神威藥業
SHINEWAY

CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2877)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

YEAR 2007 GROUP FINANCIAL HIGHLIGHTS

- Turnover in 2007 increased by 20.4% to RMB1,012,885,000 as compared with RMB841,475,000 in 2006.

- Net profit increased by 47.3% to RMB490,641,000 as compared with RMB332,977,000 in 2006.

- Earnings per share increased by 47.3% to RMB0.59 compared with RMB0.4 in 2006.

- Recommended final dividend of RMB11 cents per share and special dividend of RMB16 cents per share.

RESULTS

The board of directors (the "Board") of China Shineway Pharmaceutical Group Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2007 with comparative figures for the year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	**2007** *RMB'000*	2006 *RMB'000*
Turnover	*2*	**1,012,885**	841,475
Cost of sales		**(274,847)**	(249,175)
Gross profit		**738,038**	592,300
Investment income	*3*	**207,241**	44,779
Other income		**26,644**	1,523
Distribution costs		**(258,079)**	(183,848)
Net Exchange loss		**(56,974)**	–
Other administrative expenses		**(80,929)**	(67,720)
Profit before taxation	*4*	**575,941**	387,034
Income tax	*5*	**(85,300)**	(54,057)
Profit for the year		**490,641**	332,977
Earnings per share – basic	*6*	**RMB0.59**	RMB0.40
Dividends recognised as distribution during the year:	*7*		
Final dividend		**82,700**	82,700
Special dividend		**16,540**	16,540
Interim dividend		**90,970**	82,700
		190,210	181,940
Dividends proposed:			
Final dividend		**90,970**	82,700
Special dividend		**132,320**	16,540
		223,290	99,240

CONSOLIDATED BALANCE SHEET
At 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment		**278,547**	224,368
Land use rights		**19,894**	5,618
Goodwill		**58,479**	58,479
Deferred tax assets		**7,329**	9,198
		364,249	297,663
Current assets			
Inventories		**78,352**	38,197
Bills receivables	*8*	**244,820**	63,301
Trade receivables	*8*	**8,865**	3,346
Prepayment, deposits and other receivables		**34,009**	21,340
Pledged bank deposits		**–**	1,882
Bank balances and cash		**1,678,442**	1,582,014
		2,044,488	1,710,080
Current liabilities			
Trade payables	*9*	**89,172**	76,146
Other payables and accrued expenses		**198,095**	142,388
Amounts due to related companies		**10,063**	587
Government grants received		**6,380**	5,800
Tax liabilities		**35,752**	13,569
		339,462	238,490
Net current assets		**1,705,026**	1,471,590
Total assets less current liabilities		**2,069,275**	1,769,253
Capital and reserves			
Share capital		**87,662**	87,662
Reserves		**1,981,613**	1,681,591
Total equity		**2,069,275**	1,769,253

Notes:

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands on 14 August 2002 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent is Sinovest International Investment Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability and owned as to approximately 79.4% by Forway. Investment Limited, which is considered the ultimate holding company of the Company. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the Annual Report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set in the note 31 to the consolidated financial statements.

2. TURNOVER AND SEGMENT INFORMATION

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

The Group's operation is regarded as a single segment, being an enterprise engaged in research and development, manufacture and trading of Chinese pharmaceutical products. Over 90% of the Group's sales are made in the PRC and over 90% of the Group's assets are situated in the PRC during the year. Accordingly, no segmental analysis of business and geographical segments is presented for the year.

3. INVESTMENT INCOME

	2007	2006
	RMB'000	*RMB'000*
Interest on bank deposit	**38,340**	44,779
Dividends from held-for-trading investments	**2,213**	–
Net gain from held-for-trading investments	**166,688**	–
	207,241	44,779
Investment income earned on financial assets, analysed by category of assets, is as follows:		
Held-for-trading investments	**168,901**	–
Loans and receivables (including cash and bank balances)	**38,340**	44,779
	207,241	44,779

During the year ended 31 December 2007, the Group disposed all held-for-trading investments.

