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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action you should take, you should consult your licenced securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **China Shineway Pharmaceutical Group Limited** (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licenced securities dealer or other agent through whom the sale was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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)****DISCLOSEABLE AND CONNECTED TRANSACTION****Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**

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A letter from the Board is set out on pages 5 to 11 of this circular. A letter from the Independent Board Committee is set out on page 12 of this circular. A letter from Somerley, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 20 of this circular.

A notice convening the EGM to be held at Gloucester Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road, Central, Hong Kong on 12 May 2005 at 11:00 a.m. (or immediately after the annual general meeting of the Company convened on the same date and place shall have been concluded or adjourned) or any adjournment thereof is set out on pages 30 and 31 of this circular.

Whether or not you are able to attend and vote at the EGM, you are requested to complete and return the accompanying form of proxy for use at the EGM in accordance with the instructions printed thereon to the Company's principal place of business in Hong Kong at Suite 5201, 52nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the accompanying form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjournment thereof should you so wish.

Hong Kong, 19 April 2005

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“Acquisition”	the acquisition of the Equity Interest by Yuan Da from Shineway Lang Fang
“Articles of Association”	the articles of association of the Company, as may be amended from time to time
“Associate(s)”	has the same meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	China Shineway Pharmaceutical Group Limited (中國神威藥業集團有限公司), a company incorporated in the Cayman Islands on 14 August 2002 with limited liability, the shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition under the Equity Interest Transfer Agreement
“connected person(s)”	has the same meaning ascribed to it in the Listing Rules
“Consideration”	the consideration for the Acquisition under the Equity Interest Transfer Agreement
“Director(s)”	director(s) of the Company for the time being
“EGM”	an extraordinary general meeting of the Company to be held at Gloucester Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road, Central, Hong Kong on 12 May 2005 at 11:00 a.m. (or immediately after the annual general meeting of the Company convened on the same date and place shall have been concluded or adjourned) or any adjournment thereof for the purpose of considering and approving the Acquisition, notice of which is set out of pages 30 and 31 of this circular
“Equity Interest”	20% equity interest in Shineway Sales currently held by Shineway Lang Fang and to be acquired by Yuan Da from Shineway Lang Fang pursuant to the Equity Interest Transfer Agreement
“Equity Interest Transfer Agreement”	the equity interest transfer agreement (股權轉讓協議) dated 30 March 2005 and entered into between Yuan Da and Shineway Lang Fang in respect of the Acquisition
“Forway”	Forway Investment Limited (富威投資有限公司), a company incorporated in the BVI with limited liability

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## DEFINITIONS

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“Group”	the Company and its subsidiaries
“Hebei Shineway”	河北神威藥業有限公司 (Hebei Shineway Pharmaceutical Limited), a wholly foreign-owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent committee of the Board comprising Mr. Li Kung Man, Dr. Wang Jianping and Professor Zhou Chaofan, all being independent non-executive Directors, formed for the purpose of advising the Independent Shareholders on the Acquisition
“Independent Shareholders”	Shareholders other than Sinovest and its Associates
“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
“Latest Practicable Date”	15 April 2005, being the latest practicable date prior to the printing of this circular for ascertaining the information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Li”	Mr. Li Zhenjiang (李振江), an executive Director and the controlling shareholder of Shineway Medical
“Option”	the option granted by Shineway Lang Fang to the Company and its subsidiaries 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
“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 as may be agreed between the Company and Shineway Lang Fang

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## DEFINITIONS

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“PE Ratio”	the price earnings ratio of the Company obtained by the following formula:  $\text{PE Ratio} = P \div E$  where “P” is the average of the closing prices of the Shares quoted on the Stock Exchange for the 10 trading days immediately preceding the date of the Equity Interest Transfer Agreement; and  “E” is the audited net profit per Share after tax and extraordinary items for the year ended 31 December 2004
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus dated 23 November 2004 issued by the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as may be amended from time to time
“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 Drugstores”	河北神威大藥房連鎖有限公司 (Hebei Shineway Chain Drugstores Co., Ltd.), a company established in the PRC and owned as to 80% by Shineway Medical and as to 20% by 9 individuals, 8 of whom are employees of the Group
“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 owned as to approximately 81% by Mr. Li
“Shineway Pharmaceutical”	神威藥業有限公司 (Shineway Pharmaceutical Limited), a foreign-owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company

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## DEFINITIONS

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“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 (中滙國際投資有限公司), 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
“Somerley”	Somerley Limited, a deemed licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities, the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“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
“%”	per cent

*For the purpose of illustration only and unless otherwise specified, amounts denominated in RMB have been translated into Hong Kong dollars in this circular at the rate of HK\$1.00 = RMB1.06 and vice versa. No representation is made that the amounts in question have been, could have been or could be converted at such particular rate.*



**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)**

**Executive Directors:**

Mr. Li Zhenjiang (*Chairman*)  
Ms. Wang Zhihua  
Ms. Xin Yunxia  
Mr. Hou Jiangtao  
Mr. Li Huimin

**Independent non-executive Directors:**

Mr. Li Kung Man  
Dr. Wang Jianping  
Professor Zhou Chaofan

**Registered Office:**

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

**Principal Place of Business**

**in Hong Kong:**  
Suite 5201, 52nd Floor.  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

**Head Office:**

Luan Cheng  
Shijiazhuang  
Hebei Province  
The PRC

19 April 2005

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION**

**1. INTRODUCTION**

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 all or part of the Equity Interest.

In an announcement of the Company dated 30 March 2005 and published on 31 March 2005, the Board announced that the Company had exercised the Option and that on 30 March 2005, Yuan Da, a wholly-owned subsidiary of the Company, and Shineway Lang Fang entered into the Equity Interest

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## LETTER FROM THE BOARD

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Transfer Agreement, pursuant to which Shineway Lang Fang conditionally agreed to sell and Yuan Da conditionally agreed to purchase the Equity Interest 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 the financial year ended 31 December 2004 prepared according to 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 and given that the PE Ratio is 10.15, the amount of the Consideration is RMB80.8 million (equivalent to approximately HK\$76.2 million).

