



**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: 2877)**

**ANNOUNCEMENT OF ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2004**

**GROUP FINANCIAL HIGHLIGHTS**

- Turnover in 2004 increased by 16.5% to RMB 703,575,000 compared with RMB604,042,000 in 2003.
- Gross profit in 2004 increased by 56.3% to RMB451,577,000 compared with RMB289,040,000 in 2003.
- Net profit for the year 2004 increased by 72.3% to RMB260,793,000 compared with RMB151,370,000 in 2003.
- Earnings per Share for the year 2004 was RMB0.42 increased by 68% compared with RMB0.25 in 2003.

## RESULTS

The board of directors (the “Board”) of China Shineway Pharmaceutical Group Limited (the “Company”) are pleased to present the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 December 2004 with comparative figures for the year ended 31 December 2003 as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2004*

	<i>Notes</i>	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
Turnover	2	703,575	604,042
Cost of sales		<u>(251,998)</u>	<u>(315,002)</u>
Gross profit		451,577	289,040
Other operating income		859	805
Distribution costs		(116,510)	(70,035)
Administrative expenses		<u>(55,117)</u>	<u>(34,728)</u>
Profit before taxation	3	280,809	185,082
Income tax	4	<u>(10,659)</u>	<u>7,308</u>
Profit after taxation		270,150	192,390
Minority interests		<u>(9,357)</u>	<u>(41,020)</u>
Net profit for the year		<u><u>260,793</u></u>	<u><u>151,370</u></u>
Earnings per Share - basic	5	<u><u>RMB0.42</u></u>	<u><u>RMB0.25</u></u>

## CONSOLIDATED BALANCE SHEET

At 31 December 2004

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	179,618	191,054
Deposit for purchase of building	11,022	—
Deferred tax assets	<u>8,982</u>	<u>299</u>
	<u>199,622</u>	<u>191,353</u>
<b>Current assets</b>		
Inventories	18,165	46,313
Trade and other receivables	205,676	62,860
Amounts due from Shineway Medical and Shineway Lang Fang	—	35,304
Amounts due from related companies	358	243
Bank balances and cash	<u>1,146,592</u>	<u>294,989</u>
	<u>1,370,791</u>	<u>439,709</u>
Total assets	<u><u>1,570,413</u></u>	<u><u>631,062</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Share capital	87,980	—
Reserves	<u>1,324,747</u>	<u>395,736</u>
	<u>1,412,727</u>	<u>395,736</u>
Minority interests	<u>23,542</u>	<u>63,889</u>

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
<b>Non-current liabilities</b>		
Amount due to Shineway Medical	1,568	44,924
Amount due to Shineway Lang Fang	263	—
Deferred tax liabilities	<u>—</u>	<u>5,484</u>
	<u>1,831</u>	<u>50,408</u>
<b>Current liabilities</b>		
Trade and other payables	131,290	73,921
Amount due to a related company	—	908
Tax liabilities	<u>1,023</u>	<u>46,200</u>
	<u>132,313</u>	<u>121,029</u>
Total equity and liabilities	<u><u>1,570,413</u></u>	<u><u>631,062</u></u>

*Notes:*

#### **1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands on 14 August 2002 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 2 December 2004.

Under a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Stock Exchange, the Company became the holding company of the Group on 10 November 2004. Details of the group reorganisation were set out in the prospectus issued by the Company dated 23 November 2004 (the “Prospectus”).

The principal steps of the group reorganisation were as follows:

- (1) Shineway Pharmaceutical Co., Ltd. (“Shineway Pharmaceutical”) was established for the purpose of taking over the business of manufacture and trading of Chinese pharmaceutical products and the relevant assets and liabilities from 神威醫藥科技股份有限公司 Shineway Medical Science & Technology Co., Ltd. (“Shineway Medical”) (formerly known as 石家莊神威醫藥股份有限公司 Shijiazhuang Shineway Pharmaceutical Co., Ltd.) (“Shineway Pharmaceutical Business”) and Hebei Shineway Pharmaceutical Co., Ltd. (“Hebei Shineway”) was established for the purpose of taking over the business of manufacture and trading of Chinese pharmaceutical products and the relevant assets and liabilities from 神威醫藥科技(廊坊)有限公司 Shineway Medical Science & Technology (Lang Fang) Co., Ltd. (“Shineway Lang Fang”) (formerly known as 神威藥業(燕郊)有限公司 Shineway Pharmaceutical (Yanjiao) Company Limited) (“Yanjiao Pharmaceutical Business”) (hereinafter collectively referred to as the “Relevant Pharmaceutical Business”). Pursuant to the approval from Hebei Municipal Government, Shineway Pharmaceutical and Hebei Shineway took over the Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business at the consideration of RMB44,540,200 and RMB27,931,200 respectively with effect from 31 March 2004 (“Transfer of Relevant Pharmaceutical Business”).