4. PROFIT BEFORE TAXATION

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	**1,822**	1,706
Cost of inventories recognised as expense	**212,615**	200,610
Depreciation of property, plant and equipment	**32,084**	29,733
Operating lease rentals in respect of land use rights	**675**	328
Staff costs (including directors' remuneration)	**56,704**	51,347
Pension costs	**5,579**	3,064
Minimum lease payments under operating lease in respect of rented premises	**2,202**	1,714
Research and development costs	**4,930**	3,856
and after crediting:		
Government subsidies received (included in other income) *(Note)*	**23,990**	–
Gain on disposal of property, plant and equipment	**–**	28
Net exchange gain	**–**	756
Reversal of allowance for bad and doubtful debts	**–**	33

Note: It mainly represented the incentives received from PRC government for investments in relevant regions in PRC by the group.

5. INCOME TAX

	2007	2006
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax	**(83,431)**	(51,796)
Deferred tax:		
Current year	**1**	(2,261)
Attributable to a change in tax rate	**(1,870)**	–
	(1,869)	(2,261)
	(85,300)	(54,057)

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

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Pursuant to the relevant law and regulations in the PRC, Shineway Pharmaceutical Co., Ltd. ("Shineway Pharmaceutical") and Hebei Shineway Pharmaceutical Co., Ltd. ("Hebei Shineway") are entitled to a 50% relief from PRC EIT for current year and the following year. The first profit-making period of Shineway Pharmaceutical and Hebei Shineway commenced on 1 January 2004 and the full exemption from PRC EIT ended on 31 December 2005.

Pursuant to 國發1988 26號, the PRC EIT rate applicable to Shineway Sales is 15% on its assessable profit.

Pursuant to the 藏財稅字(94)117號, Xizang Shineway Pharmaceutical Co., Ltd. ("Xizang Shineway") was exempted from the PRC EIT for the period from 21 May 2007 to 20 May 2008. Pursuant to 西藏拉薩經濟技術開發區優惠政策, the PRC EIT rate applicable to Xizang Shineway is 10% on its assessable profit.

Pursuant to 國發1988 26號, the PRC EIT rate applicable to Shineway Pharmaceutical (Hainan) Co., Limited ("Hainan Shineway") is 15% on its assessable profit.

6. EARNINGS PER SHARE

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

	2007	2006
	RMB'000	*RMB'000*
Earnings for the purposes of basic earnings per share	**490,641**	332,977

	Number of ordinary shares	
	2007	2006
Weighted average number of ordinary shares for the purposes of basic earnings per share	**827,000,000**	827,000,000

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

7. DIVIDENDS

	2007	2006
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year		
Final dividend paid for 2006 of RMB10 cents (2005: RMB10 cents) per share	**82,700**	82,700
Special dividend paid for 2006 of RMB2 cents (2005: RMB2 cents) per share	**16,540**	16,540
Interim dividend paid for 2007 of RMB11 cents (2006: RMB10 cents) per share	**90,970**	82,700
	190,210	181,940

In respect of the year ended 31 December 2007, the directors proposed that a final dividend of RMB11 cents (2006: RMB10 cents) and a special dividend of RMB16 cents (2006: RMB2 cents) per share will be paid to shareholders whose names appear on the register of members of the Company, as at the close of business on 28 April 2008. These dividends are subject to approval by shareholders at the Annual General Meeting and have not been included as liabilities in these financial statements.

