神威藥業
SHINEWAY

China Shineway Pharmaceutical Group Limited
中 國 神 威 藥 業 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 02877

Leading Modern Chinese Medicine

Promoting Health Industry

ANNUAL REPORT **2010**

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman of the Board)*
Ms. Wang Zhihua
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Hung, Randy King Kuen (resigned on 30 April 2010)

Independent Non-executive Directors

Mr. Ren Dequan
Ms. Cheng Li
Mr. Sun Liutai (appointed on 9 February 2010)

Audit Committee

Mr. Sun Liutai *(Committee Chairman)*
(appointed on 9 February 2010)
Mr. Ren Dequan
Ms. Cheng Li

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Mr. Sun Liutai (appointed on 9 February 2010)
Ms. Xin Yunxia

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 People's Republic of China ("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

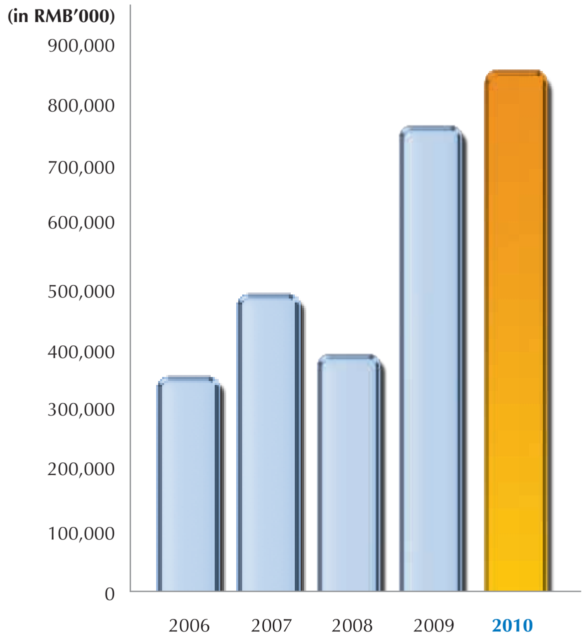
www.shineway.com.hk
www.shineway.com

Financial Highlights

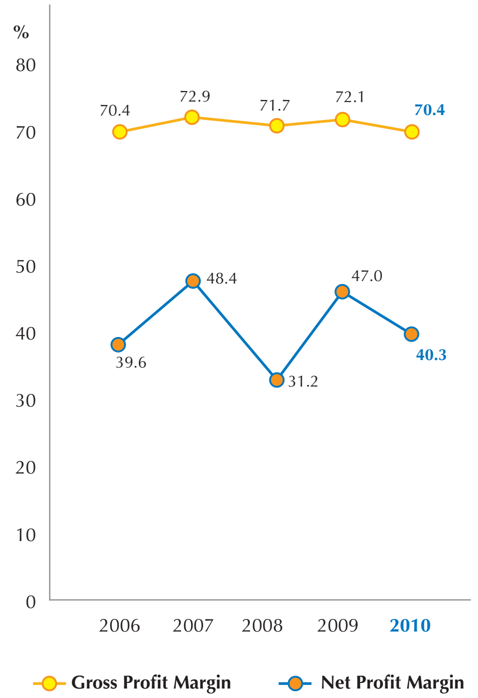
(in RMB'000)

	2006	2007	2008	2009	**2010**
RESULTS					
Turnover	841,475	1,012,885	1,275,179	1,633,223	**2,038,379**
Gross profit	592,300	738,038	914,317	1,178,091	**1,435,008**
Profit before taxation	387,034	575,941	476,214	884,016	**991,808**
Profit attributable to shareholders	332,977	490,641	398,242	767,304	**821,756**
Basic earnings per share	RMB 0.40	RMB 0.59	RMB 0.48	RMB 0.93	**RMB0.99**
Dividends	181,940	314,260	206,750	305,990	**330,800**
ASSETS AND LIABILITIES					
Total assets	2,007,743	2,408,737	2,426,457	3,269,928	**3,972,139**
Total liabilities	(238,490)	(339,462)	(289,740)	(547,847)	**(742,562)**
Shareholders' equity	1,769,253	2,069,275	2,136,717	2,722,081	**3,229,577**

Profit Attributable to Shareholders



Gross and Net Profit Margins



Major Achievements and Awards

Major Achievements and Awards of China Shineway in 2010

January

- China Shineway was named as the "Intellectual Property Trial Unit of Chinese Enterprises and Public Institutions" by State Intellectual Property Office of the PRC

April

- China Shineway was honored as the "Technological Innovation Team (First Session) in Shijiazhuang"

- China Shineway was awarded the "First Prize of Corporate Social Responsibility for Chinese Pharmaceutical Enterprises 2009" from the Council of Corporate Social Responsibility Forum of Chinese Pharmaceutical Industry

June

- China Shineway was honored as the "Excellent Enterprise in Quality Management Team Program in Chinese Pharmaceutical Industry 2010"

July

- China Shineway was included in the "Major Enterprises for Rectification of Irregular Charges"

- China Shineway was included in the "Civilized Units of Hebei Province"

August

- Qing Kai Ling Soft Capsule of China Shineway was included in the "Top List of Pharmaceutical Brands in China 2010"

September

- China Shineway was honored as one of the "10 Most Influential Brands in Hebei Province"

- The visual check team of Injection Workshop 2 of China Shineway was honored as the "Excellent Team of Socialistic Labor Competition"

October

- China Shineway was honored as the "City's Business Card of Hebei in China 2010 in Hebei Brand Festival"

Major Achievements and Awards

November

- China Shineway became an internship base for Peking University
- China Shineway was included in the "Pioneer Units for Precursor Chemicals Management 2010"
- China Shineway was honored as the "Chinese Medicine Injection Engineering and Technology Research Center in Hebei Province"

December

- China Shineway was again named as a "Hong Kong Outstanding Enterprise 2010"
- China Shineway was honored as the "Model Unit of Corporate Culture in Hebei Province"
- China Shineway was included in the "Quality Control Program for Chinese Medicine Injections" and was honored as the "Excellent Pharmaceutical Technological Innovation Case in China for the 11th Five-year Period"
- China Shineway was included in the "50 Best Enterprises in Integration of Industrialization and Informatization in China 2010"
- China Shineway was awarded the "Special Prize for Best Corporate Social Responsibility in Shijiazhuang 2010"
- Chairman Li Zhenjiang was appointed as Deputy Chairman of the second council of the Chamber of Commerce of Pharmaceutical Industry
- Chairman Li Zhenjiang was awarded as the "Most Socially Responsible Entrepreneur in Shijiazhuang 2010"

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 2010.

The year of 2010 was a special year for the pharmaceutical industry. With the implementation of the health care reform in China, policies related to "Essential Drug List", "National Catalogues of Medical Insurance", "Public Hospital Reform", "Drug Price Regulation" were released. Their impact on the pharmaceutical industry is increasingly clear. With the provincial implementation of the "National Catalogues of Medical Insurance", the "Essential Drug List" and the "New Rural Cooperation Drug Lists", centralized procurement and bidding system started at the provincial level. Competition was very fierce in 2010. Large pharmaceutical companies consolidated and expanded rapidly, especially the distribution sector. Quality pharmaceutical manufacturers increased their pace of consolidation and their market position further strengthened.

Confronted with such complexities and challenges, the Group, with the support of our staff, achieved remarkable results. We recorded sales revenue of RMB2.04 billion with a year-on-year growth of 24.8%. The sales of injection products recorded a 36.9% increase over the previous year, of which the sales of Qing Kai Ling Injection increased more than 50%; the sales of soft capsules decreased by 1.1% and the sales of granule products increased by approximately 17.1% compared with the previous year.

Our Shineway Modern Chinese Medicine Park located in Luancheng, Shijiazhuang, Hebei has commenced construction as scheduled. The granule and tablets workshop and water recycle plant were completed in year 2010. The new Chinese medicine extraction workshop, injection workshop and the new administrative building of the headquarter will be completed in year 2011. Our new research and development center in Yanjiao, Langfang, Beijing is already completed. Sichuan Kalituo Pharmaceutical Limited ("Kalituo Pharmaceutical") and its Qionglai project have now started with technological transformation and infrastructure, providing the foundation for the Group's future business and capacity expansion in western China. The successive completion and commencement of production of different projects place the Group in a much better position to meet the new demands in the coming five to ten years.

Both Shineway Pharmaceutical Company Limited and Hebei Shineway Pharmaceutical Company Limited were granted as "Provincial Hi-Tech Enterprises of Hebei Province" in 2009. The Group has 10 new product research projects undergoing pharmaceutical and clinical trial. Among them, 3 are related to the treatment of cardiovascular diseases, 2 are for the treatment of genitourinary diseases, 1 is for the treatment of digestive system illnesses, 1 is for gynecological treatment, 1 is for the treatment of orthopedics, 1 is for cancer adjuvant illnesses and a joint research project with a university in Australia to develop new medicines for the treatment of Alzheimer's disease. All research projects are progressing as planned.

Chairman's Statement

In the first half of 2010, the group successfully acquired Zhangjiakou Changcheng Pharmaceutical Limited, subsequently changed name to Shineway Pharmaceutical (Zhangjiakou) Co. Ltd. ("Shineway Zhangjiakou") and Kalituo Pharmaceutial. In order to upgrade their production technology and product quality, both companies have been undergoing technical and management reform as well as staff training straight after their acquisitions, and resumed production in July 2010. In addition, the Group established a wholly-owned subsidiary, Shineway (Shijiazhuang) Chinese Medicine Prepared Herbs Limited, by the end of 2010. The main business of the new subsidiary will involve the production, sales and cultivation of prepared Chinese herbal medicine.

