annum. Total costs of this new workshop are expected to be RMB250,000,000 with construction scheduled to be completed in 2010. In addition, we are currently building water recycle plant, power station and miscellaneous facilities, along with the new administrative building, for a total of RMB220,000,000. Constructions of these facilities are expected to be completed in 2010.

During the year, our Group had increase capacity and upgraded the facilities of our extraction workshops. Accordingly, our extraction capacity is raised from 5,400 tonnes to 10,000 tonnes per annum. The new extraction facilities will be equipped with automated detection technologies capable of real time monitoring quality of herb extracts. Such model project is the first one of the country as designated by the National Development and Reform Commission of the PRC.

The Group has also commenced construction of a new Chinese medicine extraction workshop and a new injection workshop. Capacities will further increase by another 10,000 tonnes of herbs and 1.2 billion vials of injection per annum. Total costs of the two workshops are estimated to be RMB350 million and RMB250 million respectively. The constructions are expected to be completed within 2011.

Management Discussion and Analysis

RESEARCH AND DEVELOPMENT

During the year, there are 20 product research projects which are either undergoing pharmaceutical and clinical trial or have completed clinical trial. Among these projects, 12 projects are related to treatment of various cardiovascular diseases, 2 projects for anti-viral treatment, 1 project for treatment of digestive system illnesses and 1 project for gynaecological treatment. All of these research projects, including the joint research project with an university in Australia to develop a new medicine for the treatment of Alzheimer's disease are progressed as planned.

During the year, Shineway Pharmaceutical Limited and Hebei Shineway Pharmaceutical Limited were assessed and granted as Provincial Grade Hi-Tech Enterprises.

The building structure of the Group's new research and development center in Lang Fang, Beijing is completed and awaiting for installation of equipment.

With the goal of further raising quality standards of Chinese medicine injections, China Shineway has submitted its application to become the sole "Chinese Medicine Injection Engineering Technology Research Center" of Hebei Province.

PATENT APPLICATIONS

The Group continues to pursue for intellectual property rights. During 2009, the Group received 5 invention patents from the Intellectual Property Office of the PRC.

As at the date of the Annual Report, the Group has obtained 14 patents for our inventions, and 4 invention patent applications are pending for approval.

STATE PROTECTED CHINESE MEDICINES

As at 31 December 2009, the Group had 9 medicines listed as State Protected Chinese Medicines including Shu Xie Ning Injection, Guan Xin Ning Injection and Pediatric Qing Fei Hua Tan Granule.

PROSPECT

In 2009, the PRC government announced the "Opinion on Deepening Medical and Health System Reform" and published its supplementary documents – "2009-2011 Implementation Plan of In-Depth Reform on Healthcare Structure" and the "Essential Drug List". It has officially launched the reform to ultimately establish universal coverage of insurance and a basic medical system to provide comprehensive health care package for people in China.

A total of 30 medicines produced by the Group are included in the "Essential Drug List", including our core products Qing Kai Ling Injection and Shen Mai Injection. With the Group's famous brand names and medicines of superb quality, the Group is determined to expedite our market coverage and penetration bolstered by the health care reform. With the implementation of "Essential Drug List" and the health care reform, medicines produced by the Group will be able to enter into the community hospitals and grassroots clinics in the rural market in a faster and larger scale.

Management Discussion and Analysis

Benefiting from economic growth, aging population, urbanization, and health care reform, the pharmaceutical industry's future growth prospects are very visible. The infusion of RMB850 billion exemplifies the PRC Government's determination and the likelihood that the next 10 years will be the golden era of the pharmaceutical industry. Public policies introduced under the health care reform in 2009 will begin to show impact in 2010 and mark a new beginning for China's pharmaceutical industry. China Shineway will continue to strengthen our research and development capabilities and increase investments in high technologies to develop innovative high-quality new products and to solidify the Group's leading position in modern Chinese medicine. Furthermore, the Group is determined to continuously strengthen marketing and promotion of our brands. We are fostering our alliance with strategic distributors and chain drug stores. We are expediting our effort to build end-customer network. We continue to expand market coverage and deepen market penetration, and ultimately the Group's business growth will escalate to the next level.

GROWTH STRATEGIES

The pharmaceutical industry of China is undergoing rapid growth. The government is infusing RMB850 billion to rationalize the country's health care system. Driven by health care reform and full implementation of the Essential Drug List, market for medicines will expand swiftly. With our strong management team, foremost research capabilities and large production capacity, China Shineway is well prepared to achieve better growth and return in the coming years by implementing the follow growth strategies:

Product Pipeline

1. Target on three high growth market segments – the middle and old aged, anti-viral and children medicines

2. Increase sales contribution from core products (namely Qing Kai Ling Injection, Shen Mai Injection, Wu Fu Xin Nao Qing Soft Capsule, Shu Xie Ning Injection and Pediatric Qing Fei Hua Tan Granule.)

3. Continue to nurture emerging products (such as Huo Xiang Zheng Qi Soft Capsule, Huang Qi Injection, Qing Kai Ling Soft Capsule, Liyan Jiedu Granule), so each would have sales of over RMB100 million

4. Expediting market entrance of Lian Shen Tong Lin pallet, Qi Huang Tong Mi Soft Capsule and Xingsu Zhike Soft Capsule and accelerate sales growth of Shujin Tongluo Granule, Wu Fu Jiangzhi Tonghuo Soft Capsule and Xiesaitong Dripping Pills

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

Management Discussion and Analysis

Market Development

1. Continue to expand personnel covering prescription medicines, OTC and the "Third Point of Sale Zones" (hospitals of factories and mining fields, community clinics and rural healthcare centers) to strengthen sales support at these points of sales

2. Synergize regional sales strength by delegating authority to regional management to strengthen regional decision making and expedite responding time

3. Increase regional support and promotion as well as training, educating and experience sharing to further develop network of end customers

4. Increase brand promotion to strengthen brand influence of "Shineway", "Wu Fu", "Shen Miao" and "Beisi"

Regional Expansion

1. While utilizing our advantageous position in northern China markets, the Group will strengthen our presence in other key strategic regions (mainly Pearl River Delta – Guangdong, the Yangtze River Delta – Zhejiang, Shanghai, Jiangsu, the Huanbo Bay coastal areas – Beijing, Tianjin, Liaoning)

2. Sales growth for key strategic regions are set at higher levels than the Group's overall growth target

Distribution Channels

1. Rationalize distribution channels to foster closer strategic cooperation with cross regional distributors which have strong distribution capabilities to increase market coverage and penetration

2. Strengthen cooperation with distributors which have strong network of points of sales to expedite product coverage of community clinics and rural health care centers

3. Continue to utilize the strength in our sales channels to vastly conduct academic seminars, customer education activities to enhance product coverage

Cost Efficiency

1. Maintain cost leadership by sustaining low operation costs via economies of scale and affirm on low price high quality products to maintain price competitiveness

2. Steadily expand production capacities and degree of automation, strengthen procurement control and improve production efficiency to lower production costs

Acquisition Targets

1. Focus our acquisition target on Chinese medicine companies that would further strengthen our leadership in modern Chinese medicines, and be able to realize synergy to unfold our operating results

FINANCIAL ANALYSIS

Turnover

The Group's turnover increased by 28.1% from last year due to strong growth of our products across the board. Sales of injection products reached RMB931,694,000, an increase of 28.8% as compared with 2008. Sales of injection products now account for 57.1% of the Group's turnover. Sales of soft capsule products were RMB390,182,000, representing an increase of 16.5%. Soft capsule products now account for approximately 23.9% of the Group's turnover. Sales of granule products amounted to RMB279,814,000, an increase of 43.8% from last year. Granule products now account for 17.1% of the Group's turnover. Sales of the Group's products of other formats were RMB31,533,000 which approximates to 1.9% of the Group's turnover.

