



CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2877)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

YEAR 2005 GROUP FINANCIAL HIGHLIGHTS

- Turnover in 2005 increased by 18% to RMB831,379,000 compared with RMB703,575,000 in 2004.
- Net profit increased by 27% to RMB331,467,000 compared with RMB260,793,000 in 2004.
- Earnings per Share decreased by 5% to RMB0.40 compared with RMB0.42 in 2004, because the weighted average number of shares increased from 617,232,877 in 2004 to 828,550,800 in 2005 as a result of the company's listing in December 2004.
- Recommended final dividend of RMB10 cents per share and special dividend of RMB2 cents per share.

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 2005 with comparative figures for the year ended 31 December 2004 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Turnover	3	831,379	703,575
Cost of sales		(274,772)	(251,998)
Gross profit		556,607	451,577
Other income		18,209	859
Distribution costs		(160,909)	(116,510)
Administrative expenses		(71,455)	(55,117)
Profit before taxation	4	342,452	280,809
Income tax	5	(5,446)	(10,659)
Profit for the year		<u>337,006</u>	<u>270,150</u>
Attributable to:			
Equity holders of the Company		331,467	260,793
Minority interests		5,539	9,357
		<u>337,006</u>	<u>270,150</u>
Earnings per share – basic	6	<u>RMB0.40</u>	<u>RMB0.42</u>
Dividends	7		
Interim dividend paid		82,700	–
Proposed dividend – final		82,700	–
– special		16,540	–
		<u>181,940</u>	<u>–</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		231,193	173,016
Land use rights		5,946	6,274
Goodwill	8	58,479	–
Deposit for purchase of building		–	11,022
Deferred tax assets		11,459	8,982
		<u>307,077</u>	<u>199,294</u>
Current assets			
Inventories		35,451	18,165
Trade receivables	9	2,998	7,140
Bills receivables	9	134,348	187,004
Prepayment, deposits and other receivables		17,614	11,860
Amounts due from a related company		155	358
Bank balances and cash		1,347,605	1,146,592
		<u>1,538,171</u>	<u>1,371,119</u>
Total assets		<u>1,845,248</u>	<u>1,570,413</u>
Total assets less current liabilities		<u>1,630,248</u>	<u>1,438,100</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		87,662	87,980
Reserves		1,542,586	1,324,747
Equity attributable to equity holders of the Company		1,630,248	1,412,727
Minority interests		–	23,542
Total equity		<u>1,630,248</u>	<u>1,436,269</u>
Non-current liabilities			
Amounts due to related companies		–	1,831
Current liabilities			
Trade payables	10	85,971	35,384
Other payables and accrued expenses		120,726	95,906
Government grants received		5,400	–
Tax liabilities		2,903	1,023
		<u>215,000</u>	<u>132,313</u>
Total equity and liabilities		<u>1,845,248</u>	<u>1,570,413</u>

Notes:

1. GENERAL

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 Mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 financial statements are presented in Renminbi, which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted all of the new and revised International Financial Reporting Standards ("IFRSs") and International Accounting Standards ("IASs") issued by the International Accounting Standards Board (the "IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised IFRSs, IASs and Interpretations has resulted in changes to the Group's accounting policies in the following areas:

- share-based payments (IFRS 2); and
- goodwill (IFRS 3).

The impact of these changes in accounting policies is discussed below:

IFRS 2, Share-based payments

IFRS 2 share-based payments requires the recognition of equity-settled share-based payments for services rendered by the employees of the Group at fair value at the date of grant.

In accordance with the transitional provisions of IFRS 2, the standard has been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005. The adoption of IFRS 2 has had no material impact to the results of the Group because no options have been granted since the adoption of the share option scheme.

IFRS 3, Business combinations

Goodwill

IFRS 3 has been adopted for business combinations for which the agreement date is on or after 31 March 2004. The option of limited retrospective application of the standard has not been taken up, thus avoiding the need to restate past business combinations. The Group had no acquisition during the 2004 accounting period other than the Group reorganisation which was accounted for using merger accounting. The effect of IFRS 3 is the subsequent measurement of goodwill arisen from acquisition of additional interest in a subsidiary during the year.

After initial recognition, IFRS 3 requires goodwill to be carried at cost less any accumulated impairment losses. Under IAS 36 "Impairment of Assets" (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortisation of goodwill.