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 Shineway Lang Fang. Accordingly, Shineway Lang Fang is a connected person of the Company. As a result, the Acquisition contemplated under the Equity Interest 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 purpose of this circular is to provide you with (i) detailed information regarding the Acquisition, (ii) a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Acquisition, (iii) a letter from Somerley setting out its recommendation to the Independent Board Committees and the Independent Shareholders in respect of the Acquisition, and (iv) a notice of the EGM at which an ordinary resolution will be proposed to seek the Independent Shareholders' approval in relation to the Acquisition. Sinovest and its Associates will abstain from voting at the EGM to approve the Acquisition.

## 2. THE EQUITY INTEREST 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.

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## LETTER FROM THE BOARD

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### Assets to be acquired by Yuan Da:

The Equity Interest, which represents the 20% equity interest in Shineway Sales currently owned by Shineway Lang Fang.

### Consideration:

Under the Equity Interest Transfer Agreement, the Consideration is derived from 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 the International Financial Reporting Standards and the accounting policies adopted by the Company and audited by an international accounting firm; and

“PE Ratio” is as defined on page 3 of this circular.

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 “Shineway Sales 2004 Profit” is the same as set out above; and

the multiplier “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 multiplier of 15 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 on 2 December 2004. However, since the listing of the Shares on the Stock Exchange and up to the date of the Equity Interest Transfer Agreement, the prevailing price earnings ratio of the shares as quoted on Bloomberg has been below the 15 times ratio in most of the time. Therefore, to use the multiplier of 15 as the basis for the consideration is not justified given the current market conditions. On the basis of (i) the average closing price of the Shares over the ten-trading day period immediately preceding the date of the Equity Interest Transfer Agreement and (ii) the audited net profit per Share for the year ended 31 December 2004, the PE Ratio is arrived at

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## LETTER FROM THE BOARD

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10.15 times. Accordingly, the Consideration under the New Calculation is determined 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 determined 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 the 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). Therefore, 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 (equivalent to approximately HK\$31.8 million) were declared and paid by Shineway Sales to its shareholders. However, the said payment of dividends does 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 provided in the Equity Interest Transfer Agreement and the issue of the new business licence of Shineway Sales upon its conversion into a wholly-owned foreign invested enterprise. The payment of the Consideration 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 transactions contemplated under the Equity Interest Transfer Agreement having been passed;
- (2) the Equity Interest 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 transactions contemplated under the Equity Interest 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 Equity Interest to Yuan Da pursuant to the Equity Interest Transfer Agreement.

Unless otherwise waived by the parties as allowed by laws and regulations, if the above conditions as set out in the Equity Interest 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 Interest Transfer

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## LETTER FROM THE BOARD

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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 all or part of the Equity Interest within the time limit provided in the Option Agreement.

As at the Latest Practicable Date, only part of condition 1 above has been fulfilled. It is expected that all the conditions will be fulfilled by 30 June 2005.

### **3. REASONS FOR AND BENEFITS 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 headed "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 PRC Government authorities. According to the Company's PRC legal adviser, it is now permissible to apply to the relevant PRC Government authorities for Shineway Sales to be changed to a wholly-owned foreign invested enterprise. Accordingly, the Company exercised the Option and Yuan Da entered into the Equity Interest Transfer Agreement for the Acquisition. Currently Shineway Sales is already a subsidiary of the Company and its results are consolidated into the financial statements of the Company, though with a minority interest of 20% outside the Group. After Completion, it will not have any minority interest in both the Company's consolidated income statement and the consolidated balance sheet as the only minority interest was created by the 20% equity interest of Shineway Sales.

The Directors (including the independent non-executive Directors) are of the view that it is in the interest of the Group and the Independent Shareholders as a whole for Yuan Da to hold 100% equity interest in Shineway Sales, since Shineway Sales is engaged in the sale and marketing of products manufactured by the Group and the Acquisition would enable the Company to obtain absolute control over the management, operations and cashflow of Shineway Sales, thereby the Group could implement and coordinate its sales and marketing plan and business development more efficiently and effectively and the Company could reduce the cost in administering connected transactions between the Group and Shineway Sales in the future. They are further of the view that the terms of the Equity Interest Transfer Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### **4. INFORMATION ON SHINEWAY SALES**

Shineway Sales was established on 3 March 2003 in Hainan Province, the PRC with limited liability and is currently owned as to 80% by Yuan Da and as to 20% by Shineway Lang Fang. 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 Equity Interest was RMB10,000,000 (equivalent to approximately HK\$9,433,962.26).

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## LETTER FROM THE BOARD

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On the basis of the International Financial Reporting Standards, the net profits of Shineway Sales before and after taxation and extraordinary items for the financial year ended 31 December 2004 are RMB46.8 million (equivalent to approximately HK\$44.1 million) and RMB39.8 million (equivalent to approximately HK\$37.5 million) respectively. The net profits of Shineway Sales before and after taxation and extraordinary items for the financial year ended 31 December 2003 are the same amount RMB188.1 million (equivalent to approximately HK\$177.5 million) since taxation for that year was exempted and there were no extraordinary items for that year. Accordingly, the net profits attributable to the Equity Interest before and after taxation and extraordinary items for the financial year ended 31 December 2004 are RMB9.4 million (equivalent to approximately HK\$8.8 million) and RMB8 million (equivalent to approximately HK\$7.5 million) respectively. The net profits attributable to the Equity Interest before and after taxation and extraordinary items for the financial year ended 31 December 2003 are the same amount RMB37.6 million (equivalent to approximately HK\$35.5 million).

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 as at 31 December 2004 is RMB117,713,000 (equivalent to approximately HK\$111,050,000) and the net asset value of Shineway Sales as at 31 December 2003 is RMB238,142,000 (equivalent to approximately HK\$224,662,000). The drop of the net asset value of Shineway Sales in the amount of RMB238,142,000 as at 31 December 2003 to the amount of RMB117,713,000 as at 31 December 2004 was due to the dividends subsequently paid for the year ended 31 December 2003. Therefore, the net asset value of the Equity Interest as at 31 December 2004 is RMB23,543,000 (equivalent to approximately HK\$22,210,000) and the net asset value of the Equity Interest as at 31 December 2003 is RMB47,628,000 (equivalent to approximately HK\$44,932,000).

