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 2011

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman of the Board)*
Ms. Wang Zhihua
Ms. Xin Yunxia
Mr. Li Huimin

Non-executive Director

Mr. Hung, Randy King Kuen (appointed on 1 June 2011)

Independent non-executive Directors

Mr. Ren Dequan
Ms. Cheng Li
Mr. Sun Liutai

Audit Committee

Mr. Sun Liutai *(Committee Chairman)*
Mr. Ren Dequan
Ms. Cheng Li

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Mr. Sun Liutai
Ms. Xin Yunxia

Nomination Committee

Mr. Li Zhenjiang *(Committee Chairman)*
Mr. Ren Dequen
Mr. Sun Liutai

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

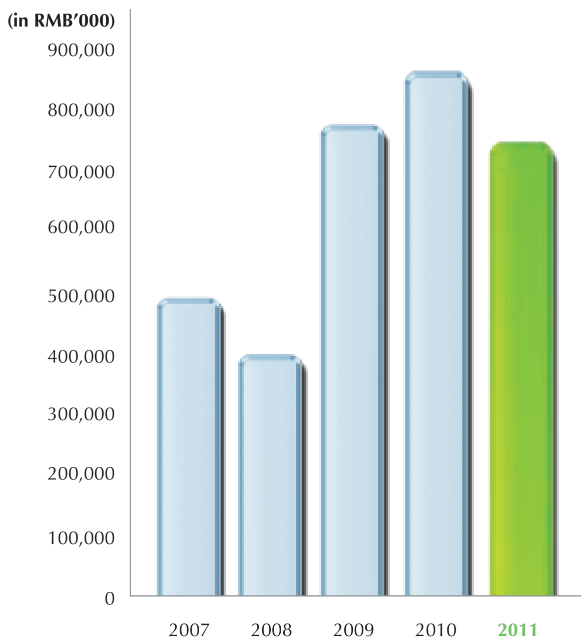
www.shineway.com.hk
www.shineway.com

Financial Highlights

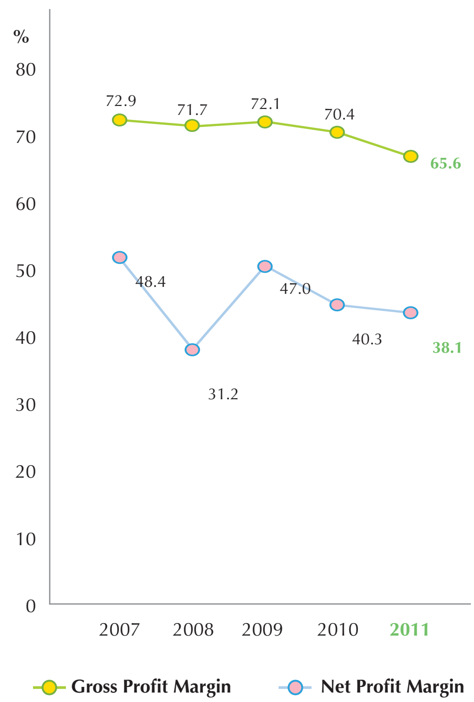
(in RMB'000)

	2007	2008	2009	2010	**2011**
RESULTS					
Turnover	1,012,885	1,275,179	1,633,223	2,038,379	**1,984,542**
Gross profit	738,038	914,317	1,178,091	1,435,008	**1,302,083**
Profit before taxation	575,941	476,214	884,016	991,808	**949,500**
Profit attributable to shareholders	490,641	398,242	767,304	821,756	**755,600**
Basic earnings per share	RMB0.59	RMB0.48	RMB0.93	RMB0.99	**RMB0.91**
Dividends	314,260	206,750	305,990	330,800	**305,990**
ASSETS AND LIABILITIES					
Total assets	2,408,737	2,426,457	3,269,928	3,972,139	**4,376,974**
Total liabilities	(339,462)	(289,740)	(547,847)	(742,562)	**(722,021)**
Net assets	2,069,275	2,136,717	2,722,081	3,229,577	**3,654,953**
Non-controlling interests	–	–	–	–	**(576)**
Shareholders' equity	2,069,275	2,136,717	2,722,081	3,229,577	**3,654,377**

Profit Attributable to Shareholders



Gross and Net Profit Margins



Major Achievements and Awards

Major Achievements and Awards of China Shineway in 2011

Year 2010

December

- Three products of China Shineway, namely Qing Kai Ling Soft Capsule, Wu Fu Xin Nao Qing Soft Capsules and Shu Xie Ning Injection, were honored with the title of "Well-Known Brands of Small and Medium Enterprises in Hebei Province" (effective for a term of three years)

Year 2011

January

- China Shineway was awarded the "Spectacular Contribution Prize for Corporate Social Responsibility of Chinese Pharmaceutical Enterprises in 2010" by Chinese Pharmaceutical Enterprises Association
- China Shineway received the "Research Fellowship Workshop Award" from Organization Department of CPC Hebei Provincial Committee / Science and Technology Department of Hebei Province/Science and Technology Association of Hebei Province
- Chairman Li Zhenjiang was appointed as the vice president and executive member of the seventh session of Hebei Provincial Pharmaceutical Association

May

- Chairman Li Zhenjiang was appointed as the chairman of the presidium and deputy chairman of the second session of Hebei Pharmaceutical Profession Association

June

- China Shineway was awarded the "Top-Notch Enterprises of Hebei Province for Integration of Informatization and Industrialization" by the Industry and Information Technology Department of Hebei Province
- China Shineway was honored as "AAA Credit Rating Enterprise" by China Association of Traditional Chinese Medicine

July

- China Shineway was awarded the "Excellent Enterprise for Quality Management Team Program in Chinese Pharmaceutical Industry for 2011" by China Quality Association for Pharmaceuticals
- Chairman Li Zhenjiang was honored with the Certificate of "Outstanding Leader of Quality Management Team Program in Chinese Pharmaceutical Industry for 2011" by China Quality Association for Pharmaceuticals
- Seven QC teams of China Shineway were awarded the "Outstanding Quality Management Team of Hebei Province in 2011"
- Seven QC teams of China Shineway were awarded the "Outstanding Quality Management Team of Chinese Pharmaceutical Industry in 2011"

Major Achievements and Awards

September

- China Shineway was honored with the title of "Trustworthy Enterprise in Hebei Province" (effective for a term of two years) by Hebei Provincial Committee Office for Selection and Evaluation of Trustworthy Enterprises

- The website of China Shineway was awarded the "Excellent Website of Hebei Province in 2011" by the Internet Society of Hebei Province

- China Shineway was included in the "Top 100 Enterprises for Excellent Construction of Corporate Culture" for the year 2011

- Chairman Li Zhenjiang was awarded with the title of "Brand Building Leader of Hebei Province"

- Chairman Li Zhenjiang received the Certificate of "Outstanding Contributor to Corporate Culture Building in 2011" from China Enterprise Culture Improvement Association

November

- China Shineway was included in the "Top 200 Asian Small and Medium Enterprises in 2010" by Forbes

- China Shineway was awarded the "National Advanced Private Enterprise for Employment and Social Welfare Promotion"

- "Shineway" and "Shen Miao" product series of China Shineway were awarded the "Most Charismatic Brand in Chinese Pharmaceutical Stores for 2011" by Medicine Economic News

December

- China Shineway was awarded the "Banner for National Trustworthy Enterprises in Quality Control for 2011" by China Association for Quality/All China Federation of Trade Unions/China Association for Science and Technology

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"), I am pleased to present the annual report of the Group for the year ended 31 December 2011.

The year of 2011 was the first year of the 12th five-year period of the PRC government and marked the beginning of the golden decade of rapid growth for the pharmaceutical industry. With the introduction of new healthcare reform and the tender policy of essential drugs, the implementation of new GMP standards as well as the continuous rising cost in raw and auxiliary materials, energy and labour, the market condition of the pharmaceutical industry has been reshuffled. It was a year full of challenges for China Shineway, posing difficulties for its development. Under the circumstances, the competition of the pharmaceutical industry became extremely fierce in 2011, leading to a decrease in both our sales revenue and profit for the year when compared with last year.

