



# 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 2006

### YEAR 2006 GROUP FINANCIAL HIGHLIGHTS

- Turnover in 2006 increased by 1.2% to RMB841,475,000 as compared with RMB831,379,000 in 2005.
- Net profit increased by 0.5% to RMB332,977,000 as compared with RMB331,467,000 in 2005.
- Earnings per share was RMB0.40 which was approximately the same as 2005.
- 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”) is 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 2006 with comparative figures for the year ended 31 December 2005 as follows:

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Turnover	2	841,475	831,379
Cost of sales		(249,175)	(274,772)
Gross profit		592,300	556,607
Other income		46,302	18,209
Distribution costs		(183,848)	(160,909)
Administrative expenses		(67,720)	(71,455)
Profit before taxation	3	387,034	342,452
Income tax	4	(54,057)	(5,446)
Profit for the year		<u>332,977</u>	<u>337,006</u>
Attributable to:			
Equity holders of the Company		332,977	331,467
Minority interests		–	5,539
		<u>332,977</u>	<u>337,006</u>
Earnings per share – basic	5	<u>RMB0.40</u>	<u>RMB0.40</u>
Dividends	6		
2005 final dividend paid		82,700	–
2005 special dividend paid		16,540	–
Interim dividend paid		82,700	82,700
		<u>181,940</u>	<u>82,700</u>

## CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		224,368	231,193
Land use rights		5,618	5,946
Goodwill		58,479	58,479
Deferred tax assets		9,198	11,459
		<u>297,663</u>	<u>307,077</u>
<b>Current assets</b>			
Inventories		38,197	35,451
Bills receivables	7	63,301	134,348
Trade receivables	7	3,346	2,998
Prepayment, deposits and other receivables		21,340	17,614
Amount due from a related company		–	155
Pledged bank deposits		1,882	–
Bank balances and cash		1,582,014	1,347,605
		<u>1,710,080</u>	<u>1,538,171</u>
Total assets		<u>2,007,743</u>	<u>1,845,248</u>
Total assets less current liabilities		<u>1,769,253</u>	<u>1,630,248</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital		87,662	87,662
Reserves		1,681,591	1,542,586
Total equity		<u>1,769,253</u>	<u>1,630,248</u>
<b>Current liabilities</b>			
Trade payables	8	102,487	85,971
Other payables and accrued expenses		116,047	120,726
Amount due to a related company		587	–
Government grants received		5,800	5,400
Tax liabilities		13,569	2,903
		<u>238,490</u>	<u>215,000</u>
Total equity and liabilities		<u>2,007,743</u>	<u>1,845,248</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 Main Board 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 of the Company.

The consolidated financial statements are presented in Renminbi ("RMB"), the lawful currency of the People's Republic of China ("PRC"), which is the functional currency of the Company.

## 2. 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.

## 3. PROFIT BEFORE TAXATION

	2006 RMB'000	2005 RMB'000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	1,706	1,761
Cost of inventories recognised as expense	249,175	274,772
Depreciation of property, plant and equipment	29,733	25,792
Operating lease rentals in respect of land use rights	328	328
Staff costs (including directors' remuneration)	50,680	51,007
Pension costs	3,064	2,428
Minimum lease payments under operating lease in respect of rented premises	1,714	1,001
Research and development costs	3,856	10,083
and after crediting:		
Reversal of allowance for bad and doubtful debts	33	—
Gain on disposal of property, plant and equipment	28	3
Interest income	44,779	17,817
Exchange gain	756	17

## 4. INCOME TAX

	2006 RMB'000	2005 RMB'000
Current tax:		
PRC Enterprise Income Tax	(51,796)	(7,923)
Deferred tax	(2,261)	2,477
	<u>(54,057)</u>	<u>(5,446)</u>

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

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 a 50% relief from PRC EIT for current year and the following two years. The first profit-making period of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004 and the full exemption from PRC EIT ended on 31 December 2005.

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

## 5. EARNINGS PER SHARE

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

	2006 RMB'000	2005 RMB'000
Earnings basic earnings per share (profit for the year attributable to equity holders of the Company)	<u>332,977</u>	<u>331,467</u>
	<b>Number of ordinary shares</b>	
	2006	2005
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>827,000,000</u>	<u>828,550,800</u>

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

## 6. DIVIDENDS

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Dividends recognised as distributions during the year:		
Dividends paid during the year:		
2005 final dividend paid – RMB10 cents (2004: nil) per share	82,700	–
2005 special dividend paid – RMB2 cents (2004: nil) per share	16,540	–
2006 Interim dividend paid – RMB10 cents (2005: RMB10 cents) per share	82,700	82,700
	<u>181,940</u>	<u>82,700</u>

In respect of the year ended 31 December 2006, the directors proposed that a final dividend of RMB10 cents (2005: RMB10 cents) and a special dividend of RMB2 cents (2005: RMB2 cents) per share will be paid to shareholders whose names appear on the register of members of the Company, as at the close of business on 24 April 2007. These dividends are subject to approval by shareholders at the Annual General Meeting and have not been included as liabilities in these financial statements.