With reform, efficiency, perfection and transcendence the Group will grow further in 2011. Reform means the Group will evolve and innovate in response to the changes in the business environment and the industry. Efficiency means the Group will maximize our profitability and efficiency by exploring new income sources and managing its costs effectively. Perfection means the Group will spend more effort on academic and customer education to perfect its sales and distribution network. Finally, the Group will seek transcendence of operating performance and management capability.

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.

The year of 2011 will be a year of substantial investment, development and achievement for China Shineway.

Li Zhenjiang
Chairman of the Board

Hong Kong, 23 March 2011

Management Discussion and Analysis

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 the year 2010, the Group recorded a turnover of RMB2,038,379,000, an increase of 24.8% from previous year. Sales by product form for the year are set out as follows:

	Sales (RMB)	**Growth Rate**	**Product Mix**
Injections	1,275,134,000	36.9%	62.6%
Soft Capsules	385,773,000	-1.1%	18.9%
Granules	327,686,000	17.1%	16.1%
Other product formats	49,786,000	57.9%	2.4%

The Group's net profit for 2010 is RMB821,756,000, representing an increase of 7.1% from year 2009. The increase in profit was mainly from the growth of product sale and rise in operating profit.

Injection Products

During 2010, the Group sold RMB1,275,134,000 of injection products, an increase of 36.9% from year 2009. Amongst these injection products, Qing Kai Ling injection, recorded the highest sales growth compared with last year and is the key product of the Group. Injection products accounted for 62.6% of the Group's turnover in 2010, while they contributed 57.1% of the turnover in prior year.

There are continued market demands for Chinese medicine injection products. The Group's annual production capacity for injection product is now 2 billion vials. The Group believes that it is currently the largest Chinese medicine injections manufacturer in the PRC in terms of sales volume and production capacity. A number of the Group's injection products are designated by regulatory agencies as "State Protected Chinese Medicine" and "Good Quality/Good Price" products. Meanwhile, the construction of the new injection production workshop is targeted to be completed by late 2011. Upon completion, the injection production capacity will be increased from the present of approximately 2 billion vials to 3.2 billion vials per annum.

In July 2009, the State Food and Drug Administration ("SFDA") has developed the "Principles on Re-Evaluating Chinese Medicine Injection Safety-Quality Control" and series of relevant laws and regulations to increase the production and quality control standards of Chinese medicine injection. The re-evaluation of Chinese medicine injection has been started. The Group believes the state re-evalution will significantly enhance the production technologies and quality standards of Chinese medicine injection. Each re-evaluation will cost few to ten millions. Those production companies with lack of production technologies, low quality control, low production rate and unable to start the re-evaluation of Chinese medicine injection will be eliminated. Entry barrier to Chinese medicine injection would be significantly increased and hence quality will be increased substantially. The good curative effect of Chinese medicine injection will be recognized by the market and the Group's quality, cost, size and brand will become more prominent.

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

Soft Capsule Products

During the year, the Group recorded RMB385,773,000 on sales of soft capsule products, a decrease of 1.1% from last year. The decrease was mainly motived by the drop in sales of Wu Fu Xin Nao Qing Soft Capsules and Qing Kai Ling Soft Capsules as compared with last year. The reason of the decrease in sales of Wu Fu Xin Nao Qing was principally attributable to its bundle sales with Qing Kai Ling injections in 2009 and there were inventories in the market in 2010. Qing Kai Ling injection products experienced high market demand in prior year, the production and sales of Qing Kai Ling Soft Capsules were both affected in 2010.

Soft Capsule products accounted for 18.9% of the Group's turnover in 2010, as compared to 23.9% in last year. The Group's current production capacity for soft capsules is 3.5 billion capsules per annum. The Group believes that it is currently the largest Chinese medicine soft capsules manufacturer in the PRC in terms of sales volume and production capacity.

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

Granule Products

Sales of granule products in 2010 increased by 17.1%, amounted to RMB327,686,000. Among them, Pediatric Qing Fei Hua Tan Granule and Pediatric Huatan Zhike Granule both recorded year-on-year sales increase. The growth was attributable to the Group's market positioning with the use of medicine for children using "Shen Miao" brand, as well as strengthening advertising and market promotion effort.

Granule products accounted for 16.1% of the Group's turnover in 2010 as compared to 17.1% in 2009.

Following the completion of production workshop at the end of 2010, the Group's annual production capacity has now increased to 3.4 billion bags. The Group believes that it is currently the largest Chinese medicine granules manufacturer in PRC in terms of sales volume and production capacity.

Management Discussion and Analysis

Key Products

In 2010, the five key products of the Group that contributed more than RMB100 Million in annual sales to the Group's revenue on individual basis were Qing Kai Ling Injection, Shen Mai Injection, Shu Xie Ning Injection, Wu Fu Xin Nao Qing Soft Capsule and Pediatric Qing Fei Hua Tan Granule.

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

Our Qing Kai Ling Injection increased more than 50% in sales from last year and is the major contributor to the Group's turnover.

Qing Kai Ling Injecton is listed in the National Catalogue 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 names 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 continues to rationalize distribution network to further enhance market coverage and penetration as well as strengthening marketing and promotion effort at the point of sales. Qing Kai Ling Injection will sustain strength growth.

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

In 2010, sales of Shen Mai Injection recorded an increase compared with last year.

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

The Group believes that it is the largest manufacturer of Shen Mai Injection in the PRC based on sales volume. The Group's Shen Mai Injection is widely used in clinical applications and is very popular among medical institutions and practitioners. 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 names 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.

Management Discussion and Analysis

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

In 2010, sales of Shu Xie Ning Injection increased compared with last year.

Shu Xie Ning Injection is designated as a "State Protected Chinese Medicine" and a "Good Quality/Good Price" product by the PRC authorities. It is included in the National Catalogues of Medical Insurance and Occupational Injury Insurance. Shu Xie Ning Injection is a major clinical Chinese medicine for treating cardio-cerebrovascular disease. Leveraging on our niche in production technologies and economies of scale in Chinese medicine injections, the Group will continue to further enhance market coverage and penetration, foster marketing effort at the points of sales, and develop strategies distributors and rationalize distribution channels to achieve continuously strong growth.

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

Sales of Wu Fu Nin Nao Qing Soft Capsule in this year decreased slightly compared with last year.

Wu Fu Xin Nao Qing Soft Capsules is ranked among the top ten cardiovascular Chinese medicines in the country. It is also one of the lowest in cost of average daily dosage among similar cardiovascular medicines. Therefore, this product has always been very popular. 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 Capsules 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 point of sales to broaden its sale.

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

Sales of Pediatric Qing Fei Hua Tan Granule in 2010 went up compared with last year.

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

Other Products

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

In 2010, sales of Huo Xiang Zheng Qi Soft Capsule increased compared with last year.

Huo Xiang Zheng Qi Soft Capusles is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. It is also recommended by the Ministry of Health of the PRC for treating human transmitted avian flu. 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 point 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.

Management Discussion and Analysis

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

In 2010, sales of Huang Qi Injection increased compared with last year.

Huang Qi Injection is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. It is also named as a "Hi-Tech" Product by the PRC authorities. Viral myocarditis has been uprising in recent years. With a proven efficacy on such illness, Huang Qi Injection has strong market potential. The Group will continue to further enhance market coverage and penetration, foster marketing effort at the points of sales. Growth in sales of Huang Qi Injection is expected in the coming years.

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

Sales of Qing Kai Ling Soft Capsule in current year decreased companed with last year.

Qing Kai Ling Soft Capsule is both a prescription and non-prescription medicine. It is included in the Occupational Injury Insurance and also recommended by the Ministry of Health of the PRC for treating human transmitted avian flu.

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

CAPITAL EXPENDITURES

In order to meet the surging demands from the pharmaceutical market, the Group has commenced construction of our Shineway Modern Chinese Medicine Park, with an aim to build one of the most technologically advanced and largest in scale production headquarters of modern Chinese medicine in the country. At present, the accelerated construction of a number of production workshops and facilities are underway including construction of extraction workshops, injection workshops, along with a new composite administrative building in the headquarter, etc. involving an investment of approximately RMB600 million in 2011.

Furthermore, the Group's large scale Chinese medicine extraction workshop and injection workshop under construction will further increase the capacities by another approximately 10,000 tonnes of herbs and approximately 1.2 billion vials of injection per annum. The workshops are designed and constructed in accordance with new GMP standards, and the total investment involved was approximately RMB350 million and RMB250 million, respectively. The constructions are scheduled to be completed in the year 2011.

RESEARCH AND DEVELOPMENT

Currently, there are 10 new product research projects undergoing pharmaceutical and clinical trial, 3 of which are for the treatment of cardiovascular diseases, 2 for the treatment of genitourinary diseases, 1 for the treatment of digestive system illnesses, 1 for the treatment of gynaecological diseases, 1 for the treatment of orthopedics, 1 for cancer adjuvant illnesses and a joint research project with a university in Australia to develop new medicines for the treatment of Alzheimer's disease. The Group has 2 launched products which are now under launched product re-evaluation. A special project team is established to explore new products investment opportunity studies.

During the year, Shineway Pharmaceutical Co., Limited ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Limited ("Hebei Shineway") underwent assessment and were approved as Provincial Grade Hi-Tech Enterprises in Hebei Province.

The Group's new research and development center in Yanjiao Development Zone, Langfang, Beijing has completed construction and installation of equipment is underway. Our research and development team will be moved to the new facility this year.

To raise the quality standards of Chinese medicine injection products, the Company has submitted its application to become the sole "Chinese Medicine Injection Engineering Technology Research Center" of Hebei Province.

PATENT APPLICATIONS

The Group continued to strengthen the protection of its intellectual property rights. During 2010, the Group received 4 invention patents from the Intellectual Property Office of the PRC.

As at the date of the Annual Report, the Group has obtained 18 patents for our inventions, and a total of 11 patent applications are pending for approval.