The Group's three core products: Qing Kai Ling Injection recorded sales increase of 36.4% to RMB423,781,000 while sales of Shen Mai Injection increased 13.8% to RMB235,768,000 and sales of Wu Fu Xin Nao Qing Soft Capsule increased 15.9% to RMB210,407,000.

During the year, turnover of medicines for cardiovascular diseases, anti-viral medicines, gastroenterological medicines and medicines for treating other illness respectively accounted for 46.9% (2008: 49.2%), 32.0% (2008: 31.0%), 4.8% (2008: 5.4%) and 16.3% (2008: 14.4%) of the Group's total turnover.

Turnover of prescription and non-prescription medicines of the Group were RMB1,263,395,000 and RMB369,828,000, accounting for approximately 77.4% and 22.6% of the total turnover respectively in 2009. As at 31 December 2009, the Group had 32 products that were included in the National Medical Insurance Catalogue.

Cost of Sales

Cost of sales in 2009 was RMB455,132,000, amounting to 27.9% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 75.5%, 6.2% and 18.3% of total cost of sales.

Gross Margin

For 2009, average gross margins of injection products, soft capsule products and granule products were 76.7%, 73.6% and 57.1% respectively. Overall gross margin was up slightly from 71.7% of last year to 72.1% as a result of 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 has increased by 27.8%, accounted for 21.6% of turnover in 2009 as compared to 21.7% in last year. The increase of distribution costs is primarily due to the increase of advertising expenses by 210.6%. Advertising expenses which accounted for 11.1% of turnover in 2009 and 4.6% in 2008, mainly include television advertisement in PRC. The Group has been strengthening our effort in promotion of products, and has tried to develop potential market in Eastern and Southern China by actively participating in exhibition, seminar and training events.

Management Discussion and Analysis

Administrative Expenses and Research and Development Costs

Administrative expenses and research and development costs increased by 69.6% from last year, representing 10.3% (2008: 7.8%) of the Group's turnover. It is mainly due to the increase in performance related incentive payments payable to directors and research and development expenses. Research and development expenses has increased by 138.6% from last year, accounted for 2.0% of the Group's turnover in 2009 as compared to 1.1% in 2008.

Administrative expenses also comprised of non-productive depreciation expenses of fixed assets which accounts for 0.6% of the Group's total turnover in 2009 (2008: 0.4%).

Investment Income and Gains

The Group recorded interest income of RMB46,060,000 for the year, as compared to RMB39,231,000 for last year. The Group also posted a net gain on held-for-trading investments of RMB85,000 (2008: net loss of RMB6,531,000). The Group has disposed of all such held for-trading investments.

Net Exchange Gain

Due to the gradual recovery of global financial markets, the Group posted a net exchange gain of RMB125,350,000 for 2009 (2008: net loss of RMB131,812,000). Specifically, exchange gain resulted from change of exchange rate between Australian Dollars and Renminbi amounts to RMB134,066,000 (2008: loss of RMB102,586,000). Exchange loss resulted from change of exchange rate between Hong Kong Dollars and Renminbi amounts to RMB8,716,000 (2008: RMB29,226,000).

Income Tax Rate

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the 國稅函(2009)203號, the PRC EIT rate applicable to Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") is 15% on their taxable income for the year.

Pursuant to 西藏拉薩經濟技術開發區優惠政策, the PRC EIT rate applicable to Xizang Shineway is 10%, 12% and 15% on its taxable income for the years ended 31 December 2008 and 2009 and the year ending 31 December 2010 respectively.

Pursuant to 國發1988 26號, the PRC EIT rate applicable to Shineway Pharmaceutical (Hainan) Co., Limited ("Hainan Shineway") is 15% on its assessable profit.

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 2009, there was no change in the capital structure and issued share capital of the Group.

Management Discussion and Analysis

Establishment of Subsidiaries

At the end of 2009, the Group has established a wholly-owned subsidiary namely Shineway Pharmaceutical (Chengdu) Company Limited, with registered share capital of RMB5,000,000. This wholly-owned subsidiary was incorporated in PRC, with principal activity of trading Chinese pharmaceutical products.

Moreover, in 2009 November, the Group has established a wholly-owned subsidiary namely Yuan Da Investment Limited. It was incorporated in Hong Kong, with registered share capital of HK$1. Up to the date of this report, this wholly-owned subsidiary does not have any business operation.

Liquidity and Financial Resources

As at 31 December 2009, bank deposits of the Group approximately amounted to RMB2,318,189,000 (2008: RMB1,585,644,000), of which RMB1,627,649,000 (2008: RMB754,557,000) were denominated in RMB, others being equivalent to RMB604,295,000, RMB84,621,000 and RMB1,624,000 (2008: RMB449,980,000, RMB379,414,000 and RMB1,693,000) were denominated in Australian Dollars, Hong Kong Dollars and United States Dollars respectively. Except for trade and other payables, the Group did not have any other liabilities.

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

Trade and Bills Receivables

As at 31 December 2009, bills receivables decreased by 74.6% compared to the balance as at 31 December 2008. Turnover days of trade and bills receivables were 1.9 days and 41.7 days respectively (2008: 1.9 days and 77.6 days respectively).

Inventories

As at 31 December 2009, inventories increased by 78.6%, as compared to the balance as at 31 December 2008 due to an expected increase in sales in the beginning of 2010. As at 31 December 2009, raw materials, work in progress and finished goods accounted for 53.6%, 19.1% and 27.3% (2008: 65.1%, 14.9% and 20.0%) of inventories respectively. Turnover of finished goods inventories in 2009 was 21.0 days as compared to 20.4 days in 2008.

Property, Plant and Equipment

As at 31 December 2009, property, plant and equipment soared by 40.0% mainly due to the increase of construction in progress by 158.0% as compared with 31 December 2008. Construction costs to date for the foundation of Modern Chinese Medicine Industrial Park and granules & tablets production workshop together amounted to approximately RMB60,500,000. Research and development center and management center in Lang Fang costed approximately RMB77,476,000, and construction costs of administration building in Shijiazhuang now reached approximately RMB16,444,000.

Management Discussion and Analysis

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.

Trade Payables

As at 31 December 2009, turnover days of trade payables was 81.2 days (2008: 77.5 days).