### **5. INFORMATION OF THE GROUP AND SHINEWAY LANG FANG**

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, a city in Hebei Province located near Beijing.

### **6. EGM**

The Board has resolved to convene the EGM to consider and, if thought fit by the Independent Shareholders, to approve the Acquisition. Notice of the EGM is set out on pages 30 and 31 of this circular. Whether or not you are able to attend and vote at the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's principal place of business in Hong Kong at Suite 5201, 52nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the accompanying form of proxy will not preclude you from subsequently attending and voting at the EGM or any adjournment thereof should you so wish.

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## LETTER FROM THE BOARD

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Sinovest and its Associates will abstain from voting at the EGM to approve the Acquisition.

The resolution to be proposed at the EGM will be decided by way of poll.

### 7. RECOMMENDATION

The Independent Board Committee has been appointed to advise the Independent Shareholders in respect of the Acquisition. Somerley has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

After taking into account the reasons for and benefits of the Acquisition, the relevant terms of the Equity Interest Transfer Agreement and the opinion of Somerley, the Independent Board Committee considers that the Equity Interest Transfer Agreement is on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned and that the Acquisition contemplated under the Equity Interest Transfer Agreement are in the interests of the Group and the Shareholders as a whole. Accordingly the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition.

### 8. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 12 of this circular and the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders set out on pages 13 to 20 of this circular as well as the general information of the Company set out in the appendix to this circular.

Yours faithfully,  
By Order of the Board  
**Li Zhenjiang**  
*Chairman*



**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)**

19 April 2005

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION**

We refer to the circular (the “Circular”) dated 19 April 2005 issued by the Company to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular, unless the context herein otherwise requires.

*The Independent Board Committee is formed to advise the Independent Shareholders in relation to the Acquisition contemplated under the Equity Interest Transfer Agreement. We would like to draw your attention to the terms of, and the reasons for and benefits of entering into, the Acquisition as summarised in the Letter from the Board set out on pages 5 to 11 of the Circular and the letter of advice from Somerley set out on pages 13 to 20 of the Circular.*

*Having discussed with the management of the Company and reviewed the reasons for and benefits of the Acquisition and the basis upon which the terms of the Equity Interest Transfer Agreement have been determined and after taking into account the advice from Somerley, we consider that the Equity Interest Transfer Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company. We are of the further opinion that the terms of the Equity Interest Transfer Agreement are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Acquisition contemplated under the Equity Interest Transfer Agreement is in the interest of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Equity Interest Transfer Agreement.*

Yours faithfully,

**Mr. LI Kung Man, Dr. WANG Jianping and Prof. ZHOU Chaofan**  
*Independent Board Committee*

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## LETTER FROM SOMERLEY

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*The following is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.*



**SOMERLEY LIMITED**  
Suite 2201, 22nd Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

19 April 2005

*To the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF 20% EQUITY INTEREST IN  
SHINEWAY SALES**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders as regards the terms of the Equity Interest Transfer Agreement relating to the proposed acquisition by Yuan Da from Shineway Lang Fang of a 20% equity interest in Shineway Sales, details of which are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 19 April 2005 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular.

Yuan Da currently owns 80% of the equity interest in Shineway Sales and the remaining 20% is held by Shineway Lang Fang. 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. The Acquisition contemplated under the Equity Interest Transfer Agreement therefore constitutes a connected transaction for the Company and is subject to, amongst other things, Independent Shareholder’s approval under Chapter 14A of the Listing Rules. 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 Associate will abstain from voting at the EGM for the Independent Shareholders to consider and, if thought fit, to approve the Acquisition. The Acquisition also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, being Mr. Li Kung Man, Dr. Wang Jianping and Professor Zhou Chaofan, has been constituted to consider whether the terms of the Acquisition is in the ordinary and usual course of business of the

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## LETTER FROM SOMERLEY

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Company and the Equity Interest Transfer Agreement are on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and staff of the Company and have assumed that the information, facts and opinion made to us are true and accurate. We have also sought and received confirmation from the Directors that no material factors have been omitted from the information supplied and opinions expressed. We have not, however, conducted an independent investigation into the business, operations or financial condition of the Group or of Shineway Sales. We have also assumed that the statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate at the date of the Circular.

### PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion with regard to the Acquisition contemplated under the Equity Interest Transfer Agreement, we have taken into account the following principal factors:-

#### I. Background to and reasons for the Acquisition

Shineway Sales is currently owned as to 80% by Yuan Da, a wholly-owned subsidiary of the Company, and the remaining 20% is held by Shineway Lang Fang. 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 all or part of the 20% equity interest held by Shineway Lang Fang in Shineway Sales once permitted by the applicable PRC laws and regulations during the period of three years from 20 November 2004. According to the Company's PRC legal adviser, it is now 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 the 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 Interest 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 Interest Transfer Agreement.