- (2) On 31 March 2004, the bank balances and cash of RMB195,596,000 and RMB33,501,000 of Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business were retained by Shineway Medical and Shineway Lang Fang respectively, together with the settlements of current accounts with Shineway Medical and Shineway Lang Fang of RMB119,168,000 (including tax liabilities of RMB29,255,000) and RMB5,207,000 (including tax liabilities of RMB15,219,000) and net assets of RMB24,698,000 and RMB20,157,000 acquired from Shineway Medical and Shineway Lang Fang respectively, by way of a deemed distribution.
- (3) Share transactions taken place between the Company and Sinovest International Investment Limited (“Sinovest”) whereby the Company issued to Sinovest 599,992,200 shares of HK\$0.1 each in exchange for the respective entire issued share capital of Yuan Da International Limited (“Yuan Da”), being the immediate holding company of Shineway Pharmaceutical, and of Hong Zhan International Limited (“Hong Zhan”), being the immediate holding company of Hebei Shineway, held by Sinovest. As a result, the Company became the holding company of the Group.

The Group, resulting from the above mentioned group reorganisation, is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting.

The Group’s books and records are maintained in Renminbi, the currency in which the majority of the Group’s transactions are denominated.

## **2. TURNOVER AND SEGMENT INFORMATION**

Turnover represents the net amount received and receivable for Chinese pharmaceutical products sold to customers.

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

### 3. PROFIT BEFORE TAXATION

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	1,272	306
Allowance for bad and doubtful debts	27	59
Depreciation and amortisation of property, plant and equipment	22,284	21,956
Staff costs (including directors' remuneration)	37,541	23,496
Pension costs	<u>2,465</u>	<u>471</u>
	40,006	23,967
Loss on disposal of property, plant and equipment	494	400
Minimum lease payments under operating lease in respect of land and buildings	282	3,028
Research and development costs	8,367	3,407
and after crediting:		
Interest income	790	177
Rental income	<u>—</u>	<u>178</u>

### 4. INCOME TAX

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
Current tax:		
PRC Enterprise Income Tax	(13,225)	11,265
Deferred tax	<u>2,566</u>	<u>(3,957)</u>
	<u>(10,659)</u>	<u>7,308</u>

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

Prior to the transfer of the Relevant Pharmaceutical Business to Shineway Pharmaceutical and Hebei Shineway, it was part of Shineway Medical and Shineway Lang Fang whose tax returns to the tax authority included the results of the Relevant Pharmaceutical Business. The PRC Enterprise Income Tax rate applicable to Shineway Medical and Shineway Lang Fang is 33% on their assessable profits.

Pursuant to the relevant law and regulations in the PRC, Shineway Pharmaceutical and Hebei Shineway are entitled to exemption from PRC Enterprise Income Tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The first profit-making period of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004.

In addition, pursuant to 琼海國稅發2004 151號, Shineway Pharmaceutical Sales Co., Ltd. ("Shineway Sales") was exempted from the PRC Enterprise Income Tax for the year ended 31 December 2003. Pursuant to 國發1988 26號, the PRC Enterprise Income Tax rate applicable to Shineway Sales is 15% on its assessable profit.

Pursuant to Cai Shui Zi (1999) No. 290 issued by the Ministry of Finance and the State Tax Bureau, the Shineway Pharmaceutical Business was entitled to a tax benefit ("Tax Benefit"), which was calculated as

40% of the current year's additions of PRC manufactured plant and equipment for technological improvements. The Tax Benefit was, however, limited to the amount of increase in enterprise income tax for the year in which the plant and equipment were acquired as compared with the tax amount of the preceding year. The portion of the Tax Benefit that was not utilised can be carried forward for future application for a period of not more than five years from the year in which the plant and machinery are acquired.

