神威藥業
SHINEWAY

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: 02877

Leading Modern Chinese Medicine
Promoting Health Industry

ANNUAL REPORT 2016

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Ms. Lee Ching Ton Brandelyn
Mr. Chen Zhong
Dr. Wang Zheng Pin (resigned on 1 January 2016)

Independent non-executive Directors

Ms. Cheng Li
Mr. Sun Liutai
Mr. Hung Randy King Kuen (resigned on 30 March 2017)

BOARD COMMITTEES

Audit Committee

Mr. Sun Liutai *(Committee Chairman)*
Ms. Cheng Li
Mr. Hung Randy King Kuen (resigned on 30 March 2017)

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Mr. Sun Liutai
Ms. Xin Yunxia

Nomination Committee

Mr. Li Zhenjiang *(Committee Chairman)*
Mr. Sun Liutai
Mr. Hung Randy King Kuen (resigned on 30 March 2017)

AUTHORISED REPRESENTATIVES

Mr. Li Huimin
Ms. Wong Mei Shan

COMPANY SECRETARY

Ms. Wong Mei Shan

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE

Luan Cheng, Shijiazhuang
Hebei Province, The People's Republic of China ("PRC")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3109, 31/F, Central Plaza
18 Harbour Road, Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

China Construction Bank (Asia)

The Hongkong and Shanghai Banking Corporation Limited

Bank of China, Jin Zhu Xi Lu Branch
Lhasa, Xizang

China Construction Bank, Luan Cheng Branch
Shijiazhuang, Hebei Province

LEGAL ADVISERS

As to Hong Kong Law
Woo Kwan Lee & Lo

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

STOCK CODE

02877 (Main Board of
The Stock Exchange of Hong Kong Limited)

WEBSITES

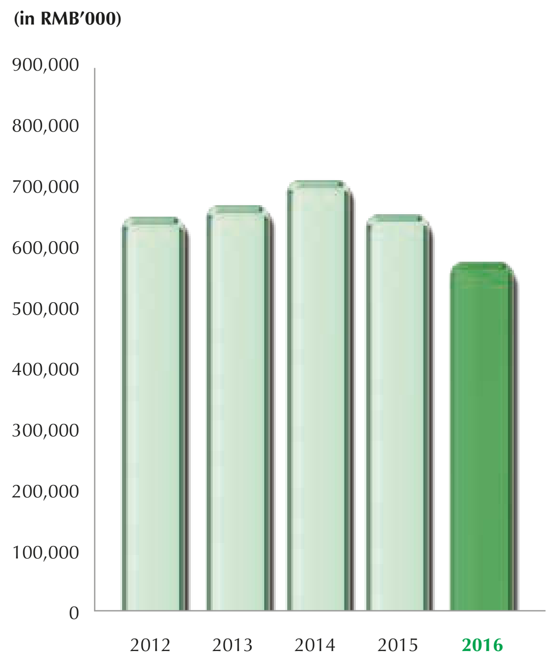
www.shineway.com.hk
www.shineway.com

Financial Highlights

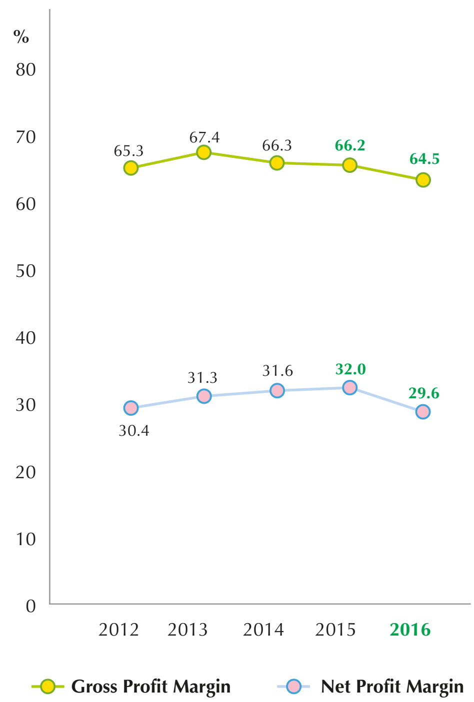
(in RMB'000)

	2012	2013	2014	2015	**2016**
RESULTS					
Turnover	2,132,249	2,187,115	2,229,201	2,054,809	**1,993,379**
Gross profit	1,391,946	1,474,423	1,478,003	1,360,919	**1,286,495**
Profit before taxation	799,736	859,646	863,736	797,165	**695,254**
Profit attributable to shareholders	647,704	683,647	704,775	657,906	**589,196**
Basic earnings per share	RMB0.78	RMB0.83	RMB0.85	RMB0.80	**RMB0.71**
Dividends	264,640	272,910	272,910	264,640	**264,640**
ASSETS AND LIABILITIES					
Total assets	4,743,035	5,738,294	5,907,324	6,153,102	**6,465,262**
Total liabilities	(746,417)	(1,308,678)	(1,014,416)	(857,131)	**(838,589)**
Net assets	3,996,618	4,429,616	4,892,908	5,295,971	**5,626,673**
Non-controlling interests	(527)	(522)	(437)	–	**–**
Total equity attributable to shareholders	3,996,091	4,429,094	4,892,471	5,295,971	**5,626,673**

Profit Attributable to Shareholders



Gross and Net Profit Margins



Major Achievements and Awards

2016 Major Achievements and Awards

2016

January

- Chairman Li Zhenjiang was awarded the Third Prize of the Hebei Technological Invention Award (for the development and technological innovation of the Chinese new drug Qi Huang Tong Mi Soft Capsule)

March

- SHINEWAY obtained the Environmental management ISO14001 system certification (2015) from British Standards Institution

April

- SHINEWAY was honored as VIP Strategic Partners 2015-2016 and received the 2015-2016 OTC Gold Marketing Case Award from China Medical Pharmaceutical Material Association/West Lake Forum

May

- Chairman Li Zhenjiang was appointed as the deputy director of China Traditional Chinese Medicine Association of Chinese Medicine Vocational Skills Training Center for a term of 5 years

- Chairman Li Zhenjiang was honored as "The Good Representative of the National People's Congress and Chinese People's Political Consultative Congress for Pharmaceutical Industry in 2016" by the Saibailan WeChat public platform

- SHINEWAY was included in the "Top 100 Pharmaceutical Manufacturers in China Pharmaceutical Industry in 2015"

June

- Chairman Li Zhenjiang was appointed as the professional degree tutor for master students of traditional Chinese medicine of Hebei University of Chinese Medicine

Major Achievements and Awards

July

- Chairman Li Zhenjiang was honored as the "Outstanding Leader of Quality Management Program in Chinese Pharmaceutical Industry in 2016" by the China Quality Association for Pharmaceuticals

- SHINEWAY was named the "Outstanding Enterprise of the national pharmaceutical industry for quality management activities in 2016"

- SHINEWAY was included in the "Top 100 Pharmaceutical Manufacturers in China Pharmaceutical Industry in 2015"

- SHINEWAY received the Hebei Technological Achievements Certificate for the Study on Preparation Technology and Quality Standard of Traditional Chinese Medicine Prescription Granules (Achievement level: Outstanding in China)

August

- The oral solution team of the composite workshop 1 of SHINEWAY was awarded as the "Quality Trustworthy Team of Hebei Province in 2016"

- The prescription granule team of the composite workshop 2 of SHINEWAY was awarded as the "Quality Trustworthy Team of Hebei Province in 2016"

September

- SHINEWAY received the "2016 best product influence award" from the China (Guangzhou) International Health Care Industry Exposition/Drug Stores Development Promotion Committee of the China Nonprescription Medicines Association

- SHINEWAY received the "Gold Award" and the "Outstanding Contribution Award" from the First China Elderly Health Industry Exposition

- SHINEWAY was honored as "Top Ten Enterprise Brand" from the First China Elderly Health Industry Exposition

- Shineway received the "Top Ten Strategic Partners Growth Award" from the Growth Medicine Store Branch of the China Medical Pharmaceutical Material Association

Major Achievements and Awards

October

- Chairman Li Zhenjiang was elected the vice president of the Seventh Council of the Hebei Chinese Medicine Association for a term of 5 years

- SHINEWAY was named the "Top 100 Enterprise in Shijiazhuang City in 2016" by SJZ Enterprise Confederation/SJZ Enterprise Directors Association (Rank number 18)

November

- Shineway received the "Huairen 20th Anniversary Sincere Cooperation Award" from Huairen Healthy Corp.

- Shineway was named the "Top Ten Cooperation Brand in 2016 – Shineway Pharmaceutical" by Hebei Media Network

- SHINEWAY was named the advanced enterprise for the implementation of trademark and brand strategy in Hebei by Hebei Administration Trademark Association

- SHINEWAY was included in the "Top 100 Pharmaceutical Manufacturers in China Pharmaceutical Industry in 2015"

December

- SHINEWAY was awarded the Second Prize of the National Science and Technology Advancement Award for the clinical and basic research on treatment of diabetic nephropathy dominant proteinuria based on Yiqihuoxue method project

- SHINEWAY was honored as "AAA Credit Rating Enterprise" by the China Association of Traditional Chinese Medicine

- SHINEWAY received the VIP Strategic Partners Award from China Medical Pharmaceutical Material Association

- The prescription granule team of the composite workshop 2 of SHINEWAY was awarded as the "National Quality Trustworthy Team in 2016"

- Chairman Li Zhenjiang received the "Growth Golden Leaf Award" from the 2016 Chinese Drug Store (International) Exposition

Major Achievements and Awards

2017

- SHINEWAY was named the "Excellent Employer in China – City Top Ten in 2016"
- SHINEWAY was awarded the "Best Employer of the year in China (2016) – Top Ten Best Employer in Shijiazhuang"
- SHINEWAY was named the "Top Hundred Tax Contributor in 2016" by Shijiazhuang Municipal Office, State Administration of Taxation

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Shineway Pharmaceutical Group Limited (the "Company", "SHINEWAY" or "China Shineway"), I am pleased to present the annual report of the Group for the year ended 31 December, 2016.

Year 2016 is a year of reform for SHINEWAY. In response to the changing market conditions, SHINEWAY started its infrastructure reform, focused on its long term development direction, reconsolidated its resources, continued its innovation development and established its long term development strategy plan according to the practical situation in its market place. According to our long term strategy to be the market leader in the healthcare industry, we took advantage of the opportunities available from the retail and primary healthcare distribution sectors, adjusted our sales infrastructure and started our sales reform.

The sales and marketing management system changed from channel management to terminal management in 2016. The development of terminal management system was established steadily. The research and development system as well as the technology innovation system moved to a new level.