Shineway Sales holds a Pharmaceutical Distribution Permit and the Good Supply Practice certification from the relevant regulatory bodies in the Hainan Province of the PRC, which allows Shineway Sales to lawfully carry on the distribution of pharmaceutical products business in the PRC. 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 Shineway Pharmaceutical and Hebei Shineway (together, the "Shineway Suppliers"), both are wholly-owned subsidiaries of the Company. The Directors consider that the centralisation of the sales activities of the Group's medicine products under Shineway Sales could create synergy for the Group's operations

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## LETTER FROM SOMERLEY

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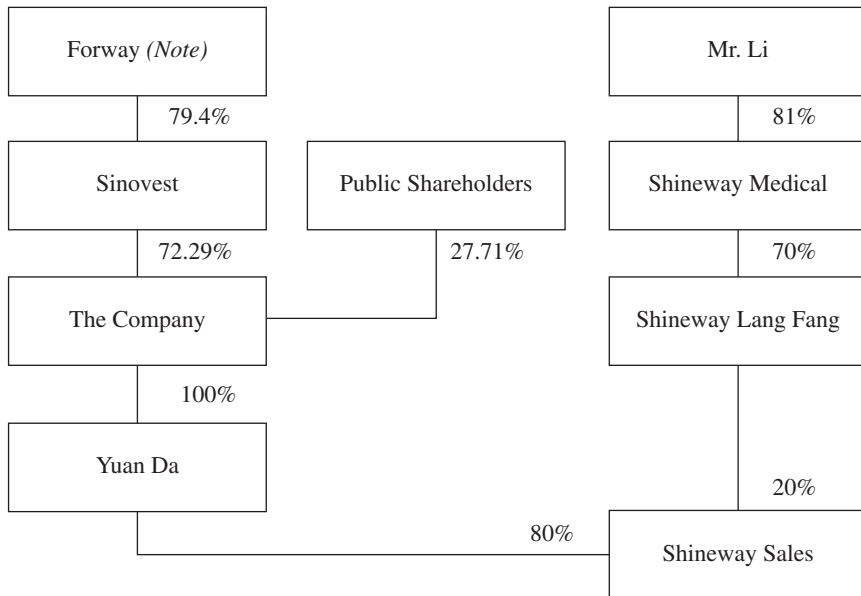
in terms of promoting the “Shineway” brand among customers, prioritizing and managing product portfolios marketed to customers, coordinating product delivery and implementing marketing campaigns. Shineway Sales, being the single marketing channel of the Group’s products in the PRC is strategically important to the business of the Group.

Although the Group already controls 80% equity interest in Shineway Sales, Shineway Lang Fang can still exert significant influence on the policy and daily management of Shineway Sales with their 20% equity interest in Shineway Sales. Through the Acquisition, the Group will obtain absolute control over the management, operations and cashflow of Shineway Sales, which enables the Group to implement its strategies and coordinate its sales and marketing plan and business development more efficiently and effectively in the future. In addition, making Shineway Sales a wholly-owned subsidiary of the Company could streamline the Group structure and will reduce the Company’s cost in administrating connected transactions between Shineway Sales and other members of the Group.

Given the importance of Shineway Sales to the Group as described above and in particular, its strategic value to the Group as the sole distribution arm of products manufactured by the Group, we concur with the Board’s decision to consolidate control over Shineway Sales through the Acquisition.

Set out below is a simplified version of the shareholding structure of Shineway Sales immediately before and after the Acquisition:

### *Immediately before the Acquisition*

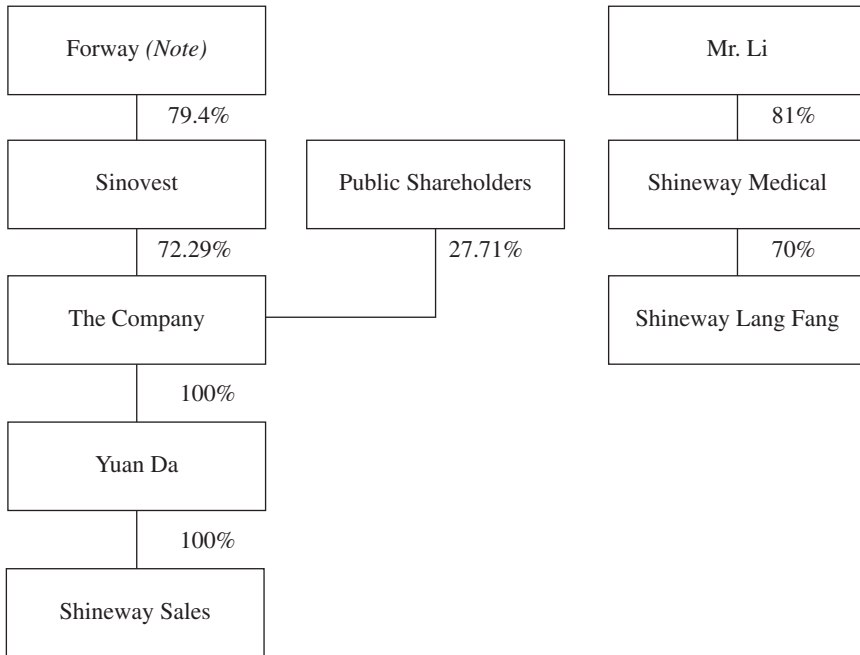


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# LETTER FROM SOMERLEY

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## Immediately after the Acquisition



*Note: The entire issued share capital of Forway Investment Limited is held by Trustcorp Limited, a professional trust company, in its capacity as the trustee of The Li Family 2004 Trust, a discretionary trust, the founder (as defined in the SFO) of which is Mr. Li and the discretionary objects of which are family members of Mr. Li (excluding Mr. Li himself).*

## II. Revised basis of Consideration

### (i) Consideration:

Under the Equity Interest Transfer Agreement, the Consideration is derived from the New Calculation:

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

The New Calculation is different from the Old Calculation provided in the Option Agreement and disclosed in the Prospectus, which was:

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

where the multiplier “15” was based on the then forecast earnings per Share of the Company for the year ended 31 December 2004 of RMB0.31 (equivalent to approximately HK\$0.29) and the highest end of the pro forma fully diluted price earnings ratio based on the price range of the offer price of HK\$4.36 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 on 2 December 2004.

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## LETTER FROM SOMERLEY

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The change on the multiplier used in the calculation was made as the price of the Share dropped and constantly remained below the offer price soon after its listing. Therefore, the Directors consider that using the multiplier of 15 adopted in the Old Calculation is not a justifiable basis. After arm's length negotiations, the parties to the Option Agreement agreed that the Consideration should be adjusted to reflect the current market price of the Shares using the New Calculation. Under the New Calculation, the numerator is HK\$4.05, being the average closing price of the Shares over the ten-trading day period immediately preceding the date of the Equity Transfer Agreement and the denominator is RMB0.423 (equivalent to approximately HK\$0.399), being the earnings per Share for the year ended 31 December 2004. Based on the New Calculation, the PE Ratio is 10.15, which is lower than 15 previously agreed between the Company and Shineway Lang Fang under the Option Agreement.