Confronted with such complexities and challenges, the Group, with the support of our staff, discarded conventional thinking to face the problems directly and keep on going despite of the difficulties.

The Group recorded sales revenue of RMB1,984,542,000 in 2011, representing a year-on-year decrease of approximately 2.6%. The Group's profit for the year amounted to approximately RMB755,576,000 in 2011, representing a year-on-year decrease of approximately 8.1%. The sales of injection products recorded an approximate decrease of 10.4% over the previous year. Whereas, the sales of soft capsules and granule products were up by approximately 13% and 3.7% respectively as compared with the previous year.

Facing the healthcare reform and implementation of tender policies relating to the "Essential Drug List" in China and the issues arising therefrom, the Group is determined to conquer all the risks by carrying out marketing restructuring to remedy the existing problems. The Group took the initiative to address all problems and difficulties and made continuous progress through innovation and liberal thinking.

Our Shineway Modern Chinese Medicine Park located in Luancheng, Shijiazhuang, Hebei has commenced construction as scheduled. The integrated granule and tablets workshop and sewage treatment plant were put into operation in year 2011. Equipment adjustment and trial were carried out for the new injection workshop and the new boiler room project. The construction of the main building of the new Chinese medicine extraction workshop was completed and equipment installation has commenced.

Chairman's Statement

Our new research and development building in Yanjiao Development Zone, Langfang, East of Beijing was completed. Shineway Pharmaceutical Research Centre was officially established in 2011. Qing Kai Ling medicine series obtained licensed patent for inventions and a re-evaluation project was launched after Qing Kai Ling Injection was introduced to the market. Various technological breakthroughs have also been achieved for a number of inactive products. The scope and depth of our research projects will witness substantial expansion, elevating our core competitiveness to a large extent.

The existing research projects of the Group are progressing steadily, with three new scientific research projects launched during the year. Liansu Capsule obtained a new medicine certificate and approval for production, and a number of existing research projects such as Sai Luo Tong have entered into or completed clinical trials. The Group continues to lead the industry by setting product quality standards. The re-development and safety re-evaluation for products such as Shen Mai Injection and Qing Kai Ling Injection were progressing smoothly. A number of key new medicine projects under the "12th five-year" Plan were granted national funding support. In particular, Sai Luo Tong is the only new herbal medicine products in the PRC to be developed through cooperation with Australia's companies and has a bright market prospect. Following its launch in the market, the product is expected to open up a new stance for Chinese medicine in the international market.

The infrastructure construction of Sichuan Qionglai Project has commenced, paving the way for the Group's future business and capacity expansion in western China. Various projects have completed construction and have been put into operation successively during the year, laying a solid foundation for the Group to meet the sales demand in the next five to ten years. The Group's Minle Planting Base in Gansu has commenced construction, marking the preliminary achievement in respect of the construction of Chinese medicine planting bases.

China Shineway was heading to further success in 2011. China Shineway was once again awarded with "Forbes' 200 Top Enterprise" ("福布斯亞洲200最佳企業"). Besides, China Shineway was included in the First Group of the Chinese Medicines Enterprises with AAA Credit Rating in the PRC ("中國中藥行業首批信用評價AAA評級企業") and the Top 20 Competitive Chinese Listed Companies ("中國最具競爭力醫藥上市公司20強") and also obtained other awards such as Best Corporate Social Responsibility for Chinese Medicines Enterprises ("中國醫藥企業社會責任貢獻獎") and Advanced National Enterprise on Employment and Social Security ("全國就業與社會保障先進企業").

Looking into 2012, the Group will continue to innovate, reform, and think creatively to cope with the new development trend of the medicines industry. Meanwhile, the Group will spare no efforts in learning from outstanding enterprises, identifying differences and benchmarking shortcomings. The Group will also further study the national policies and probe into the market to formulate differentiated marketing strategies and completely resolve the actual problems arising in the frontline marketing. Moreover, the Group will take full advantage of the leading quality and low cost of Shineway brand and adhere to accurate marketing strategies, so as to achieve the Group's "12th five-year" strategic goals by strengthening its policy awareness, pushing ahead resource consolidation and enhancing our brand influence.

Chairman's Statement

Large-sized medicine associations will continue to expedite their consolidation and expansion in 2012, resulting in a more intensive shuffle in commercial circulation. It is expected that outstanding medicine enterprises will accelerate the pace of acquisition and merger in 2012, so as to expand their strengths and operation scale. With a view of expanding the market and operation scale of China Shineway, the Group will continue to identify suitable projects and speed up the market exploration at home and abroad.

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

Confronting challenges is a way to realize sound performance. Market competition represents the competition of the overall corporate strengths. Going forward, we will be well-positioned for all kind of challenges and devoted all our focus on every step along the way to tackle each difficulty with innovation.

Li Zhenjiang
Chairman of the Board

Hong Kong, 27 March 2012

Management Discussion and Analysis

BUSINESS REVIEW

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

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

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

Injection Products

During 2011, the Group sold RMB1,142,468,000 of injection products, a decrease of 10.4% from year 2010. Amongst these injection products, Qing Kai Ling injection remained the key product of the Group. Injection products accounted for 57.6% of the Group's turnover in 2011, while they contributed 62.6% of the turnover in prior year.

There are continued market demands for Chinese medicine injection products. The Group's annual production capacity for injection product is now 2 billion vials. The Group believes that it is currently the largest Chinese medicine injections manufacturer in the PRC in terms of sales volume and production capacity. A number of the Group's injection products are designated by regulatory agencies as "State Protected Chinese Medicine" and "Good Quality/Good Price" products. Meanwhile, the construction of the new injection production workshop is at its final testing stage and is expected to commence production in the middle of 2012. The injection production capacity will then be increased from the present of approximately 2 billion vials to 3.2 billion vials per annum.

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

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

Soft Capsule Products

During the year, the Group recorded RMB435,919,000 on sales of soft capsule products, an increase of 13.0% from last year. The increase was mainly driven by the soar in sales of Huo Xiang Zheng Qi Soft Capsule as compared with last year. Meanwhile, Wu Fu Xin Nao Qing Soft Capsule regained its sales momentum in 2011.

Soft Capsule products accounted for 22.0% of the Group's turnover in 2011, as compared to 18.9% in last year. The Group's current production capacity for soft capsules is 3.5 billion capsules per annum. The Group believes that it is currently the largest Chinese medicine soft capsules manufacturer in the PRC in terms of sales volume and production capacity.

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

Granule Products

Sales of granule products in 2011 increased by 3.7%, amounted to RMB339,887,000. The increase was mainly attributable to the launch of a new product, Huamoyan Granule. On the other hand, Liyan Jiedu Granule, Tongmai Granule, Ganmao Qingre Granule and Shujin Tongluo Granule also recorded year-on-year sales increase.

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

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

Other Products

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

Key Products

In 2011, the six key products of the Group that contributed more than RMB100 Million in annual sales to the Group's revenue on individual basis were Qing Kai Ling Injection, Shen Mai Injection, Shu Xie Ning Injection, Wu Fu Xin Nao Qing Soft Capsule, Pediatric Qing Fei Hua Tan Granule and Huo Xiang Zheng Qi Soft Capsule.

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

Our Qing Kai Ling Injection decrease in sales from last year and is the major contributor to the Group's turnover.

Qing Kai Ling Injection is listed in the "National Catalogues of Medical Insurance and Occupational Injury Insurance". It is designated by the State Administration of Traditional Chinese Medicine as an "Indispensable Chinese Medicine for the Emergency Wards of Chinese Hospitals". It is also recommended by the Ministry of Health of the PRC for treating Human Transmitted Avian Flu and the A(H1-N1) Flu. The product has broad clinical applications. Qing Kai Ling Injection produced by the Group is a famous anti-viral medicine and has been named as "Good Quality/Good Price" and "State High-Tech Product" by the authorities.