SHINEWAY is the one and only one Chinese prescription granule manufacturer in Hebei. The Hebei Province Traditional Chinese Medicine Formulation Research Center was established by SHINEWAY and Hebei University of Chinese Medicine jointly. The prescription granules are well received by hospitals in Hebei with increasing sales.

With the support of every staff of the Company, we continued our quality production, introduced new equipment, integrated our resources, successfully controlled our staff and production costs and implemented our result oriented management system. With all the necessary control adjustments, we implemented our management system with all the necessary refinement, normalization and standardization. 2016 was a year for SHINEWAY to set up its foundation, to reform its sales platform and product structure. Our operating income and profit amounted to RMB1,993 million and RMB589 million respectively.

The Group recorded sales revenue of RMB1,993 million in 2016, representing a year-on-year decrease of approximately 3.0%. The Group's profit for the year amounted to approximately RMB589 million in 2016, representing a year-on-year decrease of approximately 10.4%. The sales of injection products recorded a decrease of approximately 4.9% over the previous year. The sales of soft capsule products recorded a decrease of approximately 11.5% over the previous year. The sales of granule products recorded a decrease of approximately 2.2% as compared with the previous year.

Chairman's Statement

After three years of planning and organising, SHINEWAY successfully built up its three-level R&D system. Under the national integration policy of Beijing-Tianjin-Hebei, Jing Jin Ji Lian Chuang Medicine Research (Beijing) Limited was set up in Beijing in 2016 as a new drug research and development center, Drug Research Institute in Yanjiao as a drug pilot test and incubation base, Beijing Wanter Bio-Pharmaceutical Co., Ltd in Huairou as a production base for bio-pharmaceutical medicine and the Group headquarter at Shijiazhuang as a production base for traditional Chinese medicine and chemical drugs, that successfully built up the full chain of innovative drug development from research and development, incubation to production.

Projects under research and development covered Chinese medicine, chemical drugs, biochemical drugs and healthcare products. China Shineway was awarded the Second Price of the National Science and Technology Advancement Award (國家科技進步二等獎) for "The clinical and basic research on treatment of diabetic nephropathy dominant proteinuria based on Yiqihuoxue method" project in 2016.

We had over 20 on-going research and development projects. We submitted 30 new patent applications and received 1 patent authorisation in 2016. The cumulative number of authorised patent application is 54 and there are 63 outstanding patent application pending for authorisation.

Phase III SLT Clinical Trial was launched in Australia and SLT Capsule received Australian Register of Therapeutic Goods Certificate in 2016 that marked our solid footprints in the worldwide Chinese medicine market.

In Feb 2017, our Huamoyan Granule and Qing Kai Ling Soft Capsule through expert review successfully entered the "National Catalogues of Medicine Insurance, Occupational Injury Insurance and Maternity Insurance" (2017 edition)" that provided solid support for our sales in the future.

SHINEWAY received many awards including the listing in the "Top 100 Pharmaceutical Manufacturers in China Pharmaceutical Industry" and was honored as an "AAA Credit Rating Enterprise".

2017 is a year of implementation for SHINEWAY. With the group long term strategy and market requirement of the pharmaceutical industry, we will follow our action plans on innovation, efficiency, responsibility and execution to increase our investment in research and development and implement our sales restructure to elevate our overall operation management.

Chairman's Statement

SHINEWAY will continue our technology innovation, increase our research and development investment, focus on gross profit contribution, lower the manufacturing costs, increase our performance efficiency, improve the synergy between departments, improve our operation under the new market norm and develop our healthcare business.

SHINEWAY's accomplishments are inseparable from our staff's hard work. On behalf of the Board, I would like to extend my sincere gratitude and high respect to our diligent staff for their dedication and efforts during the year.

Li Zhenjiang
Chairman of the Board

Hong Kong, 30 March 2017

BUSINESS REVIEW

2016 is the start of China's 13th Five-Year Plan. Under the major reformation of the pharmaceutical market and with the new healthcare business model becoming more evident, the Group continues to promote its reformation by putting its focus on innovating the marketing model. With a long-term strategy of "being the leader of healthcare business", the Group actively engages in reformation and seizes the chances to build medical retail sales and hospital sales networks, also adjusts the marketing organisation structure and promotes strategic reformation of the marketing model.

China Shineway was rated as the National Technological Innovation Demonstration Enterprise and National Demonstration Enterprise on the Integration of Information Technology and Industrialisation, and also included in the first batch of the National Intellectual Property Superior Enterprises. The National and Local United Engineering Laboratory for the Development Technology of the New Chinese Medicine injection (中藥注射劑新藥開發技術國家地方聯合工程實驗室) located in SHINEWAY was approved by the National Development and Reform Commission. China Shineway was awarded the Second Prize of the National Science and Technology Advancement Award (國家科技進步二等獎) for the clinical and basic research on treatment of diabetic nephropathy dominant proteinuria based on Yiqihuoxue method project. In 2017, Huamoyan Granule and Qing Kai Ling Soft Capsule were included in the National Catalogues of Medical Insurance, Occupational Injury Insurance and Maternity Insurance (2017 Edition) after the expert review. In terms of new areas, the Group set up the Hebei prescriptive Chinese medicine granules research center (河北省中藥配方顆粒研究中心) with the Hebei University of Chinese Medicine. Besides, the Group actively carries out the postmarketing safety re-evaluation work on material basis with Chinese medicine injection products by collectively completing the material foundation and standards elevation for a variety of Chinese medicine injections. Evidence-based medical research is also being carried out step by step, in which the Shen Mai Injection completed 30,000 cases of clinical trial, which developed a positive model of promoting the improvement of the product quality standards to align with the national standards. The strength of tackling the key problem of the Group was constantly enhanced, and the improving work of the standards for 23 breeds such as Pediatric Qing Fei Hua Tan Granules and Huamoyan Granule were completed, so as to improve the product quality. In addition, Huamoyan Granule, Jiangzhi Tongluo Soft Capsule, Shujin Tongluo Granule and Shineway Massage Cream are included in the Chinese Pharmacopoeia (2015 version). All of the injection products of the Group have passed the new GMP certification and Shineway Pharmaceutical Sales Company Limited has passed the new GSP certification, which enhanced our enterprise brand competition. On 30 November 2015, Phase III SLT Clinical Trial was launched in Australia. SLT is an innovative component traditional Chinese medicine jointly researched by the Group, Xiyuan Hospital of China Academy of Traditional Chinese Medical Sciences (中國中醫科學院西苑醫院) and University of Western Sydney for treatment of Gerontic Vascular Dementia. It is also the first component traditional Chinese medicine of the world on which a randomised, double-blind, placebo-controlled, multi-center clinical research in line with the international standards was conducted both in China and Australia, developing a new road for traditional Chinese medicine to go abroad.

Management Discussion and Analysis

The Group recorded a decline in both its turnover and profit as compared to year 2015. For the year 2016, the Group recorded a turnover of RMB1,993,379,000, a decline of 3.0% from previous year. Sales by product form for the year are set out as follows:

	Sales (RMB)	Growth Rate	Product Mix
Injections	1,109,790,000	-4.9%	55.7%
Soft capsules	363,424,000	-11.5%	18.2%
Granules	384,301,000	-2.2%	19.3%
Other product formats	135,864,000	60.1%	6.8%

The Group's profit attributable to owners of the Company for 2016 is RMB589,196,000, representing a decrease of 10.4% from year 2015. The decrease in profit was mainly attributable to the decreased turnover and operating profit.

Injection Products

In 2016, the Group recorded RMB1,109,790,000 on sales of injection products, representing a decrease of 4.9% from year 2015. Amongst these injection products, Qing Kai Ling injection remained the key product of the Group. Injection products accounted for 55.7% of the Group's turnover in 2016, while they contributed 56.8% of the turnover in year 2015.

The Group believes that it is currently the largest Chinese medicine injections manufacturer in the PRC in terms of sales volume and production capacity. The Group's injection production capacity is approximately 3.2 billion vials per annum.

The Group positively undertakes the basic research for the medicinal materials and the re-evaluation work for the safety of the Chinese medicine injection to further strengthen the safety of the Chinese medicine injection and the controllability on its quality. While those manufacturers with products causing serious adverse reaction, backward technologies and lower quality will be eliminated, which will help to improve the industry concentration and expedite the survival of the fittest in the pharmaceutical industry. The good curative effect of Chinese medicine injection will be recognised by the market and the Group's advantages of quality, cost, size and brand will become more prominent.

In the coming year, the Group will continue to focus on academic education to expand our point of sales and further strengthen promotion efforts of end user market to ensure better growth of our injection products.

Soft Capsule Products

In 2016, the Group recorded RMB363,424,000 on sales of soft capsule products, representing a decrease of 11.5% from year 2015.

Soft capsule products accounted for 18.2% of the Group's turnover in 2016, as compared to 20.0% in 2015. The Group's current production capacity for soft capsules is 3.5 billion capsules per annum. The Group believes that it is currently the largest Chinese medicine soft capsules manufacturer in the PRC in terms of sales volume and production capacity.

The Group will continue to strengthen our brand promotion and marketing effort on our soft capsules products to advance their business growth in the coming year.

Granule Products

Sales of granule products in 2016 decreased by 2.2% compared to 2015, amounted to RMB384,301,000.

Granule products accounted for 19.3% of the Group's turnover in 2016 as compared to 19.1% in 2015. The Group has annual production capacity for granule products of 3.4 billion bags per annum. The Group believes that it is currently the largest Chinese medicine granules manufacturer in the PRC in terms of sales volume and production capacity.

Other Products

Sales of other products in 2016 increased by 60.1% compared to 2015, amounted to RMB135,864,000. The increase was mainly attributable to the rise in sales of Chinese medicine prescription granule and compound liquorice tablets as compared with year 2015.

Key Products

The six key products of the Group were Qing Kai Ling Injection, Shen Mai Injection, Shu Xie Ning Injection, Wu Fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule and Pediatric Qing Fei Hua Tan Granule.

Qing Kai Ling Injection – a widely used anti-viral medicine for treatment of viral diseases including respiratory tract infection, viral hepatitis, cerebral haemorrhage and cerebral thrombosis

Our Qing Kai Ling Injection is the major contributor to the Group's turnover, owing to the price reduction as a result of medicine bidding, its sales in 2016 decreased from last year.

Management Discussion and Analysis

Qing Kai Ling Injection is listed in the "National Catalogues of Medical Insurance and Occupational Injury Insurance". It is designated by the State Administration of Traditional Chinese Medicine as an "Indispensable Chinese Medicine for the Emergency Wards of Chinese Hospitals". It is also included in the recommendation of the PRC government for treatment of Human Transmitted H7N9 Avian Flu Chinese medicine medical treatment expert consensus (2014 version) and the A(H1-N1) Flu. The product has broad clinical applications. Qing Kai Ling Injection produced by the Group is a famous anti-viral medicine.

