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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 DISCLOSEABLE AND CONNECTED TRANSACTION

As disclosed in the Prospectus, the Company and Shineway Lang Fang entered into the Option Agreement on 20 November 2004 whereby Shineway Lang Fang granted to the Company and its subsidiaries the Option to acquire (or to nominate a subsidiary to acquire) all or part of the 20% equity interest held by Shineway Lang Fang in Shineway Sales.

The Board announces that the Company has exercised the Option and on 30 March 2005, Yuan Da, a wholly-owned subsidiary of the Company, and Shineway Lang Fang entered into the Equity Transfer Agreement, pursuant to which Shineway Lang Fang conditionally agreed to sell and Yuan Da conditionally agreed to purchase 20% of the equity interest held by Shineway Lang Fang in Shineway Sales at the Consideration to be calculated by multiplying the Shineway Sales 2004 Profit with 20% and the PE Ratio. According to the audited financial statements of Shineway Sales for its financial year ended 31 December 2004 prepared according to International Financial Reporting Standards and the accounting policies adopted by the Company and audited by an international accounting firm, the Shineway Sales 2004 Profit is RMB39.8 million (equivalent to approximately HK\$37.6 million). On such basis, the amount of the Consideration is RMB80.8 million (equivalent to approximately HK\$76.2 million).

Shineway Sales, currently owned as to 80% by Yuan Da and as to 20% by Shineway Lang Fang, is principally engaged in providing sales and marketing services for the distribution of products manufactured by the Group. Upon Completion, Shineway Sales will become a wholly-owned subsidiary of Yuan Da and a wholly-owned foreign invested enterprise.

Mr. Li, an executive Director, is a connected person of the Company within the meaning of the Listing Rules. Mr. Li is also the controlling shareholder of Shineway Medical, which holds 70% equity interest in Shineway Lang Fang. Accordingly, Shineway Lang Fang is a connected person of the Company within the meaning of the Listing Rules. As a result, the Acquisition contemplated under the Equity Transfer Agreement constitutes a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Further, the Acquisition also constitutes a discloseable transaction for the Company under

Chapter 14 of the Listing Rules. The Circular containing details of the Equity Transfer Agreement, the letter of advice from the independent financial adviser, the recommendation of the Independent Board Committee to the Independent Shareholders, together with a notice to convene the EGM, will be dispatched to the Shareholders as soon as practicable. Sinovest, the controlling shareholder of the Company which is indirectly controlled by the trustee for the benefits of the family members of Mr. Li, and Sinovest's associates will abstain from voting at the EGM to approve the Acquisition.

BACKGROUND

As disclosed in the Prospectus, the Company and Shineway Lang Fang entered into the Option Agreement on 20 November 2004 whereby Shineway Lang Fang granted to the Company and its subsidiaries the Option to acquire (or to nominate a subsidiary to acquire) all or part of the 20% equity interest held by Shineway Lang Fang in Shineway Sales once permitted by the PRC law and regulations during the period of 3 years from 20 November 2004.

According to the Company's PRC legal adviser, it is permissible under the current PRC laws and regulations that Shineway Sales can apply to be changed to a wholly-owned foreign invested enterprise. Accordingly, Yuan Da has legal basis to acquire the remaining 20% equity interest in Shineway Sales and so as to own 100% equity interest in Shineway Sales.

The Company has exercised the Option and Yuan Da has entered into with Shineway Lang Fang the Equity Transfer Agreement, pursuant to which Shineway Lang Fang shall sell to Yuan Da its 20% equity interest in Shineway Sales on and subject to the terms and conditions of the Equity Transfer Agreement.

THE EQUITY TRANSFER AGREEMENT

Date: 30 March 2005

Parties:

Vendor: Shineway Lang Fang

Purchaser: Yuan Da

Mr. Li is an executive Director and a connected person of the Company within the meaning of the Listing Rules. Mr. Li is also the controlling shareholder of Shineway Medical, which holds 70% equity interest in Shineway Lang Fang. Accordingly, Shineway Lang Fang is a connected person of the Company within the meaning of the Listing Rules.