Loans and Bank Borrowings

The Group did not have any loans or bank borrowings as at 31 December 2009 (2008: Nil), except for bank deposits of RMB86,739,000 (2008: Nil) were pledged to bank to secure bills payables of RMB86,739,000 (2008: Nil). Hence, the Group's gearing ratio based on interest bearing debt for the year is Nil (2008: Nil).

Pledge of Assets

At the time of settlement as at 31 December 2009, the Group secured the bills payables of RMB86,739,000 (2008: Nil) by pledging bank deposits amounting RMB86,739,000 (2008: Nil).

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2009 (2008: Nil).

Exposure to Fluctuations in Exchange Rates

Some of the subsidiaries of the Group have foreign currency bank deposits, which mainly in Australian Dollars, representing approximately 26.1% of the Group's total bank balances; others being Hong Kong Dollars and United States Dollars together representing approximately 3.7% of the Group's total bank balances. There were altogether approximately 29.8% of the bank balances are denominated in currencies other than the functional currency of the Group.

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 2009, the Group did not have any bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose.

Employees

As at 31 December 2009, the Group had 2,961 (2008: 2,345) 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 54, 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 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 54, 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 financial management in the industry with the Group.

XIN Yunxia (信蘊霞), aged 46, 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 42, is an executive Director. He 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 44, 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 and a member of the American Institute of Certified Public Accountants. He is also a council member of the Hong Kong Investor Relations Association and a 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 66, is an independent non-executive Director. He 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, deputy commissioner of National Chinese Medicine Administrative Bureau and deputy 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 50, is an independent non-executive Director. She 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.

SUN Liutai (孫劉太), aged 46, is an independent non-executive Director. He is a Chinese Certified Public Accountant. He was postgraduated in Economic Management Institute of North Western University. Mr. Sun has been working as a partner of Hebei Peking Certified Public Accountants from 2002 to present, during which, in 2003, he was appointed by Hebei Securities and Futures Commission to investigate a company listed on Shenzhen Stock Exchange. Mr. Sun has sound experience in accounting profession and finance. He worked as an assistant manager of general strategic department in China Investment Bank Hebei branch from 1987 to 1992, and worked as an assistant general manager in a Hebei Investment Management Consultancy Company in 1992 to 1995. He then worked as a principal accountant in Hebei Yongzhengde Certified Public Accountants from 1995 to 2002, during which he was enaged in audit of a company listed on the Shanghai Stock Exchange. Mr. Sun was a general committee of Hebei Society of Certified Public Accountants in 2002 to 2008, and was employed as an independent director and audit in-charge of Qinhuangdao Yaohua Glass Co., Ltd (a company listed on the Shanghai Stock Exchange, stock code: 600716) from May 2002 to June 2008. Mr. Sun was appointed as an independent non-executive Director of the Company on 9 February 2010.

Directors and Senior Management

MA Kwai Yuen Terence (馬桂園), aged 57, 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), 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 years of professional experience in accounting, financial management and business consultancy. Mr. Ma resigned as an independent non-executive Director on 17 December 2009.

SENIOR MANAGEMENT

CHEN Zhong (陳鍾), aged 43, 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. Mr. Chen is responsible for the Group's quality control and research and development activities.

WANG Qinli (王欽禮), aged 47, 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 production management and technology development.

TSE Tak Kwong (謝德光), aged 53, 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 35, 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's degree in Accounting from the Hong Kong 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 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in the note 33 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2009, prepared in accordance with the international accounting standards, are set out in the consolidated income statements on page 47 of this annual report.

DIVIDENDS

An interim dividend of RMB10 cents per share, amounting to RMB82,700,000, was paid to the shareholders on 19 October 2009.

The Board now recommends a final dividend of RMB12 cents per share and a special dividend of RMB15 cents per share for the year ended 31 December 2009, to be paid on 3 June 2010, to the shareholders whose names appear on the register of members of the Company on 27 May 2010. The proposed final dividend and special dividend will be voted by shareholders at the annual shareholders' meeting to be held on 27 May 2010.

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 13 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 25 to the consolidated financial statements. At the balance sheet date, the Company's reserves available for distribution to shareholders amounted to RMB1,131,464,000 (2008: RMB1,234,041,000). 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 (the "Directors") 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. Sun Liutai	(appointed on 9 February 2010)
Mr. Ma Kwai Yuen, Terence	(resigned on 17 December 2009)

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 (the "Articles of Association").

Directors' Report

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 (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considered all independent non-executive Directors to be independent.

Pursuant to Article 87(1) of the Articles of Association, Mr. Li Huimin and Mr. Ren Dequan will retire from the Board at the forthcoming annual general meeting (the "AGM"). Pursuant to Article 86(3) of the Articles of Association, Mr. Sun Liutai, 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 9 to the consolidated financial statements on page 69 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 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 2009, 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 2009, none of the Directors 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 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

As at 31 December 2009, 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 Limited ("Matkon")	Beneficial owner	111,621,644	13.50%
Trustcorp Limited (Notes 1 and 2)	Trustee of discretionary trust	587,996,060	71.10%
Newcorp Limited (Note 1)	Registered shareholder	587,996,060	71.10%

Notes:

(1) Interests of Trustcorp Limited and Newcorp Limited 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, Trustcorp Limited is deemed to be interested in the 587,996,060 Shares under the SFO.

(b) Interest in other members of the Group

As at 31 December 2009, 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 2009, 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 non-executive 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 2009, 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 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 2.7% and 12.5% 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 5.7% and 19.3% 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:

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

On 31 December 2009, Hainan Shineway and Xizang Shineway, subsidiaries 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 supply agreement (the "Supply Agreement"). According to the Supply Agreement, the total amount of the annual sales by Hainan Shineway or Xizang Shineway to Shineway Drugstores will not exceed RMB1,000,000 for each of 3 years ending 31 December 2012. For the year ended 31 December 2009, sales by Hainan Shineway and Xizang Shineway to Shineway Drugstores amounted to approximately RMB336,000 (2008: RMB153,000).

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

A tenancy agreement (the "Tenancy Agreement") was entered into between Hainan Shineway 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 Hainan Shineway a portion of office space with an area of approximately 514 square meters in the office owned by Shineway Medical for a period of 2 years from 1 January 2010. For the year ended 31 December 2009, rental expenditure paid by Hainan Shineway to Shineway Medical amounted to approximately RMB619,000 (2008: RMB619,000).

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

On 31 December 2009, Shineway Pharmaceutical, a subsidiary of the Company, and Shineway Medical entered into a general services agreement ("General Services Agreement I"), which is a renewal of the agreement entered into on 29 December 2006. 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 2010 until 31 December 2012. The proposed annual caps of such transaction for the three years ending 31 December 2012 are RMB6,600,000, RMB6,700,000 and RMB6,900,000 respectively. The transaction amount and cap amount of such transaction for the year ended 31 December 2009 are RMB7,236,000 and RMB7,400,000 respectively (2008: RMB7,094,000 and RMB7,200,000 respectively).

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

On 31 December 2009, 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 2010 until 31 December 2012. The transaction amount of such transaction for the year ended 31 December 2009 are RMB1,500,000 (2008: RMB1,400,000).