Dividends payable in cash in Hong Kong dollars will be converted from RMB at the forward exchange rates quoted by bank at 10:30 a.m. on 26 March 2008 (RMB1 = HK$1.1100). Accordingly, the amount payable on 30 April 2008 will be:

Proposed dividend: Final – RMB11 cents per share; approximately HK$0.1221 per share
Special – RMB16 cents per share; approximately HK$0.1776 per share

8. BILLS AND TRADE RECEIVABLES

	2007	2006
	RMB'000	*RMB'000*
Bills receivables	**244,820**	63,301
Trade receivables	**8,865**	3,346
	253,685	66,647

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

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

9. TRADE PAYABLES

	2007	2006
	RMB'000	*RMB'000*
Bills payables	**–**	2,973
Trade payables	**89,172**	73,173
	89,172	76,146

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

	2007	2006
	RMB'000	*RMB'000*
Within 6 months	**83,744**	71,214
Over 6 months but less than 1 year	**5,258**	3,724
Over 1 year but less than 2 years	**108**	1,198
Over 2 years	**62**	10
	89,172	76,146

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The sales volume of the Group's injection, soft capsule and granule products continued to expand as a result of our superb quality products, strong brand equity and effective marketing strategies. For the year ended 31 December 2007, the Group recorded a turnover growth of approximately 20.4% over 2006, amounting to approximately RMB1,012,885,000.

A breakdown of the sales by product format for the year 2007 is set out as follows:

	Sales	Growth rate	Sales mix
Injections	RMB591,663,000	26.9%	58.4%
Soft Capsules	RMB264,102,000	6.4%	26.1%
Granules	RMB137,375,000	22.7%	13.6%
Other product formats	RMB19,745,000	31.5%	1.9%

For the year ended 31 December 2007, the Group posted an increase of approximately 17.1% of operating profit to approximately RMB399,030,000 as compared to last year. Net profit attributable to the equity holders of the Group as at 31 December 2007 amounted to approximately RMB490,641,000, representing an increase of approximately 47.3% over the year of 2006. The growth in net profit was mainly attributable to the increases of turnover, gross margin and investment income during the year.

Injection Products

During the year 2007, the Group sold approximately RMB591,663,000 of injection products, an increase of approximately 26.9% over last year. Amongst these injection products, Qing Kai Ling injection, Shu Xie Ning injection, and Shen Mai injection recorded growth rates of approximately 19.8%, 176.7% and 4.1% in sales respectively. Market demand for Chinese medicine injection products continue to increase. Injection products accounted for approximately 58.4% of the Group's total turnover for 2007 as compared to approximately 52.4% of total turnover for last year. The Group believes that it is presently the largest Chinese medicine injection manufacturer in the PRC in terms of sales volume and production capacity. A number of the Group's injection products are labelled with the protected Chinese medicine, type and the status of "Good Quality/Good Price". The new measure, "Basic technical requirement for TCM and natural medicine injection", greatly raised the standards of safety and quality control requirements of Chinese Medicine injection products. As a leading Chinese medicine injection manufacturer, the Group will be benefited from this new measure. The Group will continue to implement strategies to strengthen the development of distribution network and points of sales to increase market coverage. It is expected that Chinese medicine injection products will continue to be the product format with immense growth potential.

The Group completed a new injection workshop during the year. Our total production capacity has increased from 1.2 billion vials to two billion vials per year. As such, the Group is fully prepared for the massive market demand of Chinese Medicine injections in the coming years.

Soft Capsule Products

The Group recorded sales of soft capsule products of approximately RMB264,102,000, representing an increase of approximately 6.4% over last year. Sales of Wu Fu Xin Nao Qing soft capsule and Qing Kai Ling soft capsule had increased approximately 5.4% and 78.2% respectively as compared to last year. Only Huo Xiang Zheng Qi soft capsule had declined approximately 8.1% from last year. Soft Capsule products accounted for approximately 26.1% of the Group's turnover in 2007 as compared to 29.5% in last year. The Group believes that it is currently the largest Chinese medicine soft capsule manufacturer in the PRC in terms of sales volume and production capacity. In the coming year, the Group intends to increase on advertising and promoting effect for soft capsule products to further enhance their business growth.