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

Management Discussion and Analysis

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

In 2011, sales of Shen Mai Injection recorded an increase compared with last year.

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

The Group believes that it is the largest manufacturer of Shen Mai Injection in the PRC based on sales volume. The Group's Shen Mai Injection is widely used in clinical applications and is very popular among medical institutions and practitioners. The Group will strive to further expand market share and penetration for Shen Mai Injection to generate further growth in the coming years.

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

In 2011, sales of Shu Xie Ning Injection increased compared with last year.

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

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

Sales of Wu Fu Xin Nao Qing Soft Capsule in this year increased compared with last year.

Wu Fu Xin Nao Qing Soft Capsules is ranked among the top ten cardiovascular Chinese medicines in the country. It is also one of the lowest in cost of average daily dosage among similar cardiovascular medicines. Therefore, this product has always been very popular. The Group will continue to strengthen our effort on promoting the "Wu Fu" brand and deepen our end-user market coverage and exercise more support to our distributors by increasing promotional activities to broaden its sale.

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

Sales of Pediatric Qing Fei Hua Tan Granule in 2011 dropped compared with last year.

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

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

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

Huo Xiang Zheng Qi Soft Capusles is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. It is also recommended by the Ministry of Health of the PRC for treating Human Transmitted Avian Flu and the A(H1-N1) Flu. Due to its effective efficacy and the high bioavailability of soft capsule, Huo Xiang Zheng Qi Soft Capsule is a very popular OTC Chinese medicine.

Management Discussion and Analysis

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

Emerging Products

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

In 2011, sales of Huang Qi Injection decreased compared with last year.

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

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

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

Qing Kai Ling Soft Capsule is both a prescription and non-prescription medicine. It is included in the Occupational Injury Insurance and also recommended by the Ministry of Health of the PRC for treating Human Transmitted Avian Flu.

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

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

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

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

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

During the year, sales of the Group's Shujin Tongluo Granule increased compared with last year.

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

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

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

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

Management Discussion and Analysis

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

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

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

RESEARCH AND DEVELOPMENT

Currently, there are 10 new product research projects undergoing pharmaceutical and clinical trial, 3 of which are for the treatment of cardiovascular diseases, 2 for the treatment of genitourinary diseases, 1 for the treatment of digestive system illnesses, 1 for the treatment of gynaecological diseases, 1 for the treatment of orthopedics, 1 for cancer adjuvant illnesses and a joint research project with a university in Australia to develop new medicines for the treatment of Alzheimer's disease. The Group has 6 launched products which are now under launched product re-evaluation. A special project team is established to explore new products investment opportunity studies.

During the year, the Group's new research and development center in Yanjiao Development Zone, Langfang, Beijing has completed construction and in operation.

PATENT APPLICATIONS

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

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

STATE PROTECTED CHINESE MEDICINES

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

PROSPECT

Given the uncertainties remained in the policy regarding medicine bid, the PRC medicine industry is currently at its most complicated stage, which is expected to last for a period of time. The Anhui Model (安徽模式), which adopts the two-envelope system and the centralized bidding system of essential drugs at provincial level, was successively implemented in various provinces, resulting in a lower chance of successful bid for large-sized enterprises of general medicine (普藥) and continuous decrease in the bid price of essential medicine, which directly affected the sales income and profit of medicine enterprises. It should be noted that the National Development and Reform Commission is in the process of unifying the price of several essential drugs throughout the PRC. Compared the Shanghai Model (上海模式) with the Anhui Model, it complements the inadequacy of Anhui Model by means of enhancing quality. The introduction of these policies will turn around the situation of extremely low price of certain essential drugs and wicked competitions in pricing, thus benefiting large-sized enterprises of general medicine.

Under the synergy of economic growth, new medical reform, population ageing, urbanization, the emerging demands from grassroots and advanced consumption, the PRC medicine industry has stepped into its "Golden Ten Years" featuring rapid development. According to the projection of the Southern Branch of State Food and Drug Administration (國家藥監局南方所), the Compound Annual Growth Rate of the aggregate output value of the PRC medicine industry is expected to reach 22% and that of the PRC medicine market will also hover at approximately 20% in the next decade. The PRC is expected to be the second largest medicine market in the world following the United States by 2020.

The PRC has launched a bundle of policies in relation to the medicine industry in recent two years and more policies are expected to be rolled out along with the advancement of medical reform and the introduction of the Twelfth Five-Year Plan. Policy will be the core factor determining the growth of medicine industry in the short run. Every leading enterprise in different subdivided fields will continue to grow through sharing a relatively speedy expansion in the medicine industry, seizing the market share of eliminated companies and mergers and acquisitions.

During the Twelfth Five-Year Plan period, the PRC government will keep heightening its support for the Chinese medicine industry to facilitate its development into a modern Chinese medicine industry. As an important category of Chinese medicine, Chinese medicine injections are in line with the development direction of modern Chinese medicine and are bound to benefit from the support and attention given by the government to the industry.

The new version of GMP, which took effect from 1 March 2011, provides better guarantee for the quality of modern Chinese medicine. The PRC government has set a transition period for the implementation of the new version of GMP, which is 3 years for risky categories including Chinese medicine injections and 5 years for other categories. The enforcement of the new version of GMP in the coming 3 to 5 years will elevate the competition threshold in the industry and eliminate small pharmaceutical enterprises, which is conducive to resolving the current state where a large number of small and scattered pharmaceutical enterprises coexist and thus enhance the standardized and concentrated development of the industry.

With the rapid economic growth and an increasing per capita income in the PRC, health consciousness has been rising among the general public. Population ageing is also driving up the average level of medicine usage. China Shineway has the capability to capture the opportunities brought by the industrial transformation and reshuffling to expand its sales scale and market share by fully applying industrial policies and conducting mergers, acquisitions and consolidations, so as to seek the maximum benefits and returns for China Shineway and its shareholders.

Management Discussion and Analysis

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 construction of our new granule and tablet workshop was completed in last year and it has commenced production in 2011. Our new injection workshop has completed its construction in 2011 and is at its final testing stage, the production of which is expected to commence in the middle of 2012. Our new extraction workshop will complete its construction by the end of 2012 and the production of which is expected to commence in 2013. At the appointed time, our extraction capacity will increase from currently 10,000 tons to 20,000 tons and our injections production capacity will increase from currently 2 billion vials per annum to 3.2 billion vials per annum.

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, Shu Xie Ning Injection, Wu Fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule and Pediatric Qing Fei Hua Tan Granule).

- Continue to nurture emerging products (such as Huang Qi Injection, Qing Kai Ling Soft Capsule, Fufang Shexiang Injection, Huamoyan Granule, Shujin Tongluo Granule and Wu Fu Jianzhi Tongluo Soft Capsule).

- 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 "Primary Medical Institutions" (hospitals of factories and mining fields, county hospitals, community clinics and rural healthcare centers) to strengthen sales support and management.

- Increase in participation of Essential Drugs and Medical Insurance Drugs bidding events, extend the chance of successful bid. Improve the market penetration of China Shineway's existing market and expand new market shares.

- Carry out marketing through refining our marketing strategy and improving the brand awareness of our emerging products.

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 2011, the Group's sales performance was affected by the uncertainties in the policy regarding medicine bid and its turnover had dropped by 2.6% from last year. Sales of injection products reached RMB1,142,468,000, down 10.4% as compared with 2010. Sales of injection products now account for 57.6% of the Group's turnover. Sales of soft capsule products were RMB435,919,000, representing an increase of 13.0%. Soft capsule products now account for approximately 22.0% of the Group's turnover. Sales of granule products amounted to RMB339,887,000, an increase of 3.7% from last year. Granule products now account for 17.1% of the Group's turnover. Sales of the Group's products of other formats were RMB66,268,000 which approximates to 3.3% of the Group's turnover.

During the year, turnover of medicines for cardiovascular diseases, anti-viral medicines, medicines for curing respiratory system and medicines for treating other illness respectively accounted for 47.4% (2010: 41.7%), 28.7% (2010: 37.4%), 7.6% (2010: 8.9%) and 16.3% (2010: 12.0%) of the Group's total turnover respectively in 2011.