At the date of authorisation of these financial statements, the following IASs, IFRSs and Interpretations were in issue but not yet effective for the years covered by these financial statements:

IAS 1 (Amendment)	Capital disclosures
IAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
IAS 21 (Amendment)	Net investment in a foreign operation
IAS 39 (Amendment)	Cash flow hedge of forecast intragroup transactions
IAS 39 (Amendment)	The fair value option
IAS 39 & IFRS 4 (Amendments)	Financial guarantee contracts
IFRS 6	Exploration for and evaluation of mineral resources
IFRS 7	Financial instruments: Disclosures

IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
IFRIC 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2

The directors anticipate that the adoption of these IASs, IFRSs, and Interpretations in future periods will have no material impact on the Group's consolidated financial statements.

3. TURNOVER AND SEGMENT INFORMATION

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

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 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.

4. PROFIT BEFORE TAXATION

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	1,761	1,272
Allowance for bad and doubtful debts	–	27
Cost of inventories recognised as expense	274,772	251,998
Depreciation of property, plant and equipment	25,792	22,053
Operating lease rentals in respect of land use rights	328	231
Staff costs (including directors' remuneration)	51,007	37,541
Pension costs	2,428	2,465
Loss on disposal of property, plant and equipment	–	494
Minimum lease payments under operating lease in respect of rented premises	1,001	282
Research and development costs	10,083	8,367
and after crediting:		
Gain on disposal of property, plant and equipment	3	–
Interest income	<u>17,817</u>	<u>790</u>

5. INCOME TAX

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Current tax:		
PRC Enterprise Income Tax	(7,923)	(13,225)
Deferred tax	<u>2,477</u>	<u>2,566</u>
	<u>(5,446)</u>	<u>(10,659)</u>

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

The reconciliation of tax charge to the profit before taxation per income statement for the year is as follows:

	2005		2004	
	RMB'000	%	RMB'000	%
Profit before taxation	<u>342,452</u>		<u>280,809</u>	
Tax at the applicable tax rate of 33%	(113,009)	(33.0)	(92,667)	(33.0)
Tax effect of expenses that are not deductible in determining taxable profit	(3,367)	(1.0)	(11,975)	(4.3)
Tax effect of income that are not taxable in determining taxable profit	2,683	0.8	422	0.2
Tax loss not recognised	(1,311)	(0.4)	(2,992)	(1.1)
Tax effect on tax holiday	104,023	30.5	85,469	30.5
Tax effect of utilisation of tax losses not previously recognised	–	–	6,123	2.2
Income tax on concessionary rate	6,281	1.8	6,225	2.2
Effect of different tax rates of subsidiaries operating in other jurisdiction	(598)	(0.2)	–	0.0
Others	(148)	(0.1)	(1,264)	(0.5)
Taxation charge and effective tax rate for the year	<u>(5,446)</u>	<u>(1.6)</u>	<u>(10,659)</u>	<u>(3.8)</u>

Pursuant to the relevant law and regulations in the PRC, Shineway Pharmaceutical Co., Ltd. (“Shineway Pharmaceutical”) and Hebei Shineway Pharmaceutical Co., Ltd. (“Hebei Shineway”) are entitled to full 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.

6. EARNINGS PER SHARE

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

	2005	2004
	RMB'000	RMB'000
Earnings basic earnings per share (profit for the year attributable to equity holders of the Company)	<u>331,467</u>	<u>260,793</u>
	Number of ordinary shares	
	2005	2004
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>828,550,800</u>	<u>617,232,877</u>

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

7. DIVIDEND

	2005	2004
	RMB'000	RMB'000
Interim, paid – RMB10 cents per share (2004: nil)	82,700	–
Final, proposed – RMB10 cents per share (2004: nil)	82,700	–
Special, proposed – RMB2 cents per share (2004: nil)	16,540	–
	<u>181,940</u>	<u>–</u>

In respect of current year, the directors propose that a final dividend of RMB10 cents (2004: nil) per share and special final dividend of RMB2 cents (2004: nil) per share will be paid to shareholders whose names appear on the register of members of the Company on 26 April 2006. This dividend is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in the financial statement.

Dividends payable in cash in Hong Kong dollars will be converted from RMB at the forward exchange rates quoted by bank at 11:00 a.m. on 20 March 2006 (RMB1 = HK\$0.9634). Accordingly, the amount payable on 27 April 2006 will be:

Final – RMB10 cents per share; approximately HK\$0.0963 per share

Special – RMB2 cents per share; approximately HK\$0.0193 per share

8. GOODWILL

	<i>RMB'000</i>
At 1 January 2004 and 2005	–
Arising on acquisition of additional interest in a subsidiary	58,479
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At 31 December 2005	58,479
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Goodwill acquired has been allocated to the cash-generating unit (“CGU”) of Shineway Pharmaceutical Sales Co., Ltd..