Granule Products

For 2007, sales of granules increased by approximately 22.7% as compared to last year, amounting to approximately RMB137,375,000. Granules produced by the Group have been popular among the public. The growth can be attributable to our strategies to unify granule brand name and market positioning. Granule products accounted for approximately 13.6% of the Group's turnover in 2007 as compared to approximately 13.3% in 2006.

RESEARCH AND DEVELOPMENT

Currently, there are 29 product research projects which are either undergoing pharmaceutical and clinical trial or have completed clinical trial. Among these projects are 9 products used for treatment of various cardiovascular diseases, 3 products for treatment of digestive system illnesses and 4 products for anti-viral treatment. All of these research projects are progressed as planned.

PATENT APPLICATIONS

The Group has continuously stepped up its effort on pursuing intellectual property rights. During 2007, four inventions including "a medicine compound and its preparation method for preventing and controlling damage caused by cerebral ischemia", "an application of total triterpenes of centella asiaticain in preventing chronic renal failure and membranous nephropathy", "a medical compound for treatment of prostatic hyperlasis" and "a new medicine and its production know-how for treatment of chronic nephritis" developed by the Group was awarded invention patent certificates by the Intellectual Property Office of the PRC. The patent certificates can ensure the protection of the Group's new products and the related technologies under research to improve the Group's core competitive advantage in the long run. At present, the Group has obtained 7 patents for its inventions, and 9 invention patent applications are pending for approval.

STATE PROTECTED CHINESE MEDICINES

During 2007, the Group had twelve medicines listed as State Protected Chinese Medicines including Shen Mai injection, Shu Xie Ning injection, Guan Xin Ning injection, Huo Xian Zheng Qi soft capsule, Qing Kai Ling soft capsule, Xiao'er Qing Fei Hua Tan granules and Li Yan Jie Du granules.

CHANGES IN REGULATIONS OF THE INDUSTRY

In February 2007, Chinese regulatory authorities announced reduction of price caps on 278 Chinese medicines. Only 9 medicines of the Group were on the list, including Qing Kai Ling injection, Shu Xie Ning injection, Deng Zhan Hua Su injection and Guan Xin Ning injection. Because these four injection products are labeled as "Good Quality/Good Price", the decreases of price caps for them are less than the other brands without such label. The Group believes that decreases of price caps stated in the insurance catalog will not have material impact on its earnings because average retail prices of most of our products remain lower than the current price caps.

Chinese Government has expressed its intention to support the modernization of Chinese medicines. To further regulate and guide the work of research and quality control of Chinese medicines injection, the State Food and Drug Administration promulgated the "Basic Technological Requirements on Chinese Medicines and Natural Medicine Injections" (中藥、天然藥物注射劑基本技術要求). The new measure serves to regulate Chinese medicine injections in a more standardized and scientific manner and provides more specific and detailed guidelines on safety and effectiveness. The new requirements will also increase entry barriers of the production of modern Chinese medicine injection and accelerate consolidation of the industry.

During the year, the State Food and Drug Administration also promulgated the newly amended "Inspection and Assessment Standards of GMP Certification for Medicines" (藥品GMP認證檢查評定標準). The amended GMP standards further tighten requirements on pharmaceutical manufacturers in a more rigid manner and enhances the quality control of production. In addition, the new "Administrative Measures for Drug Registration" (藥品註冊管理辦法) took effect on 1 October 2007. It will encourage enterprises to commercialize R&D results, reduce the scope of meaning of new medicines, extend the time of drugs, and raise the barrier of entry to the industry. As such, pharmaceutical manufacturers with strong competitive strength will stand out, and enjoy greater potential to grow.

PROSPECT

Driven by medical reform and increase in market demand, pharmaceutical industry will continue to grow in 2008. While details of medical reform have not yet been announced, direction of the reform is generally expected to focus on accelerating the establishment of a basic medical and health care system for urban and rural residents to safeguard their livelihood. The ultimate goal is to provide a basic medical coverage for everyone in China in the coming years.