The Supply Agreement, Tenancy Agreement and General Services Agreement II 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, the Supply Agreement, Tenancy Agreement and General Services Agreement II are exempt from the reporting, announcement and independent shareholders' approval requirements.

As one of the applicable percentage ratios in respect of the annual caps for the provision of the services to Shineway Pharmaceutical by Shineway Medical contemplated under the General Services Agreement I exceeds 0.1% but is less than 2.5%, the transactions contemplated under the General Services Agreement I are only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements under Rule 14A.48 of the Listing Rules.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the connected transactions of the Group. The auditor has reported the factual findings on these procedures to the Board.

The Directors confirm that for the above connected transactions, the Company has complied with the relevant 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 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 agreements 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 emoluments 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 9 to the consolidated financial statements.

The contributions to pension schemes for directors and past directors for the financial year are disclosed in note 9 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 was 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 Group are primarily in the form of contributions to the Hong Kong Mandatory Provident Fund and China's statutory public welfare fund.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year of 2009.

CHARITABLE DONATIONS

During the year, the Group has not made charitable donations (2008: RMB1,184,000).

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, 29 March 2010

Corporate Governance Report

Dear Shareholders,

The Group is 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 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 2009 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 deviation as stated in the paragraph headed "Chairman and Chief Executive Officer" below.

In addition, on 17 December 2009, Mr. Ma Kwai Yuen, Terence resigned as an Independent Non-Executive Director, chairman of the Audit Committee and member of the Remuneration Committee who possesses appropriate professional qualifications and accounting and related financial management expertise. Following the resignation of Mr. Ma Kwai Yuen, Terence, the total number of Independent Non-Executive Directors and members of the Audit Committee fell below the minimum number of three as required under Rules 3.10(1) and 3.21 of the Listing Rules. On 9 February 2010, Mr. Sun Liutai, who has appropriate professional qualifications and accounting and related financial management expertise as required under Rule 3.10(2) of the Listing Rules, was appointed as an Independent Non-Executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee in replacement of Mr. Ma Kwai Yuen, Terence within three months from 17 December 2009 as required under Rules 3.11 and 3.23 of the Listing Rules. Subsequent to Mr. Sun Liutai's appointment, the Company has three Independent Non-Executive Directors and three Audit Committee members, and has fully complied with the requirements set out in the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the full set of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by directors. 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 2009 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 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.

As at the date of this report, the Board comprises five Executive Directors and three Independent Non-executive Directors. Pursuant to the requirements of the Listing Rules, the Company has received written confirmation from each Independent Non-Executive Director of his/her independence during his/her period of service during the year. 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 (the "Audit Committee") and the remuneration committee (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.

Corporate Governance Report

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 interim dividend and recommendation to shareholders on final dividend.

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. Sun Liutai	(appointed on 9 February 2010)	N/A
Mr. Ma Kwai Yuen, Terence	(resigned on 17 December 2009)	3/4

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

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

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 any appropriate adjustments should new circumstances arise.

NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors has entered into an appointment letter with the Company for a term of two years or till retirement by rotation in accordance with the 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:

1. 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 Independent 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.

As at the date of this report, the members of Remuneration Committee comprises two Independent Non-Executive Directors, Ms. Cheng Li and Mr. Sun Liutai, and Executive Director Ms. Xin Yunxia. Ms. Cheng Li is the chairman of the Remuneration Committee. The Remuneration Committee met once during the year to 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)*		1/1
Mr. Sun Liutai	(appointed on 9 February 2010)	N/A
Ms. Xin Yunxia		1/1
Mr. Ma Kwai Yuen, Terence	(resigned on 17 December 2009)	1/1

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 emoluments 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 30 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 and up to the date of this report, 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 and up to the date of this report, the Executive Directors, along with Independent Non-Executive Directors had considered and accepted the resignation of an Independent Non-Executive Director on 17 December 2009 and nomination of an Independent Non-Executive Director who joined the Group on 9 February 2010.

All Directors are appointed for a fixed term. The Articles of Association 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

Since 2004, Deloitte Touche Tohmatsu has been appointed as the Group's external auditor by shareholders annually. 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 (2008: HK$1,480,000), and in addition to a total of HK$390,000 (2008: HK$368,000) for other services, including the review of interim financial statements.

AUDIT COMMITTEE

As at the date of this report, the Audit Committee members comprise Mr. Sun Liutai, Mr. Ren Dequan and Ms. Cheng Li. All of the members of the Audit Committee are Independent Non-Executive Directors. Mr. Sun Liutai, who has appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the audit committee since 9 February 2010. 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 terms 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. Sun Liutai	(appointed on 9 February 2010)	N/A
Mr. Ren Dequan		2/2
Ms. Cheng Li		2/2
Mr. Ma Kwai Yuen, Terence	(resigned on 17 December 2009)	2/2

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 44 of this annual report.

ACCOUNTABILITY AND AUDIT

The Directors acknowledged their responsibility to present a balanced, clear and understandable assessment of the Group's performance, position and prospects in the consolidated financial statements of the annual and interim reports. They are not aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

In preparing the financial statements for the year ended 31 December 2009, the Directors have adopted appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

The Group has announced its annual and interim results in a timely manner within the limits of four months and three months respectively after the end of the relevant financial periods, as laid down in the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS

The Group attaches great priority to communication with shareholders and investors. Since our listing on the Main Board of the Stock Exchange in December 2004, the Group has regularly met with investors to increase corporate transparency. During the year 2009, 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 communication, 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 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 chairmen 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 levels 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 audit 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 re-appoint Deloitte Touche Tohmatsu as external auditor for the fiscal year 2010 and recommended to approve the interim and annual reports.

MEMBERS OF AUDIT COMMITTEE

Mr. Sun Liutai *(Chairman)*	(appointed on 9 February 2010)
Mr. Ren Dequan	
Ms. Cheng Li	
Mr. Ma Kwai Yuen, Terence	(resigned on 17 December 2009)

29 March 2010

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 47 to 90, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

Independent Auditor's Report

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 Group's affairs as at 31 December 2009 and of its 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
29 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Turnover	5	**1,633,223**	1,275,179
Cost of sales		**(455,132)**	(360,862)
Gross profit		**1,178,091**	914,317
Other income		**57,093**	37,247
Investment income and gain	6	**46,145**	32,700
Net exchange gain (loss)	7	**125,350**	(131,812)
Distribution costs		**(353,200)**	(276,338)
Administrative expenses		**(136,066)**	(85,905)
Research and development costs		**(33,397)**	(13,995)
Profit before taxation	8	**884,016**	476,214
Taxation	10	**(116,712)**	(77,972)
Profit for the year		**767,304**	398,242
Other comprehensive income			
Exchange differences arising on translation of foreign operation		**–**	(33,130)
Total comprehensive income for the year		**767,304**	365,112
Earnings per share - basic	12	**93 cents**	48 cents