Management Discussion and Analysis

STATE PROTECTED CHINESE MEDICINES

As of 31 December 2010, the Group had 9 products listed as State Protected Chinese Medicines, including Shu Xie Ning Injection, Guan Xin Ning Injection and Pediatric Qing Fei Hua Tan Granule.

PROSPECT

China's pharmaceutical industry is stepping into a "golden decade" of rapid development, owing to the common effect of economic development, new healthcare reform, population aging, urbanization, unleash of demand from grass roots population and consumption upgrade. According to the projection of Southern Medical Economic Research Institute administered under the SFDA, China's pharmaceutical industry shall attain a Compound Annual Growth Rate ("CAGR") of 22% in respect to its gross industrial output value in the next decade, more than doubling the GDP growth rate. This figure shall reach 7.3813 trillion in 2019. Demand in the next decade will also maintain a CAGR of approximately 20%, making China possibly the second largest pharmaceutical market in the world by 2020, second only to the United States.

China's pharmaceutical industry underwent rapid development in 2010. The state government has implemented a comprehensive healthcare system and will invest RMB850 billion in the healthcare system. With the implementation of the healthcare system reform and the launch of the Essential Drug List and tender of drugs and medicine at provinces level, the pharmaceutical market will expand further in the future.

The PRC government has launched a series of policies regarding the pharmaceutical industry in the last two years, and, following the introduction of healthcare reform and the 12th five-year plan, it is expected that more policies are yet to be introduced. Therefore policies will be the foundation determining factor in the growth of the pharmaceutical industry in the short term. Leading enterprises in the pharmaceutical industry will maintain their growth in three ways, by enjoying the high growth rate of the industry, seizing the market share of the withdrawing competitors, and expansion through mergers and acquisitions.

During the 12th five-year plan, the PRC government will step up its support to the development and modernization of Chinese medicines and respective industries. In November 2010, the state introduced a series of policies favoring the development of Chinese medicine enterprises, such as the "opinion on accelerating structural alteration of the pharmaceutical industry", and set out targets for the Chinese medicine industry which include the "modernization and internationalization of Chinese medicines", and the "development of 50 strains or more of modern Chinese medicines that are effective, clear as to their constituents and working mechanism, safe, and are of advanced formulations as well as stable and controllable quality". The development of Chinese medicine injection products, as an important variety of Chinese medicines are in line with the modernization path the former has taken, and thus will benefit from the support of the state to the Chinese medicine industry.

On the other hand, 2010 is also a year of complication for China's pharmaceutical industry due to a number of uncertainties. Rumors in relation to the retail price alteration of medicines included in the Essential Drug List by the National Development and Reform Commission of the PRC were spreading in the market. In November, price reduction on certain Western medicines was introduced. In December 2010, the National Development and Reform Commission announced the average purchase price of representative formulations for 513 specifications of essential drugs, and that the state was in the process of unifying the price of exclusive drugs and essential drugs that has a stable price and abundant supply after numerous centralized purchasing.

In addition, new GMP standards had been announced in 2011 with effective from 1 March 2011 to guarantee the quality of modern Chinese medicines. The new GMP standards draw reference from the GMP standards of European Union, U.S. Food and Drug Administration and GMP standards of World Health Organization, and represent significant upgrade over the old GMP standards. The raise in hardware standard is especially high in bacteria-free medicine such as Chinese medicine injections, further emphasizing bacteria-free manufacturing processes where the requirements on purification and cleanliness are also lifted. Large sums of investment are to be engaged in the renewal and modification of factories and equipment. As for software requirements, demand on personnel management, discrepancy handling, quality management and audit on suppliers are considerably raised as well. By upgrading hardware, equipment, ancillary software, and standardizing working procedures, demand on enterprises' scale, cost-control capability and operating standards increased subsequently. With an expected investment of millions to tens of millions of capital in modifications, enterprises that record low profits or at loss will not be able to survive. In the coming three to five years, new GMP standards will be mandatorily deployed, raising the bar in competition within the industry and phasing out small pharmaceutical enterprises, effectively resolving the current situation where pharmaceutical companies are mostly small-scale and scattered. As a result, the industry will be more centralized and develop under a standardized framework.

The "2010 Pharmacopoeia" has been implemented since October 2010, raising the quality standard of most medicines and eliminating the low standard manufacturers in the industry. The new pharmacopoeia added or perfected inspection items in determining the effectiveness of Chinese medicines, considerably increasing the number of exclusive inspection items specific to the characteristics of Chinese medicines. The inspection methods and criteria are also more refined, adding restrictions to the amount of heavy metal and toxic elements present. The increased safety requirement and the quality control requirements in respect to the safety, effectiveness and quality controllability of products will pose a positive effect on the safety concern of Chinese medicine injections. The due implementation of the new pharmacopoeia will solve existing and prominent problems in the Chinese medicine industry, such as the use of alternative materials, the incorporation of other substances to add weight, colouring and adulteration, the use of inferior materials, excessive non-medical substances, excessive moisture and ashes, material inconsistency in medicine content. The integration of the Chinese medicine industry is hence expected.

Management Discussion and Analysis

Currently, 303 enterprises in China own 134 strains of Chinese medicine injections, and approval of 1,365 different specifications. The manufacturing and technological capability, as well as extraction methods of Chinese medicines, varies from enterprise to enterprise; low-level repetition is commonplace for numerous medicine strains. Through the re-evaluation of Chinese medicine injections, the entry bar for Chinese medicine injection manufacturers in the country is set at a high level, promoting the development of the entire industry from a chaotic state towards a "professional, intensified and standardized" direction. This in turn will foster the upgrade in the manufacturing of Chinese medicine injections, enhance production technology and equipment as well as quality standards, unify production processes, reduce low-level repetition in production, integrate the Chinese medicine injection market, ensure the quality of Chinese medicine injection to proceed towards a higher level, restore and enhance the reputation of Chinese medicine injection. During the shuffling of the industry, it is expected that only a handful of quality Chinese medicine injection manufacturers will be benefited and grow rapidly.

The reform and structural alteration in China's healthcare system has commenced, favoring the standardization of the market and the rapid growth of the market for modern Chinese medicines. The state will step up regulatory efforts on the pharmaceutical industry, which, in light of the current situation in the Chinese medicine market, is advantageous to large pharmaceutical enterprises. Pharmaceutical enterprises enjoying a size advantage shall grow in terms of market share.

As China's economic development continues to leap forward, the average per capita income of the nation's citizen continues to increase as well. Raising health awareness of its people and the aging of its population are driving the demand for medicine higher. The Company is well positioned to grasp the opportunity brought along with the upheaval and the shuffling of the industry, make use of the industry policies to its advantage, proceed with mergers, acquisitions and integrations, expand its scale of sales and market share, so as to maximize the Company and its shareholders' interests and return.

GROWTH STRATEGIES

The Group shall consistently implement the following growth strategies, together with our strong management team and our enormous manufacturing capacity to attain higher growth and return:

1. Expanding Manufacturing Capacity

Construct new workshops and make modifications of the existing workshops, expand Chinese medicine extraction capacity of injections and granules. The first facility that has completed construction and commenced production is a granule and tablet workshop (construction ended in November 2010). A new injection and extraction workshop will complete construction in the fourth quarter of 2011. Our extraction capacity is expected to be doubled upon the completion of new extraction workshop.

2. Product Strategies

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

- Further increase sales contribution from core products which have already exceeded 100 million of annual sales revenue (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).

- Continue to develop other products (such as Huo Xiang Zheng Qi Soft Capsule, Qing Kai Ling Soft Capsule, Huang Qi Injection) and products of our newly acquired companies (such as Huamoyan Granule and Fufang Gancao Tablet).

- Increase investments in research and development – to form a pipeline of innovative products manufactured by advanced technology, expand the product cluster of China Shineway.

3. Marketing Strategies

- Continue to expand sales covering prescription medicines, OTC medicines and the "Third Level of Sale" (hospitals of factories and mining fields, community clinics and rural healthcare centers) to strengthen sales support and management.

- Improve the market penetration of China Shineway's existing market and expand new market shares.

- Carry out marketing through refining our marketing strategy, establishing divisions and improving the brand awareness for our emerging products.

Management Discussion and Analysis

4. Merger, Acquisition and Investment Strategies

- Leverage on the re-integration opportunity of the pharmaceutical market brought along with the new healthcare reform, and the Company's brands, sales network and management experience to offset the inadequacies in the Company's existing products, sales and production capacity, integrate the resources in the market and propel the Company into high-speed development.

- Priority is given to product with huge market potential and relatively exclusive strains of medicine.

- Priority is given to enterprises with proprietary Chinese medicine injections, State Protected Chinese Medicine, patented medicine, exclusive medicine and national medicine.

FINANCIAL ANALYSIS

Turnover

In 2010, The Group's turnover increased by 24.8% from last year due to strong growth of our products across the board. Sales of injection products reached RMB1,275,134,000, an increase of 36.9% as compared with 2009. Sales of injection products now account for 62.6% of the Group's turnover. Sales of soft capsule products were RMB385,773,000, representing an decrease of 1.1%. Soft capsule products now account for approximately 18.9% of the Group's turnover. Sales of granule products amounted to RMB327,686,000, an increase of 17.1% from last year. Granule products now account for 16.1% of the Group's turnover. Sales of the Group's products of other formats were RMB49,786,000 which approximates to 2.4% of the Group's turnover.

During the year, turnover of medicines for cardiovascular diseases, anti-viral medicines, gastroenterological medicines and medicines for treating other illness respectively accounted for 41.7% (2009: 46.9%), 37.4% (2009: 32.0%), 8.9% (2009: 9.4%) and 12.0% (2009: 11.7%) of the Group's total turnover respectively in 2010.

