



## Efficient R&D

The Group employs a market driven approach encompassing thorough assessment and analysis of market trends and ways to maximize cost efficiency. Our R&D team works closely with the sales, marketing and production departments to ensure our new products are highly effective, well accepted by consumers and commercially viable. Shineway is committed to developing anti-viral drugs and medicines for the treatment of diseases and ailments affecting the cardiovascular, respiratory and digestive systems.

# Directors' Report

The directors present their first annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 December 2004.

## CORPORATION REORGANISATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 14 August 2002. Pursuant to a special resolution passed on 27 April 2004, the name of the Company was changed from Shineway Pharmaceutical (China) Co., Ltd. to China Shineway Pharmaceutical Group Limited (中國神威藥業集團有限公司). Through a group reorganisation, which included the share transactions between the Company, Yuan Da International Limited, Hong Zhan International Limited and Sinovest International Investment Limited (the “Group Reorganisation”), the Company became the holding company of the companies comprising the Group on 10 November 2004.

Details of the Group Reorganisation are set out in note 1 and 18 to the financial statements.

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 2 December 2004.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its principal subsidiaries are engaged in the research and development, manufacture and trading of Chinese pharmaceutical products.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 41.

The directors do not recommend the payment of any dividend for the year ended 31 December 2004 and the retention of profit for the year of RMB260,793,000.

### TRADING RESULT AND PUBLISHED FORECAST

The Group's consolidated profit for the year of RMB\$260 million, represents an excess of RMB10 million over the profit forecast in the Company's prospectus dated 23 November 2004.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately RMB22,364,000. Details of the movement in the property, plant and equipment of the Group during the year are set out in note 10 to the financial statements.

### SHARE CAPITAL

The Company was incorporated and registered as an exempted company with limited liability in Cayman Islands on 14 August 2002. Pursuant to the international offering of the Company conducted in 2004 (the "International Offering") the Company issued 230,000,000 shares in December 2004. After the International Offering, the Company has a total of 830,000,000 shares in issue.

Details of the movement in share capital of the Company during the year are set out in note 18 to the financial statements. There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's shares during the year.

### DIRECTORS

The directors of the Company from 14 August 2002 (date of its incorporation) and up to the date of this report were:

#### Executive Directors:

Li Zhenjiang	(appointed on 15 October 2002)
Wang Zhihua	(appointed on 22 July 2004)
Xin Yunxia	(appointed on 22 July 2004)
Hou Jiangtao	(appointed on 22 July 2004)
Li Huimin	(appointed on 22 July 2004)

**Independent non-executive Directors:**

Li Kung Man	(appointed on 10 November 2004)
Wang Jianping	(appointed on 10 November 2004)
Zhou Chaofan	(appointed on 10 November 2004)

In accordance with the provisions of the Company's Articles of Association, Wang Zhihua, Xin Yunxia, Hou Jiangtao, Li Huimin, Li Kung Man, Wang Jianping and Zhou Chaofan retires and, being eligible, offer himself/herself for re-election.

The term of office for each non-executive director is the period up to retirement by rotation in accordance with the Company's Articles of Association.

Each of Li Zhenjiang, Wang Zhihua, Xin Yunxia, Li Huimin and 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.

Other than disclosed above, none of the directors has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries which is not expiring or determinable by the employing company within one year without payment of compensation other than statutory compensation.

**SHARE OPTIONS**

The Share Option Scheme (the "Scheme") adopted by the Company pursuant to a written resolution of the sole shareholder of the Company passed on 10 November 2004 for the primary purpose of providing incentives to:

- (1) director or employee of any member of the Group; and
- (2) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or any employee of any member of the Group.

The Scheme will expire on 9 November 2014. Under the Scheme, the Board of Directors of the Company may grant options to eligible person to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent non-executive director of the Company) in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

Option granted must be taken up within 14 days from the date of offer, upon payment of HK\$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10 anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

However, no option was granted, exercised, cancelled or lapsed during the year and as at the date of this report since adoption.

### **DIRECTORS' INTERESTS IN SHARES**

As at 31 December 2004 of the interests and short positions of the directors of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of the Securities and Future Ordinance (the "SFO"), which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (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 therein, or which one 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:

Name of director	Name of relevant Company	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
Li Zhenjiang	Company	Founder of discretionary trust (Note 1)	600,000,000	72.29%
Li Zhenjiang	Shineway Sales	Interest of controlled corporations (Note 2)	Not applicable	20%

Notes:

- (1) These 600,000,000 Shares are held by Sinovest, which is owned as to approximately 79.40% by Forway Investment Limited ("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 Zhenjiang and the discretionary objects of which are family members of Mr. Li Zhenjiang (excluding Mr. Li Zhenjiang himself). Accordingly, Mr. Li Zhenjiang is deemed to be interested in the 600,000,000 Shares under the SFO.
- (2) This 20% equity interest in Shineway Sales is currently owned by Shineway Lang Fang. Shineway Lang Fang is owned as to 70% by Shineway Medical, which is owned as to approximately 81% by Mr. Li Zhenjiang.