Turnover of prescription and non-prescription medicines of the Group were RMB1,557,815,000 and RMB426,727,000, accounting for approximately 78.5% and 21.5% of the total turnover respectively in 2011. As at 31 December 2011, the Group had over 40 products that were included in the National Medical Insurance Catalogue.

Cost of Sales

Cost of sales in 2011 was RMB682,459,000, amounting to 34.4% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 80.6%, 5.6% and 13.8% of total cost of sales.

Management Discussion and Analysis

Gross Margin

For 2011, average gross margins of injection products, soft capsule products and granule products were 69.1%, 73.2% and 46.3% respectively. Overall gross margin was down from 70.4% of last year to 65.6% due to the increase in the price of raw material, cost of labor and energy resources, coupling with the price adjustments of certain products.

Other Income

Other income mainly includes government subsidies of RMB123,760,000 (2010: RMB77,497,000). The government subsidies mainly represented incentives received from government for investments in relevant regions in PRC by the Group.

Investment Gain

Investment gain mainly includes interest income from bank deposits and investments in debt securities of RMB41,114,000 (2010: RMB45,667,000) and RMB27,409,000 (2010: Nil) respectively.

Distribution Costs

Distribution costs have decreased by 27.1% and accounted for 12.9% of turnover in 2011 as compared to 17.2% in last year. It was mainly due to the tightened cost control and decrease in advertising expenses and distributor promotion expenses. Advertising expenses and distributor promotion expenses accounted for 5.4% (2010: 6.0%) and 2.5% (2010: 5.8%) of the Group's turnover respectively.

Administrative Expenses and Research and Development Costs

Administrative expenses and research and development costs have increased by 31.2% from last year, representing 14.4% (2010: 10.7%) of the Group's turnover. Rise in administrative expenses was mainly due to increase in number of employees of 10.1% and increase in salary and staff benefits expenses of 32.1%. Administrative expenses also comprised of non-productive depreciation expenses of fixed assets which accounts for 1.2% of the Group's total turnover in 2011 (2010: 0.7%). Due to contribution from companies acquired in last year and the Group's purchase of office equipment during the year, the depreciation has increased by 64.8% from last year. Research and development expenses have soared by 162.4% from last year, accounted for 2.9% of the Group's turnover in 2011 as compared to 1.1% in 2010.

Income Tax Rate

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

Pursuant to the 國稅函(2009)203號, the PRC EIT rate applicable to Shineway Pharmaceutical Co., Ltd. and Hebei Shineway Pharmaceutical Co., Ltd. is 15% on their taxable income for both 2010 and 2011.

Pursuant to the 藏政發(2011)14號, the PRC EIT rate applicable to Xizang Shineway is 15% from 2010 to 2020 on its taxable income.

Pursuant to the 財税函(2008) 149號, Shineway (Shijiazhuang) Chinese Medicine Prepared Herbs Ltd. is exempted from income tax applicable in the PRC.

Dividends

Details of dividends and dividend policy are set out in the director's report on page 27 of this annual report.

Capital Structure

As at 31 December 2011, there was no change in the capital structure and issued share capital of the Group.

Establishment of Subsidiary

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

Liquidity and Financial Resources

As at 31 December 2011, bank deposits of the Group approximately amounted to RMB2,172,812,000 (2010: RMB2,349,021,000), of which RMB2,076,407,000 (2010: RMB2,007,405,000) were denominated in RMB, others being equivalent to RMB96,230,000 and RMB175,000 (2010: RMB341,435,000 and RMB181,000) were denominated in Hong Kong Dollars and United States Dollars respectively. Except for trade and other payables, the Group did not have any other liabilities.

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

Bills and Trade receivables

As at 31 December 2011, bills and trade receivables increased by 53.3% and 92.6% respectively as compared to the balance as at 31 December 2010. 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 61.4 days and 1.9 days (2010: 30.4 days and 1.1 days respectively).

Inventories

As at 31 December 2011, inventories in the amount of RMB282,772,000 increased by 47.3%, as compared to the balance as at 31 December 2010 due to an expected increase in sales in the beginning of 2012. As at 31 December 2011, raw materials, work in progress and finished goods accounted for 48.9%, 20.2% and 30.9% (2010: 53.3%, 22.9% and 23.8%) of inventories respectively. Turnover of finished goods inventories in 2011 was 35.6 days as compared to 25.0 days in 2010.

Management Discussion and Analysis

Property, Plant and Equipment

As at 31 December 2011, property, plant and equipment amounted to RMB1,108,304,000 increased by 42.7%. It was mainly due to the new construction works of plants located in Shijiazhuang and Sichuan. Among which comprised injection workshop projects amounted to approximately RMB105,656,000; extraction workshop projects amounted to RMB134,835,000; new administrative buildings and peripheral facilities amounted to approximately RMB66,796,000 and power station project amounted to approximately RMB32,355,000.

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 Shineway Pharmaceutical (Sichuan) Company Limited (formerly known as Sichuan Kalituo Pharmaceutical Limited) in 2010.

Bills and Trade Payables

As at 31 December 2011, turnover days of bills and trade payables were 16.8 days and 114.9 days (2010: 36.8 days and 92.6 days).

Loans and Bank Borrowings

The Group did not have any loans or bank borrowings as at 31 December 2011 (2010: Nil), except for bank deposits of RMB27,839,000 (2010: RMB35,068,000) were pledged to bank to secure bills payables of RMB27,839,000 (2010: RMB35,068,000). Hence, the Group's gearing ratio based on interest bearing debt for the year is Nil (2010: Nil).

Pledge of Assets

At the time of settlement as at 31 December 2011, the Group secured the bills payables of RMB27,839,000 (2010: RMB35,068,000) by pledging bank deposits amounting RMB27,839,000 (2010: RMB35,068,000).

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2011 (2010: 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 2011, 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 2011, the Group had 4,063 (2010: 3,690) 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 56, 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 56, 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 48, 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 44, 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 14 years' experience.

Directors and Senior Management

Non-Executive Director

HUNG Randy King Kuen (孔敬權), aged 46, is a fellow Certified Public Accountant in Hong Kong and has extensive experience in corporate finance and investor relation. Mr. Hung is currently an executive director and chief financial officer of China Fiber Optic Network System Group Limited (stock code: 3777), and an independent non-executive director of Zhongyu Gas Holdings Limited (stock code: 8070). Mr. Hung has served as an executive director of the Company from June 2005 to April 2010, and he has also served as an independent non-executive director of Zhongtian International Limited (stock code: 2379) from July 2004 to April 2011. Mr. Hung 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 is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants, a member of the Hong Kong Securities Institute, an executive committee member of the Hong Kong Investor Relations Association and a council member of the Hong Kong Institute of Directors. Mr. Hung was appointed as an non-executive director of the Company on 1 June 2011.

Independent Non-Executive Directors

REN Dequan (任德權), aged 68, 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 52, 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 2002. She is currently a member of Beijing Lawyer Association. Ms. Cheng was appointed as an independent non-executive director of the Company in 2006.

Directors and Senior Management

SUN Liutai (孫劉太), aged 48, 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 engaged 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 in 2010.

SENIOR MANAGEMENT

CHEN Zhong (陳鍾), aged 45, senior engineer, certified pharmacist, 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 49, 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 53, 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 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.

Directors and Senior Management

LEE Bun Ching, Terence (李品正), aged 39, 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.

COMPANY SECRETARY

WONG Mei Shan (汪美珊), aged 37, 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 the 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 2011.

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 2011, 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 31 October 2011.

The Board now recommends a final dividend of RMB12 cents per share and a special dividend of RMB14 cents per share to be paid out of the share premium account of the Company for the year ended 31 December 2011, to be paid on 20 June 2012, to the shareholders whose names appear on the register of members of the Company on 7 June 2012. The proposed final dividend and special dividend will be voted by shareholders at the annual general meeting (the "AGM") to be held on 30 May 2012.