Turnover of prescription and non-prescription medicines of the Group were RMB1,631,220,000 and RMB407,159,000, accounting for approximately 80.0% and 20.0% of the total turnover respectively in 2010. As at 31 December 2010, the Group had 43 products that were included in the National Medical Insurance Catalogue.

Cost of Sales

Cost of sales in 2010 was RMB603,371,000, amounting to 29.6% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 77.8%, 5.9% and 16.3% of total cost of sales.

Gross Margin

For 2010, average gross margins of injection products, soft capsule products and granule products were 74.2%, 73.0% and 53.5% respectively. Overall gross margin was down slightly from 72.1% of last year to 70.4% due to increasing of the price of raw material and energy resources. As a result of leverage on our economics of scale, effective internal control and advanced production technology to achieve high extracted rate and production yield rate. The Group was able to maintain a stable overall gross margin despite the cost increases.

Distribution Costs

Distribution costs have slightly decrease by 0.9%, accounted for 17.2% of turnover in 2010 as compared to 21.6% in last year. It is mainly decrease in advertising expenses due to the Group provided effective internal control the expenses. Advertising expenses which accounted for 6.0% of turnover in 2010 and 11.1% in 2009.

Administrative Expenses and Research and Development Costs

Administrative expenses and research and development costs increased by 29% from last year, representing 10.7% (2009: 10.3%) of the Group's turnover. Administrative expenses increase mainly due to salary and staff benefits increased by 54.7%, which was a result of number of employees increased by 24.6% from last year and increase in performance related incentive payments payable to directors. Administrative expenses also comprised of non-productive depreciation expenses of fixed assets which accounts for 0.6% of the Group's total turnover in 2010 (2009: 0.6%). Due to contribution from companies acquired and the Group's purchase of office equipment during the year, the depreciation increased by 56.0% from last year. Research and development expenses have decreased by 34.5% from last year, accounted for 1.1% of the Group's turnover in 2010 as compared to 2.0% in 2009.

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

Pursuant to the 藏政發(2008)78號 and the 藏政發(2011)14號, the PRC EIT rate applicable to Xizang Shineway Pharmaceutical Co., Ltd. is 12% for the years ended 31 December 2009 and 15% from 2010 to 2020 on its taxable income.

Management Discussion and Analysis

Dividends

Details of dividends and dividend policy are set out in the director's report on page 28 of this annual report.

Capital Structure

As at 31 December 2010, there was no change in the capital structure and issued share capital of the Group.

Acquisition and Establishment of Subsidiaries

In April 2010, the Group acquired Zhangjiakou Changcheng Pharmaceutical Limited, subsequently changed name to Shineway Pharmaceutical (Zhangjiakou) Co., Ltd ("Shineway Zhangjiakou") at a consideration of RMB55,424,600 which is referenced to the net asset value of Shineway Zhangjiakou. Its major products are Hua Moyan Granule, Fufang Gancao Tablet and Fufang Shexiang Injection. In order to improve the efficiency and production quality of Shineway Zhangjiakou, the Group has strengthened its management and training, production has been resumed in July 2010. The Group will put the products in its national distribution network to enlarge its customer base.

The Group has acquired another company in April 2010, Sichuan Kalituo Pharmaceutical Limited ("Kalituo Pharmaceutical"), together with its wholly-owned subsidiary Chengdu Kalituo Technology Company Limited ("Kalituo Technology") for an aggregate consideration of RMB15,000,000 which is referenced to the net asset value of these companies. Its major product is Xiang Dan injection. As Kalituo Pharmaceutical and Kalituo Technology have prime location in the Western part of China, it will be an important region for future sales areas of the Group.

Besides, the Group has established a wholly-owned subsidiary namely Shineway (Shijiazhuang) Chinese Medicine Prepared Herbs Limited, with registered share capital of RMB3,000,000. This wholly-owned subsidiary was incorporated in PRC, with principal activity of produce, trading and cultivation of Chinese medicinal herb.

Liquidity and Financial Resources

As at 31 December 2010, bank deposits of the Group approximately amounted to RMB2,349,021,000 (2009: RMB2,318,189,000), of which RMB2,007,405,000 (2009: RMB1,627,649,000) were denominated in RMB, others being equivalent to RMB341,435,000 and RMB181,000 were denominated in Hong Kong Dollars and United States Dollars respectively (2009: RMB604,295,000, RMB84,621,000 and RMB1,624,000 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.

Bills and Trade receivables

As at 31 December 2010, bills and trade receivables increased by 248.9% and 18.4% respectively as compared to the balance as at 31 December 2009. This is due to the increasing preference of customers to settle orders of goods with bank bills to save financing costs in light of the tightening of lending. Turnover days of bills and trade receivables were 30.4 days and 1.1 days (2009: 41.7 days and 1.9 days respectively).

Inventories

As at 31 December 2010, inventories in the amount of RMB191,925,000 increased by 40.8%, as compared to the balance as at 31 December 2009 due to an expected increase in sales in the beginning of 2011. As at 31 December 2010, raw materials, work in progress and finished goods accounted for 53.3%, 22.9% and 23.8% (2009: 53.6%, 19.1% and 27.3%) of inventories respectively. Turnover of finished goods inventories in 2010 was 25.0 days as compared to 21.0 days in 2009.

Property, Plant and Equipment

As at 31 December 2010, property, plant and equipment amounted to RMB776,781,000 increased by 70.1%. It was mainly due to the approximately RMB77,053,000 fixed assets contributed by a newly acquired subsidiary in 2010. Besides, injection workshop and related technical modification project costed approximately RMB98,491,000; Power station project costed approximately RMB54,274,000; New integrated production workshop costed approximately RMB38,847,000; Chinese medicine extraction workshop costs RMB28,438,000 and the new administrative building costed approximately RMB30,919,000.

Goodwill

Goodwill is related to the Group's acquisition of the remaining 20% ownership equity interests of Shineway Pharmaceutical Sales Co., Limited in 2005, and the acquisition of 100% equity interests of Shineway Zhangjiakou and Kalituo Pharmaceutical in 2010.

Bills and Trade Payables

As at 31 December 2010, turnover days of bills and trade payables were 36.8 days and 92.6days (2009: 34.8 days and 81.2 days).

Loans and Bank Borrowings

The Group did not have any loans or bank borrowings as at 31 December 2010 (2009: Nil), except for bank deposits of RMB35,068,000 (2009: RMB86,739,000) were pledged to bank to secure bills payables of RMB35,068,000 (2009: RMB86,739,000). Hence, the Group's gearing ratio based on interest bearing debt for the year is Nil (2009: Nil).

Management Discussion and Analysis

Pledge of Assets

At the time of settlement as at 31 December 2010, the Group secured the bills payables of RMB35,068,000 (2009: RMB86,739,000) by pledging bank deposits amounting RMB35,068,000 (2009: RMB86,739,000).

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2010 (2009: Nil).

Exposure to Fluctuations in Exchange Rates

Substantially all of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and majority of its bank deposits are in Renminbi, Hong Kong Dollars and United States Dollars. As at 31 December 2010, 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 2010, the Group had 3,690 (2009: 2,961) 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 55, 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 55, 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 47, 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 43, 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 13 years' experience.

Directors and Senior Management

HUNG Randy King Kuen (孔敬權), aged 45, was a former 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 resigned as an executive director on 30 April 2010, is currently an independent non-executive director of two Hong Kong listed companies.

Independent Non-Executive Directors

REN Dequan (任德權), aged 67, 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 in 2006.

CHENG Li (程麗), aged 51, 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 in 2006.

SUN Liutai (孫劉太), aged 47, 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

SENIOR MANAGEMENT

CHEN Zhong (陳鍾), aged 44, 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 as 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 48, 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.

LUK Yat Hung (陸一鴻), aged 52, is a fellow member of both Chartered Association of Certified Accountants of the United Kingdom and Hong Kong Institute of Certified Public Accountants with a master degree in business administration with Oklahoma City University and a Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Luk joined the Group in July 2010, prior to which he has served with a number of international conglomerates and listed groups as chief financial officer and executive director responsible for corporate finance, investor relations and corporate communication. Mr. Luk is responsible for the Group's investor relations and corporate communication.

LEE Bun Ching, Terence (李品正), aged 38, is the Financial Controller of the Group. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He holds a bachelor degree in Accounting and Financial Analysis and a master degree in Economics and Finance from the University of Warwick in the United Kingdom. Mr. Lee has extensive working experience in the field of auditing, accounting, finance and taxation. He joined the Group in February 2011, prior to which he served as the Group Accounting Controller of a listed company in Hong Kong for over 3 years. Between 1996 and 2007, Mr. Lee worked in a reputable international accounting firm and was a Senior Manager when he left in 2007.

TSE Tak Kwong (謝德光), aged 54, was a former 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. Mr. Tse resigned as financial controller on 31 January 2011.

COMPANY SECRETARY

WONG Mei Shan (汪美珊), aged 36, is the Company Secretary and Finance Manager 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 2010.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2010, prepared in accordance with the international accounting standards, are set out in the consolidated income statements on page 49 of this annual report.

DIVIDENDS

An interim dividend of RMB11 cents per share, amounting to RMB90,970,000, was paid to the shareholders on 25 October 2010.

The Board now recommends a final dividend of RMB12 cents per share and a special dividend of RMB17 cents per share for the year ended 31 December 2010, to be paid on 8 June 2011, to the shareholders whose names appear on the register of members of the Company on 31 May 2011. The proposed final dividend and special dividend will be voted by shareholders at the annual general meeting (the "AGM") to be held on 31 May 2011.

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. As at 31 December 2010, the Company's reserves available for distribution to shareholders amounted to RMB656,991,000 (2009: RMB1,131,464,000). 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 (resigned on 30 April 2010)

Independent Non-Executive Directors:

Mr. Ren Dequan
Ms. Cheng Li
Mr. Sun Liutai (appointed on 9 February 2010)

The biographical details of the Directors are set out on page 25 to page 26 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 2010. 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").