Qing Kai Ling Injection has been included by the Ministry of Health in the Essential Drug List in 2010. The Group believes that it is the largest manufacturer of Qing Kai Ling Injection in the PRC based on sales volume and sales amount. The Group will further enhance market coverage and penetration of end networks, as well as to strengthen marketing and promotion effort at the points of sales. Qing Kai Ling Injection will sustain steady growth.

Shen Mai Injection – for treatment of coronary heart disease, viral myocarditis and pulmonary heart disease

Owing to the price reduction as a result of medicine bidding, sales of Shen Mai Injection in 2016 decreased compared with last year.

Shen Mai Injection is included in the National Catalogues of Medical Insurance and Occupational Injury Insurance and the Essential Drug List. It is also included in the recommendation of the PRC government for treatment of Human Transmitted H7N9 Avian Flu Chinese medicine medical treatment expert consensus (2014 version) and the A(H1-N1) Flu.

The Group believes that it is the largest manufacturer of Shen Mai Injection in the PRC based on sales volume. The Group will strive to further expand market share and penetration for Shen Mai Injection to generate further growth in the coming years.

Shu Xie Ning Injection – for treatment of cardio-cerebrovascular disease

In 2016, sales of Shu Xie Ning Injection decreased compared with last year.

Shu Xie Ning Injection is included in the National Catalogues of Medical Insurance and Occupational Injury Insurance and is one of the first tier medicines for treatment of cardiovascular diseases. The Group will continue to further enhance market coverage and penetration, foster marketing effort at the points of sales, and look for strategic distributors and rationalise distribution channels to achieve continuous growth.

Wu Fu Xin Nao Qing Soft Capsule – for prevention and treatment of coronary heart disease and cerebral arteriosclerosis

In 2016, sales of Wu Fu Xin Nao Qing Soft Capsule increased compared with last year.

Wu Fu Xin Nao Qing Soft Capsule is ranked among the top ten cardiovascular Chinese medicines in the country. The "Wu Fu" trademark was certified as a "China Famous Trademark". It is also one of the lowest in cost of average daily dosage among similar cardiovascular medicines. The Group will continue to strengthen our effort on promoting the "Wu Fu" brand and deepen our end-user market coverage and exercise more support to our distributors by increasing promotional activities and education to the end-users to broaden its sale.

Management Discussion and Analysis

Huo Xiang Zheng Qi Soft Capsule – for prevention and treatment of heat stroke, stomachache, nausea and diarrhoea, acclimatization sickness

In 2016, sales of Huo Xiang Zheng Qi Soft Capsule decreased compared with last year.

Huo Xiang Zheng Qi Soft Capsules is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. It is also recommended by the Ministry of Health of the PRC for Avian Flu and the A(H1-N1) Flu. Due to its effective efficacy and the high bioavailability of soft capsule, Huo Xiang Zheng Qi Soft Capsule is a very popular OTC Chinese medicine.

The Group will continue to expand end market coverage. Furthermore, we will expedite partnership with strategic distributors and chain drugstores, and increase promotion to strive for better growth of Huo Xiang Zheng Qi Soft Capsule.

Pediatric Qing Fei Hua Tan Granule – for children infected by respiratory related disease

In 2016, sales of Pediatric Qing Fei Hua Tan Granule increased compared with last year.

Pediatric Qing Fei Hua Tan Granule has superb curative effect and has become a famous brand of children coughing medicine. The Group will adjust sales strategy and utilize the synergistic advertisement effect of both internet and TV, while continue to increase advertising and joint promotional campaign with chain drug stores at the same time. It is expected the sales of our Pediatric Qing Fei Hua Tan Granule will further increase and the sales of our entire "Shen Miao" series products will be benefited by the synergistic effect of this product.

Emerging Products

Huang Qi Injection – for treatment of viral myocarditis, heart malfunction and hepatitis

In 2016, sales of Huang Qi Injection decreased compared with last year.

Huang Qi Injection is listed in the National Catalogues of Medical Insurance and Occupational Injury Insurance. Viral myocarditis has become more prevalent in recent years. With a proven efficacy on such illness, Huang Qi Injection has strong market potential. The Group will continue to further enhance market coverage and penetration and growth in sales of Huang Qi Injection is expected in the coming years.

Qing Kai Ling Soft Capsule – for treatment of high fever, viral influenza and respiratory tract infection

In 2016, sales of Qing Kai Ling Soft Capsule decreased compared with last year.

Qing Kai Ling Soft Capsule is both a prescription and non-prescription medicine. In February 2017, Qing Kai Ling Soft Capsule was included in the National Catalogues of Medical Insurance, Occupational Injury Insurance and Maternity Insurance (2017 Edition).

Benefited greatly by the synergistic effect of Qing Kai Ling Injection and being included in the National Catalogues of Insurance, the Group will further expedite partnership with strategic distributors and chain drug stores, and increase promotion effort to ensure sales momentum of this product.

Huamoyan Granule – for treatment of both acute and chronic synovitis and treatment after joints surgery

In 2016, sales of Huamoyan Granule decreased compared with last year.

In February 2017, Huamoyan Granule was included in the National Catalogues of Medical Insurance, Occupational Injury Insurance and Maternity Insurance (2017 Edition).

Management Discussion and Analysis

Synovitis is currently a relatively common type of arthropathy which widely affects the mid-aged group, senior citizens, athletes and patients after joint surgeries. Huamoyan Granule produced by the Group is the first innovative medicine approved by the State Food and Drug Administration for the treatment of synovitis. It is an original and self-developed product with proprietary formulations, marking a milestone for the treatment of synovitis and bringing the same to a new height. With the Group's intensified presence in the end market of hospitals and the advancement of the promotion to professionals and academics, coupling with this product being included in the National Catalogues of Insurance, Huamoyan Granule will sustain its on-going momentum for growth.

Shujin Tongluo Granule – for treatment of spondylosis, neck stiffness and symptoms such as pains of neck, shoulder and back

In 2016, sales of Shujin Tongluo Granule decreased compared with last year.

The increase in the number of people who tilt down their heads during work has resulted in a growing prevalence of spondylosis nowadays, and the disease has also shown a trend of younger. Shujin Tongluo Granule produced by the Group is currently the only proprietary and multi-target Chinese medicine in the market which addresses both symptoms and root causes to continuously mitigate the symptoms of spondylosis. It also has a noticeable effect on curing both nerve root type and vertebral artery type of spondylosis, hence offering clinical doctors with a new choice for the treatment of spondylosis. After the ongoing academic promotion in recent years, Shujin Tongluo Granule has achieved strong market growth. Shujin Tongluo Granule has its own intellectual proprietary, due to its rigorous prescription, rational and clinical efficacy, it was awarded by the State Intellectual Property Office the "China Patent Excellence Award" in 2015.

Jiangzhi Tongluo Soft Capsule – for treatment of symptoms such as hyperlipidemia, chest and hypochondrium pain and chest tightness

In 2016, sales of Jiangzhi Tongluo Soft Capsule decreased compared with last year.

Jiangzhi Tongluo Soft Capsule produced by the Group is a national key new product jointly certified by four ministries and commissions, including the Ministry of Science and Technology of the PRC. It is used for the revitalisation of blood and "Qi" circulation and for lowering blood cholesterol. Jiangzhi Tongluo Soft Capsule is superior to the existing blood cholesterol drugs in terms of effectiveness, and its liver protection ability provides what other similar clinical products lack, and is therefore a clear choice for patients undergoing long-term hyperlipidemia treatment.

The Group will continue to promote the product to professionals and academics, provide physicians with information regarding the product and increase brand awareness so as to establish it as the best brand among other cholesterol-regulating drugs.

New Products

Dan Deng Tong Nao Hard Capsule and Soft Capsule – for treatment of stroke caused by congestion, appropriate for treatment and recovery of ischemic infarction

This product is a nation-wide medical insurance product, with superior formula, typical material and unique material source. In the formula, salvia miltiorrhiza, as sovereign drug, is made from little purple salvia miltiorrhiza in Yunnan with erigeron breviscapus, ligusticum wallichii, arrowroot as auxiliary materials, and erigeron breviscapus is a kind of typical medicine material in Yunnan. The Group treats it as a rapid growth product.

Yiqi Tongluo Granule – for treatment of qi deficiency and blood stasis during the main and collateral channels (mild to moderate cerebral infarction) recovery period of stroke

This product is based on classic Buyanghuanwu Decoction and mainly contains medicinal materials for activating blood and dissolving stasis to enhance cerebral blood flow. The medicine was developed after years by China PLA General Hospital and the Company and examined in a systematic clinical pesticide effect study and standardized clinical trial with a definite and safe treatment effect. The Group treats it as a large-potential medicine to be developed.

Research and Development

The Group strategically established its own R&D system including two major parts: the internal R&D system and the external R&D system. The internal R&D system comprises a three-level R&D system in a systematic way, while the external R&D system comprises the national and international R&D system. After three years of planning and organising, the internal three-level R&D system of the Group has been completed.

The formation of the internal three-level R&D system of the Group has the following compositions and corresponding functions: (1) The first-level R&D system operates with SHINEWAY Medicine Research Center as its core, whereas SHINEWAY Medicine Research Center is located in the Yanjiao district of Hebei province, near Beijing city, and its main function is to develop new medicines, support for international cooperation projects and National major scientific and technological projects. (2) The second-level R&D system comprises two departments, namely technological department and medical department. This system plays a role of quality optimisation and evidence-based medicine research of the listed products. Technological department is responsible for quality optimisation of the listed products, including optimisation of technology, quality improvement, energy conservation and waste gas emission mitigation, cost reduction, and establishment of corresponding technological platform in accordance with the production technology categories of products. Medical department is responsible for evidence-based medicine research of products including underlying evidence-based research and clinical evidence-based research, and mainly to provide the market department with evidence-based information and to assist it to develop new markets. (3) The third-level R&D system represents the technician in the front line of production. This system operates in the form of R&D groups with workshops as units, vice director of the workshop as headman, and technician or artisan as members. Its main function is to supervise the implementation of SOP and GMP for specific product in production, guarantee the quality of products, resolve technological difficulties in time, and report to senior management for settlement in respect of significant problems.

Under the national Beijing-Tianjin-Hebei integration policy, China Shineway integrated the research and development and industry advantages in Beijing and Hebei and initiated the Shineway Beijing-Tianjin-Hebei Cooperation and Development innovative "1+3" project. Jing Jin Ji Lian Chuang Medicine Research (Beijing) Limited was established in Beijing in 2016 as a new drug research and development center, the medicine research center located in Yanjiao is used as the base for pilot scale testing and incubation, Beijing Wanter Bio-Pharmaceutical is used as the base for manufacturing biochemical drugs, and the headquarter of the Group is used as the base for manufacturing Chinese medicine and chemical drugs. Medicine innovation project is also set up for research and development, incubation and production chain on innovative medicines, which became the support for major scientific and technological projects in Beijing.