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 12 to the consolidated financial statements.

SHARE CAPITAL AND RESERVES

Details of the movement in share capital and reserves of the Company during the year are set out in the Consolidated Statement of Changes In Equity and also in note 24 to the consolidated financial statements. As at 31 December 2011, the Company's reserves available for distribution to shareholders amounted to RMB728,931,000 (2010: RMB656,991,000). The Company has not issued any shares during the year.

Directors' Report

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

Non-Executive Director:

Mr. Hung Randy King Kuen (appointed on 1 June 2011)

Independent Non-Executive Directors:

Mr. Ren Dequan
Ms. Cheng Li
Mr. Sun Liutai

The biographical details of the Directors are set out on page 23 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.

The non-executive Director and 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. Xin Yunxia and Mr. Sun Liutai will retire from the Board at the forthcoming AGM. Pursuant to Article 86(3) of the Articles of Association, Mr. Hung Randy King Kuen, will hold office until the forthcoming AGM. The above-mentioned Directors, being eligible for re-election, will offer themselves for re-election at the forthcoming AGM.

Details of Directors' emoluments on a named basis are set out in note 9 to the consolidated financial statements on page 72 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the consolidated financial statements, no contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2011.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2011, 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 522,363,416 shares of the Company ("Shares") representing approximately 63.16% of the issued share capital of the Company. These 522,363,416 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 522,363,416 Shares under the SFO.

Save as disclosed above, as at 31 December 2011, 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 2011, 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	522,363,416	63.16%
Trustcorp Limited (Notes 1 and 2)	Trustee of discretionary trust	522,363,416	63.16%
Newcorp Limited (Note 1)	Interest in controlled corporation	522,363,416	63.16%

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 522,363,416 Shares under the SFO.

Save as disclosed above, as at 31 December 2011, 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 2011, 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 3.3% and 14.9% 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 8.2% and 23.9% 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 2011, sales by Hainan Shineway and Xizang Shineway to Shineway Drugstores amounted to approximately RMB768,000 (2010: RMB470,000).

Tenancy Agreement Between Hainan Shineway and 神威醫藥科技股份有限公司 (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 2011, rental expenditure paid by Hainan Shineway to Shineway Medical amounted to approximately RMB619,000 (2010: RMB619,000).

General Services Agreement Between 神威藥業有限公司 (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"). 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 cap of such transaction for the year ending 31 December 2012 is RMB6,900,000. The transaction amount and cap amount of such transaction for the year ended 31 December 2011 are RMB6,668,000 and RMB6,700,000 respectively (2010: RMB6,538,000 and RMB6,600,000 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 and cap amount of such transaction for the year ended 31 December 2011 are RMB1,713,000 and RMB1,750,000 respectively (2010: RMB1,679,000 and RMB1,700,000 respectively).

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 minimise 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%, being the threshold of the percentage ratios in accordance with Rule 14A.34 of the Listing Rules in effect at the time the General Services Agreement I was entered into, 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 and confirmed that for the year ended 31 December 2011 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 on the Stock Exchange 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 reported in note 32 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 ended 31 December 2011.

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

The Directors' fees, basic salaries, housing allowances, other allowances and benefits in kind are disclosed in note 9 to the consolidated financial statements.

The contributions to pension schemes for Directors and past Directors for the financial year are disclosed in note 9 to the consolidated financial statements.

Pursuant to the Directors' service contracts with the Company, all executive Directors 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 ended 31 December 2011 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 2011 as required under the Listing Rules.

CHARITABLE DONATIONS

During the year, the Group has not made charitable donations (2010: Nil).

AUDITOR

During the year ended 31 December 2011, Messrs. Deloitte Touche Tohmatsu was appointed as auditor of the Company. A resolution will be submitted to the AGM 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, 27 March 2012

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.

CORPORATE GOVERNANCE CODE

The Company has, throughout the year ended 31 December 2011 and up to the date of publication of this annual report, applied and complied with the principles in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules, except for deviation as stated in the paragraphs headed "Chairman and Chief Executive Officer" and "Effective Communication" 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 2011 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, one non-executive Director 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 24 to 25 of this annual report. The information is also published on the Company's websites.

Corporate Governance Report

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.

Three board committees, namely, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (established in March 2012), 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 five times this year to review the financial performance of the Group, major issues (whether or not required by the Listing Rules) and also on other occasions when Board decisions were required. The views of independent non-executive Directors were actively solicited by the Group if they were unable to attend meetings of the Board.

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

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

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

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

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

The names of the Directors and individual attendance of each Director at each Board meeting during the year ended 31 December 2011 were as follows:

	Attendance
Executive Directors	
Mr. Li Zhenjiang *(Chairman of the Board)*	5/5
Ms. Wang Zhihua	5/5
Ms. Xin Yunxia	5/5
Mr. Li Huimin	5/5
Non-executive Director	
Mr. Hung Randy King Kuen (appointed on 1 June 2011)	3/5
Independent Non-executive Directors	
Mr. Ren Dequan	4/5
Ms. Cheng Li	5/5
Mr. Sun Liutai	5/5

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.

EFFECTIVE COMMUNICATION

The Code provision E.1.2. stipulates that the Chairman should attend the annual general meeting of the Company. The Chairman did not attend the 2011 annual general meeting due to other business engagement. Another executive Director had chaired the 2011 annual general meeting and answered questions from shareholders. The chairmen of the Audit Committee and Remuneration Committee were also available to answer questions at the 2011 annual general meeting.

NON-EXECUTIVE DIRECTORS

The non-executive Director 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 and the website of the Stock Exchange. The primary duties of the Remuneration Committee include the following:

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

2. To determine the specific remuneration packages of all executive Directors, and senior management, including benefits in kind, pension rights, and compensation payments (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 the 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 two 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)*	2/2
Mr. Sun Liutai	2/2
Ms. Xin Yunxia	2/2

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

The emoluments of the Directors 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 35 to 36 of this annual report.

The Group's share option scheme as described on page 31 to 32 of this annual report is adopted as the Group's long term incentive scheme.

NOMINATION COMMITTEE

The Company established the Nomination Committee in March 2012, the members of Nomination Committee comprises Chairman Mr. Li Zhenjiang and two independent non-executive Directors, Mr. Ren Dequan and Mr. Sun Liutai, Mr. Li Zhenjiang is the chairman of the Nomination Committee. The Nomination Committee was established with written terms of reference in compliance with the Code. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, appointment, reappointment of Directors and Board succession and assessing the independence of independent non-executive Directors. The Board is responsible for considering and to assessing candidates for directorships on the Board based on their characters, qualifications and experience appropriate for the businesses of the Group. Prior to that the nomination and appointment of directors are directly considered and assessed by the 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 nomination of a non-executive Director who joined the Group on 1 June 2011.

Corporate Governance Report

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$1,860,000 (2010: HK$1,800,000), and in addition to a total of HK$410,000 (2010: HK$380,000) for other services, including the review of interim financial statements.

AUDIT COMMITTEE

As at the date of this report, the Audit Committee 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. 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 website and the website of the Stock Exchange.

Individual attendance of each Audit Committee member during the year ended 31 December 2011 was as follows:

	Attendance
Mr. Sun Liutai *(Chairman)*	4/4
Mr. Ren Dequan	4/4
Ms. Cheng Li	4/4

The Audit Committee met on four occasions during the year ended 31 December 2011 and the report on the work performed by the Audit Committee can be found on page 45 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 46 to 47.

In preparing the financial statements for the year ended 31 December 2011, 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 ended 31 December 2011, 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.

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 website and the website of the Stock Exchange.