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, Ms. Wang Zhihua and Ms. Cheng Li will retire from the Board at the forthcoming AGM. 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 10 to the consolidated financial statements on page 73 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 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 2010, the interests and short positions of the Directors and chief executives of the Company 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 (the "Model Code") as set out in Appendix 10 to the Listing Rules 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 (excluding Mr. Li Zhenjiang himself). 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 2010, none of the Directors or chief executives of the Company or their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at 31 December 2010, 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 (L)	57.60%
Trustcorp Limited (Notes 1 and 2)	Trustee of discretionary trust	476,374,416 (L)	57.60%
Newcorp Limited (Note 1)	Interest in controlled corporation	476,374,416 (L)	57.60%
JPMorgan Chase & Co. (Note 4)	Beneficial owner, investment manager and custodian corporation/ approved lending agent	59,513,136 (L)	7.20%
	Beneficial owner	9,000 (S)	0.00%
	Custodian corporation/ approved lending agent	11,405,136 (P)	1.38%
Value Partners Limited (Note 5)	Investment manager	41,419,000 (L)	5.01%
Value Partners Group Limited (Note 5)	Interest in controlled corporation	41,419,000 (L)	5.01%
Cheah Capital Management Limited (Note 5)	Interest in controlled corporation	41,419,000 (L)	5.01%
Cheah Company Limited (Note 5)	Interest in controlled corporation	41,419,000 (L)	5.01%
Hang Seng Bank Trustee International Limited (Note 5)	Trustee	41,419,000 (L)	5.01%
Cheah Cheng Hye (Note 5)	Founder of a discretionary trust	41,419,000 (L)	5.01%
To Hau Yin (Note 5)	Interest of spouse	41,419,000 (L)	5.01%

L denotes long position.
S denotes short position.
P denotes lending pool.

Notes:

(1) Interests of Forway, 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 (excluding Li Zhenjiang himself). Trustcorp Limited is wholly-owned by Newcorp Limited. Accordingly, Trustcorp Limited and Newcorp Limited are deemed to be interested in the 476,374,416 Shares under the SFO.

(3) On 12 January 2010, Matkon Limited ("Matkon"), a former substantial shareholder of the Company entered into a placing agreement to dispose of its entire shareholding of 111,621,644 Shares. Matkon ceased to own any Shares after 15 January 2010.

(4) The interest of JPMorgan Chase & Co. was attributed on account through a number of its direct or indirect wholly-owned subsidiaries except China International Fund Management Co Ltd which was held by JPMorgan Chase & Co. as to 49% indirectly.

Amongst the total of 59,513,136 Shares held by JPMorgan Chase & Co., 595,000 Shares were held as beneficial owner, 47,513,000 Shares were held as investment manager, and 11,405,136 shares were held as custodian corporation/approved lending agent.

(5) These Shares are held by Value Partners Limited as investment manager. Value Partners Limited is wholly controlled by Value Partners Group Limited, which in turn is controlled as to 28.69% by Cheah Capital Management Limited. Cheah Capital Management Limited is wholly controlled by Cheah Company Limited, which in turn is wholly controlled by Hang Seng Bank Trustee International Limited (as trustee of The C H Cheah Family Trust). Cheah Cheng Hye is the founder of the said trust and To Hau Yin is the spouse of Cheah Cheng Hye.

Save as disclosed above, as at 31 December 2010, the Company had not been notified by any persons who (other than the Directors or chief executive of the Company) 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 2010, 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 2.8% and 13.0% 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 7.1% and 23.7% 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's 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, Shineway Pharmaceutical (Hainan) Co., Ltd. ("Hainan Shineway") and Xizang Shineway Pharmaceutical Co., Ltd ("Xizang Shineway"), wholly-owned 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 2010, sales by Hainan Shineway and Xizang Shineway to Shineway Drugstores amounted to approximately RMB470,000 (2009: RMB336,000).

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

On 31 December 2009, 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 2010, rental expenditure paid by Hainan Shineway to Shineway Medical amounted to approximately RMB619,000 (2009: RMB619,000).

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

On 31 December 2009, Shineway Pharmaceutical, a wholly-owned 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 two years ending 31 December 2011 and 31 December 2012 are RMB6,700,000 and RMB6,900,000 respectively. The transaction amount and cap amount of such transaction for the year ended 31 December 2010 are RMB6,538,000 and RMB6,600,000 respectively (2009: RMB7,236,000 and RMB7,400,000 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 wholly-owned 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 2010 are RMB1,679,000 (2009: RMB1,500,000).

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.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions disclosed above 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.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditor of the Company to perform certain work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The auditor has provided a letter to the board of directors of the Company and confirmed that for the year ending 31 December 2010 the Continuing Connected Transactions (i) have received the approval of the Board; (ii) are in accordance with the pricing policies of the Company for those Transactions that involve provision of goods or services by the Group; (iii) have been entered into in accordance with the relevant agreement governing the transactions and (iv) have not exceeded the cap disclosed in the previous continuing connected transaction announcement in Stock Exchanges by the Company dated 31 December 2009.

The Directors confirm that for the above connected transactions, the Company has complied with the relevant disclosures, reporting and shareholders' approval requirements in Chapter 14A of the Listing Rules. The above connected transactions are also reporting in note 33 to the consolidated financial statements of this Annual Report as Related Party Transactions.

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 10 to the consolidated financial statements.

The contributions to pension schemes for directors and past directors for the financial year are disclosed in note 10 to the consolidated financial statements.

Pursuant to the directors' service contracts with the Company, all executive Directors 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

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained a sufficient public float throughout the year of 2010 as required under the Listing Rules.

CHARITABLE DONATIONS

During the year, the Group has not made charitable donations (2009: Nil).

AUDITOR

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

On behalf of the Board

LI ZHENJIANG
CHAIRMAN OF THE BOARD

Hong Kong, 23 March 2011

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 2010 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the full set of 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 2010 as set out on page 30 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 four 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 25 to 26 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)*		3/4
Ms. Wang Zhihua		4/4
Ms. Xin Yunxia		4/4
Mr. Li Huimin		4/4
Mr. Hung Randy King Kuen (resigned on 30 April 2010)		3/4
Independent Non-executive Directors		
Mr. Ren Dequan		3/4
Ms. Cheng Li		4/4
Mr. Sun Liutai	(appointed on 9 February 2010)	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

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

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

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 three times 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)*		3/3
Mr. Sun Liutai	(appointed on 9 February 2010)	3/3
Ms. Xin Yunxia		3/3

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 36 of this annual report.

The Group's share option scheme as described on page 32 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 executive Director on 30 April 2010 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$1,800,000 (2009: HK$1,480,000), and in addition to a total of HK$380,000 (2009: HK$390,000) for other services, including the review of interim financial statements.

Corporate Governance Report

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)	4/4
Mr. Ren Dequan		4/4
Ms. Cheng Li		4/4

The Audit Committee met on four occasions during the year and the report on the work performed by the Audit Committee can be found on page 46 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.

The statement by the auditor of the Company regarding their reporting responsibilities on the financial statements of the group is set out in the Independent Auditor's Report on pages 47 to 48.

In preparing the financial statements for the year ended 31 December 2010, 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 three months and two 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 2010, 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 four 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 2011 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

23 March 2011

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 49 to 98, which comprise the consolidated statement of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the consolidated financial statements that give a true and fair view 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 state of affairs as at 31 December 2010 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
23 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Turnover	5	**2,038,379**	1,633,223
Cost of sales		**(603,371)**	(455,132)
Gross profit		**1,435,008**	1,178,091
Other income		**77,497**	57,093
Investment income and gain	6	**45,667**	46,145
Net exchange gain	7	**2,310**	125,350
Distribution costs		**(350,132)**	(353,200)
Administrative expenses		**(196,669)**	(136,066)
Research and development costs		**(21,873)**	(33,397)
Profit before taxation		**991,808**	884,016
Taxation	8	**(170,052)**	(116,712)
Profit and total comprehensive income for the year	9	**821,756**	767,304
Earnings per share – basic	12	**99 cents**	93 cents

Consolidated Statement of Financial Position

As at 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	13	**776,781**	456,746
Prepaid lease payments	14	**153,496**	62,078
Intangible assets	15	**2,165**	317
Goodwill	16	**91,663**	58,479
Deferred tax assets	17	**6,633**	7,481
		1,030,738	585,101
Current assets			
Inventories	18	**191,925**	136,308
Trade receivables	19	**6,956**	5,873
Bills receivables	19	**263,761**	75,588
Prepayments, deposits and other receivables		**94,670**	62,130
Pledged bank deposits	20	**35,068**	86,739
Bank balances and cash	21	**2,349,021**	2,318,189
		2,941,401	2,684,827
Current liabilities			
Trade payables	22	**167,760**	138,451
Bills payables	22	**35,068**	86,739
Other payables and accrued expenses		**399,367**	293,830
Amounts due to related companies	23	**9,020**	9,011
Deferred income	24	**2,600**	550
Tax liabilities		**52,943**	19,266
		666,758	547,847
Net current assets		**2,274,643**	2,136,980
Total assets less current liabilities		**3,305,381**	2,722,081
Non-current liabilities			
Deferred tax liabilities	17	**1,138**	–
Deferred income	24	**74,666**	–
		75,804	–
		3,229,577	2,722,081
Capital and reserves			
Share capital	25	**87,662**	87,662
Reserves		**3,141,915**	2,634,419
Total equity		**3,229,577**	2,722,081

The consolidated financial statements on pages 49 to 98 were approved and authorised for issue by the Board of Directors on 23 March 2011 and are signed on its behalf by:

LI ZHENJIANG	**WANG ZHIHUA**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes In Equity

For the year ended 31 December 2010

	Share capital RMB'000 (note 25)	Share premium RMB'000	Merger reserve RMB'000 (note a)	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 2009	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
Profit for the year and total comprehensive income for the year	–	–	–	–	–	821,756	821,756
Transfers	–	–	–	13,359	–	(13,359)	–
Dividends paid (Note 11)	–	–	–	–	–	(314,260)	(314,260)
At 31 December 2010	87,662	982,408	83,758	374,944	154,760	1,546,045	3,229,577

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

The Articles of Association ("Articles") of the subsidiaries of the Company, including Shineway Pharmaceutical Company Limited ("Shineway Pharmaceutical"), Hebei Shineway Pharmaceutical Company Limited ("Hebei Shineway"), Shineway Pharmaceutical Sales Company Limited ("Shineway Sales"), Shineway Pharmaceutical (Hainan) Company Limited ("Hainan Shineway"), Xizang Shineway Pharmaceutical Company Limited ("Xizang Shineway"), Shineway Pharmaceutical (Zhangjiakou) Company Limited ("Shineway Zhangjiakou"), Sichuan Kalituo Pharmaceutical Limited ("Kalituo Pharmaceutical"), Chengdu Kalituo Technology Company Limited ("Kalituo Technology") and Shineway (Shijazhuang) Chinese Medicine Prepared Herbs Limited ("Shineway Prepared Herbs"), require the appropriation of 10% of its profit after taxation prepared under Accounting Standards for Business Enterprises each year to the statutory surplus reserve fund until the balance reach 50% of the registered 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 capital.