Consolidated Statement of Financial Position

At 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	13	**456,746**	326,323
Prepaid lease payments	14	**62,078**	19,219
Intangible assets	15	**317**	–
Goodwill	16	**58,479**	58,479
Deferred tax assets	17	**7,481**	8,664
		585,101	412,685
Current assets			
Inventories	18	**136,308**	76,324
Bills receivables	19	**75,588**	297,954
Trade receivables	19	**5,873**	10,714
Prepayments, deposits and other receivables		**62,130**	43,136
Pledged bank deposits	21	**86,739**	–
Bank balances and cash	20	**2,318,189**	1,585,644
		2,684,827	2,013,772
Current liabilities			
Bills payables	22	**86,739**	–
Trade payables	22	**138,451**	64,137
Other payables and accrued expenses		**293,830**	197,460
Amounts due to related companies	23	**9,011**	9,628
Government grants receipt in advance	24	**550**	6,980
Tax liabilities		**19,266**	11,535
		547,847	289,740
Net current assets		**2,136,980**	1,724,032
Total assets less current liabilities		**2,722,081**	2,136,717
Capital and reserves			
Share capital	25	**87,662**	87,662
Reserves		**2,634,419**	2,049,055
Total equity		**2,722,081**	2,136,717

The consolidated financial statements on pages 47 to 90 were approved and authorised for issue by the Board of Directors on 29 March 2010 and are signed on its behalf by:

LI ZHENJIANG
DIRECTOR

WANG ZHIHUA
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31 December 2009

	Share capital RMB'000 (note 25)	Share premium RMB'000	Merger reserve RMB'000 (note a)	Exchange reserve RMB'000	Statutory surplus reserve fund RMB'000 (note b)	Discretionary surplus reserve fund RMB'000 (note c)	Accumulated profits RMB'000	Total RMB'000
At 1 January 2008	87,662	982,408	83,758	(33,130)	210,003	132,000	606,574	2,069,275
Other comprehensive income for the year	–	–	–	33,130	–	–	(33,130)	–
Profit for the year	–	–	–	–	–	–	398,242	398,242
Total comprehensive income for the year	–	–	–	33,130	–	–	365,112	398,242
Transfers	–	–	–	–	25,358	–	(25,358)	–
Dividends paid (Note 11)	–	–	–	–	–	–	(330,800)	(330,800)
At 31 December 2008	87,662	982,408	83,758	–	235,361	132,000	615,528	2,136,717
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	767,304	767,304
Transfers	–	–	–	–	126,224	22,760	(148,984)	–
Dividends paid (Note 11)	–	–	–	–	–	–	(181,940)	(181,940)
At 31 December 2009	87,662	982,408	83,758	–	361,585	154,760	1,051,908	2,722,081

Notes:

(a) 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.

(b) Statutory surplus reserve fund

Shineway Pharmaceutical Company Limited ("Shineway Pharmaceutical"), Hebei Shineway Pharmaceutical Company Limited ("Hebei Shineway") and Shineway Pharmaceutical Sales Company Limited ("Shineway Sales") (all are subsidiaries of the Company) Articles of Association ("Articles") require the appropriation of 10% of its profit after taxation prepared under Chinese Accounting Standards each year to the statutory surplus reserve fund until the balance reach 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, Shineway Pharmaceutical (Hainan) Company Limited ("Hainan Shineway") and Xizang Shineway Pharmaceutical Company Limited ("Xizang Shineway") (all are subsidiaries of the Company) shall make allocation from its profit after taxation prepared under Chinese Accounting Standards 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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Cash flows from operating activities		
Profit before taxation	**884,016**	476,214
Adjustments for:		
Amortisation of intangible assets	**3**	–
Depreciation of property, plant and equipment	**45,324**	36,041
(Gain) loss on disposal of property, plant and equipment	**(334)**	146
Interest income	**(46,060)**	(39,231)
Operating lease rentals in respect of land use rights	**1,267**	675
Government grant recognised as other income	**(6,780)**	–
Net exchange (gain) loss	**(125,350)**	131,812
Operating cash flows before movements in working capital	**752,086**	605,657
(Increase) decrease in inventories	**(59,984)**	2,028
Decrease (increase) in bills receivables	**222,366**	(53,134)
Increase in trade and other receivables, prepayments and deposits	**(6,156)**	(19,642)
Increase (decrease) in bills, trade and other payables and accrued expenses	**257,423**	(25,670)
Decrease in amounts due to related companies	**(617)**	(435)
Cash generated from operations	**1,165,118**	508,804
People's Republic of China ("PRC") Enterprise Income Tax paid	**(107,798)**	(103,524)
Net cash generated from operating activities	**1,057,320**	405,280
Cash flows from investing activities		
Increase in pledged bank deposits	**(86,739)**	–
Government grants received	**350**	600
Interest received	**38,655**	47,897
Purchase of intangible assets	**(320)**	–
Purchase of property, plant and equipment	**(176,199)**	(84,156)
Purchase of land use rights	**(44,718)**	–
Proceeds from disposal of property, plant and equipment	**783**	169
Net cash used in investing activities	**(268,188)**	(35,490)
Cash flows from financing activity		
Dividends paid	**(181,940)**	(330,800)
Net cash used in financing activity	**(181,940)**	(330,800)
Net increase in cash and cash equivalents for the year	**607,192**	38,990
Cash and cash equivalents at beginning of the year	**1,585,644**	1,678,442
Effect of exchange rate changes of cash and cash equivalents	**125,353**	(131,788)
Cash and cash equivalents at end of the year, representing bank balances and cash	**2,318,189**	1,585,644

Notes to the Financial Statements
For the year ended 31 December 2009

1. GENERAL

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

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in the note 33 to the consolidated financial statements.

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

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of IASB.

IAS 1 (Revised 2007)	Presentation of financial statements
IAS 23 (Revised 2007)	Borrowing costs
IAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
IFRS 2 (Amendment)	Vesting conditions and cancellations
IFRS 7 (Amendment)	Improving disclosures about financial instruments
IFRS 8	Operating segments
IFRIC 9 & IAS 39 (Amendments)	Embedded derivatives
IFRIC 13	Customer loyalty programmes
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 18	Transfers of assets from customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

Except as described below, the adoption of the new and revised IFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

New and revised IFRSs affecting presentation and disclosure only

IAS 1 (Revised 2007) Presentation of financial statements

IAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

IFRS 8 Operating segments

IFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 5).

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Amendment to IFRS 5 as part of improvements to IFRSs May 2008[1]
IFRSs (Amendments)	Improvements to IFRSs April 2009[2]
IAS 24 (Revised)	Related party disclosures[6]
IAS 27 (Revised)	Consolidated and separate financial statements[1]
IAS 32 (Amendment)	Classification of rights issues[4]
IAS 39 (Amendment)	Eligible hedged items[1]
IFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
IFRS 1 (Amendment)	Limited exemption from comparative IFRS 7 disclosures for first-time adopters[5]
IFRS 2 (Amendment)	Group cash-settled share-based payment transactions[3]
IFRS 3 (Revised)	Business combinations[1]
IFRS 9	Financial instruments[7]
IFRIC 14 (Amendment)	Prepayment of a minimum funding requirement[6]
IFRIC 17	Distributions of non-cash assets to owners[1]
IFRIC 19	Extinguishing financial liabilities with equity instruments[5]

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

[1] Effective for annual periods beginning on or after 1 July 2009.