Corporate Governance Report

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

The Company regards the annual general meeting 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 annual general meeting. 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 annual general meeting to address shareholders' queries. All shareholders are given at least 20 clear business days' notice of the annual general meeting and they are encouraged to attend the annual general meeting and other shareholders' meetings. Questions from 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 Corporate Governance Code 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 2012 and recommended to approve the interim and annual reports.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Sun Liutai *(Chairman)*
Mr. Ren Dequan
Ms. Cheng Li

27 March 2012

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED
中國神威藥業集團有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 98, which comprise the consolidated statement of financial position as at 31 December 2011, and consolidated statement of comprehensive income, 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 2011, 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
27 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Turnover	5	**1,984,542**	2,038,379
Cost of sales		**(682,459)**	(603,371)
Gross profit		**1,302,083**	1,435,008
Other income		**123,760**	77,497
Investment income	6	**68,523**	45,667
Net exchange (loss) gain		**(2,837)**	2,310
Distribution costs		**(255,398)**	(350,132)
Administrative expenses		**(229,244)**	(196,669)
Research and development costs		**(57,387)**	(21,873)
Profit before taxation		**949,500**	991,808
Taxation	7	**(193,924)**	(170,052)
Profit and total comprehensive income for the year	8	**755,576**	821,756
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**755,600**	821,756
Non-controlling interests		**(24)**	–
		755,576	821,756
Earnings per share – basic	11	**91 cents**	99 cents

Consolidated Statement of Financial Position

As at 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	12	**1,108,304**	776,781
Prepaid lease payments	13	**150,449**	153,496
Intangible assets	14	**1,430**	2,165
Goodwill	15	**91,663**	91,663
Deferred tax assets	16	**25,825**	6,633
		1,377,671	1,030,738
Current assets			
Inventories	17	**282,772**	191,925
Trade receivables	18	**13,397**	6,956
Bills receivables	18	**404,320**	263,761
Prepayments, deposits and other receivables		**98,163**	94,670
Pledged bank deposits	19	**27,839**	35,068
Bank balances and cash	20	**2,172,812**	2,349,021
		2,999,303	2,941,401
Current liabilities			
Trade payables	21	**261,950**	167,760
Bills payables	21	**27,839**	35,068
Other payables and accrued expenses		**303,491**	399,367
Amounts due to related companies	22	**9,009**	9,020
Deferred income	23	**3,100**	2,600
Tax liabilities		**40,890**	52,943
		646,279	666,758
Net current assets		**2,353,024**	2,274,643
Total assets less current liabilities		**3,730,695**	3,305,381
Non-current liabilities			
Deferred tax liabilities	16	**1,076**	1,138
Deferred income	23	**74,666**	74,666
		75,742	75,804
		3,654,953	3,229,577

Consolidated Statement of Financial Position

As at 31 December 2011

	NOTE	2011 RMB'000	2010 RMB'000
Capital and reserves			
Share capital	24	**87,662**	87,662
Reserves		**3,566,715**	3,141,915
Equity attributable to owners of the Company		**3,654,377**	3,229,577
Non-controlling interests		**576**	–
		3,654,953	3,229,577

The consolidated financial statements on pages 48 to 98 were approved and authorised for issue by the Board of Directors on 27 March 2012 and are signed on its behalf by:

LI ZHENJIANG
DIRECTOR

WANG ZHIHUA
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31 December 2011

	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 b)	Accumulated profits RMB'000	Total equity attributable to owners of the Company RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2010	87,662	982,408	83,758	361,585	154,760	1,051,908	2,722,081	–	2,722,081
Profit and total comprehensive income for the year	–	–	–	–	–	821,756	821,756	–	821,756
Transfers	–	–	–	13,359	–	(13,359)	–	–	–
Dividends paid (Note 10)	–	–	–	–	–	(314,260)	(314,260)	–	(314,260)
At 31 December 2010	87,662	982,408	83,758	374,944	154,760	1,546,045	3,229,577	–	3,229,577
Profit and total comprehensive income for the year	–	–	–	–	–	755,600	755,600	(24)	755,576
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	600	600
Transfers	–	–	–	22,834	–	(22,834)	–	–	–
Dividends paid (Note 10)	–	–	–	–	–	(330,800)	(330,800)	–	(330,800)
At 31 December 2011	87,662	982,408	83,758	397,778	154,760	1,948,011	3,654,377	576	3,654,953

Notes:

(a) Merger reserve

Merger reserve of the Group represents the difference between the net asset value of the subsidiaries and the nominal amount of the Company's shares which were issued as consideration for the subsidiaries at the time of the group reorganisation in preparation for the listing of the company's shares.

(b) Statutory surplus reserve fund and Discretionary surplus reserve fund

Statutory surplus reserve fund and discretionary surplus reserve fund are appropriated each year by certain subsidiaries on the basis of 10% of the profit after taxation as determined by the board of directors of the relevant subsidiaries and at the rate decided by the shareholders annually, respectively, in accordance with the Articles of Association (Articles) of the relevant subsidiaries. According to the provision of the Articles, in normal circumstances, this reserve should only be used for making up losses, capitalisation into capital and expansion of production and operation.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Operating activities			
Profit before taxation		**949,500**	991,808
Adjustments for:			
Amortisation of intangible assets		**735**	495
(Reversal of) allowance for bad and doubtful debt		**(1,963)**	2,087
Depreciation of property, plant and equipment		**64,948**	52,532
Loss on disposal of property, plant and equipment		**105**	67
Interest income		**(41,114)**	(45,667)
Investment income		**(27,409)**	–
Operating lease rentals in respect of land use rights		**3,608**	3,302
Government grant recognised as other income		**(9,555)**	(6,079)
Net exchange loss (gain)		**2,837**	(2,310)
Operating cash flows before movements in working capital		**941,692**	996,235
Increase in inventories		**(90,847)**	(49,668)
Increase in trade and bills receivables		**(145,037)**	(191,739)
Decrease (increase) in prepayments, deposits and other receivables		**1,751**	(16,109)
Increase (decrease) in trade and bills payables		**86,961**	(28,856)
(Decrease) increase in other payables and accrued expenses		**(84,216)**	6,136
(Decrease) increase in amounts due to related companies		**(11)**	9
Cash generated from operations		**710,293**	716,008
People's Republic of China Enterprise Income Tax paid		**(225,231)**	(136,583)
Net cash generated from operating activities		**485,062**	579,425

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Investing activities			
Interest and investment income received		**59,583**	52,337
Investments in short-term debt related product		**(151,620)**	–
Proceeds from redemption of short-term debt related product		**154,755**	–
Government grants received		**10,055**	82,795
Placement of pledged bank deposits		**(27,839)**	(35,068)
Withdrawal of pledged bank deposits		**35,068**	86,739
Purchase of property, plant and equipment		**(396,578)**	(295,584)
Purchase of land use rights		**–**	(73,206)
Acquisition of subsidiaries	25	**–**	(54,579)
Settlement of consideration payable for acquisition of subsidiaries	25	**(11,660)**	–
Purchase of intangible assets		**–**	(80)
Net cash used in investing activities		**(328,236)**	(236,646)
Financing activities			
Capital contribution from non-controlling interest in a subsidiary		**600**	–
Dividends paid		**(330,800)**	(314,260)
Net cash used in financing activities		**(330,200)**	(314,260)
Net (decrease) increase in cash and cash equivalents for the year		**(173,374)**	28,519
Cash and cash equivalents at beginning of the year		**2,349,021**	2,318,189
Effect of exchange rate changes of cash and cash equivalents		**(2,835)**	2,313
Cash and cash equivalents at end of the year, representing bank balances and cash		**2,172,812**	2,349,021

1. GENERAL

The Company is a public limited company registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 August 2002 and its shares have been listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Forway Investment Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in the note 33 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 IFRSs (hereinafter collectively referred to as "new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and IFRS Interpretation Committee (the "IFRIC") of the IASB.

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

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

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

New and revised IFRSs in issue but not yet effective

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

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

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. 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. 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

Business combinations

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;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

- liabilities or equity instruments related to share-based payment transactions of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree 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.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Goodwill

Goodwill arising from an acquisition of a business is carried at cost less 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 (on groups of 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 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 as decried below) are stated in the consolidated statement of financial position 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. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

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 losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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). When 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (Continued)

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 (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment losses are recognised immediately in profit or loss.