(c) Discretionary surplus reserve fund

Pursuant to the Articles, Shineway Pharmaceutical, Hebei Shineway, Shineway Sales, Hainan Shineway, Xizang Shineway, Shineway Zhangjiakou, Kalituo Pharmaceutical, Kalituo Technology and Shineway Prepared Herbs, all are subsidiaries of the Company, shall make allocation from its profit after taxation prepared under Accounting Standards for Business Enterprises 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 the subsidiaries' production and operation.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Operating activities			
Profit before taxation		**991,808**	884,016
Adjustments for:			
Amortisation of intangible assets		**495**	3
Allowance for bad and doubtful debt		**2,087**	–
Depreciation of property, plant and equipment		**52,532**	45,324
Loss (gain) on disposal of property, plant and equipment		**67**	(334)
Interest income		**(45,667)**	(46,060)
Operating lease rentals in respect of land use rights		**3,302**	1,267
Government grant recognised as other income		**(6,079)**	(6,780)
Net exchange gain		**(2,310)**	(125,350)
Operating cash flows before movements in working capital		**996,235**	752,086
Increase in inventories		**(49,668)**	(59,984)
(Increase) decrease in trade and bills receivables		**(191,739)**	235,204
Increase in prepayments, deposits and other receivables		**(16,109)**	(18,994)
(Decrease) increase in trade and bills payables		**(28,856)**	161,053
Increase in other payables and accrued expenses		**6,136**	96,370
Increase (decrease) in amounts due to related companies		**9**	(617)
Cash generated from operations		**716,008**	1,165,118
People's Republic of China ("PRC") Enterprise Income Tax paid		**(136,583)**	(107,798)
Net cash generated from operating activities		**579,425**	1,057,320

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Investing activities			
Government grants received		**82,795**	350
Interest received		**52,337**	38,655
Decrease (increase) in pledged bank deposits		**51,671**	(86,739)
Purchase of property, plant and equipment		**(295,584)**	(176,199)
Purchase of land use rights		**(73,206)**	(44,718)
Acquisition of subsidiaries	26	**(54,579)**	–
Purchase of intangible assets		**(80)**	(320)
Proceeds from disposal of property, plant and equipment		**–**	783
Net cash used in investing activities		**(236,646)**	(268,188)
Cash used in financing activity			
Dividends paid and net cash used in financing activity		**(314,260)**	(181,940)
Net increase in cash and cash equivalents for the year		**28,519**	607,192
Cash and cash equivalents at beginning of the year		**2,318,189**	1,585,644
Effect of exchange rate changes of cash and cash equivalents		**2,313**	125,353
Cash and cash equivalents at end of the year, representing bank balances and cash		**2,349,021**	2,318,189

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 for the year 2010.

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 34 to the consolidated financial statements.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as "new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and IFRS Interpretation Committee (formerly known as the International Financial Reporting Interpretations Committee) (the "IFRIC") of the IASB.

IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRSs 5 as part of Improvements to IFRSs issued in 2008
IAS 27 (Revised 2008)	Consolidated and separate financial statements
IAS 39 (Amendment)	Eligible hedged items
IFRS 2 (Amendment)	Group cash-settled share-based payment transactions
IFRS 3 (Revised 2008)	Business combinations
IFRIC 17	Distributions of non-cash assets to owners

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 (the "IFRSs") (Continued)

Amendment to IAS 17 "Leases"

– As part of improvements to IFRSs issued in 2009, IAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendment to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to IAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

– In accordance with the transitional provisions set out in the amendment to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The adoption of amendment to IAS 17 "Lease" had no material impact on the consolidated financial statements.

New and revised IFRSs in issue but not yet effective

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

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[1]
IFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
IFRS 9	Financial instruments[4]
IAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
IAS 24 (as revised in 2009)	Related party disclosures[6]
IAS 32 (Amendments)	Classification of rights issue[7]
IFRIC – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
IFRIC – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

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

The consolidated financial statements have been prepared 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. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with IFRS 2 "Share-based payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units that is expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequent whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If 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 in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

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 recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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.

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current 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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 activities (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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 those 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.

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, pledged bank deposits, 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)

Financial assets (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 financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, such as 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, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the 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. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a bills receivables or trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to 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 in its entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity 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. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, the carrying amount of goodwill is RMB91,663,000 (2009: RMB58,479,000). Details of the recoverable amount calculated are disclosed in note 16.

5. TURNOVER AND SEGMENT INFORMATION

Turnover

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

Operating segments

The Group's operation was regarded as a single segment, being an enterprise engaged in research and development, manufacture and trading of Chinese pharmaceutical products. The Chairman of the Board of Directors of the Group, being the chief operating decision maker, reviews the revenue and the profit for the year of the Group as a whole for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the chief operating decision maker. Therefore, the operation of the Group constitutes one single reportable segment.

Revenue from major products

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

	2010 **RMB'000**	2009 RMB'000
Injections	**1,275,134**	931,694
Soft capsules	**385,773**	390,182
Granules	**327,686**	279,814
Others	**49,786**	31,532
	2,038,379	1,633,223

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Geographical information

All sales of the Group to external customers were made in the PRC including Hong Kong.

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

Information about major customers

For each of the year ended 31 December 2010 and 2009, there was no customer with turnover accounted for more than 10% of total turnover.

6. INVESTMENT INCOME AND GAIN

	2010	2009
	RMB'000	RMB'000
Interest on bank deposits	**45,667**	46,060
Net gain from held-for-trading investments	**–**	85
	45,667	46,145

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

7. NET EXCHANGE GAIN

	2010	2009
	RMB'000	RMB'000
Exchange gain due to change in exchange rate between Australian Dollars ("AUD") and RMB	**16,304**	134,066
Exchange loss due to change in exchange rate between Hong Kong Dollars ("HKD") and RMB	**(13,994)**	(8,716)
	2,310	125,350

8. TAXATION

	2010 RMB'000	2009 RMB'000
The charge comprise:		
Current tax – PRC Enterprise Income Tax		
Current year	**166,518**	116,483
Under(over)provision in prior year	**2,788**	(954)
	169,306	115,529
Deferred tax (note 17)	**746**	1,183
	170,052	116,712

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

	2010 HK$	2009 HK$
Profit before taxation	**991,808**	884,016
Tax at the applicable tax rate of 25% (2009: 25%)	**247,952**	221,004
Tax effect of expenses not deductible for tax purpose	**9,402**	1,492
Tax effect of income not taxable for tax purpose	**(2,783)**	(36,108)
Tax loss not recognised	**2,691**	11,447
Utilisation of tax losses previously not recognised	**(746)**	(844)
Income tax on concessionary rate	**(93,755)**	(79,230)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3,688**	(200)
Under(over)provision in prior year	**2,788**	(954)
Others	**815**	105
Taxation charge and effective tax rate for the year	**170,052**	116,712

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

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

8. TAXATION (Continued)

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

Pursuant to the 藏政發 (2008) 78號 and the 藏政發 (2011) 14號 the PRC EIT rate applicable to Xizang Shineway Pharmaceutical Co., Ltd. is 12% for the year ended 31 December 2009 and 15% from 2010 to 2020 on its taxable income.

9. PROFIT FOR THE YEAR

	2010	2009
	RMB'000	RMB'000
Profit for the year has been arrived at after charging:		
Allowance for bad and doubtful debt	**2,087**	–
Amortisation of intangible assets	**495**	3
Auditor's remuneration	**1,896**	1,690
Depreciation of property, plant and equipment	**52,532**	45,324
Loss on disposal of property, plant and equipment	**67**	–
Operating lease rentals in respect of land use rights	**3,302**	1,267
Pension costs (including directors' pension costs (see note 10))	**19,012**	13,233
Rental expenses under operating lease in respect of rented premises	**2,558**	1,929
Staff costs, other than pension costs (including directors' remuneration (see note 10))	**134,060**	113,548
and after crediting:		
Gain on disposal of property, plant and equipment	**–**	334
Government subsidies (included in other income) (Note)	**75,965**	55,209

Note: The government grants represent the amounts received from the local government of the PRC by the subsidiaries of the Company. In 2010, government grant of (a) RMB69,886,000 (2009: RMB48,429,000) represents incentive received in relation to business development and expansion in relevant regions in the PRC; and (b) RMB6,079,000 (2009: RMB6,780,000) represents recognition of deferred income upon completion of related research activities (note 24).