Assets to be acquired by Yuan Da:

20% equity interest owned by Shineway Lang Fang in Shineway Sales

Consideration:

Under the Equity Transfer Agreement, the Consideration is calculated by the following formula (the “New Calculation”):

$$\text{Exercise price} = \text{Shineway Sales 2004 Profit} \times 20\% \times \text{PE Ratio}$$

where Shineway Sales 2004 Profit was determined according to International Financial Reporting Standards and the accounting policies adopted by the Company and audited by an international accounting firm.

The New Calculation is different from the calculation provided in the Option Agreement and disclosed in the Prospectus, according to which the consideration (or exercise price) for the Acquisition was to be calculated by the following formula (the “Old Calculation”):

$$\text{Exercise price} = \text{Shineway Sales 2004 Profit} \times 20\% \times 15$$

where the amount “15” was based on the highest end of the pro forma fully diluted price earnings ratio based on the price range of the offer price indicated in the Prospectus.

The Company is aware that there is a deviation between the New Calculation and the Old Calculation, however the only change is the figure of the price earnings ratio in the calculations. The Directors (including the independent non-executive Directors) believe that it is necessary to make such a change as the price earnings ratio of 15 times in the Old Calculation was determined before the listing of the Shares on the expectation that such price earnings ratio would be sustainable after the Shares were listed on the Stock Exchange. However, since the listing of the Shares on the Stock Exchange, its prevailing price earnings ratio as quoted on Bloomberg has been kept at below the 15 times ratio. Therefore, to use the price earnings ratio of 15 as the basis for the consideration is not justified given the current market conditions. On the basis of the date of the Equity Transfer Agreement, the PE Ratio is 10.15. Accordingly, the Consideration under the New Calculation is obtained in the following way: Shineway Sales 2004 Profit x 20% x 10.15. The Directors (including the independent non-executive Directors) consider that the Consideration obtained in such a way is fair and reasonable and in the interest of the Group and the Shareholders as a whole.

According to the audited financial statements of Shineway Sales for its financial year ended 31 December 2004 prepared in accordance with the International Financial Reporting Standards and the accounting policies adopted by the Company and audited by an international accounting firm, the Shineway Sales 2004 Profit is RMB39.8 million (equivalent to approximately HK\$37.6 million). On such basis, the amount of the Consideration under the New Calculation is RMB80.8 million (equivalent to approximately HK\$76.2 million).

Subsequent to the financial year ended 31 December 2004 of Shineway Sales but before the Acquisition, dividends of approximately RMB33.7 million were declared and paid by Shineway Sales to its shareholders. However, the said payment of dividends will not affect the Consideration payable to Shineway Lang Fang by Yuan Da.

The Consideration payable to Shineway Lang Fang by Yuan Da will be settled in cash in Hong Kong dollars within 3 months from fulfilment of the conditions precedent as stated in the Equity Transfer Agreement and the issue of the new business licence of Shineway Sales upon its conversion into a wholly-owned foreign invested enterprise. The Acquisition will be financed by the internal resources of the Company.

Conditions precedent

The Completion is conditional upon, amongst others, the following conditions being satisfied:-

- (1) the relevant resolutions of the parties concerned approving the transfer contemplated under the Equity Transfer Agreement having been passed;
- (2) the Equity Transfer Agreement and the transactions thereunder having been approved by the Independent Shareholders at the EGM;
- (3) all the necessary governmental permits, approvals and consents having been obtained for the transfer contemplated under the Equity Transfer Agreement;
- (4) all the necessary governmental permits, approvals and consents having been obtained for the new articles of association of Shineway Sales to be signed by Yuan Da; and
- (5) the new business licence having been issued to Shineway Sales after the transfer of the 20% equity interest in Shineway Sales to Yuan Da pursuant to the Equity Transfer Agreement

Unless otherwise waived by the parties as allowed by laws and regulations, if the conditions as set out under the Equity Transfer Agreement are not satisfied on or before 30 June 2005 or such a later date as may be agreed between the parties in writing, the Equity Transfer Agreement will be terminated automatically. However, such termination will not prejudice the Company's rights under the Option Agreement, whereby the Company is still entitled to exercise the Option to acquire (or to nominate a subsidiary to acquire) all or part of the 20% equity interest held by Shineway Lang Fang in Shineway Sales within the time limit provided in the Option Agreement.