## 5. EARNINGS PER SHARE

The calculations of basic earnings per Share is based on the following data:

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
Net profit for the year and earnings for the purposes of basic earnings per Share	<u>260,793</u>	<u>151,370</u>
	<b>Number of ordinary shares</b>	
	<b>2004</b>	<b>2003</b>
Weighted average number of ordinary shares for the purposes of basic earnings per Share	<u>617,232,877</u>	<u>600,000,000</u>

For the purpose of calculation of earnings per Share for 2003, the weighted average number of 600,000,000 shares of HK\$0.1 each of the Company ("Share") in issue for 2003 was assumed that the group reorganisation was taken place on 1 January 2003.

No diluted earnings per share has been presented for both 2004 and 2003 as there were no dilutive potential ordinary shares in both years.

## DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2004 (2003: nil).

## DISTRIBUTION

Pursuant to part of the group reorganisation which took effect from 31 March 2004, Shineway Pharmaceutical and Hebei Shineway took over the Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business from Shineway Medical and Shineway Lang Fang at the consideration of RMB44,540,200 and RMB27,931,200 respectively. The consideration paid represented the net amounts of assets and liabilities of the Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business transferred to Shineway Pharmaceutical and Hebei Shineway respectively. Accordingly, the reserves and accumulated profits of Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business were distributed to the shareholders of Shineway Medical and Shineway Lang Fang respectively by way of a deemed distribution which represented the net assets values of Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business of RMB339,462,000 and RMB58,865,000 respectively.

The deemed distribution was settled by bank balances and cash of RMB195,596,000 and RMB33,501,000 of Shineway Pharmaceutical Business and Yanjiao Pharmaceutical Business, current accounts with Shineway Medical and Shineway Lang Fang of RMB119,168,000 (including tax liabilities of RMB29,255,000) and RMB5,207,000 (including tax liabilities of RMB15,219,000) and net assets of RMB24,698,000 and RMB20,157,000 acquired from Shineway Medical and Shineway Lang Fang respectively.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Industry Overview**

During 2004, the PRC economy achieved fast growth and the pharmaceutical industry maintained a faster growth pace. While the growth rate of Chinese medicines sector surpassed the growth rate of the pharmaceutical industry. Last year, the State enforced the GMP and GSP certification system. Manufacturing enterprises which fail to obtain the certification could not continue to carry out production or sales of medicines. At the same time, the PRC starts to implement the classification of medicines management system to ensure safe and effective usage of medicine by customers. Since all the Group's production facilities have obtained GMP certification in 2003. Shineway Sales have obtained GSP certification at the beginning of the year. Stricter regulation on medicines provide a healthier development environment for the Group and other large enterprises. From the perspective of value chain of the industry, after the SARS outbreak in 2003, raw material prices have decreased to a more reasonable level and was relatively stable in 2004. The PRC government has reduced selling prices of medicines, mainly western medicines drastically. Prices of the Chinese pharmaceutical products are relatively stable, with no adverse effect on the Group's sales.

### **Results**

The Group's consolidated turnover for the year ended 31 December 2004 was RMB703,575,000, representing an increase of 16.5% over the amount of RMB604,042,000 for last year. Profit after taxation was RMB260,793,000, up 72.3 % against last year's figure. Gross profit margin was 64.2 %, higher than the 47.9% for last year. The rise in our consolidated turnover was mainly attributable to effective product portfolio management, an increase in sale of products to developing market.

### **Product sales**

The Group produced both prescription and OTC medicines in 2004. It offers a range of 45 pharmaceutical products, most of which are sold in the PRC, with exports accounting for just a small portion. Our customers are mainly licensed pharmaceutical distributors, hospitals and medical institutions, pharmacies and other retail outlets. The Group's seven main products, namely Xin Nao Qing soft capsules, Qing Kai Ling injection, Shen Mai injection, Fu Fang San Wei Ya You Suan I soft capsules, Huo Xiang Zheng Qi soft capsules, Paediatric Hua Tan Zhi Ke granules and Paediatric An Fen Huang Na Min granules, account for 82.8% of the Group's total turnover.