Save as disclosed above, as at 31 December 2004, none of the directors of the Company nor their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 26 to the financial statements, no contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS

### (a) Interest in the Company

As at 31 December 2004, interest of every person (not being a director or chief executive of the Company) in the shares and underlying shares in the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
Sinovest Internation Investment Limited			
("Sinovest") (Note 1)	Beneficial owner	600,000,000	72.29%
Forway (Note 1 and 2)	Interest of a controlled corporation	600,000,000	72.29%
Trustcorp Limited (Note 1, 2 and 3)	Trustee of discretionary trust	600,000,000	72.29%

Notes:

- (1) The 600,000,000 shares are beneficially owned by Sinovest.
- (2) The issued share capital of Sinovest is owned as to approximately 79.4% by Forway, with the remaining approximately 18.6% owned by Matkon and approximately 2% owned by Liu Zhiqin, an independent third party. Accordingly Forway is deemed to be interested in the 600,000,000 shares of the Company 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 Li Zhenjiang and the discretionary objects of which are family members of Li Zhenjiang (excluding Li Zhenjiang himself). Accordingly, Trustcorp Limited and Li Zhenjiang are respectively deemed to be interested in the 600,000,000 shares of the Company under the SFO.

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

As at 31 December 2004, 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 (Note 1)	Shineway Sales	Beneficial owner	RMB10,000,000 (Note 2)	20%

Notes:

- (1) 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 31 December 2004.
- (2) 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.

Save as disclosed above, as at 31 December 2004, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

**PURCHASE, SALE OR REDEMPTION OF SHARES**

There was no purchase, sale or redemption of shares of the Company by the Company or any of its subsidiaries during the year.

**PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.



### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and five largest customers of the Group were 3.9% and 16.8% respectively of the Group's turnover for the year.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors owns more than 5% of the Company share capital) has any interest in the five largest customers of the Group.

The aggregate purchases attributable to the largest and five largest suppliers of the Group were 9.4% and 34.3% respectively of the Group's purchases for the year.

### CORPORATE GOVERNANCE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the period between the date of the listing of shares and 31 December 2004.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited. The Company considers that all of the independent non-executive directors are independent.

## CONNECTED TRANSACTIONS

1. Pursuant to the supply agreement dated 20 November 2004 between Shineway Sales, an indirect non-wholly owned subsidiary of the Company, and 河北神威大藥房連鎖有限公司(Hebei Shineway Chain Drugstores Co., Ltd.) ("Shineway Drugstores"), a connected person of the Company by virtue of being ultimately controlled by Mr. Li Zhenjiang, an executive director of the Company, Shineway Pharmaceutical had 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 terms of the sale and purchase contracts to be entered into between the parties from time to time during the term of the agreement. The continuing connected transaction contemplated under this supply agreement is subject to reporting, announcement and independent shareholders' approval requirements, but waiver from strict compliance therewith (except the reporting requirement) has been obtained from The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). For the 9 months ended 31 December 2004, the total sales by Shineway Sales to Shineway Drugstores amounted to RMB1,673,000 (equivalent to approximately HK\$1,578,000), which did not exceed the annual cap of RMB7,200,000 (equivalent to approximately HK\$6,792,000) prescribed for the 9 months ended 31 December 2004 as disclosed in the Prospectus.
2. Pursuant to the two supply agreements both dated 20 November 2004 entered into by Shineway Sales, a connected person of the Company under Rule 14A.11(5) of the Listing Rules, with each of Shineway Pharmaceutical and Hebei Shineway, two wholly-owned subsidiaries of the Company, each of Shineway Pharmaceutical and Hebei Shineway had 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 terms of the sale and purchase contracts to be entered into between the parties for wholesale purposes from time to time during the term of the agreement. The continuing connected transactions contemplated under these two supply agreements are subject to reporting, announcement and independent shareholders' approval requirements, but waiver from strict compliance therewith (except the reporting requirement) has been obtained from the Stock Exchange. For the 9 months ended 31 December 2004, the total sales by Shineway Pharmaceutical and Hebei Shineway to Shineway Sales amounted to RMB492,416,000 (equivalent to approximately HK\$464,543,000), which did not exceed the annual cap of RMB650,000,000 (equivalent to approximately HK\$613,208,000) prescribed for the 9 months ended 31 December 2004 as disclosed in the Prospectus.

3. The independent non-executive directors of the Company have reviewed the connected transactions in paragraphs 1 and 2 above and have considered the procedures performed by the auditors of the Company in reviewing them and confirmed that at the time of the transactions:
  - (a) the transactions have been entered into by the relevant member of the Group in the ordinary and usual course of its business;
  - (b) the transactions have been entered into on an arm's length basis and on normal commercial terms (to the extent that there are comparable transactions) or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, or terms not less favourable to the Group than terms available to or from (as the case may be) independent third parties; and
  - (c) the transactions have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### **EMOLUMENT POLICY**

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualification and competence.

The emolument of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

### **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the period from the date of listing of shares to 31 December 2004.

### **CHARITABLE DONATIONS**

During the year, the Group made charitable and other donations amounting to RMB1,060,000.

## AUDITORS

During the year, Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

LI ZHENJIANG  
DIRECTOR

Hong Kong, 29 March 2005