[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 January 2010.

[4] Effective for annual periods beginning on or after 1 February 2010.

[5] Effective for annual periods beginning on or after 1 July 2010.

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

[7] Effective for annual periods beginning on or after 1 January 2013.

The application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

IFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

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.

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.

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

Acquisition of subsidiaries is accounted for using the purchase method. The cost of 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 profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising from an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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 profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (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. The estimated useful lives are as follows:

Buildings	20 years or over the unexpired lease terms, whichever is shorter
Plant and machinery	3 to 10 years
Office equipment	5 years
Motor vehicle	3 years

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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 carried 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 derecognised 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 profit or loss in the period in which the item is derecognised.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight line basis.

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.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (other than goodwill and financial assets)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent 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 in profit or loss immediately.

Revenue recognition

Revenue or turnover 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 on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses of the related costs for which the grants received are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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;
- 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.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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 profit or loss in the period in which they arise.

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 expense arising from operating leases is recognised in the consolidated statement of comprehensive income on a straight line basis over the period 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.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets comprise of held-for-trading investments and loans and receivables.

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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at held-for-trading, of which interest income is included in net gains or losses.

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.

Held-for-trading investments are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including bills receivables, trade and other receivables and bank balances and cash are) measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

Financial assets, other than held-for-trading investments, are assessed for indicators of impairment at the end of the reporting period. 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.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as bills receivables, trade 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 bills receivables and 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.

For financial assets measured at amortised cost, 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 entity after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities.

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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 is recognised in profit or loss.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following is the key assumption concerning the future, and other key source of estimation uncertainty at the end of the reporting period, 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 2009, the carrying amount of goodwill is RMB58,479,000 (2008: RMB58,479,000). Details of the recoverable amount calculated are disclosed in note 16. Changes in estimation of the value in use would materially affect the carrying amounts of goodwill in the consolidated statement of financial position and might give rise to impairment loss recognised in respect of goodwill in the consolidated statement of comprehensive income.

5. TURNOVER AND SEGMENT INFORMATION

Turnover

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

Operating segments

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (IAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, there is no segmental analysis of business and geographical segments, because the Group's operation was regarded as a single segment, being an enterprise engaged in research and development, manufacture and trading of Chinese pharmaceutical products. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments because the CODM, Chairman of the Board of Directors of the Group, reviews the revenue and the profit for the year of the Group as a whole for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is present as they are not regularly provided to the executive directors. Therefore, the operation of the Group constitutes one single reportable segment.

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Revenue from major products

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

	2009 RMB'000	2008 RMB'000
Injections	**931,694**	723,631
Soft capsules	**390,182**	335,036
Granules	**279,814**	194,587
Others	**31,533**	21,925
	1,633,223	1,275,179

Geographical information

The Group's operations are located on Mainland China and Hong Kong.

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers Year ended		Non-current assets As at 31 December	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Hong Kong	**1,219**	1,126	**54**	273
Mainland China	**1,632,004**	1,274,053	**519,087**	345,269
	1,633,223	1,275,179	**519,141**	345,542

Note: Non-current assets excluded deferred tax assets and goodwill.

For the year ended 31 December 2009, there was no customer with turnover accounted for more than 10% of total turnover.

6. INVESTMENT INCOME AND GAIN

	2009 RMB'000	2008 RMB'000
Interest on bank deposits	**46,060**	39,231
Net gain (loss) from held-for-trading investments	**85**	(6,531)
	46,145	32,700

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

7. NET EXCHANGE GAIN (LOSS)

	2009 RMB'000	2008 RMB'000
Exchange gain (loss) due to change in exchange rate between Australian Dollars ("AUD") and RMB	**134,066**	(102,586)
Exchange loss due to change in exchange rate between Hong Kong Dollars ("HKD") and RMB	**(8,716)**	(29,226)
	125,350	(131,812)

8. PROFIT BEFORE TAXATION

	2009 RMB'000	2008 RMB'000
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	**1,690**	1,983
Cost of recognised raw material as expense	**436,810**	360,862
Depreciation of property, plant and equipment	**45,324**	36,041
Amortisation of intangible assets	**3**	–
Operating lease rentals in respect of land use rights	**1,267**	675
Staff costs, other than pension costs (including directors' remuneration (see note 9))	**113,548**	72,218
Pension costs (including directors' pension costs (see note 9))	**13,233**	8,500
Rental expenses under operating lease in respect of rented premises	**1,929**	1,827
(Gain) loss on disposal of property, plant and equipment	**(334)**	146
Donation	**–**	1,184
and after crediting:		
Government subsidies received (included in other income) (Note)	**55,209**	34,541

Note: It mainly represented the incentives received from the Government of the People's Republic of China ("PRC") for investments in relevant regions in PRC by the Group.

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' remuneration:

Year ended 31 December 2009

	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	46	1,406	–	33,497	34,949
Wang Zhihua	46	616	–	–	662
Xin Yunxia	46	616	–	–	662
Li Huimin	46	633	–	53	732
Hung Randy King Kuen	46	1,221	11	255	1,533
Name of independent non-executive directors:					
Ren Dequan	116	–	–	–	116
Cheng Li	116	–	–	–	116
Ma Kwai Yuen, Terence (resigned on 17 December 2009)	111	–	–	–	111
	573	4,492	11	33,805	38,881

9. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

Year ended 31 December 2008

	Fees	Salaries, allowance and other benefits	Pension costs	Performance related incentive payments	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	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 (resigned on 30 May 2008)	49	–	–	–	49
	596	4,410	11	294	5,311

Employees' remuneration:

The five highest paid individuals of the Group included 4 directors for the year (2008: 5), details of whose remuneration are set out above. The remuneration of the remaining 1 employee for the year (2008: Nil) is as follows:

	2009	2008
	RMB'000	RMB'000
Salaries, allowance and other benefits	**680**	–
Pension costs	**11**	–
	691	–

9. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

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

	2009 Number of		2008 Number of	
	Directors	**Employees**	Directors	Employees
HKD500,001 – HKD1,000,000	**2**	**1**	3	–
HKD1,000,001 – HKD1,500,000	**–**	**–**	2	–
HKD1,500,001 – HKD2,000,000	**1**	**–**	–	–
HKD34,500,001 – HKD35,000,000	**1**	**–**	–	–
	4	**1**	5	–

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.

