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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 CONNECTED TRANSACTION

On 1 March 2007, the Purchaser (an indirect wholly-owned subsidiary of the Company) entered into the Transfer Agreement with the Vendor for the acquisition by the Purchaser of the R&D Centre and the Land for an aggregate consideration of RMB23,960,000 (equivalent to approximately HK\$24,200,000).

The terms of the Transfer Agreement were negotiated on an arm's length basis. The Directors (including the independent non-executive Directors) consider that the Transfer Agreement is entered into on normal commercial terms and in the ordinary and usual course of business of the Company and the terms of the Transfer Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Mr. Li, an executive Director, is a connected person of the Company. Mr. Li is also the controlling shareholder of Shineway Medical, which holds 70% equity interest in the Vendor. Accordingly, the Vendor is a connected person of the Company within the meaning of the Listing Rules. As a result, the Acquisition contemplated under the Transfer Agreement constitutes a connected transaction for the Company. As the Consideration is less than 2.5% for each of the percentage ratios (except the profits ratio) under Rule 14.07 of the Listing Rules, the Acquisition is exempt from independent shareholders' approval under Rule 14A.32 of the Listing Rules and is only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

### TRANSFER AGREEMENT

**Date:** 1 March 2007

**Parties:**

**Vendor:** 神威醫藥科技(廊坊)有限公司 (Shineway Medical Science & Technology (Lang Fang) Co., Ltd.\*)

**Purchaser:** 河北神威藥業有限公司 (Hebei Shineway Pharmaceutical Co., Ltd.\*)

The Vendor is a connected person of the Company by virtue of being a subsidiary of Shineway Medical, which is controlled by Mr. Li, an executive Director. There were no prior related transactions with the Vendor which are required to be aggregated under Rule 14A.25 of the Listing Rules.

The Purchaser is an indirect wholly-owned subsidiary of the Company.

**Subject Matter:**

Pursuant to the Transfer Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the R&D Centre and the Land.

The R&D Centre is situated within the Land, which comprises the site on which the R&D Centre is situated and the adjacent land. The total area of the Land is approximately 83,887 square metres. The Land is situated in the Yanjiao Development District (燕郊開發區) of Sanhe City in Beijing, the PRC. The Vendor has obtained the State-owned Land Use Rights Certificate dated 12 May 2004 of the Land which will expire on 1 August 2051 and the use of land is for industrial use. The original cost of acquisition of the Land by the Vendor was RMB6,291,500.

The R&D Centre is under construction on the Land by the Vendor. The Building Ownership Certificate dated 10 September 2005 has been obtained for the R&D Centre. To the best of the Directors' knowledge, the cost of development of the R&D Centre incurred by the Vendor as at the Valuation Date was approximately RMB8,662,000. The Consideration has covered such cost of development.

**Consideration:**

The Consideration is RMB23,960,000 (equivalent to approximately HK\$24,200,000). The Consideration was arrived at after arm's length negotiation between the Vendor and the Purchaser and is based on a valuation certificate dated 28 February 2007 prepared by the Independent Valuer, in which the aggregate value of the Land and the R&D Centre was valued at RMB23,960,000 (equivalent to approximately HK\$24,200,000), representing the market value of the same as at the Valuation Date. It is payable by the Purchaser to the Vendor in cash and will be paid in three instalments as follows:

- (1) the first instalment being 10% of the Consideration will be paid within 5 days from the date of execution of the Transfer Agreement;
- (2) the second instalment being 40% of the Consideration will be paid within 3 days upon the satisfaction of the following:
  - (i) the provision of all contracts and all materials in relation to the inspection and technology relevant to the R&D Centre;
  - (ii) all the Conditions set out in the paragraph headed "Conditions" below;
- (3) the third instalment being the remaining 50% of the Consideration will be paid within 3 days upon the transfer of the title of the land certificates to the Purchaser or the obtaining of the written consent of the land transfer from the Ministry of Land and Resources of the PRC or the relevant government authorities.

The Purchaser will fund the Acquisition through internal resources of the Group.

## **Conditions:**

Completion of the Transfer Agreement is conditional upon the satisfaction of the following conditions within 3 months after the effective date of the Transfer Agreement:

1. the Vendor legally obtaining the construction land approval, planning permit for construction land, planning permit for construction works and permit for commencing construction work projects (permit for commencement of works) as required for developing the R&D Centre;
2. the Vendor obtaining all approvals, consents, permits, waivers, resolutions, letters of undertaking, letters of support, letters of confirmation and mandate letters, etc. as required for developing the R&D Centre pursuant to the applicable law, regulations, administrative rules, policies and codes and delivering evidence of receipt of the same to the satisfaction of the Purchaser promptly after receiving such documents;
3. all the existing works and inspection conditions in relation to the R&D Centre satisfying all the inspection standards required by the Purchaser;
4. all installed fixtures of the R&D Centre passing the testing by the Purchaser.