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow projection derived from the most recent financial budgets approved by management for the next five years based on an estimated growth rate of 3%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from Shineway Sales is 12%.

At 31 December 2005, no impairment loss is identified.

9. TRADE AND BILLS RECEIVABLES

The Group allows a credit period normally ranging from six months to one year to its trade customers.

The trade receivables and bills receivables are of the age within 6 months at the balance sheet dates.

10. TRADE PAYABLES

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Trade payables	58,101	33,129
Receipt in advance	27,870	2,255
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	85,971	35,384
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An aged analysis of the Group’s trade payables at the balance sheet date is as follows:

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Within 6 months	54,644	31,407
Over 6 months but less than 1 year	2,769	1,060
Over 1 year but less than 2 years	276	346
Over 2 years	412	316
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	58,101	33,129
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The average credit period taken for trade purchase ranges from two months to four months.

11. CAPITAL COMMITMENTS

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	12,056	41,196
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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2005, turnover of the Group increased by 18.2% to RMB831,379,000. During the year, sales volumes and market shares of the Group's injection, soft capsule and granule products continued to expand as a result of our high quality products, strong brand equity and effective marketing strategies. Along with optimization of sale mix and effective control of production and operating costs, net profit attributable to the equity holders of the Group surged to RMB331,467,000, representing an increase of 27.1% over last year.

Sales by product format

	2005 Sales	2005 Sales mix	2005 Growth rate
Injections	RMB453,184,000	54.5%	25.3%
Soft Capsules	RMB259,883,000	31.3%	13.2%
Granules	RMB109,016,000	13.1%	6.8%

Injection Products

During 2005, sales of injection products of the Group reached approximately RMB453,184,000, representing an increase of 25.3% from last year. The growth mainly came from a higher sales of Shen Mai injection and Qing Kai Ling injection which increased by 13.4% and 29.9% respectively during the year. The strong growth in sales was attributable to the strong market demand for Chinese medicine injections, the Group's strategies to focus on the business of injection products, careful selection of primary distributors, strengthened development of distribution network and thereby increasing market coverage.

Injection products accounted for approximately 54.5% of turnover in 2005 as compared to 51.4% in 2004. The Group believes that it is now the largest Chinese medicine injection manufacturer in PRC in terms of sales volume and production capacity.

Soft Capsule Products

Sales of the Group's soft capsule products in 2005 amounted to approximately RMB259,883,000, an increase of 13.2% as compared with last year. It was mainly attributable to the increase in sales volume of Wu Fu Xing Nao Qing soft capsules and Huo Xiang Zheng Qi soft capsules.

During the period under review, sales of Wu Fu Xing Nao Qing soft capsules and Huo Xiang Zheng Qi soft capsules reached RMB162,881,000 and RMB39,417,000 respectively, representing an increase of 4.2% and 92.6%, respectively over last year. Soft Capsule products accounted for approximately 31.3% of turnover in 2005 as compared to 32.6% in 2004. The Group believes that it is now the largest Chinese medicine soft capsules manufacturer in PRC in terms of sales volume and production capacity.

Granule Products

Sales of granule products recorded an increase of 6.8% as compared with last year, amounting to approximately RMB109,016,000. The increase was due to strategic arrangement of the Group to maintain stable growth in granule products. Granules products accounted for approximately 13.1% of turnover in 2005 as compared to 14.5% in 2004.

RESEARCH AND DEVELOPMENT

Achievements

During the year, the Group obtained Certificates of New Medicine for Xue Se Tong dropping pill and Shu Jin Tong Luo granules.

Furthermore, the Company has obtained certificates of State Protected Chinese Medicine for two medicines, namely Guan Xin Ning injection and Shu Xie Ning injection and renewed certificates of State Protected Chinese Medicine for two medicines, namely Paediatric Qingfei Huaton granule and Jingwu granule, with a protection period from 2005 to 2012.

Jiang Zhi Tong Luo soft capsule was named as one of the 2005 State Key New Products by the Ministry of Science and Technology.

Zhikeping Jiangzhi Tongluo soft capsule was honored as one of the National Model Projects of High-Tech Industrialization and was awarded RMB5,000,000 by National Development and Reform Commission. Moreover, certain products under development were awarded a total of RMB950,000 from national and provincial science and technology authorities.

In Progress

Currently, there are 17 potential new product research projects which are either undergoing pharmaceutical research and clinical trial or have completed clinical trial. Among these projects are 5 products for treatment of cardiovascular diseases, 2 products for treatment of digestive system, 1 product for anti-viral treatment. All of these research projects are progressing as scheduled.