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' remuneration:

	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Pension costs RMB'000	Performance related incentive payments RMB'000	Total remuneration RMB'000
Year ended 31 December 2010					
Name of executive directors:					
Li Zhenjiang	**47**	**1,417**	**–**	**42,540**	**44,004**
Wang Zhihua	**44**	**591**	**–**	**–**	**635**
Xin Yunxia	**47**	**620**	**–**	**–**	**667**
Li Huimin	**45**	**622**	**–**	**51**	**718**
Hung Randy King Kuen (resigned on 30 April 2010)	**15**	**391**	**3**	**30**	**439**
Name of independent non-executive directors:					
Sun Liutai (appointed on 9 February 2010)	**102**	**–**	**–**	**–**	**102**
Cheng Li	**114**	**–**	**–**	**–**	**114**
Ren Dequan	**114**	**–**	**–**	**–**	**114**
	528	**3,641**	**3**	**42,621**	**46,793**
Year ended 31 December 2009					
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:					
Ma Kwai Yuen, Terence (resigned on 17 December 2009)	111	–	–	–	111
Cheng Li	116	–	–	–	116
Ren Dequan	116	–	–	–	116
	573	4,492	11	33,805	38,881

Note: The performance related incentive payments were determined with reference to the individual performance for the year.

10. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

Employees' remuneration:

The five highest paid individuals of the Group included 4 directors for the year 2010 (2009: 4), details of whose remuneration are set out above. The remuneration of remaining 1 employee for the year 2010 (2009: 1 employee) is as follows:

	2010	2009
	RMB'000	RMB'000
Salaries, allowance and other benefits	**700**	680
Pension costs	**10**	11
	710	691

Emolument of this employee is within the band nil – HK$1,000,000.

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 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.

11. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Dividends recognised as distribution during the year:		
Final dividend paid for 2009 of RMB12 cents (2008: RMB12 cents) per share	**99,240**	99,240
Special dividend paid for 2009 of RMB15 cents (2008: nil) per share	**124,050**	–
Interim dividend paid for 2010 of RMB11 cents (2009: RMB10 cents) per share	**90,970**	82,700
	314,260	181,940
Dividends proposed		
Proposed final dividend of RMB12 cents (2009: RMB12 cents) per share	**99,240**	99,240
Proposed special dividend of RMB17 cents (2009: RMB15 cents) per share	**140,590**	124,050
	239,830	223,290

The proposed dividends has been proposed by the directors and is subject to approval by the shareholders in general meeting.

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:

	2010	2009
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share	**821,756**	767,304

	Number of ordinary shares	
	2010	2009
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 machineries	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2009	198,547	241,835	17,410	4,052	72,558	534,402
Currency realignment	–	–	(15)	–	–	(15)
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)
At 31 December 2009	197,581	299,773	19,523	4,354	187,220	708,451
Currency realignment	–	–	(51)	–	–	(51)
Acquired on acquisition of subsidiaries	55,400	19,370	544	647	1,092	77,053
Additions	861	20,945	3,918	976	268,884	295,584
Reclassifications	78,706	43,112	1,556	–	(123,374)	–
Disposals	–	(580)	(14)	(51)	–	(645)
At 31 December 2010	332,548	382,620	25,476	5,926	333,822	1,080,392
DEPRECIATION						
At 1 January 2009	54,369	143,248	7,997	2,465	–	208,079
Currency realignment	–	–	(12)	–	–	(12)
Charge for the year	10,864	30,025	3,696	739	–	45,324
Eliminated on disposal	(1,061)	–	(209)	(416)	–	(1,686)
At 31 December 2009	64,172	173,273	11,472	2,788	–	251,705
Currency realignment	–	–	(48)	–	–	(48)
Charge for the year	11,792	35,980	3,690	1,070	–	52,532
Eliminated on disposal	–	(517)	(13)	(48)	–	(578)
At 31 December 2010	75,964	208,736	15,101	3,810	–	303,611
CARRYING VALUES						
At 31 December 2010	256,584	173,884	10,375	2,116	333,822	776,781
At 31 December 2009	133,409	126,500	8,051	1,566	187,220	456,746

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated over their estimated useful lives and after taking into account their estimated residual values using the straight-line method as follow:

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

14. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
Total prepaid lease payments:		
Medium-term leasehold land in PRC	**157,509**	63,345
Less: Amount charged within one year (included in other receivables)	**(4,013)**	(1,267)
	153,496	62,078

Movements of prepaid lease payment are as follows:

	2010 RMB'000	2009 RMB'000
CARRYING VALUE		
At 1 January	**63,345**	19,894
Acquired on acquisition of subsidiaries	**22,800**	–
Addition during the year	**74,666**	44,718
Expense for the year	**(3,302)**	(1,267)
At 31 December	**157,509**	63,345

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:

	2010 RMB'000	2009 RMB'000
CARRYING VALUE		
At 1 January	**317**	–
Acquired on acquisition of subsidiaries	**2,263**	–
Addition during the year	**80**	320
Expense for the year	**(495)**	(3)
At 31 December	**2,165**	317

The patents have definite useful lives. Such intangible assets are amortised on straight-line basis over the useful lives from 2 to 20 years.

16. GOODWILL

	2010 RMB'000	2009 RMB'000
At 1 January	**58,479**	58,479
Arising on acquisition of subsidiaries	**33,184**	–
At 31 December	**91,663**	58,479

The management yearly determines if there is impairment of its cash-generating unit ("CGU") containing goodwill.

For the purpose of impairment testing, goodwill has been allocated to the CGU including six subsidiaries with principal activity of manufacturing and trading of Chinese pharmaceutical products. These six subsidiaries are Shineway Pharmaceutical Sales Company Limited, Shineway Pharmaceutical (Hainan) Company Limited, Xizang Shineway Pharmaceutical Company Limited, Shineway Pharmaceutical (Chengdu) Company Limited, Shineway Pharmaceutical (Zhangjiakou) Company Limited and Sichuan Kalituo Pharmaceutical Limited. During the year ended 31 December 2010, management of the Group determines that there is no impairment of its CGU containing goodwill.

16. GOODWILL (Continued)

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% (2009: 12%), with an estimated constant growth rate of 8% (2009: 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

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2010	2009
	RMB'000	RMB'000
Deferred tax assets	**6,633**	7,481
Deferred tax liabilities	**(1,138)**	–
	5,495	7,481

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

	Accelerated tax depreciation	**Others**	**Total**
	RMB'000	RMB'000	RMB'000
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
Charge to profit or loss	(44)	(702)	(746)
Acquisition of subsidiaries	–	(1,240)	(1,240)
At 31 December 2010	5,609	(114)	5,495

17. DEFERRED TAXATION (Continued)

At the end of the reporting period, the Group has unused tax losses of approximately RMB82,696,000 (2009: RMB74,915,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Unrecognised tax losses of RMB2,984,000 will expire in 2015. Other tax 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 RMB1,819,653,000 (2009: RMB998,862,000) 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

	2010	2009
	RMB'000	RMB'000
Raw materials	**102,294**	73,008
Work in progress	**44,034**	26,087
Finished goods	**45,597**	37,213
	191,925	136,308

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

19. TRADE AND BILLS RECEIVABLES

	2010	2009
	RMB'000	RMB'000
Trade receivables	**9,043**	5,873
Less: Allowance for doubtful debts	**(2,087)**	–
	6,956	5,873
Bills receivables	**263,761**	75,588
	270,717	81,461

19. TRADE AND BILLS RECEIVABLES (Continued)

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

	2010 RMB'000	2009 RMB'000
0 – 180 days	270,717	81,461

Before accepting any new customer, the Group has appointed a special team to monitor the potential customer's credit quality and defines credit limits by customer, which are reviewed every year. Except for the allowance for doubtful debts recognised amounting to RMB2,087,000 in 2010, there is no other adverse change in the credit quality of the customers from the date of credit was initially granted. All of the trade receivables are not past due.

Movement in the total allowance for doubtful debts

	2010 RMB'000	2009 RMB'000
At 1 January	–	–
Impairment loss recognised	2,087	–
At 31 December	2,087	–

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB2,087,000 (31 December 2009: nil) which have either been placed under liquidation or are in financial difficulties. The Group does not hold any collateral over these balances.

20. PLEDGED BANK DEPOSITS

Pledged bank deposits represent certain bank deposits pledged to banks to secure bills payables totalling RMB35,068,000 (2009: RMB86,739,000) issued by the Group. The pledged bank deposits carry fixed interest rate of 1.98% (2009: 1.98%) per annum. The pledged bank deposits will be released upon the settlement of the relevant bills payables.

21. 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 0.36% to 2.5% (2009: from 0.03% to 3.78%) per annum as at 31 December 2010.

At the end of the reporting period, bank balances and cash of RMB2,007,405,000 (2009: RMB1,627,649,000) 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.

	2010	2009
	RMB'000	RMB'000
Australian Dollars	**–**	604,295
Hong Kong Dollars	**341,435**	84,621
United States Dollars	**181**	1,624

22. TRADE AND BILLS PAYABLES

	2010	2009
	RMB'000	RMB'000
Trade payables	**167,760**	138,451
Bills payables	**35,068**	86,739
	202,828	225,190

22. TRADE AND BILLS PAYABLES (Continued)

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

	2010	2009
	RMB'000	RMB'000
Within 6 months	**175,947**	210,768
Over 6 months but less than 1 year	**5,521**	4,013
Over 1 year but less than 2 years	**12,828**	8,699
Over 2 years	**8,532**	1,710
	202,828	225,190

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.