New product research and development has made a series of progress in 2016. Phase II SLT (component Chinese medicine) Clinical Trial in China was completed and its clinical summary meeting was successfully convened. The result of Phase II Clinical Trial indicated that SLT was significantly effective in the treatment of Gerontic Vascular Dementia. It was clear that SLT was better than the control samples and was proven a safe drug as the rate of adverse reactions stood more-or-less in line with that of the control samples. Phase III Clinical Trial is currently in active preparation; furthermore SLT was registered as a listed medicines in Australia, which is beneficial to Phase III Clinical Trial in Australia; so far this trial has started and is progressing well as some patients were already under testing; two new drugs projects were approved with Clinical Trial Licenses; project clinical record was approved and all preclinical preparations were well under way. The clinical trial is set to begin; as for chemical drug area, the Group has established strategic alliances with leading suppliers of chemicals drugs material sources and Shandong Fangming Pharmaceutical Group Co., Ltd., while the Group has paved ways to conduct various inspections in production technologies of chemical drugs under research as a marketing authorisation holder; besides consistency evaluations in chemical drug were carried out as schedule and the pharmacy research for a number of products, which clinical equivalent trials are about to be launched has been completed. In the aspect of new drug projects, the Group combined scientific screening with clinical verification to enhance risk management and to improve product success rate. The Group has established 4 new projects in total. As the Group's hit products, Shen Mai Injection and Shu Xie Ning Injection were supported by Chinese medicine standardisation project launched by the National Development and Reform Commission and the State Administration of Traditional Chinese Medicine. The Group will enhance the cooperation with Peking University, Chinese Academy of Sciences and China Academy of Traditional Chinese Medical Sciences to develop a quality standard for a production procedure from material source, intermediate to the product output, with an aim of producing good quality products at fair prices.

In 2016, the Group submitted 30 patent applications in total, representing an increase compared to 2015 in terms of application number. The Group applied for and was awarded 1 Patent Award of Hebei Province and 1 Patent Award of Shijiazhuang. Huo Xiang Zheng Qi Soft Capsule was recognised as an Outstanding Patent Brand Cultivation project of Hebei Province while the Group was included in the National Intellectual Property Superior Enterprises by the State Intellectual Property Office. Projects for products such as Andrographolide and Cabazitaxel were launched by provincial and municipal science & technology commissions. Currently, there are 20 projects under research covering traditional Chinese medicine, chemical medicine and biochemical products. Research stages include pre-clinical research, clinical research, application and production research and reevaluation after listing, and treatment scope comprises heart and cerebral vessels, tumor and digestive system. All the pre-launch research for two types of five-grain meal replacement, vision supplement tablets and naturally carbonated water were completed in 2016.

PATENT APPLICATIONS

The Group continued to strengthen the protection of its intellectual property rights. In 2016, the Group received 1 invention patents from State Intellectual Property Office of the PRC.

As at the date of this announcement, the Group has obtained 54 patents for our inventions, and a total of 63 patent applications are pending for approval.

STATE PROTECTED CHINESE MEDICINES

As of 31 December 2016, the Group had 4 products listed as State Protected Chinese Medicines, including Lianshentonglin Tablet, Jiangzhi Tongluo Soft Capsule, Qihuangtongmi Soft Capsule and Shujin Tongluo Granule.

FUTURE DEVELOPMENT

2016 is the most crucial year of change for the medical industries in China. With the national deployment and coordination promoting reformation of medical treatment, medicare and medicine, the conflicts between industries during their development were resolved. Critical policies were introduced frequently, which created transformation from all aspects of industrial chain and brought a series of favourable policies to the Chinese medicine industry.

(1) The implementation of policies such as Law of Traditional Chinese Medicines was positive for the traditional Chinese medicine industry.

China first enacted the Law of the People's Republic of China on Traditional Chinese Medicine, the law that comprehensively and systematically reflected the characteristics of Chinese medicine, on 25 December 2016. This law will stimulate inheriting and promoting Chinese medicine, intensify the support and protection of the policy, adhere to both norms and support, and focus on innovation of institutions and systems. This law serves as a legal foundation for the government policies toward traditional Chinese medicine and represents a milestone for the industry, with expectation of more detailed policies for the better development of the industry. It also means that the industry has come to a new era offering promising prospects.

The issue of Traditional Chinese Medicine Development Strategy Plan Summary (2016-2030) elevated the development of traditional Chinese medicine to a national strategic level, outlining a lofty blueprint of promoting the development of traditional Chinese medicine where the industry would be stimulated, the Health Care System Reform would be facilitated, a health care system with Chinese characteristics would be established and the development of Healthy China would be further pursued.

Up until now, healthcare industry has become the top industry globally. In October 2016, the State Council issued the 'Healthy China 2030' Plan Summary, the first and highest standard planning for healthcare industry of China, serving as an action plan for promoting the development of Healthy China in the coming 15 years. It proposed a series of tasks and initiatives for revitalising the development of traditional Chinese medicine as well as serving the construction of Healthy China. Meanwhile, the plan summary expressly indicated traditional Chinese medicine's unique position should be given fuller play and the Chinese medicine non-pharmacological treatments should be developed vigorously so that traditional Chinese medicine can perform distinctive functions in prevention of common diseases, diseases with high morbidity and chronic diseases and can develop a comprehensive traditional Chinese medicine healthcare services system that covers urban and rural areas. It suggested that traditional Chinese medicine multi-service areas such as Chinese medicine clinics and national medical master clinics to be set up in health centers in rural townships and communities so as to extend the accessibility of traditional Chinese medicine service to primary care level.

(2) Supply-side reform of the medical industry

The medical industry is recently in the process of "supply-side reform", which is the whole industry chain reform from research and development to production and circulation to terminals. Major content includes:

(i) "Supply-side reform" on medicines

The core of research and development of medicines is its "clinical value". Reform of the drug review and approval system was launched, including registration classification of chemical drugs and priority for review policy, in order to encourage the development of products of genuine "clinical efficacy" including innovative medicine, children's medicine, urgent clinical needs and those in short supply.

In respect of the reform of the existing approval management, the introduction of the policies such as new GMP and consistency evaluation raised the threshold and thus controlled the existing varieties of drugs and the number of existing drug manufacturers, while optimising the stock varieties and the stock of pharmaceutical companies, so that the industry could be purified and the competitive environment could be optimised.

The reform emphasises the authenticity and effectiveness. The purpose of clinical self-examination is to ensure the authenticity of drug clinical data, to ensure the feasibility of future clinical use of drugs and to reduce the workload of the Center for Drug Evaluation ("CDE") repetitive assessments. The production process verification is to ensure that the production process is consistent with the approved formulation so as to guarantee the drug quality.

(ii) "Supply-side reform" on circulation

The "cut excessive industrial capacity" of circulation industry is the additive effects of policies by the Food and Drug Administration, Health and Family Planning Commission, Development and Reform Commission. The combination of a series of policies such as Two-invoice System, replacement of business tax by value-added tax, the self-inspection of distribution enterprise and the new version of GSP can significantly reduce the invoice frauds among the small and medium distributors. It will further compressed the intermediate links and improve the concentration of circulation industry. The discourse right of large-scale circulation enterprises will be enhanced. Small and medium-sized businesses will gradually withdraw or be acquired by large enterprises. Eventually, pharmaceutical circulation industry will be integrated and the terminal distribution capacity will become the core competitiveness of dealers.

(3) Structural optimisation of hospital terminals

Structural optimisation ideas are reflected in two areas:

1. To solve the mismatch of medical resources

The problem of "inadequate medical services" is not due to insufficient medical resources, but the mismatch of medical resources. Policies like hierarchical medical system, encouragement of the establishment of Medical Institutions by Social Capital, encouragement of establishment of Medical Group are used to match existing medical resources to the medical needs.

2. To solve the situation of "compensating the hospital deficits by excessive sales of drugs"

Policies like separation of dispensing from prescription, reduction of drug proportion, carrying out reform in medical service price, reform in doctors' remuneration system, the purpose is to cut off the profit chain between doctors and drugs and avoid any unreasonable drug expenditure. The implementation of hierarchical medical system will enhance the service capacity of primary health care in China, so that medical resources to the grassroots level will bring more market opportunities.

(4) Reformation of client payment portal

Medicare fees should not be controlled by simply reducing expense, in turn they should be spent meaningfully. To prevent drugs from being misused to make revenue and to ensure money is spent wisely on what was essential, policies that are related to investigation on the prepayment on the total amount, calculation of payment according to the illnesses and number of patients, and clinical pathway management are established to limit the use of antibiotics, intravascular infusions and adjuvant medication. We have developed an evidence-based medicine research program, including academic research focusing on strengthening their own intellectual property products, to provide a hierarchy continuous support.

Medicare catalogue regulations clearly prioritise the consideration of adding in new drugs with high clinical value, drugs used to treat major disease, drugs for children, drugs for emergency rescue, drugs for occupational disease and other special drugs. The fact that Huamoyan Granule and Qing Kai Ling Soft Capsules from China Shineway became part of medicare is sufficient to demonstrate the high clinical value of our products.

With the industry regulatory system increasingly improving and the support from the national policy given to leading enterprises, the Chinese medicine and Chinese herbal medicine drink industries will become systematic and standardised in the future, and at the same time the quality control will gradually become stricter, promoting the industries to consolidate even more. It is especially true for Chinese medicine prescription granules under the innovative product formats. Its development is in line with the industrial development trends, making an average growth of retail terminals of 38% from 2010 to 2015. With the open policy for Chinese medicine prescription granules in the future, the market is expected to boom.

The medical industry also faces uncertainties in many aspects including medical insurance payment system reform, medicare fees, drug price reduction and medical tenders, all of which will be the main policy factors unchangeably affecting the industry growth and profit margin in the future. Therefore, the medical industry development will be full of opportunities and challenges.

GROWTH STRATEGIES

The Group shall consistently implement the following growth strategies, together with our strong management team and our enormous manufacturing capacity to attain higher growth and return:

1. Marketing Strategy

- Strengthen academic education, improve terminal coverage and enhance the productivity of the target terminals.

- Integrated commercial management platforms, optimise customer structure and focused on channel control and product price control.

2. Product Strategies

- Further increase sales contribution and achieve steady growth in core products (namely Qing Kai Ling Injection, Shen Mai Injection, Shu Xie Ning Injection, Wu Fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule and Pediatric Qing Fei Hua Tan Granule).