(ii) *Comparable Companies*

For the purpose of assessing the Consideration, we have reviewed other listed companies principally engaged in the wholesale and retail of medicine products and made a comparison on this basis with the Consideration. However, we are unable to identify other profit making listed companies in Hong Kong that are primarily engaged in the pharmaceutical wholesale and distributing business which is similar to Shineway Sales. For this purpose, we have reviewed other pharmaceutical distribution companies listed in the PRC (the "Comparable Companies") which we could identify. Set out below are all our findings.

<b>Company</b>	<b>Primary Exchange</b>	<b>Price earnings multiple Times</b>
Zhejiang Zhenyuan Co. Ltd.	Shenzhen	62.07
Huadong Medicine Co. Ltd.	Shenzhen	63.0
China National Medicines Corporation Ltd.	Shanghai	20.61
Nanjing Medical Co. Ltd.	Shanghai	<u>385.0</u>
Average		<u>132.67</u>
The Acquisition		10.15

*Source of data: Bloomberg*

As shown in the above table, the PE Ratio is the lowest as compared to that of the Comparable Companies and is also lower than the average price-earnings multiples of approximately 132.67 times of the Comparable Companies as at the Latest Practicable Date.

**III. Business, financial position and historical performance of Shineway Sales**

*Business*

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 Shineway Suppliers, which are wholly-owned subsidiaries of the Company.

The Group's pharmaceuticals are sold to distributors through Shineway Sales, which has appointed and sells products to 239 regional distributors in the PRC covering 30 provinces and municipal cities. Each of these distributors in turn distributes the Group's products in a designated region.

*Historical performance*

Shineway Sales recorded a turnover of approximately RMB702.4 million (equivalent to approximately HK\$662.6 million) for the year ended 31 December 2004, representing approximately 99.8% of the total turnover of the Group of approximately RMB703.6 million (equivalent to approximately HK\$663.8 million) during the same period. The Directors confirm that growth in turnover for the year ended 31 December 2004 when compared to that of nine-month period ended 31 December 2003 was mainly attributable to effective portfolio management, increase in sale of products to developing markets and the focus of promotion in its higher margin products.

Shineway Sales has been profit-making since its establishment in March 2003, which recorded net profits of approximately RMB188.1 million (equivalent to approximately HK\$177.5 million) for the nine months ended 31 December 2003 and net profits of approximately RMB39.8 million (equivalent to approximately HK\$37.6 million) for the year ended 31 December 2004. All the products sold by Shineway Sales to the distributors are sourced from the Shineway Suppliers. The drop in net profits of Shineway Sales in 2004 is attributable to the pricing arrangement between the Shineway Suppliers and Shineway Sales, being inter-group companies. Such inter-group pricing arrangement did not have a negative impact on the Group on a consolidated basis.

*Financial position*

As at 31 December 2004, Shineway Sales had an audited consolidated net assets value of was approximately RMB117.7 million (equivalent to approximately HK\$111.0 million). Based on the audited financial statements of Shineway Sales for the year ended 31 December 2004, it had a total assets of approximately RMB164.6 million (equivalent to approximately HK\$155.3 million), comprising mainly cash and bank balance of approximately RMB68.0 million (equivalent to approximately HK\$64.2 million) and trade and other receivables of approximately RMB83.3 million (equivalent to approximately HK\$78.6 million). It also had a total liabilities

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## LETTER FROM SOMERLEY

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of approximately RMB46.9 million (equivalent to approximately HK\$44.2 million), comprising mainly a trade and other payables balance of approximately RMB37.4 million (equivalent to approximately HK\$35.3 million) and amounts due to the Shineway Suppliers of approximately RMB8.4 million (equivalent to approximately HK\$7.9 million) which were unsecured, interest free and repayable on demand.

#### IV. Effects of the Equity Interest Transfer Agreement

##### *Net assets value*

A goodwill of approximately RMB57.3 million (equivalent to approximately HK\$54.1 million) will arise from the Acquisition based on the audited consolidated net asset value of Shineway Sales as at 31 December 2004 and will be recognised as an asset on the consolidated balance sheet of the Group. Such a goodwill will not be amortised but subject to annual impairment tests and specific testing whenever impairment is indicated.

##### *Earnings*

The Group currently owns 80% equity interest in Shineway Sales and thus has been accounting for 80% of Shineway Sales' profit or loss in its results after taking out Shineway Lang Fang's share of its 20% interest in Shineway Sales. After completion of the Acquisition, the Group will account for an additional 20% of Shineway Sales's profit or loss in its results.

Impairment loss on the goodwill arising from the Acquisition is generally recognised in the profit and loss statement in the period in which it is identified and hence the Group's earnings would be affected accordingly.

##### *Gearing*

Besides the amounts due to the Shineway Suppliers, being two wholly-owned subsidiaries of the Company, of an aggregate amount of approximately RMB8.4 million (equivalent to approximately HK\$7.9 million), Shineway Sales has no other borrowings. After completion of the Acquisition, Shineway Sales will be 100% owned by the Group and such inter-company borrowing will then be eliminated which would have a positive effect on the gearing ratio of the Group.

##### *Cashflow*

Given the Group's ample cash reserve having a balance of approximately RMB1.1 billion (equivalent to approximately HK\$1.0 billion) as at 31 December, 2004, we consider the payment of Consideration would not have a significant adverse effect on the Group's cashflow position.

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## LETTER FROM SOMERLEY

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### DISCUSSION

Shineway Sales is engaged in the sale and marketing of products manufactured by the Group. Shineway Sales is also the holder of the Pharmaceutical Distribution Permit and Good Supply Practice certification and the sole distribution arm of the Group in the PRC. Shineway Sales accounts for approximately 99.8% of the Group's total turnover for the year ended 31 December 2004. Shineway Sales is therefore strategically important for the Group's sales, marketing and business development in the PRC. Completion of the Equity Interest Transfer Agreement will allow the Group to obtain absolute control over Shineway Sales. This should enable the Company to implement its corporate strategies more efficiently and effectively particularly in the area of sales and marketing of medical products and the business development of the Group in the PRC.