After signing of the Transfer Agreement and within 5 days after the Purchaser's payment of 10% of the Consideration, the Vendor shall fulfill the Conditions mentioned above whereas the Purchaser shall confirm in writing as to whether it intends to continue implementing the Transfer Agreement. In case of any material breach of the Conditions, the Purchaser is entitled to terminate the Transfer Agreement by written notice to the Vendor. All payments in respect of the Consideration already made together with the relevant interests shall be returned by the Vendor to the Purchaser within 3 days thereafter.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

As disclosed in the prospectus dated 23 November 2004 issued by the Company, for the purpose of strengthening the research and development capacity of the Group in future corporate development, part of the capital raised through the listing of the Company would be used in developing the R&D Centre. After considering various factors, such as location and costs, the Board decided that the Group would develop the R&D Centre in Yanjiao Development District (燕郊開發區) which is close to the Beijing City. The short distance from the Beijing City and convenient transportation not only attracts specialist talents from various universities in Beijing to work in the R&D Centre, but also facilitates contacts with various universities and hospitals in the Beijing City. Also, the proximity of the R&D Centre with the production base of injection products of the Purchaser greatly favours and facilitates the research works in respect of injection products and other medicine. In view of the recent low supply of industrial land near the Beijing City and the rising trend of land prices, the Group proposed to acquire the adjacent land to the R&D Centre within the Land from the Vendor in order to save expenses and costs in land acquisition for future development. In the meantime, the Vendor has already started planning to develop a building which is suitable for research and development of non-medicine products at the site of the Land. Therefore, it will benefit the Group to acquire the R&D Centre (under construction) together with the Land from the Vendor.

The Acquisition would strengthen and enhance the research and development capacity of the Group, for instance, in relation to production techniques and effectiveness of products of the Group. Upon payment of the Consideration in cash, the current research and development centre in the headquarter in Shejiazhuang, the PRC would be relocated to Lang Fang, the PRC and the research and development capacity and techniques would be enlarged and improved. The Acquisition is in line with the Company's objectives of innovating new products and improving and developing production technology.

The Directors are of the view that the Group has sufficient working capital to proceed with the Acquisition. The Directors (including the independent non-executive Directors) consider that the Transfer Agreement is entered into on normal commercial terms and in the ordinary and usual course of business of the Company and the terms of the Transfer Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS OF THE ACQUISITION**

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 the Vendor. Accordingly, the Vendor is a connected person of the Company within the meaning of the Listing Rules. As a result, the Acquisition contemplated under the Transfer Agreement constitutes a connected transaction for the Company. As the Consideration is less than 2.5% for each of the percentage ratios (except the profits ratio) under Rule 14.07 of the Listing Rules, the Acquisition is exempt from independent shareholders' approval under Rule 14A.32 of the Listing Rules and is only subject to reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

## **GENERAL**

The Group, including the Purchaser, is principally engaged in research and development, manufacture and trading of Chinese pharmaceutical products.

The Vendor is principally engaged in investment and property holding in Lang Fang, the PRC.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

“Acquisition”	the acquisition of the R&D Centre and the Land by the Purchaser pursuant to the terms of the Transfer Agreement
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“Company”	China Shineway Pharmaceutical Group Limited, a company incorporated in Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Completion”	the completion of the Acquisition pursuant to the terms and conditions of the Transfer Agreement
“Conditions”	the conditions precedent to Completion provided in the Transfer Agreement, a summary thereof is set out in this announcement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the consideration for the R&D Centre and the Land
“Director(s)”	the director(s) of the Company

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Valuer”	Vigers Appraisal & Consulting Limited appointed by the Purchaser, a qualified independent valuer not connected with the Company and its connected persons
“Land”	the parcel of land with a total area of approximately 83,887 square metres which (i) is situated at the west of Yingbin Road North, Yanjiao Development District (燕郊開發區), Sanhe City, Hebei Province, the PRC and (ii) comprises the site on which the R&D Centre is erected and the adjacent land
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Li”	Mr. Li Zhenjiang, an executive Director of the Group and the controlling shareholder of Shineway Medical
“PRC”	the People’s Republic of China
“Purchaser”	河北神威藥業有限公司 (Hebei Shineway Pharmaceutical Co., Ltd.*), a wholly foreign-owned enterprise incorporated in the PRC with limited liability and an indirectly wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“R&D Centre”	the research and development centre being developed by the Group at the site of the Land, together with certain equipment, machines, contracts, documents and information in relation thereto
“Shareholders”	the shareholders of the Company
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed thereto under the Listing Rules
“Transfer Agreement”	the agreement dated 1 March 2007 entered into between the Vendor and the Purchaser in relation to the Acquisition
“Vendor”	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

“Valuation Date” 31 December 2006, being the date on which the Land and the R&D Centre were valued by the Independent Valuer

“%” per cent.

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

Hong Kong, 1 March 2007

*In this announcement, for illustration purpose, amounts in RMB have been translated into Hong Kong dollars at the exchange rate of HK\$1.01: RMB1.00. Such translation does not constitute a representation that any amount has been, could have been or may be exchanged at such rate.*

*As at the date of this announcement, the executive Directors are Mr. Li Zhenjiang (Chairman), 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, Ms. Cheng Li and Mr. Ren Dequan.*

\* *for identification purpose only*

*Please also refer to the published version of this announcement in  
The Standard and Sing Tao Daily.*