- Continue to nurture emerging products (such as Huamoyan Granule, Qing Kai Ling Soft Capsule, Huang Qi Injection, Shujin Tongluo Granule and Jiangzhi Tongluo Soft Capsule) and promote their sales volume.

- Strengthen the development of new products on the market, focusing on cultivating exclusive new products, increase efforts to promote and enhance the proportion of sales of new products.

- Expand the Chinese medicine prescription granule business and turn it into a new point of growth.

FINANCIAL ANALYSIS

Turnover

In 2016, the Group recorded a decrease in turnover of 3.0% from last year. Sales of injection products reached RMB1,109,790,000, down approximately 4.9% as compared with 2015. Sales of injection products accounted for 55.7% of the Group's turnover. Sales of soft capsule products were RMB363,424,000, down 11.5% from last year. Soft capsule products accounted for approximately 18.2% of the Group's turnover. Sales of granule products amounted to RMB384,301,000, down 2.2% from last year. Granule products accounted for 19.3% of the Group's turnover. Sales of the Group's products in other formats were RMB135,864,000 which accounted for approximately 6.8% of the Group's turnover.

During the year, turnover of medicines for cardiovascular diseases, anti-viral medicines, medicines for curing respiratory system and medicines for treating other illness respectively accounted for approximately 45.1% (2015: 45.5%), 27.9% (2015: 29.0%), 6.9% (2015: 6.5%) and 20.1% (2015: 19.0%) of the Group's total turnover respectively in 2016.

Turnover of prescription and non-prescription medicines of the Group were RMB1,575,040,000 and RMB418,339,000, accounting for approximately 79.0% and 21.0% of the total turnover respectively in 2016. As at 31 December 2016, the Group had over 60 products that were included in the Essential Drug List.

Cost of Sales

Cost of sales in 2016 was RMB706,884,000, representing 35.5% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 60.4%, 12.5% and 27.1% of total cost of sales.

Management Discussion and Analysis

Gross Margin

In 2016, average gross margins of injection products, soft capsule products and granule products were 62.8%, 73.5% and 63.9% respectively. Overall gross margin was 64.5%.

Other Income

Other income mainly includes government subsidies of RMB18,949,000 (2015: RMB75,258,000). The government subsidies mainly represented incentives received from government for investments in relevant regions in PRC by the Group.

Investment Gain

Investment gain mainly includes interest income from bank deposits and investments in short-term financial products and debt-related products of RMB65,817,000 (2015: RMB52,254,000) and RMB34,761,000 (2015: RMB45,156,000) respectively.

Distribution Costs

During the year the Group strengthened its cost control policy, the distribution costs have decreased by approximately 1.3% and accounted for 18.6% of turnover in 2016 as compared to 18.3% in last year.

Administrative Expenses and Research and Development Costs

In 2016, the group strengthened its cost control policy. Administrative expenses and research and development costs have decreased by 5.4% from last year, representing approximately 17.6% (2015: 18.1%) of the Group's turnover. Administrative expenses also comprised of non-productive depreciation expenses of fixed assets and amortisation expenses of intangible assets which accounts for 3.5% of the Group's total turnover in 2016 (2015: 2.2%). Research and development expenses have increased by approximately 6.8% from last year, accounted for approximately 3.7% of the Group's turnover in 2016 as compared to 3.4% in 2015.

Income Tax Rate

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

A subsidiary which is operating in Western China has been granted tax concession by the local tax bureau and is entitled to PRC EIT at concessionary rate of 9% for the year (2015: 9%). The tax concession granted to that subsidiary operating in Western China will expire in 2017. Certain subsidiaries which are recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both years. The tax concessions granted to certain subsidiaries recognised as High and New-tech Enterprise will expire at the end of 2017. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

Dividends

Details of dividends and dividend policy are set out in the director's report on page 35 of this annual report.

Capital Structure

For the year ended 31 December 2016, there was no change in the capital structure and issued share capital of the Group.

Liquidity and Financial Resources

As at 31 December 2016, bank deposits of the Group amounted to approximately RMB3,218,401,000 (2015: RMB2,826,219,000), of which approximately RMB3,004,983,000 (2015: RMB2,752,246,000) were denominated in RMB, others being equivalent to approximately RMB44,109,000, RMB5,074,000 and RMB164,235,000 (2015: RMB8,122,000, RMB65,680,000 and RMB171,000) were denominated in Hong Kong Dollars, Australian Dollars and United States Dollars respectively.

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

Bills and Trade receivables

As at 31 December 2016, bills and trade receivables increased by 17.9% and 64.7% respectively as compared to the balance as at 31 December 2015. Turnover days of bills and trade receivables were 85.0 days and 7.5 days (2015: 89.5 days and 3.9 days respectively).

Inventories

As at 31 December 2016, inventories in the amount of RMB294,410,000 decreased by approximately 13.6%, as compared to the balance as at 31 December 2015. As at 31 December 2016, raw materials, work in progress and finished goods accounted for 31.1%, 27.7% and 41.2% (2015: 36.0%, 25.7% and 38.3%) of inventories respectively. Turnover of finished goods inventories in 2016 was 65.0 days as compared to 57.9 days in 2015.

Property, Plant and Equipment

As at 31 December 2016, property, plant and equipment amounted to approximately RMB1,466,458,000, decreased by approximately 4.1% as compared to the balance as at 31 December 2015. The new construction works of plants located in Shijiazhuang, Langfang and Sichuan comprised various workshop and logistic center projects amounted to approximately RMB74,475,000 in total. Besides there was also new additions to buildings, plant and machineries of approximately RMB14,708,000 during the year.

Intangible Assets

Intangible assets represent patents and production licenses with finite useful lives. In 2016, the amortisation of intangible assets expense was approximately RMB40,391,000.

Management Discussion and Analysis

Goodwill

Goodwill is comprised of the Group's acquisition of the remaining 20% ownership equity interests of Shineway Pharmaceutical Sales Company Limited in 2005, the acquisition of 100% equity interests of Shineway Pharmaceutical (Zhangjiakou) Co., Ltd and Shineway Pharmaceutical (Sichuan) Limited in 2010, the acquisition of 100% equity interest of Shineway Pharmaceutical Group (Shandong) Company Limited in 2014 and the acquisition of 100% equity interest of Yunnan Shineway Spirin Pharmaceutical Company Limited and Beijing Wanter Bio-pharmaceutical Company Limited in 2015.

Bills and Trade Payables

As at 31 December 2016, turnover days of bills and trade payables were 25.2 days and 89.2 days (2015: 18.9 days and 93.3 days).

Disposal of a subsidiary

During the year, the Group disposed of its 100% equity interest of 精力源生物科技有限公司 (Jing Li Yuan Biotechnology Limited ("Jing Li Yuan")) to 神威醫藥科技股份有限公司 (Shineway Medical Science & Technology Co., Ltd ("Shineway Medical")) (a joint stock company incorporated in the PRC which is ultimately controlled by the spouse of Mr. Li Zhenjiang, an executive Director) for a consideration of RMB80,000,000. The Group did not recognise any gain or loss resulting from such disposal.

Employees

As at 31 December 2016, the Group had 3,867 (2015: 4,644) employees. Remuneration was determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provided other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong were also enrolled in the Mandatory Provident Fund Scheme.

Exposure to Fluctuations in Exchange Rates

A majority of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and a majority of its bank deposits are in Renminbi and Hong Kong Dollars. The exchange gain for the year was arising from the change in exchange rate between Renminbi and Hong Kong Dollars/Australian Dollars. As at 31 December 2016, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2016 (2015: Nil).

Pledge of Assets

As at 31 December 2016, the Group secured the bills payables of RMB54,506,000 (2015: RMB43,247,000) by pledging bank deposits amounting RMB54,506,000 (2015: RMB43,247,000).

Directors and Senior Management

DIRECTORS

Executive Directors

LI Zhenjiang (李振江), aged 61, is an executive Director and one of the founders of the Group. Mr. Li obtained an EMBA degree from the Yangtze Commercial Institute. Mr. Li joined the predecessor of the Group in 1974 and has been the Chairman and President of the Group and its predecessor since 1984 with responsibility for business development and strategy. He has more than 20 years' experience in the operation and management of modern Chinese medicine enterprises. Mr. Li takes charge of the overall management of the Group and is also specifically responsible for the Group's research and development activities. Mr. Li is a Representative to the 10th and 11th National People's Congress. He was named as an Outstanding Entrepreneur in the PRC Pharmaceutical Industry in 1994 and has received a National Wu Yi Labour Award and special subsidies of the State Council. Mr. Li is the vice-chairman of the PRC Chinese Medicine Association. Mr. Li is also directors of several members of the Group. Mr. Li is the father of Ms. Lee Ching Ton Brandelyn, the executive Director.

XIN Yunxia (信蘊霞), aged 53, is an executive Director and one of the founders of the Group. Ms. Xin graduated from the Yangtze Commercial Institute with an EMBA degree. Ms. Xin is primarily responsible for the Group's human resources management and operation. Ms. Xin joined the predecessor of the Group in 1981, focused on administration. She was the Deputy General Manager (human resources management) of Shineway Medical immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004. Ms. Xin has more than 20 years' experience in business management in the industry with the Group.

LI Huimin (李惠民), aged 49, is an executive Director. He obtained an EMBA degree from Chinese University of Hong Kong in 2016. He is primarily responsible for the marketing and sales of the Group's products and, since joining the predecessor of the Group in 1992, focused on sales and marketing. Immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004, Mr. Li was the sales and marketing manager of Shineway Medical. He has developed a deep understanding of sales management in the PRC Chinese medicine industry with more than 15 years' experience. Mr. Li is a vice-chairman of Hong Kong Chinese Prepared Medicine Traders Association since 2010.

LEE Ching Ton Brandelyn (李婧彤), aged 34, is an executive Director appointed in 2012. She has studied in the United Kingdom and Australia, majoring in business administration. Ms. Lee has solid knowledge in finance principles. Ms. Lee has worked in areas relating to corporate development in the Company, thus has accumulated a definite amount of administration and management experience. She has been the Company's Executive Assistant since August 2010. Ms. Lee is the daughter of Mr. Li Zhenjiang, the chairman and the executive Director.