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 21 March 2007 (RMB1 = HK\$1.0073). Accordingly, the amount payable on 30 April 2007 will be:

Proposed dividend: Final – RMB10 cents per share; approximately HK\$0.1007 per share  
Special – RMB2 cents per share; approximately HK\$0.0201 per share

## 7. BILLS AND TRADE RECEIVABLES

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Bills receivables	63,301	134,348
Trade receivables	3,346	2,998
	<u>66,647</u>	<u>137,346</u>

The Group allows a credit period normally ranging from six months to one year to its trade customers. The bills receivables and trade receivables are of the age within 6 months at the balance sheet dates.

The directors consider that the carrying amounts of bills receivables and trade receivables approximate their fair values.

## 8. TRADE PAYABLES

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Bills payables	2,973	–
Trade payables	73,173	58,101
Receipt in advance	26,341	27,870
	<u>102,487</u>	<u>85,971</u>

An aged analysis of the Group's trade and bills payables at the balance sheet date is as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Within 6 months	71,214	54,644
Over 6 months but less than 1 year	3,724	2,769
Over 1 year but less than 2 years	1,198	276
Over 2 years	10	412
	<u>76,146</u>	<u>58,101</u>

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

The directors consider that the carrying amounts of trade payables, bills payable and receipt in advance approximate their fair values.

## 9. POST BALANCE SHEET EVENT

On 1 March 2007, a wholly-owned subsidiary entered into a transfer agreement with Shineway Medical Science & Technology (Lang Fang) Co. Ltd. (“Shineway Lang Fang”) for the acquisition of a research and development center and the relevant land use rights for an aggregate consideration of RMB23,960,000.

Mr. Li Zhenjiang, an executive Director, is a controlling shareholder of Shineway Lang Fang.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

For the year ended 31 December 2006, the Group recorded a turnover growth of approximately 1.2% over 2005, amounting to approximately RMB841,475,000. A breakdown of the sales by product format for the year is set out as follows:

	Sales	Sales mix	Growth rate
Injections	RMB466,264,000	55.4%	2.9%
Soft Capsules	RMB248,282,000	29.5%	-4.5%
Granules	RMB111,917,000	13.3%	2.7%
Other Product Formats	RMB15,012,000	1.8%	61.5%

The moderate growth of turnover was primarily because of the country’s initiation to strengthen administrative measures on hospitals’ procurement of medicines and distribution channels. These initiations had seemingly caused hospitals to slow down purchases of medicines, leading to stagnation of cash flows in distribution channels and overall growth of the pharmaceutical industry.

For the year ended 31 December 2006 the Group posted an increase of approximately 13.0% of profit before taxation to approximately RMB387,034,000 as compared to last year. Net profit attributable to the equity holders of the Group for 2006 amounted to approximately RMB332,977,000, representing an increase of approximately 0.5% over the year of 2005. The moderate growth of net profit was mainly due to the overall slow down in growth of the pharmaceutical industry and the increase of our profit tax rate this year.

### Injection Products

During 2006, the Group sold approximately RMB466,264,000 of injection products, representing an increase of approximately 2.9% over last year. Amongst these injection products, Qing Kai Ling injection, Shu Xie Ning injection, and Huang Qi injection recorded growth rates of approximately 7.7%, 166.0% and 1.7% in sales respectively. Nonetheless, sales of Shen Mai injection decreased by approximately 11.5% during the year. The Group believed that despite the overall slow down in growth of the pharmaceutical industry causing injection products to attain below the Group’s growth target, market demand for Chinese medicine injection products remains strong. The Group will continue to focus on the business of injection products and implement strategies to strengthen the development of distribution network and points of sales to increase market coverage. During the year, a number of the Group’s injection products had received the “Good Quality/Good Price” status. It is expected that Chinese medicine injection products will continue to be the product format with immense growth potential.

Injection products accounted for approximately 55.4% of total turnover for the year of 2006 as compared to 54.5% of total turnover for last year. The Group believes that it is presently the largest Chinese medicine injection manufacturer in the PRC in terms of sales volume and production capacity.