The Old Calculation of the Consideration was agreed under the Option Agreement. After arm's length negotiations between the Company and Shineway Lang Fang, it is agreed that the New Calculation should be adopted to reflect the current market price of the Share. The New Calculation has a lower PE Ratio of 10.15 times as compared to that used in the Old Calculation of 15 times. The PE Ratio represented by the Consideration is the lowest amongst that of the Comparable Companies and lower than the average price-earnings multiple of approximately 132.67 times of the Comparable Companies as at the Latest Practicable Date.

The Consideration to be fully settled in cash is not expected to put a pressure on the Group's cashflow.

### OPINION

Having considered the above factors and reasons, we are of the opinion that the Equity Interest Transfer Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company. We are of the further opinion that the terms of the Equity Interest Transfer Agreement are fair and reasonable and the Acquisition is in the interest of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders vote in favour of the resolution to be proposed at the EGM to approve the Equity Interest Transfer Agreement.

Yours faithfully,  
For and on behalf of  
**SOMERLEY LIMITED**  
**Mei H. Leung**  
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF DIRECTORS' INTEREST

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

### Directors' interests in the issued Shares and associated corporations

Name of Director	Name of relevant Company	Capacity	Number of Shares held	Approximate percentage of issued Shares/equity interest %
Mr. Li	Company	Founder of discretionary trust (Note 1)	600,000,000	72.29
Mr. Li	Shineway Sales	Interest of controlled corporations (Note 2)	Not applicable	20

#### Notes:

- These 600,000,000 Shares are held by Sinovest, which is owned as to approximately 79.40% by Forway. Forway is owned as to 100% by Trustcorp Limited, a trust company, in its capacity as the trustee of The Li Family 2004 Trust, a discretionary trust the founder (as defined in the SFO) of which is Mr. Li and the discretionary objects of which are family members of Mr. Li (excluding Mr. Li himself). Accordingly, Mr. Li is deemed to be interested in the 600,000,000 Shares under the SFO.
- This 20% equity interest in Shineway Sales is currently owned by Shineway Lang Fang, which is the subject matter to be sold by Shineway Lang Fang to Yuan Da under the Equity Interest Transfer Agreement. Shineway Lang Fang is owned as to 70% by Shineway Medical, which is owned as to approximately 81% by Mr. Li.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

### 3. SUBSTANTIAL SHAREHOLDERS

#### (a) Interests in the Company

As at the Latest Practicable Date, so far as the Directors or the chief executives of the Company are aware, the following persons have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of Shares carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity	Number of Shares	Approximate percentage of issued Shares %
Sinovest ( <i>Note 1</i> )	Beneficial owner	600,000,000	72.29
Forway ( <i>Note 1 and 2</i> )	Interest of a controlled corporation	600,000,000	72.29
Trustcorp Limited ( <i>Notes 1, 2 and 3</i> )	Trustee of discretionary trust	600,000,000	72.29
Mr. Li ( <i>Notes 1, 2 and 3</i> )	Founder of discretionary trust	600,000,000	72.29

*Notes:*

- The 600,000,000 Shares are beneficially owned by Sinovest.
- The issued share capital of Sinovest is owned as to approximately 79.4% by Forway, with the remaining approximately 18.6% owned by Matkon Limited and approximately 2% owned by Ms. Liu Zhiqin, an Independent Third Party. Accordingly Forway is deemed to be interested in the 600,000,000 Shares under the SFO.

3. The entire issued share capital of Forway is owned by Trustcorp Limited in its capacity as the trustee of The Li Family 2004 Trust, a discretionary trust the founder (as defined in the SFO) of which is Mr. Li and the discretionary objects of which are family members of Mr. Li (excluding Mr. Li himself). Accordingly, Trustcorp Limited and Mr. Li are respectively deemed to be interested in the 600,000,000 Shares under the SFO.

(b) **Interest in other members of the Group**

So far as the Directors or the chief executives of the Company are aware, the following persons will be directly or indirectly interested in 10% or more of the nominal value of any class of Shares carrying rights to vote in general meetings of any other member of the Group:

Name of interested party	Name of Group member	Capacity	Share of the registered capital	Approximate percentage of equity interest %
Shineway Lang Fang ( <i>Note 1</i> )	Shineway Sales	Beneficial owner	RMB10,000,000 ( <i>Note 2</i> )	20

*Notes:*

- Shineway Lang Fang is owned as to 70% by Shineway Medical and as to 30% by 瓊海金健康實業有限公司 (Qionghai Jin Jiankang Shiye Co., Ltd.), an Independent Third Party. Shineway Medical is in turn owned as to approximately 81% by Mr. Li and as to approximately 19% by 330 employees of the Group as at the Latest Practicable Date.
- Shineway Sales has a registered capital of RMB50,000,000, of which RMB40,000,000 is owned by Yuan Da and as to RMB10,000,000 owned by Shineway Lang Fang which is the subject matter to be sold by Shineway Lang Fang to Yuan Da under the Equity Interest Transfer Agreement.

As at the Latest Practicable Date, save as disclosed above, so far as is known to the Board, no persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of Shares carrying rights to vote in general meetings of any other member of the Group.

**4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Board are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, being the date to which the latest published audited consolidated financial statements of the Company were made up.

**5. LITIGATION**

As at the Latest Practicable Date, no member of the Group was involved in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be ending or threatened against the any member of the Group.

## 6. PROFESSIONAL QUALIFICATION AND CONSENT OF EXPERT

Somerley is the independent financial adviser to the Independent Board Committee and the Independent Shareholders. Somerley is a deemed licensed corporation to conduct Types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities.

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it respectively appear.

As at the Latest Practicable Date, Somerley is not beneficially interested in the share capital of any member of the Group nor does it have any right, whether legally enforceable or not to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Somerley does not have any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or of any of its subsidiaries since 31 December 2004, the date to which to latest published audited consolidated financial statements of the Company were made up.