As at the date of this announcement, none of the conditions above have been fulfilled. It is expected that the conditions will be fulfilled by 30 June 2005.

INFORMATION ON SHINEWAY SALES

Shineway Sales was established on 3 March 2003 in the PRC with limited liability and registered in Hainan Province, the PRC. Shineway Sales is currently owned as to 80% by Yuan Da and as to 20% by Shineway Lang Fang. As a licensed pharmaceutical distributor in the PRC, Shineway Sales is principally engaged in providing sales and marketing services for the distribution of products manufactured by the Group.

The original purchase cost of the 20% equity interest in Shineway Sales by Shineway Lang Fang was RMB10,000,000 (equivalent to approximately HK\$9,433,962.26).

On the basis of the International Financial Reporting Standards, the net profits attributable to the 20% equity interest in Shineway Sales before and after taxation and extraordinary items for the financial year ended 31 December 2004 are RMB9,368,000 (equivalent to approximately HK\$8,837,000) and RMB7,958,000 (equivalent to approximately HK\$7,508,000) respectively. The net profits attributable to the 20% equity interest in Shineway Sales before and after taxation and extraordinary items for the financial year ended 31 December 2003 are the same amount RMB37,628,000 (equivalent to approximately HK\$35,498,000) since taxation for that year was exempted and there were no extraordinary items for that year.

Immediately after the Completion, Shineway Sales will become a wholly-owned subsidiary of Yuan Da and a wholly-owned foreign invested enterprise.

On the basis of the International Financial Reporting Standards, the net asset value of Shineway Sales for the financial year ended 31 December 2004 is RMB117,713,000 (equivalent to approximately HK\$111,050,000) and the net asset value of Shineway Sales for the financial year ended 31 December 2003 is RMB238,142,000 (equivalent to approximately HK\$224,662,000).

REASON FOR AND BENEFIT OF THE ACQUISITION

As at 23 November 2004, the date of the Prospectus, it was not permissible under the relevant PRC law and regulations for the Group to hold more than an 80% interest in Shineway Sales. However, as disclosed in the section "Relationship with Shineway Medical" in the Prospectus, subject to available financing, it was the Directors' intention that the Group would exercise the Option as soon as practicable once the Acquisition by the Group is permissible by the relevant Government authorities. According to the Company's PRC legal adviser, Shineway Sales is now permissible to apply to the relevant PRC authorities for change to be a wholly-owned foreign invested enterprise. Accordingly, the Company exercise the Option and Yuan Da entered into with the Equity Transfer Agreement for making the Acquisition.

The Directors (including the independent non-executive Directors) are of the view that it is in the interest of the Group and the Shareholders as a whole to hold 100% equity interest in Shineway Sales as Shineway Sales is engaged in the sale of products produced by the Group, and so as to reduce connected transactions and the business costs of the Group. They are further of the view that the terms of the Equity Transfer Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole. However, the above views of the Directors (including the independent non-executive Directors) are subject to the advice of the independent financial adviser. The letter of advice from the independent financial adviser will be set out in the Circular.

LISTING RULES IMPLICATIONS OF THE EQUITY TRANSFER AGREEMENT

Mr. Li is an executive Director and a connected person of the Company within the meaning of the Listing Rules. Mr. Li is also the controlling shareholder of Shineway Medical, which holds 70% equity interest in Shineway Lang Fang. Accordingly, Shineway Lang Fang is a connected person of the Company within the meaning of the Listing Rules. As a result, the Acquisition contemplated under the Equity Transfer Agreement constitutes a connected transaction for the Company and is R14A(56)(3) subject to reporting, announcement and Independent Shareholders approval requirements under Chapter 14A of the Listing Rules. Further, the Acquisition also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

The Independent Board Committee will be formed to advise the Independent Shareholders in relation to the Equity Transfer Agreement. An independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Equity Transfer Agreement are fair and reasonable as far as the Independent Shareholders are concerned.

A Circular containing details of the Equity Transfer Agreement, the letter of advice from the independent financial adviser of the Company, the recommendation of the Independent Board Committee to the Shareholders, together with a notice to convene the EGM, will be dispatched to the Independent Shareholders, as soon as practicable. Sinovest, the controlling shareholder of the Company which is indirectly controlled by the trustee for the benefits of the family members of Mr. Li, and Sinovest's associates will abstain from voting at the EGM to approve the Acquisition.