A breakdown of turnover by geographic location:

	<i>Notes</i>	<b>Year ended 31 December</b>			
		<b>2004</b>		<b>2003</b>	
		<i>RMB</i> <i>million</i>	<i>%</i>	<i>RMB</i> <i>million</i>	<i>%</i>
Hebei		176.8	25.1	173.0	28.6
Others	1	<u>48.7</u>	<u>6.9</u>	<u>51.0</u>	<u>8.5</u>
Northern region		225.5	32.0	224.0	37.1
Central region	2	149.8	21.3	144.0	23.8
Western region	3	112.8	16.0	81.0	13.4
Eastern region	4	87.1	12.4	66.3	11.0
North-eastern region	5	77.9	11.1	53.0	8.8
Southern region	6	49.3	7.0	34.8	5.7
Export		<u>1.2</u>	<u>0.2</u>	<u>0.9</u>	<u>0.2</u>
<b>Total</b>		<u><b>703.6</b></u>	<u><b>100.0</b></u>	<u><b>604.0</b></u>	<u><b>100.0</b></u>

*Notes:*

1. Other regions include Beijing, Shanxi Province, Tianjin and Inner Mongolia.
2. Central region includes Henan Province, Anhui Province, Hubei Province, Hunan Province and Jiangxi Province.
3. Western region includes Sichuan Province, Yunnan Province, Gansu Province, Chongqing, Xinjiang Uygur Autonomous Region, Guizhou Province, Qinghai Province, Ningxia Autonomous Region and Shaanxi Province.
4. Eastern region includes Shandong Province, Zhejiang Province, Jiangsu Province and Shanghai.
5. North-eastern region include Heilongjiang Province, Jilin Province and Liaoning Province.
6. Southern region includes Guangdong Province, Fujian Province, Guangxi Zhuangzu Autonomous Region and Hainan Province.

Sales in the Northern and Central China increased by RMB7,301,000 in 2004. During the year, the Group kept expanding its geographical coverage to other regions. As a result, the Eastern and Western markets recorded faster growth pace.

A breakdown of turnover by product types:

	<b>For the year ended 31 December</b>			
	<b>2004</b>		<b>2003</b>	
	<i>RMB</i> <i>million</i>	%	<i>RMB</i> <i>million</i>	%
<b>Prescription</b>				
Modern Chinese medicines	533.1	75.8	431.8	71.5
Western Pharmaceuticals	<u>66.9</u>	<u>9.5</u>	<u>79.3</u>	<u>13.1</u>
Subtotal	<u>600.0</u>	<u>85.3</u>	<u>511.1</u>	<u>84.6</u>
<b>OTC</b>				
Modern Chinese medicines	66.1	9.4	68.4	11.3
Western Pharmaceuticals	<u>37.4</u>	<u>5.3</u>	<u>24.5</u>	<u>4.1</u>
Subtotal	<u>103.5</u>	<u>14.7</u>	<u>92.9</u>	<u>15.4</u>
Total	<u>703.5</u>	<u>100</u>	<u>604.0</u>	<u>100</u>

The Group's turnover derived from prescription medicines was RMB600 million in 2004. The proportion in turnover increased to 85.3%. The turnover derived from modern Chinese medicines was RMB533 million, accounting for 75.8%.

During 2004, the Group kept focus on the sale of higher margin injection products by product form, the turnover from injections products was RMB362 million, accounting for 51.4% of the Group's total turnover and representing an increase of 36.8% over 2003. Turnover from soft capsules was RMB229 million, accounting for 32.6% of the Group's turnover and representing an increase of 6.5% over 2003. The turnover of granules was RMB102 million, accounting for 14.5% of the Group's turnover and representing an increase of 13.0% over 2003.

Regarding the Group's three major products, the turnover from Wu Fu Xing Nao Qing soft capsules was RMB156,341,000, grew by 10.3% from 2003. The turnover from Shen Mai injection was RMB179,467,000, grew by 47.4% from 2003. The turnover from Qing Kai Ling injection was RMB 149,731,000, grew by 26.6% from 2003.

Turnover from emerging products, Qing Kai Ling soft capsule, Huang Qi injection and Paediatric Qing Fei Hua Tan granules, was RMB9,571,000, RMB19,179,000, and RMB23,608,000, respectively up by 95.9%, 61.3% and 110.7% respectively from that of 2003.

### **Cost of sales**

The Group's cost of sales amounted to RMB251,998,000 in 2004. Direct materials, direct labor and other production cost accounted for approximately 81.5%, 4.3% and 14.2% of the total production costs.

