

**CHINA SHINeway PHARMACEUTICAL GROUP LTD:
NOW, HERE'S A CONUNDRUM FOR YOU:
WHAT WOULD YOU DO WITH \$HK1.08 BILLION IN CASH ?**

A turning point in the history of publicly listed China Shineway Pharmaceutical Group Ltd (Code: 2877, Main Board, The Stock Exchange of Hongkong Ltd) has arrived: It will be recorded in the history books of the 416 square-mile territory, known as the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), that either it was managed by abject fools; or, that it was managed by very focused and dynamic individuals.

With cash in the bank, aggregating not less than 1.15 billion renminbi (about \$HK1.08 billion), as at December 31, 2004, and with trade and other receivables, amounting to another 205.68 million renminbi (about \$HK194.04 million), it will be of great interest, no doubt, to many people to learn how the relatively young management team, led by Mr Li Zhen Jiang, who is 48 years old, manages this very material sum of money.

Never in the 13-year history of this Company has it been in such a financially liquid position.

At this time, this money is sitting in banks, gathering rust and dust ... and earning a pittance in interest, annually.

The proverb goes that a fool and his money are soon parted.

One will just have to wait in order to learn whether or not Management of this manufacturer of modern Chinese medicines in the PRC has the mettle to permit the Company to be institutionalised and to sprint forward to bigger and better things in its chosen field of endeavour.

For the Financial Year, ended December 31, 2004, China Shineway reported to shareholders that its Net Profit Attributable to Shareholders rose to the record level of about 260.79 million renminbi (about \$HK246.03 million) on a Turnover of about 703.58 million renminbi (about \$HK663.75 million).

Those results represented an increase, Year-On-Year, of about 72.29 percent and 16.48 percent, respectively.

The results were published within months of this Company, going public in the HKSAR.

The Flotation

China Shineway went public on the Main Board of The Stock Exchange of Hongkong Ltd on November 23, 2004, when it Offered 200 million, 10-cent Shares at a Premium of not more than \$HK4.26 per Share.

The Offer Price, eventually, was set at a Premium of \$HK4.25 per Share and an additional tranche of 30 million Shares, being the Over-Allotment that had been granted in respect of the International Placing part of the Offer, was exercised by the Global Coordinator, Bookrunner and Sponsor on or about December 15, 2004.

At the end of the day, China Shineway went to its bankers with the best part of \$HK1 billion in its corporate pocket due to the sales of its Shares.

The flotation, obviously, had been a huge success for Management of this PRC company.

The Prospectus stated, at Page 167, that it needed money for the following purposes:

1. \$HK107 million *'for the establishment of representative and sales offices in the PRC and related expenses'*;
2. \$HK77 million *'of promotion expenses including trade fairs and exhibitions and other promotional activities'*;
3. \$HK60 million *'for brand building advertising and market research'*;
4. \$HK45 million *'for upgrading the soft capsule workshop at the Group's Shijiazhuang premises'*;
5. \$HK45 million *'for upgrading the injection workshop at the Group's Shijiazhuang premises'*;
6. \$HK38 million *'for the purchase from Shineway Medical (Shineway Medical Science and Technology Company Ltd*) of the first phase of an additional extraction workshop located at the Group's Shijiazhuang premises'*;
7. \$HK32 million *'for the installation of the second phase of the extraction workshop'*;
8. \$HK26 million *'for upgrading the granule workshop at the Group's Shijiazhuang premises'*;
9. \$HK24 million *'for upgrading the production lines for tablet and other forms at the Group's Shijiazhuang premises'*;
10. \$HK44 million *'for product commercialisation, including the research and development of new medicine products and production techniques'*;
11. \$HK38 million *'for establishing a new research and development centre'*;
12. \$HK45 million *'for establishing a logistics centre at Shijiazhuang'*;
13. \$HK26 million *'for the installation of an Enterprise Resource Planning (ERP) system'*;
14. \$HK16 million *'for the provision of technical support and training for production bases for Chinese herbs to enhance the quality of the raw materials used by the Group'*; and,
15. \$HK67 million to be used a General Working Capital.

*Shineway Medical Science and Technology Company Ltd is a joint stock company, incorporated in the PRC, proper, and is owned as to 81 percent by Mr Li Zhen Jiang, the Chairman of China Shineway, and 19 percent by some 330 employees of China Shineway and its Group of Companies.

It is noted that the above, proposed uses of the Net Proceeds from the float of the Company's shares amounted to \$HK690 million, which was the original estimate, contained in the Prospectus, but, since China Shineway brought in about \$HK950 million, it was able to add about \$HK327 million to its General Working Capital coffers.

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