10. TAXATION

	2009 **RMB'000**	2008 RMB'000
The (charge) credit comprise:		
Current tax - PRC Enterprise Income Tax		
Current year	**(116,483)**	(70,388)
Over (under)provision in prior year	**954**	(8,919)
	(115,529)	(79,307)
Deferred tax (note 17)	**(1,183)**	1,335
	(116,712)	(77,972)

10. TAXATION (Continued)

The (charge) credit for the year can be reconciled to the consolidated profit before taxation as follows:

	2009		2008	
	RMB'000	%	RMB'000	%
Profit before taxation	884,016		476,214	
Tax at the applicable tax rate of 25% (2008: 25%)	(221,004)	(25.0)	(119,054)	(25.0)
Tax effect of expenses not deductible for tax purpose	(1,492)	(0.2)	(27,680)	(5.8)
Tax effect of income not taxable for tax purpose	36,108	4.1	6,032	1.3
Tax loss not recognised	(11,447)	(1.3)	(3,274)	(0.7)
Utilisation of tax losses previously not recognised	844	0.1	–	–
Tax effect on tax exemption	–	–	11,544	2.4
Income tax on concessionary rate	79,230	9.0	67,786	14.2
Effect of different tax rates of subsidiaries operating in other jurisdiction	200	0.0	(4,421)	(0.9)
Over(under)provision in prior year	954	0.1	(8,919)	(1.9)
Others	(105)	(0.0)	14	0.0
Taxation charge and effective tax rate for the year	(116,712)	(13.2)	(77,972)	(16.4)

The provision for PRC Enterprise Income Tax ("PRC EIT") is based on the estimated taxable income for PRC taxation purpose at the rate of taxation applicable for the period.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the 國税函(2009)203號, the PRC EIT rate applicable to Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") is 15% on their taxable income for the year.

Pursuant to 西藏拉薩經濟技術開發區優惠政策, the PRC EIT rate applicable to Xizang Shineway is 10%, 12% and 15% on its taxable income for the years ended 31 December 2008 and 2009 and the year ending 31 December 2010 respectively.

11. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Dividends recognised as distribution during the year:		
Final dividend paid for 2008 of RMB12 cents (2007: RMB11 cents) per share	**99,240**	90,970
Special dividend paid for 2008 of nil cent (2007: RMB16 cents) per share	**–**	132,320
Interim dividend paid for 2009 of RMB10 cents (2008: RMB12 cents) per share	**82,700**	99,240
Special interim dividend paid for 2009 of nil cent (2008: RMB1 cent) per share	**–**	8,270
	181,940	330,800
Dividends proposed		
Proposed final dividend of RMB12 cents (2008: RMB12 cents) per share	**99,240**	99,240
Proposed special dividend of RMB15 cents (2008: nil) per share	**124,050**	–
	223,290	99,240

The proposed dividends will be paid to the shareholders of the Company whose names appear on the Register of Members on 27 May 2010.

12. EARNINGS PER SHARE

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

	2009	2008
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share	**767,304**	398,242

	Number of ordinary shares	
	2009	2008
Weighted average number of ordinary shares for the purpose of basic earnings per share	**827,000,000**	827,000,000

No diluted earnings per share is presented as the Company did not have any potential ordinary shares outstanding.

13. 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 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
Additions	213	18,783	2,004	1,035	154,164	176,199
Reclassifications	–	39,155	347	–	(39,502)	–
Disposals	(1,179)	–	(223)	(733)	–	(2,135)
Currency realignment	–	–	(15)	–	–	(15)
At 31 December 2009	197,581	299,773	19,523	4,354	187,220	708,451
DEPRECIATION						
At 1 January 2008	45,347	120,964	5,503	1,701	–	173,515
Charge 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
Charge for the year	10,864	30,025	3,696	739	–	45,324
Eliminated on disposal	(1,061)	–	(209)	(416)	–	(1,686)
Currency realignments	–	–	(12)	–	–	(12)
At 31 December 2009	64,172	173,273	11,472	2,788	–	251,705
CARRYING VALUES						
At 31 December 2009	133,409	126,500	8,051	1,566	187,220	456,746
At 31 December 2008	144,178	98,587	9,413	1,587	72,558	326,323

14. PREPAID LEASE PAYMENTS

	2009 RMB'000	2008 RMB'000
Total prepaid lease payments:		
Medium-term leasehold land in PRC	**63,345**	19,894
Less: Amount charged within one year (included in other receivables)	**(1,267)**	(675)
	62,078	19,219

Movements of prepaid lease payment are as follows:

	2009 RMB'000	2008 RMB'000
CARRYING VALUE		
At 1 January	**19,894**	20,569
Addition during the year	**44,718**	–
Expense for the year	**(1,267)**	(675)
At 31 December	**63,345**	19,894

The lease term over which the prepaid lease payments are amortised ranged from 45 to 50 years.

15. INTANGIBLE ASSETS

Movements of intangible assets are as follows:

	2009 RMB'000	2008 RMB'000
CARRYING VALUE		
At 1 January	**–**	–
Addition during the year	**320**	–
Expense for the year	**(3)**	–
At 31 December	**317**	–

The patent (銀杏葉提取制製備方法專利權) has a definite useful live. Such intangible asset is amortized on a straight-line basis over 10 years.

16. IMPAIRMENT TESTING ON GOODWILL

	RMB'000
At 1 January 2008, 31 December 2008 and 31 December 2009	58,479

The management yearly determines if there is impairment of any of its cash-generating units containing goodwill with indefinite useful lives.

For the purpose of impairment testing, goodwill has been allocated to the cash-generating unit ("CGU") including three subsidiaries with principal activity of trading Chinese pharmaceutical products. These three subsidiaries are Shineway Sales Pharmaceutical Limited, Hainan Shineway Pharmaceutical Limited and Xizang Shineway Pharmaceutical Limited. During the year ended 31 December 2009, management of the Group determines that there is no impairment of its CGU containing goodwill.

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 12% (2008: 13%), with an estimated constant growth rate of 20% 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.

17. DEFERRED TAXATION

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

	Accelerated tax depreciation	**Others**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2008	5,946	1,383	7,329
(Charge) credit to profit or loss	(147)	1,482	1,335
At 1 January 2009	5,799	2,865	8,664
Charge to profit or loss	(146)	(1,037)	(1,183)
At 31 December 2009	5,653	1,828	7,481

17. DEFERRED TAXATION (Continued)

At the end of the reporting period, the Group has unused tax losses of approximately RMB74,915,000 (2008: RMB32,501,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unrecognised tax losses of RMB3,375,000 will expire in 2015. Other losses may be carried forward indefinitely.

Under the EIT 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 RMB644,785,000 (2008: RMB52,557,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

18. INVENTORIES

	2009	2008
	RMB'000	RMB'000
Raw materials	**73,008**	49,705
Work in progress	**26,087**	11,353
Finished goods	**37,213**	15,266
	136,308	76,324

All inventories were carried at cost at the end of each reporting period.

19. TRADE AND BILLS RECEIVABLES

	2009 RMB'000	2008 RMB'000
Bills receivables and trade receivables:		
Bills receivables	**75,588**	297,954
Trade receivables	**5,873**	10,714
	81,461	308,668

The Group allows a credit period normally ranging from six months to one year to its trade customers. The following is an aged analysis of bills receivables and trade receivables presented based on the invoice date at the end of the reporting period.

	2009 RMB'000	2008 RMB'000
0 - 180 days	**81,461**	308,668

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. All of the trade receivables are neither past due nor impaired.

20. BANK BALANCES AND CASH

Bank balances comprises short-term bank deposits with original maturity of three months or less. The effective interest rate ranged from 0.03% to 3.78% (2008: from 0.72% to 5.63%) per annum.