## **Gross profit**

The Group's gross profit was RMB451,577,000 (2003: RMB289,040,000) in 2004, representing an increase of 56.2% from that of 2003. The gross profit margin increased to 64.2% (2003: 47.9%), mainly attributable to the reduction in cost of sales resulting from: (1) the fall in market prices of raw materials and adoption of central procurement policy by the Group which resulted in a reduction of the purchase prices of raw materials. (2) the production efficiency of the Group increased and the economies of scales were enhanced; (3) the Group has strengthened the selling effort for the high margin injection products. The sales proportion of injection products increased from 44% in 2003 to 51% in 2004; and (4) the Group stopped purchase of extraction concentrate. From August 2002 to November 2003, the Group's extraction workshop carried out automation technological modification. During the period, the Group purchased extraction fluids from independent third parties. After completion of the automation modification, the Group started to produce extraction fluids by itself. Based on a breakdown of product form, the gross profit margin of injection, soft capsules and granules were 71.4%, 63.3% and 42.5%, respectively.

## **Profit before taxation**

The Group's profit before taxation was approximately RMB280,809,000 in 2004, an increase of 51.7% over 2003. During the year, the Group recorded total operating expenses of RMB171,627,000, comprising approximately RMB116,510,000 distribution costs and RMB55,117,000 administrative expenses. Distribution cost comprised RMB85,545,000 advertising and promotion expenses, RMB13,455,000 salaries and allowances, and RMB5,610,000 travelling expenses. The distribution cost of sales amounted to 16.6% of turnover, compared with 11.6% in 2003. A higher distribution cost was primarily due to the increased effects in developing markets at other regions, thereby increasing advertising and promotion expenses.

During 2004, the Group recorded administrative expenses of approximately RMB55,117,000, comprised approximately RMB8,367,000 research and development expenses. Research and development expenses accounted for approximately 1.2% of the total turnover in 2004, representing an increase of RMB4,960,000 compared with 2003. The Group's administrative expenses accounted for 7.8% of the total sales in 2004, a growth of RMB20,389,000 against 2003.

## **Financial information**

The cash and bank balances of the Group was RMB1,146,592,000 as at 31 December 2004 (2003: RMB294,989,000), comprising RMB1,025,748,000 of cash and bank balance denominated in Hong Kong dollars, and the balance of RMB120,844,000 of cash and bank balance denominated in RMB. The increase in cash and bank balance was mainly come from the proceeds of the initial public offer and the better results from operations during the year.

As at 31 December 2004, the Group has no outstanding bank loans, and thus no contingent liabilities (2003: Nil). The current ratio and liquid ratio also improved to 10.4 times and 10.2 times from 3.6 times and 3.3 times respectively in 2003.

For 2004, the turnover period of trade receivables was 65 days (2003: 45 days). The slight increase of turnover period of trade receivables was attributable to the increase in bills receivable from distributors as at 31 December 2004.

During the year under review, the inventory turnover period was relatively stable at 30 days (2003: 34 days).

The turnover period of trade payables was 53 days (2003: 88 days). The shortening of the turnover period of trade payables was attributable to the management's effort in speeding up payment to raw material suppliers for getting favorable purchase terms.

On the whole, the Group strictly monitored its capital and liquidity to ensure an optimal capital structure. As a result, the financial position of the Group was healthy, laying a solid foundation for future development.

### **Commitments**

As at 31 December 2004, the Group had the following commitments:

	<i>RMB'000</i>
Operating lease	2,763
Capital commitments	41,196

The operating lease commitment represents obligations of the Group in respect of the lease of an office premises and staff quarters in Hong Kong and the capital commitment represents the estimated obligations of the Group under its engagement of Shineway Medical for construction of the extraction workshop.

### **Interest rate and foreign exchange risks**

Most of the Group's businesses were operated in the PRC and denominated in RMB. There is only small settlement denominated in US dollars or Hong Kong dollars. There is no significant interest rate and foreign exchange risks.

### **Contingent liabilities**

As at 31 December 2004, the Group had no contingent liabilities.

### **Capital expenditures**

Capital expenditures comprised of purchase of property, plant and equipment, increase in construction in progress and additions to land use rights. For the year ended 31 December 2004, the Group's capital expenditures were approximately RMB22 million. The increase in capital expenditures was the result of the Group's continued efforts in upgrading and expanding its production facilities.

### **Proceeds from the initial public offer**

The net proceeds of the initial public offer, after deducting the relevant expenses, was approximately HK\$950 million. During the year under review, the Group has not applied substantial amount of the proceeds from the initial public offer as it only listed on the Main Board on 2 December 2004. The proceeds were deposited into a bank account in Hong Kong at 31 December 2004. The Group is applying for an increase in capital contribution to Shineway Pharmaceutical and Hebei Shineway.