GENERAL INFORMATION

The Group is principally engaged in the development, manufacture and sale of modern Chinese medicines in the PRC and also produces and sells a series of western pharmaceuticals.

Shineway Lang Fang is principally engaged in investment and property holding in Lang Fang.

DEFINITIONS

Unless the context otherwise requires, the following terms shall have the meanings set out below:

“Acquisition”	the acquisition of 20% of the equity interest in Shineway Sales by Yuan Da from Shineway Lang Fang
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“Circular”	the circular to be dispatched to the Shareholders as soon as practicable, pursuant to the Announcement
“Company”	China Shineway Pharmaceutical Group Limited, a company incorporated in the Cayman Islands on 14 August 2002 with limited liability, the shares of which are listed on the Stock Exchange and is currently owned as to 75% by Sinovest
“Completion”	completion of the Acquisition contemplated under Equity Transfer Agreement
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Consideration”	the consideration for the Acquisition under the Equity Transfer Agreement
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and approving the Acquisition
“Equity Transfer Agreement”	the equity transfer agreement entered into between Yuan Da and Shineway Lang Fang on 30 March 2005 in respect of the Acquisition
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party”	a person or company which is independent of the Company and its connected persons and is not a connected person of the Company

“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors of the Company formed for the purpose of advising the Independent Shareholders on the Acquisition
“Independent Shareholders”	Shareholders other than Sinovest and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Option”	the option granted by Shineway Lang Fang granted to the Company to acquire (or to nominate a subsidiary to acquire) all or part of Shineway Lang Fang’s equity interests in Shineway Sales during the period of 3 years from 20 November 2004 under the Option Agreement
“Mr. Li”	Mr. Li Zhenjiang (李振江), an executive Director and the controlling shareholder of Shineway Medical
“Option Agreement”	the option agreement entered into between the Company and Shineway Lang Fang on 20 November 2004 as disclosed in the Prospectus and, where the context requires, including any subsequent amendments to the option agreement agreed between the Company and Shineway Lang Fang
“PE Ratio”	<p>the price earnings ratio of the Company obtained by the following formula:</p> $\text{PE Ratio} = \text{P} / \text{E}$ <p>Where:</p> <p>P is the average of the closing prices of the shares of the Company quoted on the Stock Exchange for the 10 trading days immediately preceding the date of the Equity Transfer Agreement; and</p> <p>E is the audited net profit per share of the Company after tax and extraordinary items for the year ended 31 December 2004</p>
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus dated 23 November 2004 issued by the Company
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.10 each in the capital of the Company

“Shareholder(s)”	shareholder(s) of the Company
“Shineway Lang Fang”	神威醫藥科技(廊坊)有限公司 (Shineway Medical Science & Technology (Lang Fang) Co., Ltd.), a company established in the PRC and owned as to 70% by Shineway Medical and as to 30% by an Independent Third Party
“Shineway Medical”	神威醫藥科技股份有限公司 (Shineway Medical Science & Technology Co., Ltd), a joint stock company incorporated in the PRC and currently owned as to approximately 81% by Mr. Li
“Shineway Sales”	神威藥業營銷有限公司 (Shineway Pharmaceutical Sales Co., Ltd.), a company established in the PRC with limited liability and registered in Hainan Province and currently owned as to 80% by Yuan Da and as to 20% by Shineway Lang Fang
“Shineway Sales 2004 Profit’	The historical net profit after tax but before extraordinary items of Shineway Sales for the financial year ended 31 December 2004
“Sinovest”	Sinovest International Investment Limited, being a company incorporated in the British Virgin Islands with limited liability and the controlling shareholder of the Company, which is indirectly controlled by the trustee for the benefits of the family members of Mr. Li
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yuan Da”	Yuan Da International Limited (遠大國際有限公司), a company incorporated in the British Virgin Islands with limited liability and owned as to 100% by the Company

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

Hong Kong, 30 March, 2005

In this announcement, amounts denominated in RMB have been translated into Hong Kong dollars at the rate of HK\$1.00: RMB1.06 for the purpose of illustration only. No representation is made that the amounts in question have been, could have been or could be converted at such particular rate.

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.