### Soft Capsule Products

During 2006, the Group recorded sales of soft capsule products of approximately RMB248,282,000, representing a decrease of approximately 4.4% over last year. While sales of Huo Xiang Zheng Qi soft capsule had increased 39.5%, sales of Wu Fu Xin Nao Qing soft capsule declined approximately 12.5% over last year, primarily due to the overall weakness in the pharmaceutical industry.

Soft Capsule products accounted for approximately 29.5% of the Group’s turnover in 2006 as compared to 31.3% in last year. The Group believes that it is currently the largest Chinese medicine soft capsule manufacturer in the PRC in terms of sales volume and production capacity.

## **Granule Products**

For 2006, sales of granules increased by approximately 2.7% as compared to last year, amounting to approximately RMB111,917,000. The growth can be attributable to the Group's strategies to unify the granule brand name and market positioning, strengthen marketing of the more popular granules to ensure their stable growth, despite slow growth of the pharmaceutical industry. Granule products accounted for approximately 13.3% of the Group's turnover in 2006 as compared to 13.1% in 2005.

## **RESEARCH AND DEVELOPMENT**

Currently, there are 28 product research projects which are either undergoing pharmaceutical and clinical trial or have completed clinical trial. Among these projects are 9 products used for treatment of various cardiovascular diseases, 3 products for treatment of digestive system illnesses and 4 products for anti-viral treatment. All of these research projects are progressed in line as planned.

During the year, the Ministry of Personnel of the PRC approved the Group's establishment of a post-doctoral work station, which provides the Group with enormous new strength to its research and development function further enhances the commercialization of research projects and provides a ground for training modern Chinese medical talents and promotion of innovation.

The Shineway brand of Qing Kai Ling Injection and Jiangzhi Tongluo Soft Capsule were selected into the "China High-Tech Products Catalogue" (the "Catalogue"). The Catalogue was jointly published by the Ministry of Science and Technology, the Ministry of Finance and the State Ministry of Taxation. The listed products must possess key knowhow in the domain of advanced technology content, proprietary knowledge, huge market potential with economic efficiency, social efficiency and environmental efficiency. Products in the Catalogue are entitled to enjoy favorable terms, like taxation and financing, under national preferential policies.

## **PATENT APPLICATIONS**

The Group has stepped up its effort on pursuing intellectual property rights. During 2006, "a hawthorn leaf injection for treatment of cardiovascular diseases" developed by the Group was awarded the invention patent certificate by the Intellectual Property Office of the PRC. The Group kicked start a new strategy of patent application and intellectual property rights, which strengthened the protection of the Group's new products and the related technologies under research to improve the Group's long term core competence. Currently, the Group has 3 patents for its inventions and 12 invention patent applications are under review.

## **STATE PROTECTED CHINESE MEDICINES**

During 2006, the Group renewed the certificate of State Protected Chinese Medicines for Jian Yang Pian and Yinzhihuang Injection and accordingly their protection periods were extended from 2006 to 2013. At present, the Group has 12 medicines under the state protected medicine scheme.

## **CHANGES IN REGULATIONS OF THE INDUSTRY**

During 2006, the National Development and Reform Commission of the PRC lowered the price caps of 67 anti-tumor western medicines, 99 anti-microbe western medicines and 32 anti-tumor Chinese medicines listed in the national insurance catalogue. On 28 February 2007, the PRC Government announced the adjustment on price caps of 278 Chinese medicines. Only nine medicines of the Group are in announcement, including Qing Kai Ling Injection, Shu Xie Ning Injection, Dengzhanhuasu Injection and Guanxinling Injection which contributed considerable amount of the Group turnover. But because these four injection products under the Shineway brand are labelled by the PRC authorities as "Good Quality/Good Price" products, the decreases of price caps for these four products are far less than those without the "Good Quality/Good Price" status. The Group believes that the decrease of price caps will not have material impact on its earnings because the average retail prices of most of its products are lower than the current price caps. The Group further believes that the "Good Quality/Good Price" status of our products represents an important competitive advantage for the Group. The policy to lower insurance price caps will accelerate closure of unsounded business, elevating market shares of larger companies and allow industry resource to flow to good companies, hence leading to the better development of our business.