Directors and Senior Management

CHEN Zhong (陳鍾), aged 50, is an executive Director appointed on 1 December 2014. He is qualified as a chief senior engineer and is a certified pharmacist. He graduated from Hebei Medical University in 1990 with a bachelor's degree in pharmacy. Mr. Chen is a leader of Modern Traditional Chinese Medicines Manufacturing Technology of Hebei Province, chief officer of the National and Local United Engineering Laboratory for the Development Technology of New Chinese Medicine Injection, chief officer of Chinese Medicine Injection Engineering and Technology Research Centre in Hebei Province, general vice-officer of National-Recognition on Enterprise Technology Centre, deputy officer of specialized committee of traditional Chinese medicines on economic in China Association of Traditional Chinese Medicine and price review expert on medicines in National Development and Reform Commission of the People's Republic of China. Mr. Chen joined the predecessor of the group in 1990 and is currently the vice president of the Shineway Pharmaceutical Group Limited (formerly known as Shineway Pharmaceutical Company Limited) ("Shineway Pharmaceutical"), director of Hebei Shineway Pharmaceutical Company Limited ("Hebei Shineway"), director of Xizang Shineway Pharmaceutical Company Limited and director of Shineway Pharmaceutical (Hainan) Company Limited. He is responsible for quality control on production and technology management activities of the Company's group with over 20 years of experience.

Independent Non-Executive Directors ("INED")

CHENG Li (程麗), aged 57, was appointed as an INED in 2006. She has a legal science bachelor's degree and the legal science master's degree from the law department of Japan Special Training University. She also studied in Sino-Japanese Investment Trade Promotion Association. She joined Commerce & Finance Law Office in 1995 and became a partner of Commerce & Finance Law Office since 2002. She is currently a member of Beijing Lawyer Association.

SUN Liutai (孫劉太), aged 53, was appointed as an INED in 2010. He has studied postgraduate programme in Economic Management Institute of North Western University. Mr. Sun has sound experience in accounting profession and finance. In 2003, he was appointed by Hebei Securities and Futures Commission to investigate a company listed on Shenzhen Stock Exchange. He worked as an assistant manager of general strategic department in China Investment Bank Hebei branch from 1987 to 1992, and worked as an assistant general manager in a Hebei Investment Management Consultancy Company in 1992 to 1995. He then worked as a principal accountant in Hebei Yongzhengde Certified Public Accountants from 1995 to 2002, during which he was engaged in audit of a company listed on the Shanghai Stock Exchange. Mr. Sun was appointed as a partner of Hebei Peking Certified Public Accountants from 2002 to present. Mr. Sun was a general committee of Hebei Society of Certified Public Accountants in 2002 to 2008, and was employed as an independent director and audit in-charge of Qinhuangdao Yaohua Glass Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600716) from May 2002 to June 2008. He is a Chinese Certified Public Accountant.

HUNG Randy King Kuen (孔敬權), aged 51, was appointed as an non-executive Director in 2011, re-designated to INED in 2014 and resigned on 30 March 2017. Mr. Hung holds an MBA degree from the University of London, a bachelor's degree of science in accounting and a certificate of programming and data processing from the University of Southern California. Mr. Hung also obtained a certificate in China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong and a Specialist Certificate in Corporate Finance from the Hong Kong Securities and Investment Institute. He has extensive experience in corporate finance and investor relation. Mr. Hung is currently an executive director and chief financial officer of China Fiber Optic Network System Group Limited (stock code: 3777), and an independent non-executive director of IPE Group Limited (stock code: 929). Mr. Hung is a fellow Certified Public Accountant of Hong Kong, a licensed Certified Public Accountant of California, United States, a council member of The Hong Kong Institute of Directors and the vice chairman of the Hong Kong Investor Relations Association.

SENIOR MANAGEMENT

WANG Zheng Pin (王正品), aged 63, was an executive Director appointed in 2013 and resigned on 1 January 2016. Following his resignation, he continues to provide service to the Company as senior management. He is a United States citizen. He obtained doctor's degree in China and attended postdoctoral training in Biochemistry in the United States. He has 20 years of experience in research on traditional Chinese medicine, around 15 years of experience in research and industrialized pharmaceutical products, and 8 years of teaching experience in university. He has served as chief scientific officer in a pharmaceutical company in China, and has also served as a chief technology officer in an American biopharmaceutical company. He has solid knowledge and skills on pharmaceutical product development. He has joined the Company as Chief Scientific Officer since May 2013.

LUK Yat Hung (陸一鴻), aged 58, is the head of investor relation of the Group. Mr. Luk is a fellow member of both Chartered Association of Certified Accountants of the United Kingdom and Hong Kong Institute of Certified Public Accountants with a master's degree in business administration with Oklahoma City University and a Hong Kong Securities Institute Specialist Certificate in corporate finance. Prior to joining the Group, Mr. Luk served in a number of international conglomerates and listed groups as chief financial officer and executive director responsible for corporate finance, investor relations and corporate communication. Mr. Luk joined the Group in 2010. Mr. Luk is responsible for the Group's investor relations and corporate communication.

Directors and Senior Management

LEE Bun Ching Terence (李品正), aged 44, is the Financial Controller of the Group. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He holds a bachelor's degree in Accounting and Financial Analysis and a master's degree in Economics and Finance from the University of Warwick in the United Kingdom. Mr. Lee has extensive work experience in the field of auditing, accounting, finance and taxation. Prior to joining the Group, he served as the Group Accounting Controller of a listed company in Hong Kong for over 3 years. Between 1996 and 2007, Mr. Lee worked in a reputable international accounting firm and was a Senior Manager when he left in 2007. He joined the Group in 2011.

YANG Chuanjun (楊傳俊), aged 52, joined the Group in 2014 as Deputy Sales Manager and left the Group in 21 July 2016, Mr. Yang obtained a bachelor's degree in Clinical Medicine from Tongji University, a master's degree in Pharmaceutical Science from Shanghai Institute of Materia Medica of University of Chinese Academy of Sciences and a MBA degree from University of Calgary. Mr. Yang has worked in sales or marketing department in such multinational corporations as Amgen Greater China, GlaxoSmithKline China and Mundipharma (China) Pharmaceutical (formerly known as Beijing Mundipharma Pharmaceutical). Mr. Yang has committed in sales and marketing activities in China Shineway from 2003 to 2009, with extensive sales experience in the Company and industry.

COMPANY SECRETARY

WONG Mei Shan (汪美珊), aged 42, is the Company Secretary and Finance Manager of the Group. Ms. Wong is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants. She has a bachelor's degree in Accounting from the Hong Kong University of Science and Technology and a bachelor of Laws from the University of London and has extensive work experience in accounting. Prior to joining the Group, Ms. Wong has worked in two international accounting firms for 5 years and was an Assistant Manager when she left in 2002 and in a subsidiary of a listed company in Hong Kong as an accountant for 3 years. Ms. Wong joined the Group in 2006.

Directors' Report

The Board is pleased to present to the shareholders the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The principal activities of its subsidiaries are research and development, manufacturing and trading of modern Chinese medicines.

A fair review of business of the Group during the year under review, discussion on the key financial performance indicators of the Group and future development of the Group's business are provided in "Management Discussion and Analysis" set out on pages 11 to 28 of this annual report. Particulars of important events affecting the Company that have occurred since the end of the financial year under review, if any, can be found in the abovementioned section and the Notes to the Consolidated Financial Statements.

Environmental Policies and Performance

The Group is committed to creating a successful business that is not achieved at the expense of the environment. The Group is dedicated to creating an environmentally friendly and sustainable operation. The Group has enforced the "Environmental Protection Law of the PRC", "Water Pollution Prevention Law of the PRC" and other laws and regulations.

Compliance with the Applicable Laws and Regulations

In 2016, the Group has complied with the relevant laws and regulations which have significant impact on the operations of the Group.

Relationships with Employees, Customers and Suppliers

The Group's management policies, working environment, career prospects and employees' benefits have contributed to building a good employee relations and employee retention of the Group. The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees including medical benefits, social insurance, provident funds, bonuses and a share option scheme. The management regularly reviews its employee's remuneration packages to ensure they are up to prevailing market standard.

The Group has established long term business relationships with its major suppliers and customers. The Group will endeavor to maintain its established relationship with these existing suppliers and customers.

Directors' Report

Principal Risks and Uncertainties

There are a number of risks and uncertainties which may affect the performance and operation of the Group. The followings are summary of principal risks and uncertainties identified by the Group.

Compliance with GMP standard

In accordance with applicable laws and regulations, the Group is required to comply with Good Manufacturing Practice ("GMP") standard by certain time limits. The Group has been granted the relevant certificates by China Food and Drug Administration ("CFDA"). There can be no assurance that the Group may be able to renew those certificates when they expire and in the event that those certificates are not renewed upon their expiry, the Group's business may be materially and adversely affected.

Product Liability

As the insurance is not mandatory required, the Group has no effective product liability insurance policy in respect of the manufacture and distribution of pharmaceutical products in the PRC. In the event of any product liability claim or proceedings pertaining to the products of the Group, it may attract negative publicity to the Group and our products, which may adversely affect our reputation, business, financial condition and operations. We have set up a dedicated department to strictly implement the relevant technical and quality standards to ensure that the products meet the requirement in all aspects, to avoid product liability, and to properly handle relevant issues expeditiously.

Healthcare Reform in China

The healthcare system in the PRC is undergoing a crucial reform period, where laws, regulations and policies in effect governing the medical, healthcare and pharmaceutical industry are constantly evolving. Moreover, regulatory bodies in the PRC may regularly or unexpectedly amend its implementation practices. Accordingly, past enforcement actions taken may not be reflective of future actions. Any enforcement action taken by the government against SHINEWAY may affect the Group adversely and result in negative publicity and reputation damage. Hence, the Group will pay close attention to the updates and timely implement the measures required by the relevant laws and regulations so as to ensure the business and operation are free from adverse effects.

Tender and Price Control

The Group has to participate in a government-led tender process every year or every few years. In the event that the Group fail to win the tender in a provincial tender process, the sale of products in such province will be affected and will lose market share in such province. The market share, revenue and profitability of the Group may be adversely affected. We have a team of staff monitoring and handling the drug tenders of our products with the objective of winning the tenders for our products at a desirable price level. The Group is also committed to investing in research and development of new drugs in order to expand and diversify our product portfolio.

Directors' Report

RESULTS

The results of the Group for the year ended 31 December 2016, prepared in accordance with the international accounting standards, are set out in the consolidated statement of profit or loss and other comprehensive income on page 77 of this annual report.

DIVIDENDS

An interim dividend of RMB11 cents per share, amounting to RMB90,970,000, was paid to the shareholders on 28 October 2016.

The Board now recommends a final dividend of RMB12 cents per share and a special dividend of RMB9 cents per share for the year ended 31 December 2016, to be paid out of the share premium account of the company on 16 June 2017, to the shareholders whose names appear on the register of members of the Company on 9 June 2017. The proposed final dividend and special dividend will be voted by shareholders at the annual general meeting (the "AGM") to be held on 31 May 2017.