With a growing but also ageing population, the consumption in medical care will undoubtedly keep increasing in China. The forthcoming medical reform will bring new strength into the medicine industry. Medical and health care coverage will continue to be broadened. Market and demand of medicine will surge as more health care facilities are being built. Medical reform will certainly provide tremendous potential for the pharmaceutical market. And for modern Chinese medicine industry, this represents a great prospect.

Chinese medicine is the national treasure of China. It is also an integral part of the Chinese medical system. Chinese medicine industry enjoys its advantage imbedded in the Chinese culture. With reference to a number of initiatives set out in the "11th Five-Year Plan of High-tech Industrial Development" issued in the year, the Framework of Development for Modernization of Chinese Medicine (中藥現代化發展綱要) (2002-2010) and Framework of Innovations for Chinese Medicine (中醫藥創新發展規劃綱要) (2006-2020), as well as the Basic Technological Requirements on Chinese Medicines and Natural Medicine Injections (中藥、天然藥物注射劑基本技術要求) and Supplementary Regulations for Chinese Medicine Registration (中藥註冊管理補充規定) issued and took effect recently, Chinese government is determined on the development of Chinese medicines, leading to fast growing development of the industry.

Supporting measures provided by amended or new regulations on modern Chinese medicine industry provide a great driving force for modern Chinese medicine products. In the years ahead, the Group will continue to safeguard the health of Chinese people by providing modern Chinese medicines of good efficacy and superb quality with affordable price.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, bank deposits of the Group approximately amounted to RMB1,678,442,000 (2006: RMB1,582,014,000), which mainly comprised of approximately RMB1,142,934,000, HK$283,953,000 and US$38,643,000 (which is equivalent to RMB264,076,000 and RMB280,313,000, respectively). Except for trade and other payables, the Group did not have any other liabilities.

The Group did not have any loans or bank borrowinggs as at 31 December 2007 (2006: Nil). Accordingly the gearing ratio based on interest bearing debt for the year is Nil (2006: Nil).

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

ANNUAL GENERAL MEETING

The 2008 Annual General Meeting of the Company will be held on Monday, 28 April 2008 and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 21 April 2008 to Monday, 28 April 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and special dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 18 April 2008.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended 31 December 2007 and up to the date of publication of the Annual Report, applied and complied with the principles in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the "Listing Rules", except for the deviations below.

1. One non-executive director, Mr. Li Kung Man, has not been appointed for any specific terms, however, he is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws.

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

Mr. Li Zhenjiang has been both the Chairman and President of the Company, his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and President in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

COMPLIANCE WITH MODEL CODE

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules as the code of conduct for directors in their dealing in the Company's securities. The Company made specific enquiries with each director and each of them confirmed that he or she had complied with the Model Code during the financial year ended 31 December 2007.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2007 in conjunction with the Company's auditors.

PUBLICATION OF FURTHER INFORMATION

The Annual Report of the Company inclusive of the Directors' Report and Audited Consolidated Financial Statements for the year ended 31 December 2007 and Corporate Governance Report will be published on the Company's website (www.shineway.com.hk) and the website of the Stock Exchange (www.hkex.com.hk) on or before 3 April 2008.

We are delighted by the trust and support of our shareholders and those who care about the Company. On behalf of the Board, we would like to take this opportunity to thank all of you, as well as our employees who made tremendous efforts to achieve the growth in our results during the year.

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

Hong Kong, 26 March 2008

As at the date of this announcement, the executive Directors are Mr. Li Zhenjiang, Ms. Wang Zhihua, Ms. Xin Yunxia, Mr. Li Huimin and Mr. Hung Randy King Kuen and the independent non-executive Directors are Mr. Li Kung Man, Ms. Cheng Li and Mr. Ren Dequan.