In response to the occurrence of a series of incidents related to medicine safety from poor drug quality during the year, the regulatory authorities resolved to rectify the supervision and management of the medicine manufacturers and promulgated a number of regulations on management of production process and product quality, which include “the Announcement of National Implementation regarding Special Inspection of Medicine Production” (《全國藥品生產專項檢查實施方案》), “The Provisional Regulations for Inspection of GMP Requirements” (《藥品GMP飛行檢查暫行規定》), “the Notice regarding Further Enhancement on the Supervision and Management of the Packing Materials for Medicines” (《關於進一步加強藥包材監督管理工作的通知》), “the Quality Management Guidelines on Production of Supplementary Materials for Medicines” (《藥用輔料生產質量管理規範》) etc. In order to strengthen the supervision and management of medicine manufacturers, the regulatory authorities intend to revoke medicine production license or GMP certificate from those manufacturers which do not comply with the requirements of the above new regulations. The Group is of the opinion that the rectification will increase public’s confidence in use of medicines and facilitate healthy development of the pharmaceutical industry, though some medicine manufacturers which could not meet the regulatory standards will probably be shut down.

## **PROSPECT**

It is expected that change in the PRC regulatory environment will continue in 2007. Restructuring of the medical care and pharmaceutical business framework are underway. The PRC authorities are determined to further intensify their administrative measures on the pharmaceutical industry. It had set up a medical reform focus group consisting of members from 11 relevant ministries and commissions to formulate a new framework for medical care reform in the PRC. The key objectives of the reform are to position government’s forthcoming funding and investments in public health care, and form a national system of basic medical care to enhance the welfare of all Chinese citizens.

Medical reform in the PRC has started and it will benefit the market with sound regulations. But during the process of the reform, many companies might not be able to stay in the market. However, the reform can further add strength to leading enterprises and accelerate market consolidation so large pharmaceutical enterprises would gain market share. With a goal to build a harmonious society, the PRC Government is determined to invest immensely in the medical sector and accelerate the development of medical care infrastructure. Under the “Rural Health Care System Formation and Development Program”, being the most extensive rural health care program of the PRC has commenced. The “New Rural Cooperative Medical Insurance System” is being established to provide basic health care and medical services for all rural residents by 2010. The increased government investment in public health care and the development of community and rural medical service systems will undoubtedly increase demand for medicines, thereby laying a solid foundation for the continued growth of the pharmaceutical industry in the Eleventh Five-Year Plan period.

Despite the moderate growth of the pharmaceutical market in 2006 as impacted by the medical reform, the growth trend of the pharmaceutical market in the PRC has not changed. China’s fast growing economy, increase income per capita and, rising health awareness along with aging population will certainly increase medicine consumption. Modern Chinese medicines have good efficacy and used by a large consumer base. During the Eleventh Five-Year Plan period, the PRC Government is determined to offer continuous support on the development of the PRC’s medicine industry and nurture modern Chinese medicine enterprises. Hence modern Chinese medicine market will continue to growing rapidly.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2006, bank deposits of the Group approximately amounted to RMB1,582,014,000, which comprised of approximately RMB777,993,000 and HK\$796,060,000 (which is equivalent to RMB804,021,000). Except for trade and operating payables, the Group did not have any other liabilities.

The Group did not have any loans or bank borrowings as at 31 December 2006 (2005: Nil) except for bills receivables of RMB1,368,000 (2005: Nil) and bank deposits of RMB1,882,000 (2005: Nil) were pledged to banks to secure bills payables of approximately RMB2,973,000 (2005: nil). Accordingly the gearing ratio based on interest bearing debt for the year is Nil (2005: Nil).

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

## **ANNUAL GENERAL MEETING**

The 2007 Annual General Meeting of the Company will be held on Tuesday, 24 April 2007 and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) in due course.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from Friday, 20 April 2007 to Tuesday, 24 April 2007, 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 4:30 p.m. on Thursday, 19 April 2007.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s issued shares during the year.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has, throughout the year ended 31 December 2006 and up to the date of publication of the annual report, applied and complied with the principles in the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 of the “Listing Rules”, except for the deviations below.

1. One non-executive director, Mr. Li Kung Man, has not been appointed for any specific terms, however, he is subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the Company’s Bye-laws.
2. The Code provision A.2.1 stipulates that the roles of chairman of the board (the “Chairman”) and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive officer should be clearly established and set out in writing. The Company does not use the title “Chief Executive Officer”. The duty of Chief Executive Officer has been assumed by the President of the Company.

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 2006 in conjunction with the Company’s auditors.

## **PUBLICATION OF FURTHER INFORMATION**

The Annual Report of the Company inclusive of the Directors’ Report and Audited Accounts for the year ended 31 December 2006 and Corporate Governance Report will be published on the Company’s website and the website of the Stock Exchange on or before 3 April 2007.

## **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 2006.

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

Hong Kong, 21 March 2007

*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, Ms. Cheng Li and Mr. Ren Dequan.*