## 7. SERVICE CONTRACTS

As at the Latest Practicable Date, each of Mr. Li, Ms. Wang Zhihua, Ms. Xin Yunxia, Mr. Li Huimin and Mr. Hou Jiangtao has entered into a service contract with the Company for a term of 2 years commencing from 1 October 2004, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Pursuant to their respective service contracts, each of the executive Directors is entitled to a discretionary bonus, the amount of which shall be determined by reference to the performance of the Group provided that the aggregate amount of the bonus payable to all Directors in respect of any financial year shall not exceed 5% of the audited consolidated net profits after taxation but before extraordinary items of the Company for the relevant financial year.

Pursuant to the respective service contracts of the executive Directors, no compensation (other than statutory compensation) is required to be payable by the Company to the relevant executive Director upon termination of the relevant service contract.

Save as disclosed above, none of the Directors has entered or has proposed to enter into any service agreements with the Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

**8. DIRECTORS' INTEREST IN ASSETS / CONTRACTS AND OTHER INTERESTS**

- (a) As at the Latest Practicable Date, save for the Equity Interest which is proposed to be disposed of by Shineway Lang Fang (owned as to 70% by Shineway Medical which is owned as to approximately 81% by Mr. Li) to Yuan Da under the Equity Interest Transfer Agreement, none of the Directors have any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or of any of its subsidiaries since 31 December 2004, being the date up to which to latest published audited consolidated financial statements of the Company were made up.
- (b) As at the Latest Practicable Date, save for the Equity Interest Transfer Agreement and the contracts mentioned below, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group:-
- (1) the general services agreement dated 20 November 2004 between Shineway Medical (owned as to approximately 81% by Mr. Li) and Shineway Pharmaceutical (an indirect wholly-owned subsidiary of the Company), Shineway Medical agreed to provide Shineway Pharmaceutical with accommodation, canteen and leisure facilities for the staff of Shineway Pharmaceutical as well as property management (including security services, environmental protection and maintenance services, cleaning and hygiene services) and production support services (including plant and equipment maintenance services as well as electricity and water supply) for Shineway Pharmaceutical's production facilities in Shijiazhuang, Hebei Province, the PRC for a term of 2 years and 9 months commencing on 1 April 2004 until 31 December 2006, whereas the total consideration payable by Shineway Pharmaceutical for such facilities and services is equivalent to the cost (with tax) to Shineway Medical of providing such services, which did not exceed the prescribed cap of RMB6,300,000 (equivalent to approximately HK\$5,943,000) for the 9 month period from 1 April 2004 to 31 December 2004 and was estimated not to exceed the prescribed annual caps of RMB6,800,000 (equivalent to approximately HK\$6,415,000) and RMB7,100,000 (equivalent to approximately HK\$6,698,000) for the 2 years ending 31 December 2006 respectively;
  - (2) the general services agreement dated 20 November 2004 between Shineway Lang Fang (owned as to 70% by Shineway Medical which is owned as to approximately 81% by Mr. Li) and Hebei Shineway (an indirect wholly-owned subsidiary of the Company), Shineway Lang Fang agreed to provide Hebei Shineway with accommodation, canteen and leisure facilities for the staff of Hebei Shineway as well as property management (including security services, environmental protection and maintenance services, cleaning and hygiene services) and production support services (including plant and equipment maintenance services as well as electricity and water supply) for Hebei Shineway's production facilities in Lang Fang, Hebei Province, the

- PRC for a term of 2 years and 9 months commencing on 1 April 2004 until 31 December 2006, whereas the total consideration payable by Hebei Shineway for such facilities and services is equivalent to the cost (with tax) to Shineway Lang Fang of providing such services, which did not exceed the prescribed cap of RMB1,100,000 (equivalent to approximately HK\$1,038,000) for the 9 month period from 1 April 2004 to 31 December 2004 and was estimated not to exceed the prescribed annual caps of RMB1,200,000 (equivalent to approximately HK\$1,132,000) and RMB1,300,000 (equivalent to approximately HK\$1,226,000) for the 2 years ending 31 December 2006 respectively;
- (3) the supply agreement dated 20 November 2004 between Shineway Sales (an indirect non-wholly owned subsidiary of the Company) and Shineway Drugstores (a subsidiary of Shineway Medical which is owned as to approximately 81% by Mr. Li), pursuant to which Shineway Sales agreed to supply Shineway Drugstores with pharmaceutical products for a term of 2 years and 9 months commencing on 1 April 2004 until 31 December 2006 in accordance with the detailed terms of sale and purchase contracts to be entered into between the parties from time to time during the term of agreement, at prices no less favourable to the Group than those offered by Shineway Sales to independent customers, whereas the total sales by Shineway Sales to Shineway Drugstores for the 9 month period ended 31 December 2004 did not exceed the prescribed cap of RMB7,200,000 (equivalent to approximately HK\$6,792,000) and the total sales by Shineway Sales to Shineway Drugstores for the 2 years ending 31 December 2006 were estimated not to exceed the prescribed annual caps of RMB9,000,000 (equivalent to approximately HK\$8,491,000) and RMB11,000,000 (equivalent to approximately HK\$10,378,000) respectively; and
- (4) the two supply agreements both dated 20 November 2004 entered into by Shineway Sales (currently owned as to 20% by Shineway Lang Fang, a subsidiary of Shineway Medical (which is owned as to approximately 81% by Mr. Li), and as to 80% by Yuan Da) with each of Shineway Pharmaceutical (an indirect wholly-owned subsidiary of the Company) and Hebei Shineway (an indirect wholly-owned subsidiary of the Company), pursuant to which each of Shineway Pharmaceutical and Hebei Shineway agreed to supply Shineway Sales with pharmaceutical products for a term of 2 years and 9 months commencing on 1 April 2004 until 31 December 2006 in accordance with the detailed terms of sale and purchase contracts to be entered into between the parties for wholesale purposes from time to time during the term of the agreement, at prices equivalent to 82% of the wholesale price of Shineway Sales, whereas the total sales of the Group's products to Shineway Sales under such two supply agreements for the 9 month period ended 31 December 2004 did not exceed the prescribed cap of RMB650,000,000 (equivalent to approximately HK\$613,208,000) and the total sales of the Group's products to Shineway Sales for the 2 years ending 31 December 2006 were estimated not to exceed the prescribed annual caps of RMB780,000,000 (equivalent to approximately HK\$735,849,000) and RMB980,000,000 (equivalent to approximately HK\$924,528,000) respectively.