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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

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 the sale of goods is recognised when the goods are delivered and titles have passed, at which time all following conditions are satisfied.

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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 income 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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. Current and 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 current and the deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

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).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 affected.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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 on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period normally ranging from six months to one year, observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of bills receivables and trade receivables, where the carrying amount is reduced through the use of an allowance account. 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.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

The Group derecognises financial liabilities when, and only when, the Group's obligation are 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 2011, the carrying amount of goodwill is RMB91,663,000 (2010: RMB91,663,000). Details of the recoverable amount calculated are disclosed in note 15.

5. TURNOVER AND SEGMENT INFORMATION

Operating segments

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

Revenue from major products

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

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

Geographical information

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

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

Information about major customers

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

6. INVESTMENT INCOME

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

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

7. TAXATION

	2011 RMB'000	2010 RMB'000
The charge comprise:		
Current tax – PRC Enterprise Income Tax		
Current year	**174,416**	166,518
Underprovision in prior years	**14,781**	2,788
Withholding tax paid on distributed profits	**23,981**	–
	213,178	169,306
Deferred tax (note 16)	**(19,254)**	746
	193,924	170,052

7. TAXATION (Continued)

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

	2011 HK$	2010 HK$
Profit before taxation	**949,500**	991,808
Tax at the applicable tax rate of 25% (2010: 25%)	**237,375**	247,952
Tax effect of expenses not deductible for tax purpose	**7,707**	9,402
Tax effect of income not taxable for tax purpose	**(2,636)**	(2,783)
Tax loss not recognised	**1,848**	2,691
Utilisation of tax losses previously not recognised	**–**	(746)
Income tax on concessionary rate	**(93,070)**	(93,755)
Effect of different tax rates of subsidiaries operating in other jurisdiction	**3,855**	3,688
Withholding tax on distributed profits of subsidiaries operating in the PRC	**23,981**	–
Underprovision in prior year	**14,781**	2,788
Others	**83**	815
Taxation charge for the year	**193,924**	170,052

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

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

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

7. TAXATION (Continued)

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

8. PROFIT FOR THE YEAR

	2011	2010
	RMB'000	RMB'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (see note 9)	**35,596**	46,793
Other staff costs	**118,002**	87,270
Other staffs pension costs	**36,834**	19,009
	190,432	153,072
Allowance for bad and doubtful debts	**–**	2,087
Amortisation of intangible assets	**735**	495
Auditor's remuneration	**1,860**	1,896
Depreciation of property, plant and equipment	**64,948**	52,532
Loss on disposal of property, plant and equipment	**105**	67
Operating lease rentals in respect of land use rights	**3,608**	3,302
Rental expenses under operating lease in respect of rented premises	**2,433**	2,558
and after crediting:		
Government subsidies (included in other income) (Note)	**120,471**	75,965
Reversal of allowance for bad and doubtful debts	**1,963**	–

Note: The government grants represent the amounts received from the local government by the subsidiaries of the Company. In 2011, government grant of (a) RMB110,916,000 (2010: RMB69,886,000) represents incentive received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB9,555,000 (2010: RMB6,079,000) represents recognition of deferred income upon completion of related research activities (note 23).

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' remuneration:

	Fees	Salaries, allowance and other benefits	Pension costs	Performance related incentive payments	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011					
Name of executive directors:					
Li Zhenjiang	**52**	**1,572**	**–**	**31,500**	**33,124**
Wang Zhihua	**43**	**573**	**–**	**–**	**616**
Xin Yunxia	**52**	**688**	**–**	**–**	**740**
Li Huimin	**47**	**646**	**–**	**–**	**693**
Name of independent non-executive directors:					
Sun Liutai	**118**	**–**	**–**	**–**	**118**
Cheng Li	**118**	**–**	**–**	**–**	**118**
Ren Dequan	**118**	**–**	**–**	**–**	**118**
Hung Randy King Kuen (appointed on 1 June 2011)	**69**	**–**	**–**	**–**	**69**
	617	**3,479**	**–**	**31,500**	**35,596**
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

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

9. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

Employees' remuneration:

The five highest paid individuals of the Group included 3 directors (2010: 4), details of whose remuneration are set out above. The remuneration of remaining 2 employees (2010: 1 employee) is as follows:

	2011	2010
	RMB'000	RMB'000
Salaries, allowance and other benefits	**1,764**	700
Pension costs	**19**	10
	1,783	710

Emolument of the remaining 2 employees (2010: 1) are within the band nil – HK$1,000,000.

During the year, no remuneration was paid by the Group to the directors or highest paid individuals 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.

10. DIVIDENDS

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

The proposed final dividend of RMB12 cents per share and proposed special dividend of RMB14 cents per share (total: RMB215,020,000) has been proposed by the directors and is subject to approval by the shareholders in general meeting.

11. EARNINGS PER SHARE

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

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

	Number of ordinary shares	
	2011	2010
Number of ordinary shares for the purpose of basic earnings per share	**827,000,000**	827,000,000

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

12. 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 2010	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
Currency realignment	–	–	(37)	–	–	(37)
Additions	4,013	20,363	6,219	189	365,794	396,578
Reclassifications	21,861	25,725	–	–	(47,586)	–
Disposals	–	(953)	(67)	(36)	–	(1,056)
At 31 December 2011	358,422	427,755	31,591	6,079	652,030	1,475,877
DEPRECIATION						
At 1 January 2010	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
Currency realignment	–	–	(35)	–	–	(35)
Charge for the year	17,551	42,212	4,368	817	–	64,948
Eliminated on disposal	–	(858)	(59)	(34)	–	(951)
At 31 December 2011	93,515	250,090	19,375	4,593	–	367,573
CARRYING VALUES						
At 31 December 2011	264,907	177,665	12,216	1,486	652,030	1,108,304
At 31 December 2010	256,584	173,884	10,375	2,116	333,822	776,781

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives 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

13. PREPAID LEASE PAYMENTS

	2011 RMB'000	2010 RMB'000
Total prepaid lease payments:		
Medium-term leasehold land in the PRC	**153,901**	157,509
Less: Amount charged within one year (included in other receivables)	**(3,452)**	(4,013)
	150,449	153,496

Movements of prepaid lease payments are as follows:

	2011 RMB'000	2010 RMB'000
CARRYING VALUE		
At 1 January	**157,509**	63,345
Acquired on acquisition of subsidiaries	**–**	22,800
Addition during the year	**–**	74,666
Expense for the year	**(3,608)**	(3,302)
At 31 December	**153,901**	157,509

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

14. INTANGIBLE ASSETS

Movements of intangible assets are as follows:

	2011 RMB'000	2010 RMB'000
CARRYING VALUE		
At 1 January	**2,165**	317
Acquired on acquisition of subsidiaries	**–**	2,263
Addition during the year	**–**	80
Charge for the year	**(735)**	(495)
At 31 December	**1,430**	2,165

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

15. GOODWILL

	2011 RMB'000	2010 RMB'000
At 1 January	**91,663**	58,479
Arising on acquisition of subsidiaries	**–**	33,184
At 31 December	**91,663**	91,663

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 Shineway Pharmaceutical (Sichuan) Company Limited. During the year ended 31 December 2011, management of the Group has determined that there is no impairment of its CGU containing goodwill.

15. 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% (2010: 12%), with an estimated constant growth rate of 8% (2010: 8%) 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.

16. DEFERRED TAXATION

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

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

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

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

16. DEFERRED TAXATION (Continued)

At the end of the reporting period, the Group has unused tax losses of approximately RMB90,086,000 (2010: RMB82,696,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Unrecognised tax losses may be carried forward indefinitely.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB2,173,205,000 (2010: RMB1,819,653,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

17. INVENTORIES

	2011	2010
	RMB'000	RMB'000
Raw materials	**138,196**	102,294
Work in progress	**57,052**	44,034
Finished goods	**87,524**	45,597
	282,772	191,925

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

18. TRADE AND BILLS RECEIVABLES

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

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

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

Before accepting any new customer, the Group has appointed a special team to monitor the potential customer's credit quality and defines credit limits by customer, which are reviewed every year. Except for the allowance for doubtful debts amounting to RMB124,000 in 2011 (2010: RMB2,087,000), there is no other adverse change in the credit quality of the customers from the date of credit was initially granted. All of the trade receivables are not past due.