At the end of the reporting period, bank balances and cash of RMB1,627,649,000 (2008: RMB754,557,000) 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.

	2009	2008
	RMB'000	RMB'000
Australian Dollars	**604,295**	449,980
Hong Kong Dollars	**84,621**	379,414
United States Dollars	**1,624**	1,693

21. PLEDGED BANK DEPOSITS

Pledged bank deposits represents certain bank deposits pledged to banks to secure bills payables totalling RMB86,739,000 issued by the Group. The pledged bank deposits carry fixed interest rate of 1.98% (2008: nil) per annum. The pledged bank deposits were released upon the settlement of the relevant bills payables.

22. TRADE AND BILLS PAYABLES

	2009 RMB'000	2008 RMB'000
Bills payables	**86,739**	–
Trade payables	**138,451**	64,137
	225,190	64,137

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

	2009 RMB'000	2008 RMB'000
Within 6 months	**210,768**	57,079
Over 6 months but less than 1 year	**4,013**	3,625
Over 1 year but less than 2 years	**8,699**	3,263
Over 2 years	**1,710**	170
	225,190	64,137

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

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

	2009 RMB'000	2008 RMB'000
Hong Kong Dollars	**1,871**	4,726

23. AMOUNTS DUE TO RELATED COMPANIES

	2009 RMB'000	2008 RMB'000
Shineway Medical Science & Technology Co., Ltd. (“Shineway Medical”) (Note a)	**–**	619
Hebei Shineway Chain Drugstores Co., Ltd. (“Shineway Drugstores”) (Note a)	**2**	–
Shineway Medical Science & Technology (Lang Fang) Co., Ltd. (“Shineway Lang Fang”) (Note b)	**9,009**	9,009
	9,011	9,628

Notes:

(a) Shineway Medical, which is owned by the controlling shareholder of the Company, is the controlling shareholder of Shineway Drugstores.

(b) Shineway Medical is the controlling shareholder of Shineway Lang Fang.

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

24. GOVERNMENT GRANTS RECEIPT IN ADVANCES

	2009 RMB'000	2008 RMB'000
At 1 January	**6,980**	6,380
Addition during the year	**350**	600
Recognised as other income	**(6,780)**	–
At 31 December	**550**	6,980

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.

25. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2008, 31 December 2008 and 31 December 2009	5,000,000	530,000
Issued and fully paid:		
Balance at 1 January 2008, 31 December 2008 and 31 December 2009	827,000	87,662

26. 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 years ended 31 December 2009 and 2008, 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 owners of the Company, comprising issued share capital and various reserves during the years ended 31 December 2009 and 2008.

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.

27. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,502,551**	1,910,900
Financial liabilities		
Amortised cost	**363,440**	213,683

27. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies

The Group's major financial instruments include bills receivables, trade receivables, deposits and other receivables, pledged bank deposits, bank balances and cash, bills payables, trade and other payables and amount due to related companies. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate 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.

Foreign currency risk

Several subsidiaries of the Company have foreign currency bank balances, which expose the Group to foreign currency risk. Approximately 29% (2008: 52%) 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 20 with the functional currency of those subsidiaries in RMB. The following table details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in RMB against HKD and USD and 10% (2008: 10%) increase and decrease in RMB against AUD. 5% and 10% (2008: 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% (2008: 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% (2008: 5% or 10%) against the relevant currencies. For a 5% or 10% (2008: 5% or 10%) weakening of RMB against the relevant currencies, there would be an equal and opposite impact on the profit for the year.

	HKD Impact		**AUD Impact**		**USD Impact**	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Profit (loss)	**(3,103)**	14,007	**(45,322)**	(33,749)	**(61)**	(63)

27. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

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 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.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of those financial assets as stated in the consolidated statement of financial position.

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 bill, trade and other receivables at the end of the reporting period 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.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 97% (2008: 97%) of the total trade and bill receivables as at 31 December 2009.

The credit risk on bank balances and cash is limited because the counterparties are state-owned enterprises.

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

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 12 months from the end of the reporting period. The Group expects to have sufficient financial assets to settle its obligations within 12 months from the end of each reporting period.

27. FINANCIAL INSTRUMENTS (Continued)

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.

28. 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.

28. SHARE OPTIONS (Continued)

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 exercised 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.

29. OPERATING LEASE

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2009	2008
	RMB'000	RMB'000
Within one year	**1,767**	2,121
In the second to fifth year inclusive	**631**	1,002
	2,398	3,123

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, RMB619,000 (2008: RMB619,000) as fall due within one year is payable to Shineway Medical.

30. 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 statement of comprehensive income of RMB13,233,000 (2008: RMB8,500,000) represents contributions payable to this plan by the Group at rates specified in the rules of the plan.

31. CAPITAL COMMITMENTS

	2009	2008
	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	**144,816**	69,572

32. RELATED PARTY TRANSACTIONS

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

	2009	2008
	RMB'000	RMB'000
Trading transactions:		
Rental expenditure paid to Shineway Medical (note a)	**619**	619
Service fee to Shineway Lang Fang (note b)	**1,500**	1,400
Service fee to Shineway Medical (note a)	**7,236**	7,094
Sale of goods to Shineway Drugstores (note a)	**336**	153

Notes:

(a) Shineway Medical, which is owned by the controlling shareholder of the Company, is the controlling shareholder of Shineway Drugstores.

(b) Shineway Medical is the controlling shareholder of Shineway Lang Fang.

32. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

Remuneration paid for key management personnel include solely the directors of the Company as disclosed in note 9.

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

33. SUBSIDIARIES

Details of the subsidiaries at 31 December 2008 and 31 December 2009 are as follows:

Name of company	Place and date of incorporation/ establishment	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Directly	Indirectly	
Yuan Da Investment Limited	Hong Kong 10 November 2009	Share - HK$1	100%	–	Investment holding
Yuan Da International Limited 遠大國際有限公司	British Virgin Islands ("BVI") 20 November 2002	Share - US$10,000	100%	–	Investment holding
Hong Zhan International Limited 宏展國際有限公司	BVI 20 November 2002	Share - US$10,000	100%	–	Investment holding
Shineway Pharmaceutical Sales Company Limited 神威藥業營銷有限公司 (Note a)	PRC 3 March 2003 for a term of 30 years	Registered capital - RMB98,533,542	–	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical Company Limited 神威藥業有限公司 (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

33. SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
Hebei Shineway Pharmaceutical Company Limited 河北神威藥業有限公司 (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) Company Limited 中國神威藥業（香港）有限公司	Hong Kong 21 April 2004	Share - HK$1	–	100%	Trading of Chinese pharmaceutical products
Xizang Shineway Pharmaceutical Company Limited 西藏神威藥業有限公司 (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) Company Limited 神威藥業（海南）有限公司 (Note b)	PRC 21 May 2008 for a term of 10 years	Registered capital - US$3,900,000	–	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Chengdu) Company Limited 神威藥業（成都）有限公司	PRC 25 December 2009	Registered capital - RMB$5,000,000	–	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, Hainan Shineway and Chengdu Shineway are foreign wholly-owned enterprises.