As disclosed in the Prospectus, the continuing connected transactions contemplated respectively by the two general service agreement in items (1) and (2) above fall within the de minimis exemption under the Listing Rules and are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Although the continuing connected transactions contemplated respectively by the supply agreements in items (3) and (4) above are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules, waivers from strict compliance with the reporting and independent shareholders' approval requirements have been obtained from the Stock Exchange. The Company has complied with the reporting requirements for the continuing connected transactions contemplated by the aforesaid supply agreements for the year ended 31 December 2004 in its 2004 annual report. Upon completion of the Equity Interest Transfer Agreement, the continuing connected transactions under the aforesaid supply agreements in item (4) above will no longer constitute connected transaction for the Company.

## 9. PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 66 of the Articles of Association, at any general meeting on a show of hands every member who is present in person (or being a corporation, is present by a duly authorised representative), or by proxy shall have one vote and a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid Share of which he is the holder but so that no amount paid up or credited as paid up on a Share in advance of calls or installments is treated for the foregoing purposes as paid up on the Shares. Notwithstanding anything contained in the Articles of Association, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

A resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting right of all members having the right to vote at the meeting; or
- (d) by a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Unless a poll is duly required or demanded in accordance with the foregoing provisions, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by any particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

**10. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors of their respective Associates have any interest in any business which competes or may compete, either directly or indirectly with any business of the Group.

**11. MISCELLANEOUS**

- (a) The secretary of the Company and the qualified accountant of the Company is Lou Sai Tong, a member of the Association of International Accountants and a member of the Hong Kong Institute of Public Accountants.
- (b) The share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, with its address at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong.
- (c) In the case of any discrepancy, the English text of this circular and form of proxy shall prevail over the Chinese text.

**12. DOCUMENT FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Woo, Kwan, Lee & Lo at 27th Floor, Jardine House, 1 Connaught Place, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the EGM (and any adjournment thereof):

- (a) the letter of recommendation from the Independent Board Committee of the Company to the Independent Board Committee and the Independent Shareholders as set out in this circular;
- (b) the letter of advice from Somerley as set out in this circular;
- (c) the written consent from Somerley as referred to in paragraph 6 of this appendix;
- (d) the service contracts as referred to in paragraph 7 of this appendix;
- (e) the Equity Interest Transfer Agreement;

- (f) the general services agreement dated 20 November 2004 between Shineway Medical and Shineway Pharmaceutical as referred to in sub-paragraph (b)(1) in paragraph 8 of this appendix;
- (g) the general services agreement dated 20 November 2004 between Shineway Lang Fang and Hebei Shineway as referred to in sub-paragraph (b)(2) in paragraph 8 of this appendix;
- (h) the supply agreement dated 20 November 2004 between Shineway Sales and Shineway Drugstores as referred to in sub-paragraph (b)(3) in paragraph 8 of this appendix; and
- (i) the two supply agreements both dated 20 November 2004 entered into by Shineway Sales with each of Shineway Pharmaceutical and Hebei Shineway as referred to in sub-paragraph (b)(4) in paragraph 8 of this appendix.

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## NOTICE OF EGM

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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)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the China Shineway Pharmaceutical Group Limited (the “Company”) will be held at Gloucester Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road, Central, Hong Kong on 12 May 2005 at 11:00 a.m. (or immediately after the annual general meeting of the Company convened on the same date and place shall have been concluded or adjourned) or any adjournment thereof for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

“**THAT** the equity interest transfer agreement (股權轉讓協議) dated 30 March 2005 entered into between Yuan Da International Limited (遠大國際有限公司) (“Yuan Da”), being a wholly-owned subsidiary of the Company, as purchaser, and 神威醫藥科技(廊坊)有限公司 (Shineway Medical Science & Technology (Lang Fang) Co., Ltd.) (“Shineway Lang Fang”) as vendor (the “Equity Interest Transfer Agreement”, a copy of which is produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) in respect of the acquisition of 20% of the equity interest in 神威藥業營銷有限公司 (Shineway Pharmaceutical Sales Co., Ltd.) by Yuan Da from Shineway Lang Fang and the consideration for such acquisition under the Equity Interest Transfer Agreement and all transactions contemplated under the Equity Interest Transfer Agreement as well as the terms and conditions thereof be and are hereby approved, ratified and confirmed, and that the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters, and things as they may in their discretion consider necessary or desirable and expedient to implement and/or to give effect to the Equity Interest Transfer Agreement and the transactions thereby contemplated.”

By Order of the Board  
**Li Zhenjiang**  
*Chairman*

Hong Kong, 19 April, 2005

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## NOTICE OF EGM

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*Registered office:*

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

*Principal Place of Business in Hong Kong*

Suite 5201  
52nd Floor, Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong.

**Notes:**

1. The ordinary resolution to be considered at the meeting will be decided by poll. On voting by poll, every member of the Company shall have one vote for every fully paid share of the Company of which he is the holder.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
3. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be lodged with the principal place of business of the Company at Suite 5201, 52nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the proxy form shall not preclude any member from attending and voting at the meeting if the member so wishes.
4. As at the date of this notice, the board of directors of the Company comprises five executive directors, namely, Mr. Li Zhenjiang, Ms. Wang Zhihua, Ms. Xin Yunxia, Mr. Hou Jiangtao and Mr. Li Huimin, and three independent non-executive directors, namely, Mr. Li Kung Man, Dr. Wang Jianping and Professor Zhou Chaofan.