### **Material acquisition and sale activities**

Apart from the Group's reorganization in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Group has not acquired or sold any of its subsidiaries.

### **Staff and remuneration policies**

As at 31 December 2004, the Group had 1,607 employees (2003: 1,456), an increase of 151 employees over last year mainly sales staff. Total staff cost accounted for 5.6% of the total turnover (2003:4.0%). The increase in staff number was due to the additional number of employees in the Sales Department in line with the business development. The employee salary was determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provides other benefits for its employees, including medical insurance and retirement benefits. We also granted bonuses to employees based on the Group's operating results and staff individual performance. The staff in Hong Kong also participated in the mandatory provident fund scheme.

### **Outlook**

After the implementation of GMP and GSP standard on 30 June 2004 and 31 December 2004 by the PRC government, pharmaceutical manufacturers that are unable to comply with GMP standards and pharmaceutical distribution enterprises that are unable to comply with GSP standards will be phased out. It is expected that pharmaceuticals market in the PRC will eventually be dominated by a few market leaders with nationwide brandnames, large-scale production, technologically advanced products and an extensive sales and marketing network.

The Group has a good track record in the industry. We will capitalize on our reputable "SHINEWAY" brand, the market status in Northern and Central regions of the PRC and our extensive distribution network to promote our corporate image, and develop the awareness of the brand in the PRC. We expect to further expand our market share to Southern and Eastern regions of the PRC.

As at 20 November 2004, the Group and Shineway Medical Science and Technology Co., Ltd. entered into a purchase agreement. In January 2005, the Group completed the acquisition of the new extraction workshop constructed by Shineway Medical Science and Technology Co.,

Ltd. upon completion. The workshop is among the first batch of commercialized special high technology projects name by the National Development and Reform Bureau. In January, the workshop commenced production, increasing the Group's annual extraction capacity from 1,800 tonnes to 5,400 tonnes.

In respect of further enhancement of research and development capability, the Group will continue to strengthen strategic alliance with various research institutions, universities and hospitals. Before conducting the research work, the Group will carefully assess cost efficiency, and analyze the market trend thoroughly. The group intends to continue focusing on medicines for curing diseases affecting middle and old aged people and/or children, and anti-viral medicines to satisfy customers' demand and increase their loyalty. It is expected that three Certificates of New Medicine will be obtained in 2005. Two medicines will obtain certification as State Protected Chinese Medicines. We will develop two new medicine products and expedite the progress of research and development.

In order to improve efficiency in handling customer orders and delivery of products, streamlining inventory procurement and enhancing customer services, the Group invests and installs an Enterprise Resource Planning system and an office control system to control inventory purchase and management. We also plan to build a logistics centre with an area of 15,000 sq.m. to increase operational efficiency.

The Group has adopted a strategy to establish a long term cooperative relationship with major medicine suppliers which can fulfill its stringent requirements. We entered into long term cooperative agreements with various herb and plant (including Red Ginseng, Honeysuckle and Indigowoad Root) cultivators. We will provide technological support and guidance for the cultivators to ensure supply of raw materials of high quality so as to furtherly enhance our market competitiveness.

As disclosed in the Prospectus, Shineway Lang Fong granted the Company an option to acquire Shineway Lang Fang's 20% equity in Shineway Sales. The Company is now considering to exercise the option.

## **CORPORATE GOVERNANCE**

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the period between the date of the listing of shares and 31 December 2004.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

Save as the exercise of the over-allotment option on 17 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2004.

## **AUDIT COMMITTEE**

The Audit Committee of the Company comprises three independent non-executive directors, currently includes Mr. Li Kung Man, Stewart, Mr. Wang Jianping and Mr. Zhou Chaofan. The Audit Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the financial statement for the year ended 31 December 2004 and is of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

## **PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

The Company will submit all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules in force prior to 31 March 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under the traditional arrangements, in due course for publication on the website of the Stock Exchange.

By Order of the Board  
**China Shineway Pharmaceutical Group Limited**  
**Li Zhenjiang**  
*Chairman*

Hong Kong, 29 March 2005

*As at the date of this announcement, the executive Directors are Mr. Li Zhenjiang, Ms. Wang Zhihua, Ms. Xin Yunxia, Mr. Hou Jiangtao and Mr. Li Huimin and the independent non-executive Directors are Mr. Li Kung Man, Dr. Wang Jianping and Prof. Zhou Chaofan.*