Movement in the total allowance for doubtful debts

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

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

19. PLEDGED BANK DEPOSITS

Pledged bank deposits represent certain bank deposits pledged to banks to secure bills payables totalling RMB27,839,000 (2010: RMB35,068,000) issued by the Group. The pledged bank deposits carry fixed interest rate of 3.3% (2010: 1.98%) per annum. The pledged bank deposits will be released upon the settlement of the relevant bills payables.

20. BANK BALANCES AND CASH

Bank balances comprises short-term bank deposits with original maturity of three months or less. The effective interest rate ranged from 0.39% to 3.1% (2010: from 0.36% to 2.5%) per annum as at 31 December 2011.

At the end of the reporting period, bank balances and cash of RMB2,076,407,000 (2010: RMB2,007,405,000) 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.

	2011 **RMB'000**	2010 RMB'000
Hong Kong Dollars	**96,230**	341,435
United States Dollars	**175**	181

21. TRADE AND BILLS PAYABLES

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

21. 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:

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

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

22. AMOUNTS DUE TO RELATED COMPANIES

	2011	2010
	RMB'000	RMB'000
Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores") (Note a)	**–**	11
Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang") (Note a)	**9,009**	9,009
	9,009	9,020

Notes:

(a) Shineway Drugstores and Shineway Lang Fang are both ultimately controlled by the controlling shareholder of the Group.

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

23. DEFERRED INCOME

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

Included in the deferred income at 31 December 2011 are government subsidies amounting to RMB3,100,000 (2010: RMB2,600,000) in relation to research and development expenses on certain new products not yet recognised. The grant is recognised as deferred income because there is an obligation to repay the grant if the related research is not successfully completed. The amounts will be recognised in profit or loss when the related research is successfully completed.

During the year, the Group received RMB10,055,000 (2010: RMB82,795,000) government subsidies in relation to research and development expenses and recognised RMB9,555,000 (2010: RMB6,079,000) in profit or loss as the related researches are successfully completed.

At 31 December 2010 and 2011, the deferred income included a government grant amounting to RMB74,666,000 received in 2010 in relation to a development project, including the construction of production premises and acquisition of plant and machineries, in the 邛崍醫藥產業園 ("Qionglai Pharmaceutical Area") in Sichuan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for management's intended use. The Group has an obligation to repay the grant if the grant is not utilised for the development project. No deferred income is transferred to profit or loss as the related development project has not been completed at the end of the reporting periods.

24. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2010, 31 December 2010 and 31 December 2011	5,000,000	530,000
Issued and fully paid:		
Balance at 1 January 2010, 31 December 2010 and 31 December 2011	827,000	87,662

25. ACQUISITION OF SUBSIDIARIES

(a) In April 2010, the Group acquired 100% equity interest of Shineway Pharmaceutical (Zhangjiakou) Company Limited ("Zhangjiakou Shineway") (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)

25. ACQUISITION OF SUBSIDIARIES (Continued)

(a) (Continued)

The consideration payable of RMB11,660,000 was fully settled during the year ended 31 December 2011.

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 RMB 591,000 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.

25. ACQUISITION OF SUBSIDIARIES (Continued)

(b) In April 2010, the Group acquired 100% equity interest of Shineway Pharmaceutical (Sichuan) Limited ("Shineway Sichuan") (formerly known as Sichuan Kalituo Pharmaceutical Limited) for a consideration of RMB15,000,000. The principal activity of Shineway Sichuan 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)

25. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

The goodwill on acquisition of Shineway Sichuan 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.

Shineway Sichuan 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 Shineway Sichuan 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.

26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders. During the years ended 31 December 2011 and 2010, 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 2011 and 2010.

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

27. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 RMB'000	2010 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,633,568**	2,664,207
Financial liabilities		
Amortised cost	**431,254**	415,560

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.

Foreign currency risk

Several subsidiaries of the Company have foreign currency bank balances, which expose the Group to foreign currency risk. Approximately 4% (2010: 15%) of the Group's bank balances are denominated in currencies other than the functional currency of the relevant group entities.

27. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Foreign currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currencies of HKD as disclosed in note 20 with the functional currency of those subsidiaries in RMB.

The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in RMB against HKD. 5% (2010: 5%) 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% (2010: 5%) change in HKD. A negative number below indicates a decrease in profit for the year where RMB strengthens 5% (2010: 5%) against HKD. For a 5% weakening of RMB against HKD, there would be an equal and opposite impact on the profit for the year.

	HKD Impact	
	2011	2010
	RMB'000	RMB'000
Decrease in profit for the year	**(3,609)**	(12,804)

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.

27. 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 94% (2010: 95%) of the total trade and bill receivables as at 31 December 2011.

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 the 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.

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

28. SHARE OPTIONS

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

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

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

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

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

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

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

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

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.

29. OPERATING LEASE

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

	2011	2010
	RMB'000	RMB'000
Within one year	**1,493**	2,007
In the second to fifth year inclusive	**1,044**	2,235
	2,537	4,242

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.

At 31 December 2010, included in the operating lease commitment, an amount of RMB619,000 (2011: nil) as fall due within one year is payable to Shineway Medical.

30. RETIREMENT BENEFITS PLANS

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

The total expense recognised in the consolidated statement of comprehensive income of RMB36,730,000 (2010: RMB19,012,000) represents contributions payable to this plan by the Group at rates specified in the rules of the plan.

31. CAPITAL COMMITMENTS

	2011 RMB'000	2010 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**554,989**	505,822

32. RELATED PARTY TRANSACTIONS

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

	2011 RMB'000	2010 RMB'000
Trading transactions:		
Rental expenditure to Shineway Medical (note)	**619**	619
Service fee to Shineway Lang Fang	**1,713**	1,679
Service fee to Shineway Medical (note)	**6,668**	6,538
Sale of goods to Shineway Drugstores	**768**	470

Notes: Shineway Medical, is ultimately controlled by the controlling shareholder of the Group.

Compensation of key management personnel

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

33. SUBSIDIARIES

Details of the subsidiaries at 31 December 2010 and 31 December 2011 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 2011	2010	Principal activities
Yuan Da Investment Limited	Hong Kong 10 November 2009	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) 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
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

33. SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2011	2010	Principal activities
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 (Note c) 神威藥業(成都)有限公司	PRC 25 December 2009	Registered capital – RMB5,000,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Zhangjiakou) Company Trading of Chinese Limited (Note c) 神威藥業(張家口)有限公司	PRC 18 November 2002	Registered capital – RMB22,000,000	**100%**	100%	Manufacture and trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Sichuan) Limited (formerly known as Sichuan Kalituo Pharmaceutical Limited) (Note c) 神威藥業(四川)有限公司 (formerly known as 四川康利托製藥有限公司)	PRC 15 September 2003	Registered capital – RMB15,000,000	**100%**	100%	Manufacture and trading of Chinese pharmaceutical products
Chengdu Kalituo Technology Company Limited (Note c) 成都康利托科技有限公司	PRC 4 December 2009	Registered capital – RMB20,000,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway (Shijiazhuang) Chinese Medicine Prepared Herbs Limited (Note c) 神威藥業(石家莊)中藥飲片有限公司	PRC 19 November 2010	Registered capital – RMB3,000,000	**100%**	100%	Trading of Chinese pharmaceutical products

33. SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2011	2010	Principal activities
Shineway Pharmaceutical (Minle) Modern Agricultural Pharmaceutical Limited (Note c) 神威藥業(民樂)現代農業有限公司	PRC 17 June 2011	Registered capital – RMB2,000,000	**70%**	–	Trading of Chinese pharmaceutical products

Notes:

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

(b) foreign wholly-owned enterprises

(c) PRC domestic 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.