FINANCIAL HIGHLIGHTS

A summary of the results and assets and liabilities for the last five years, as extracted from the relevant audited financial statements, is set out on page 3 of this annual report. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL AND RESERVES

Details of the movement in share capital and reserves of the Company during the year are set out in note 37 to the consolidated financial statements. As at 31 December 2016, the Company's reserves available for distribution to shareholders amounted to RMB585,468,000 (2015: RMB807,087,000).

Directors' Report

DEBENTURES

The Company has not issued any debentures during the year.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors:

Mr. Li Zhenjiang
Ms. Xin Yunxia
Mr. Li Huimin
Ms. Lee Ching Ton Brandelyn
Mr. Chen Zhong
Dr. Wang Zheng Pin (resigned on 1 January 2016)

Independent Non-Executive Directors:

Ms. Cheng Li
Mr. Sun Liutai
Mr. Hung Randy King Kuen (resigned on 30 March 2017)

The biographical details of the Directors are set out on pages 29 to 32 of this annual report.

Dr. Wang Zheng Pin resigned on 1 January 2016 as an executive Director to have more time to focus on scientific research and development projects of the Company and its subsidiaries. Dr. Wang Zheng Pin will continue to provide service to the Company as senior management of the Company. Dr. Wang Zheng Pin confirmed that he has no disagreement with the Board and there is no matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company.

Mr. Hung Randy King Kuen resigned on 30 March 2017 as INED, to spend more time to handle his personal affairs. Mr. Hung Randy King Kuen confirmed that he has no disagreement with the Board and he is not aware of any matters that need to be brought to the attention of the shareholders of the Company in relation to his resignation.

Each of Mr. Li Zhenjiang, Ms. Xin Yunxia, Mr. Li Huimin and Ms. Lee Ching Ton Brandelyn has entered into a service contract with the Company for a term of two years commencing from 1 October 2016. Mr. Chen Zhong has entered into a service contract with the Company for a term of two years commencing from 1 December 2016. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the INEDs has been appointed for a term of two years. The appointment of each of the INEDs is subject to retirement by rotation in accordance with the Company's articles of association (the "Articles of Association").

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

The Company had received confirmation from each of the INEDs of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considered all INEDs to be independent.

Pursuant to Article 87(1) of the Articles of Association, Mr. Li Huimin, Ms. Lee Ching Ton Brandelyn and Mr. Chen Zhong will retire from the Board at the forthcoming AGM. The above-mentioned Directors, being eligible for re-election, will offer themselves for re-election at the forthcoming AGM.

Details of Directors' emoluments on a named basis are set out in note 10 to the consolidated financial statements.

CHANGE IN DIRECTOR'S INFORMATION

Save as the resignations of Dr. Wang Zheng Pin on 1 January 2016 and Mr. Hung Randy King Kuen on 30 March 2017, the Company is not aware of any changes in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PERMITTED INDEMNITY PROVISION

The Articles of Association provides that every Director is entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities which he may incur or sustain in or about the execution of the duties of his office or otherwise in relation thereto, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

The Company had arranged for appropriate liability insurance for the directors and officers of the group for indemnifying their liabilities arising from corporate activities.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

Directors' Report

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

Save as disclosed in note 36 to the consolidated financial statements, no transaction, arrangement or contract of significance to which the Company, any of its holding companies, fellow subsidiaries or any of its subsidiaries was a party and in which a Director or an entity connected with the Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2016, the interests and short positions of the Directors and chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (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 therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of relevant company	Capacity	Number of shares	Approximate percentage of shareholding in the Company
Li Zhenjiang	Company	Founder of discretionary trust (Note)	543,477,990	65.72%
Lee Ching Ton Brandelyn	Company	Beneficiary owner	835,000	0.10%
Xin Yunxia	Company	Beneficiary owner	540,000	0.07%
Chen Zhong	Company	Beneficiary owner	180,000	0.02%
	Company	Interest of spouse	100,000	0.01%

Note: These 543,477,990 shares of the Company ("Shares") are held by Forway Investment Limited ("Forway"). Forway is owned as to 100% by Fiducia Suisse SA, a trust company, in its capacity as the trustee of The Li Family 2004 Trust. The Li Family 2004 Trust is 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 543,477,990 Shares under the SFO.

Certain Directors have been granted share options under the 2004 Scheme (details are set out in the section headed "Share Option Scheme" below). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives of the Company or their respective 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

Save as disclosed under the heading "Share Option Scheme" below, at no time during the year was the Company, its holding companies, fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at 31 December 2016, 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	Approximate percentage of shareholding in the Company
Forway	Beneficial owner	543,477,990	65.72%
Fiducia Suisse SA (Notes 1 and 2)	Trustee of discretionary trust	543,477,990	65.72%

Notes:

(1) Interests of Forway and Fiducia Suisse SA in the Shares were duplicated.

(2) The entire issued share capital of Forway is owned by Fiducia Suisse SA 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).

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any persons who (other than the Directors or chief executive of the Company) 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.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 10 November 2004 and was expired on 9 November 2014 (the "2004 Scheme"). All outstanding options granted under the 2004 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2004 Scheme. The Company adopted a new share option scheme at an extraordinary general meeting of the Company held on 29 May 2015 (the "2015 Scheme"). The purpose of the 2015 Scheme is to provide the Company with a flexible means of incentivizing, rewarding, remunerating, compensating and/or providing benefits to the following participants, and for such other purposes as the Board may approve from time to time:

(i) any executive or non-executive director including any independent non-executive director or any employee (whether full-time or part-time) of any member of the Group;

(ii) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or any employee, executive or non-executive director of any member of the Group;

(iii) any consultant, professional and other advisers to any member of the Group;

(iv) any chief executive or substantial shareholder of any member of the Group;

(v) any associate of any director, chief executive or substantial shareholder of any member of the Group; and

(vi) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up options.

The maximum number of shares in respect of which options may be granted under the 2015 Scheme and any other share option schemes of the Company shall not in aggregate exceed 82,700,000 representing 10% of the shares in issue as at 29 May 2015 (being the date of the extraordinary general meeting approving the 2015 Scheme) and as at the date of this annual report.

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the 2015 Scheme and any other share option scheme (if any) adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue unless otherwise approved by the Company's shareholders. Where any grant of options to a substantial shareholder, an independent non-executive director, 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) would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the total number of shares of the Company in issue; and

(ii) having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK$5 million,

Such grant of option shall be subject to prior approval of the shareholders of the Company who are not the grantee, his associates all core connected persons of the Company as defined in the Listing Rules.

Option granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per option. Subject to terms and conditions upon which the option was granted, options may be exercise at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the Directors, and will not be less than the highest 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. The 2015 Scheme has a life of 10 years and will expire on 28 May 2025.

Details of options granted, exercised, cancelled/lapsed and outstanding under the 2004 Scheme during the year are as follow:

		No. of shares comprised in share options					
Name of grantees	Date of grant	As at 1 Jan 2016	Granted during the year	Lapsed during the year	As at 31 Dec 2016	Note	Exercise price per share (HK$)
Ms. Xin Yunxia	2 Sept 2013	1,000,000	-	-	1,000,000	1	11.84
Mr. Li Huimin	2 Sept 2013	300,000	-	-	300,000	1	11.84
Mr. Li Huimin	5 Sept 2013	500,000	-	-	500,000	2	11.84
Ms. Lee Ching Ton Brandelyn	2 Sept 2013	800,000	-	-	800,000	1	11.84
Mr. Chen Zhong	2 Sept 2013	1,000,000	-	-	1,000,000	1	11.84
Other Employees	2 Sept 2013	19,400,000	-	(1,850,000)	17,550,000	1	11.84
Other Employees	7 Nov 2014	2,000,000	-	(2,000,000)	–	3	14.12
		25,000,000	-	(3,850,000)	21,150,000		

Notes:

(1) The options have a validity period of 6 years from the date of grant on 2 September 2013.

The options are exercisable in tranches:

(i) up to 20% within such period(s) during the year commencing on 2 September 2014 to be designated by the Company;

(ii) up to 20% within such period(s) during the year commencing on 2 September 2015 to be designated by the Company;

(iii) up to 20% within such period(s) during the year commencing on 2 September 2016 to be designated by the Company;

(iv) up to 20% within such period(s) during the year commencing on 2 September 2017 to be designated by the Company; and

(v) up to 20% within such period(s) during the year commencing on 2 September 2018 to be designated by the Company.

The closing price per share immediately before the date on which the options were granted was HK$11.64.

(2) The options have a validity period of 6 years from the date of grant on 5 September 2013.

The options are exercisable in tranches:

(i) up to 20% within such period(s) during the year commencing on 5 September 2014 to be designated by the Company;

(ii) up to 20% within such period(s) during the year commencing on 5 September 2015 to be designated by the Company;

(iii) up to 20% within such period(s) during the year commencing on 5 September 2016 to be designated by the Company;

(iv) up to 20% within such period(s) during the year commencing on 5 September 2017 to be designated by the Company; and

(v) up to 20% within such period(s) during the year commencing on 5 September 2018 to be designated by the Company.

The closing price per share immediately before the date on which the options were granted was HK$11.84.

(3) The options have a validity period of 6 years from the date of grant on 7 November 2014.

The options are exercisable in tranches:

(i) up to 20% within such period(s) during the year commencing on 7 November 2015 to be designed by the Company;

(ii) up to 20% within such period(s) during the year commencing on 7 November 2016 to be designed by the Company;

(iii) up to 20% within such period(s) during the year commencing on 7 November 2017 to be designed by the Company;

(iv) up to 20% within such period(s) during the year commencing on 7 November 2018 to be designed by the Company; and

(v) up to 20% within such period(s) during the year commencing on 7 November 2019 to be designed by the Company.

The closing price per share immediately before the date on which the options were granted was HK$13.54.

Details of options granted, exercised, cancelled/lapsed and outstanding under the 2015 Scheme during the review period are as follows:

		No. of shares comprised in share options					
Name of grantees	Date of grant	As at 1 Jan 2016	Granted during the year	Lapsed during the year	As at 31 Dec 2016	Note	Exercise price per share (HK$)
Other Employees	1 Jun 2016	-	1,000,000	-	1,000,000	4	8.39

Note:

(4) The options have a validity period of 6 years from the date of grant on 1 June 2016.

The options are exercisable in tranches:

(i) up to 20% within such period(s) during the year commencing on 1 June 2017 to be designated by the Company;

(ii) up to 20% within such period(s) during the year commencing on 1 June 2018 to be designated by the Company;

(iii) up to 20% within such period(s) during the year commencing on 1 June 2019 to be designated by the Company;

(iv) up to 20% within such period(s) during the year commencing on 1 June 2020 to be designated by the Company; and

(v) up to 20% within such period(s) during the year commencing on 1 June 2021 to be designated by the Company.