The Group had increased its focus in protecting intellectual properties. During the year, the Group filed three patent applications including two formulations and production processes for a medicine treating constipation and a medicine for treating cardiovascular illness, as well as one formulation of a medicine for treating cardio-cerebrovascular disease.

EXPANSION OF DISTRIBUTION NETWORK

During 2005, the Group established strategic alliance with key national distributors which have controlled over half of market share of the medicine wholesale market in China. Through this alliance, the Group will be able to accelerate its expansion and expand its coverage in the PRC.

EXPANDING PRODUCTION AND STORAGE CAPACITY

Earlier this year, the Group completed the expansion of its Chinese medicine extraction capacity from 1,800 tonnes to 5,400 tonnes per annum. In light of expected strong demand of injection products, the Company is now constructing a new injection workshop to double its existing injection production capacity from 1.2 billion units to 2 billion units of injection products per annum. The new injection workshop is expected to be completed in early 2007.

To cope with the constant growth of the Group's business, the Group also commenced the construction of a large-scale logistic centre in the second half of the year, which will effectively increase the automation and capacity of storage and delivery to cater for the increasing business volume. The new logistic centre is expected to be completed by mid-2006. Upon completion, storage capacity will increase by approximately 1.5 times while efficiency in storage and delivery will be enhanced.

CHANGES IN REGULATORY ENVIRONMENT

During the year, price caps of 22 western anti-biotic medicines listed in the national insurance catalogue were adjusted downward. Currently, the Group is not aware of any formal notifications from PRC regulatory bodies of any downward adjustment of price caps of Chinese medicines. The Group believes that even if such downward adjustment occurs, it will not have material impact on its earnings as average retail prices of most of the Group's products are considerably lower than the current price caps.

During the year, PRC regulatory authorities delegated the authority of regulating retail price cap of OTC products to provincial pricing departments. The Group believes that this change will increase the efficiency of the approval process of medicine prices and facilitate reasonable medicine prices, thereby establish a healthy market. The Group believes that such delegation of authority would not have any material impact on its earnings.

FUTURE OUTLOOK

In view of continuous growth of China's GDP, increase in average income per capita, rising health awareness among the general public, an aging population that results in increased demand for medicines for treatment of chronic diseases, the pharmaceutical market of the PRC has been growing rapidly. In addition, the continuous support of the Chinese government also facilitates further growth of the industry.

The State Council have recently promulgated the National Guideline on Medium and Long-Term Program for Science and Technology Development (2006-2020) which set out a number of emphasis and priorities, including strengthening the succession and innovation of Chinese medicines, promoting modernization and internationalization of Chinese medicines, developing modern Chinese medicines and production techniques, as well as reinforcing patent protection and international cooperation.

The Group expected that during the period of the Eleventh Five-Year Plan, the PRC government would commit more resources to develop the medical and healthcare industry, intensify the development of rural health care system so as to provide high quality medical service to the people, and will also strengthen health education to promote public health awareness.

Being one of the leading enterprises of the Chinese medicine industry, the Group will benefit from the growth trend of the industry.

ANNUAL GENERAL MEETING

The 2006 Annual General Meeting of the Company will be held on Wednesday, 26 April 2006 and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 19 April 2006 to Wednesday, 26 April 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and special dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Tuesday, 18 April 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Group repurchased 3,000,000 ordinary shares from the Stock Exchange at a price of HK\$3.175-HK\$3.450 from 4 July to 14 July 2005, with a total cost of HK\$9,873,925. These shares have been cancelled. As the Board believes that the share price cannot reflect the value of the Company at that time, it therefore decided to conduct a repurchase.

Save for the above, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company for the year ended 31 December 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended 31 December 2005 and up to the date of publication of the annual report, applied and complied with the Code Provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the "Listing Rules", except for the deviation below.

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

Mr. Li Zhenjiang has been both the Chairman and President of the Company, 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 the appropriate adjustment should suitable circumstance arise.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2005.

PUBLICATION OF FURTHER INFORMATION

The Annual Report of the Company inclusive of the Directors' Report and Audited Accounts for the year ended 31 December 2005 and Corporate Governance Report will be published on the Company's web-site and the website of the Stock Exchange on or before 31 March 2006.

COMPLIANCE WITH MODEL CODE

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules as the code of conduct for directors in their dealing in the Company's securities. The Company made specific enquiries with each director and each of them confirmed that he or she had complied with the Model Code during the financial year ended 31 December 2005.

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

Hong Kong, 20 March 2006

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