	2010	2009
	RMB'000	RMB'000
Hong Kong Dollars	**–**	1,871

23. AMOUNTS DUE TO RELATED COMPANIES

	2010	2009
	RMB'000	RMB'000
Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (Note a)	**11**	2
Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note b)	**9,009**	9,009
	9,020	9,011

Notes:

(a) Shineway Medical Science & Technology Co., Ltd. ("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. DEFERRED INCOME

	2010 RMB'000	2009 RMB'000
At 1 January	**550**	6,980
Addition during the year	**82,795**	350
Recognised as other income	**(6,079)**	(6,780)
At 31 December	**77,266**	550
Analysed for reporting purpose as		
Current liabilities	**2,600**	550
Non-current liabilities	**74,666**	–
	77,266	550

Included in the deferred income as at 31 December 2010 are government subsidies amounting to RMB2,600,000 (2009: RMB550,000) received 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. The amounts will be recognised in profit or loss when the related research is successfully completed.

In 2010, the Group received a government grant amounting to RMB74,666,000 in relation to a development project, including the construction of production premises and acquisition of plant and machineries, in the 邛崍醫藥產業園 (Qionglai Pharmaceutical Area) in Sichuan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for management's intended use. The Group has an obligation to repay the grant if the grant is not utilised for the development project.

25. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2009, 31 December 2009 and 31 December 2010	5,000,000	530,000
Issued and fully paid:		
Balance at 1 January 2009, 31 December 2009 and 31 December 2010	827,000	87,662

26. ACQUISITION OF SUBSIDIARIES

(a) In April 2010, the Group acquired 100% equity interest of Shineway Zhangjiakou (formerly known as 張家口長城藥業有限責任公司), for a consideration of RMB55,425,000. The principal activity of Shineway Zhangjiakou is engaged in manufacture and trading of Chinese pharmaceutical products. This transaction has been accounted for using the acquisition method of accounting.

The aggregate net assets acquired in the transaction and the goodwill arising on the acquisition are as follows:

	Amounts recognised at acquisition date RMB'000
Net assets acquired:	
Property, plant and equipment	60,718
Prepaid lease payments	18,400
Intangible assets	1,330
Inventories	1,226
Trade receivables	2,261
Other receivables	304
Cash and bank balances	270
Trade payables	(4,489)
Other payables	(47,147)
Tax liabilities	(954)
Deferred tax liabilities	(1,240)
Net assets acquired	30,679
Goodwill arising on acquisition	24,746
Total consideration	55,425
Satisfied by:	
Cash	43,765
Consideration payable (included in other payables and accrued expenses)	11,660
	55,425
Analysis of net cash outflow arising on acquisition:	
Cash consideration	(43,765)
Cash and bank balances acquired	270
	(43,495)

26. ACQUISITION OF SUBSIDIARIES (Continued)

(a) (Continued)

The goodwill on acquisition of Shineway Zhangjiakou allows the Group to extend its market presence in Hebei Province and the anticipated future operating synergies from the combination.

The receivables acquired (which principally comprised trade and other receivables) were with the fair value and contractual amounts of RMB2,565,000.

Shineway Zhangjiakou has contributed RMB18,315,000 to the Group's turnover and a loss of RMB591,000 to the Group's profit attributable to owners of the Company for the period from the date of its being acquired as subsidiary to 31 December 2010.

Had the acquisition of Shineway Zhangjiakou been completed on 1 January 2010, the Group's turnover and profit for the period would be insignificantly affected. The proforma information is for illustrative purpose only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

26. ACQUISITION OF SUBSIDIARIES (Continued)

(b) In April 2010, the Group acquired 100% equity interest of 四川康利托製藥有限公司 (Sichuan Kalituo Pharmaceutical Limited) ("Kalituo Pharmaceutical") for a consideration of RMB15,000,000. The principal activity of Kalituo Pharmaceutical and its subsidiary are engaged in manufacture and trading of Chinese pharmaceutical products. This transaction has been accounted for using the acquisition method of accounting.

The aggregate net assets acquired in the transaction and the goodwill arising on the acquisition are as follows:

	Amounts recognised at acquisition date RMB'000
Net assets acquired:	
Property, plant and equipment	16,335
Prepaid lease payments	4,400
Intangible assets	933
Deposit paid for acquisition of prepaid lease payments	1,460
Inventories	4,723
Other receivables	17,394
Cash and bank balances	3,916
Trade payables	(2,005)
Other payables	(40,594)
Net assets acquired	6,562
Goodwill arising on acquisition	8,438
Total consideration	15,000
Net cash outflow arising on acquisition:	
Cash consideration	(15,000)
Cash and bank balances acquired	3,916
	(11,084)

26. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

The goodwill on acquisition of Kalituo Pharmaceutical and its subsidiary allows the Group to extend its market presence in Sichuan Province and anticipated future operating synergies from the combination.

The receivables acquired (which principally comprised other receivables) were with the fair value and contractual amounts of RMB17,394,000.

Kalituo Pharmaceutical and its subsidiary has contributed RMB6,224,000 to the Group's turnover and loss of RMB5,688,000 to the Group's profit attributable to owners of the Company for the period from the date of being acquired as subsidiary to 31 December 2010.

Had the acquisition of Kalituo Pharmaceutical and its subsidiary been completed on 1 January 2010, the Group's turnover and profit for the period would be insignificantly affected. The proforma information is for illustrative purpose only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

27. 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 2010 and 2009, 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 consists of equity attributable to owners of the Company, comprising issued share capital and reserves during the years ended 31 December 2010 and 2009.

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.

28. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010	2009
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,664,207**	2,502,460
Financial liabilities		
Amortised cost	**415,560**	363,440

Financial risk management objectives and policies

The Group's major financial instruments include bills receivables, trade receivables, other receivables, pledged bank deposits, bank balances and cash, bills payables, trade and other payables and amounts 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.

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Foreign currency risk

Several subsidiaries of the Company have foreign currency bank balances, which expose the Group to foreign currency risk. Approximately 15% (2009: 30%) of the Group's bank balances are denominated in currencies other than the functional currency of the relevant group entities.

Sensitivity analysis

The Group is mainly exposed to the currencies of HKD, AUD and USD as disclosed in note 21 with the functional currency of those subsidiaries in RMB.

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in RMB against HKD and USD and nil (2009: 10%) increase and decrease in RMB against AUD. 5% (2009: 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% (2009: 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% (2009: 5% or 10%) against the relevant currencies. For a 5% (2009: 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**	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Profit (loss)	**(12,804)**	(3,103)	**–**	(45,322)	**(7)**	(61)

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.

The directors considered the Group's exposure of the short-term bank deposits to interest rate risk is not significant and therefore no sensitively analysis is presented.

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

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 95% (2009: 97%) of the total trade and bill receivables as at 31 December 2010.

The credit risk on bank deposits is limited because the counterparties are financial institutions with high credit standing.

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.

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.

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.

29. SHARE OPTIONS

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

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

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

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

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

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

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

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

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

Option granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per option. Options may be 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 of the Scheme.

30. 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:

	2010 RMB'000	2009 RMB'000
Within one year	**2,007**	1,767
In the second to fifth year inclusive	**2,235**	631
	4,242	2,398

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, an amount of RMB619,000 (2009: RMB619,000) as fall due within one year is payable to Shineway Medical.

31. 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 the contributions, the Group has no obligation for any related retirement benefits.

The total expense recognised in the consolidated statement of comprehensive income of RMB19,012,000 (2009: RMB13,233,000) represents contributions payable to this plan by the Group at rates specified in the rules of the plan.

32. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**505,822**	144,816

33. RELATED PARTY TRANSACTIONS

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

	2010 RMB'000	2009 RMB'000
Trading transactions:		
Rental expenditure to Shineway Medical (note a)	**619**	619
Service fee to Shineway Lang Fang (note b)	**1,679**	1,500
Service fee to Shineway Medical (note a)	**6,538**	7,236
Sale of goods to Shineway Drugstores (note a)	**470**	336

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.

Compensation of key management personnel

Remuneration paid for key management personnel include solely the directors of the Company as disclosed in note 10.

34. SUBSIDIARIES

Details of the subsidiaries at 31 December 2009 and 31 December 2010 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 2010	2009	Principal activities
Yuan Da Investment Limited	Hong Kong 10 November 2010	Share – HK$1	**100%**	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%**	100%	Investment holding
Hong Zhan International Limited 宏展國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	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%**	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%**	100%	Research and development, manufacture and trading of Chinese pharmaceutical products
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%**	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%**	100%	Trading of Chinese pharmaceutical products

34. 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 2010	2009	Principal activities
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%**	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 2009 for a term of 10 years	Registered capital – US$3,900,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Chengdu) Company Limited 神威藥業(成都)有限公司 (Note b)	PRC 25 December 2009	Registered capital – RMB5,000,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Zhangjiakou) Company Limited 神威藥業(張家口)有限公司 (Note b)	PRC 18 November 2002	Registered capital – RMB22,000,000	**100%**	–	Manufacture and trading of Chinese products
Sichuan Kalituo Pharmaceutical Limited 四川康利托製藥有限公司 (Note b)	PRC 15 September 2003	Registered capital – RMB15,000,000	**100%**	–	Manufacture and trading of Chinese pharmaceutical products
Chengdu Kalituo Technology Company Limited 成都康利托科技有限公司 (Note b)	PRC 4 December 2009	Registered capital – RMB20,000,000	**100%**	–	Trading of Chinese pharmaceutical products
Shineway (Shijiazhuang) Chinese Medicine Prepared Herbs Limited 神威藥業(石家莊)中藥飲片有很公司 (Note b)	PRC 19 November 2010	Registered capital – RMB3,000,000	**100%**	–	Trading of Chinese pharmaceutical products

34. SUBSIDIARIES (Continued)

Notes:

(a) become a foreign wholly-owned enterprise after the equity interest transfer with effect from 30 March 2005

(b) foreign wholly-owned enterprises

Except for Yuan Da Investment Limited, Yuan Da International Limited and Hong Zhan International Limited, all other subsidiaries are indirectly held by the Company.