The closing price per share immediately before the date on which the options were granted was HK$8.39.

For details of the nature and terms of the 2015 Scheme, please refer to the circular of the Company dated 8 May 2015.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2016, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

EQUITY-LINKED AGREEMENT

Save for share option schemes disclosed in this annual report, no equity-linked agreement was entered into during the year or subsisted at the end of the year.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders of the Company by reason of their holding of such shares.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and five largest customers combined of the Group were 6.4% and 21.1% respectively of the Group's turnover for the year.

The aggregate purchases attributable to the largest supplier and five largest suppliers combined of the Group were 3.0% and 13.2% respectively of the Group's purchases for the year.

None of the Directors, their close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) has any interests in the five largest customers or suppliers of the Group.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transaction:

Disposal of Jing Li Yuan

On 1 July 2016, Shineway Pharmaceutical, an indirect wholly-owned subsidiary of the Company, and Shineway Medical entered into an equity transfer agreement dated 1 July 2016 in relation to the disposal of the entire equity interests of Jing Li Yuan, an indirect wholly-owned subsidiary of the Company, by Shineway Pharmaceutical to Shineway Medical at the consideration of RMB80,000,000.

The spouse of Mr. Li Zhenjiang, an executive Director, indirectly owns 100% of the interests in Shineway Medical. Accordingly, Shineway Medical is a connected person of the Company within the meaning of the Listing Rules.

CONNECTED TRANSACTIONS (Continued)

During the year, the Group had the following continuing connected transactions:

General Services Agreement Between Shineway Pharmaceutical and Shineway Medical

On 12 February 2015, Shineway Pharmaceutical, a wholly-owned subsidiary of the Company, and Shineway Medical entered into a general services agreement ("General Services Agreement I"). The spouse of Mr. Li Zhenjiang, an executive Director, indirectly holds 100% equity interest in Shineway Medical. Accordingly, Shineway Medical is a connected person of the Company within the meaning of the Listing Rules. Pursuant to the General Services Agreement I, Shineway Medical has agreed to provide Shineway Pharmaceutical with property management services, staff benefits facilities and production support services for a term commencing from 1 January 2015 until 31 December 2017. The transaction amount and cap amount of such transaction for the year ended 31 December 2016 are RMB8,628,317 and RMB8,700,000 respectively (2015: RMB8,339,000 and RMB8,400,000 respectively).

The proposed annual cap for General Services Agreement I for the year ending 31 December 2017 is RMB9,000,000.

General Services Agreement between Hebei Shineway and Shineway Medical Science & Technology (Lang Fang) Co., Ltd ("Shineway Lang Fang")

On 12 February 2015, Hebei Shineway, a wholly-owned subsidiary of the Company, and Shineway Lang Fang entered into a general services agreement ("General Services Agreement II"). The spouse of Mr. Li Zhenjiang, an executive Director, holds 30% of equity interest in Shineway Lang Fang. Accordingly, Shineway Lang Fang is a connected person of the Company within the meaning of the Listing Rules. Pursuant to the General Services Agreement II, Shineway Lang Fang has agreed to provide Hebei Shineway with property management services, staff benefits facilities and production support services for a term commencing from 1 January 2015 until 31 December 2017. The transaction amount and cap amount of such transaction for the year ended 31 December 2016 are RMB2,473,582 and RMB2,500,000 respectively (2015: RMB2,396,000 and RMB2,400,000 respectively).

The proposed annual cap for General Services Agreement II for the year ending 31 December 2017 is RMB2,600,000.

CONNECTED TRANSACTIONS (Continued)

Land Lease Agreement with Shineway Medical

On 12 February 2015, a land lease agreement (the "Land Lease Agreement I") was entered into between Shineway Pharmaceutical and Shineway Medical. Pursuant to the Land Lease Agreement I, Shineway Medical has conditionally leased to Shineway Pharmaceutical a land with an area of approximately 49,276 square meters owned by Shineway Medical for a period of three years from 1 January 2015. The leased land is restricted to the operation of a building complex, plaza and animal centre. The transaction amount and cap amount of such transaction for the year ended 31 December 2016 both are RMB1,277,100 (2015: RMB1,277,100).

The proposed annual cap for Land Lease Agreement I for the year ending 31 December 2017 is RMB1,277,100.

Land Lease Agreement with Shineway Lang Fang

On 12 February 2015, a land lease agreement (the "Land Lease Agreement II") was entered into between Hebei Shineway and Shineway Lang Fang. Pursuant to the Land Lease Agreement II, Shineway Lang Fang has conditionally leased to Hebei Shineway a land with an area of approximately 20,986 square meters owned by Shineway Lang Fang for a period of three years from 1 January 2015. The leased land is restricted to the entrance and injection workshop. The transaction amount and cap amount of such transaction for the year ended 31 December 2016 both are RMB1,012,397 (2015: RMB1,012,397).

The proposed annual cap for Land Lease Agreement II for the year ending 31 December 2017 is RMB1,012,397.

Sales to Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores")

On 12 February 2015, a Supply Agreement (the "Supply Agreement") was entered into between the Company and Shineway Drugstores, a connected person of the Company by virtue of being indirectly owned 100% by the spouse of Mr. Li Zhenjiang, an executive Director. Pursuant to the Supply Agreement, the Company agrees to procure the subsidiaries of the Company to supply Chinese pharmaceutical products researched, manufactured and wholesaled by the Group to Shineway Drugstores. The transaction amount and cap amount of such transaction for the year ended 31 December 2016 are RMB35,554 and RMB50,000,000 respectively (2015: RMB15,929,000 and RMB38,000,000 respectively). The proposed annual caps for Supply Agreement for the year ending 31 December 2017 is RMB60,000,000.

CONNECTED TRANSACTIONS (Continued)

As one or more applicable percentage ratios (other than the profits ratio) in respect of the annual caps for the transactions contemplated under each of (1) the aggregate of the General Services Agreement I and the Land Lease Agreement I, (2) the aggregate of the General Services Agreement II and the Land Lease Agreement II and (3) the Supply Agreement, on an annual basis, exceeds 0.1% but is less than 5%, the transactions contemplated under the aforesaid agreements are subject to the reporting and announcement requirements under the Listing Rules and are exempt from the independent shareholders' approval requirement under the Listing Rules.

The INEDs have reviewed the continuing connected transactions disclosed above and confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The management has monitored and ensured that (a) the connected transactions have been conducted in accordance with the pricing policies or mechanisms (if applicable) under the agreements, including the pricing range, the process for estimating the prices for the goods or services, and the procedures for obtaining quotations or tenders, as appropriate; and (b) the Company's internal control procedures are adequate and effective to ensure that connected transactions are so conducted.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on continuing connected transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions set out above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The related party transactions in note 36 to the consolidated financial statements of this annual report fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosures requirements in accordance with Chapter 14A of the Listing Rules.

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

The Directors' fees, basic salaries, housing allowances, other allowances and benefits in kind are disclosed in note 10 to the consolidated financial statements.

The contributions to pension schemes for Directors for the financial year are disclosed in note 10 to the consolidated financial statements.

Pursuant to the Directors' service contracts with the Company, all executive Directors may be entitled to a discretionary bonus to be determined by the Board (or its duly appointed remuneration committee) at its absolute discretion having regard to the performance of the Group, provided that the aggregate amount of the bonus payable to those Directors in respect of any financial year shall not exceed 5% of the audited consolidated net profit after taxation but before extraordinary items of the Company for the relevant financial year.

There was no compensation paid during the financial year ended 31 December 2016 or receivable by Directors or past Directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high level of corporate governance practices. The Company's corporate governance report is set out on pages 51 to 62. Details of each of the Audit Committee, the Remuneration Committee and the Nomination Committee are given in the same report.

PENSION SCHEMES

The pension schemes of the Group are primarily in the form of contributions to the Hong Kong Mandatory Provident Fund and China's statutory public welfare fund.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the Latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float throughout the year of 2016 as required under the Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the controlling shareholders of the Company and any of their respective close associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group during the year under review which are required to be disclosed under the Listing Rules.

CHARITABLE DONATIONS

During the year, charitable donations made by the Group include relief supplies with market value over RMB500,000 which are disclosed in "Commitment to our Community" in the Environmental, Social and Governance Report.

AUDITOR

A resolution will be proposed at the AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Li Zhenjiang
Chairman of the Board

Hong Kong, 30 March 2017

Corporate Governance Report

Dear Shareholders,

CORPORATE GOVERNANCE PRACTICES

The Group is firmly committed to statutory and regulatory corporate governance standards and adhere to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness. The Board believes that good corporate governance practices are essential elements in guiding the growth and management of the business of the Group. Therefore the Board reviews its corporate governance practices from time to time to ensure that they protect the shareholders' interest, comply with legal and professional standards and reflect the latest local and international circumstances and development. The Board will continue to commit itself to achieving a high quality of corporate governance.

Throughout the year ended 31 December 2016, the Company has applied and complied with the principles in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules, except for code provisions A.2.1 and A.5.1 as described below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry with the Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code regarding Directors' securities transactions during the financial year.

BOARD OF DIRECTORS

As at the date of this annual report, the Board comprises five executive Directors and two INEDs. The names of the Directors and their respective biographies are set out on pages 29 to 32 of this annual report.

The Company had arranged for appropriate liability insurance for the directors and officers of the Group for indemnifying their liabilities arising from corporate activities.

Corporate Governance Report

The Board oversees the Group's strategic development, and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. All Board members have access to appropriate business documents and information about the Group on a timely basis. All Directors and board committees have access to external legal counsel and other professionals for independent advice at the Group's expense if they require it. The Board represents shareholders in overseeing the Group's business. The Directors recognise their responsibilities to enhance shareholders' value and to conduct themselves in accordance with their duty of care and loyalty.

Three board committees, namely, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee"), have been established to oversee particular aspects of the Group's affairs. The Board has delegated the day-to-day management and operations of the Group's businesses to the management of the Company and its subsidiaries respectively. Major corporate matters that are specifically delegated by the Board to the management include the preparation of financial statements for board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements, rules and regulations.

The Board had met four times during the year to review the financial performance of the Group, major issues (whether or not required by the Listing Rules) and also on other occasions when Board decisions were required. The views of INED were actively solicited by the Group if they were unable to attend meetings of the Board.

The major issues which were brought before the Board for their decisions during the year include:

1. formulation of operational strategies and review of its financial performance and results and the internal control system;

2. discussion on impact of a scheduling order issued by municipal government;

3. determine details of granting of share options under 2015 Scheme; and

4. the declaration of interim dividend and recommendation to shareholders on final dividend.

From April 2012 onwards, all Directors have been provided, on a monthly basis, with the Group's management information updates to give them aware of the Group's affairs and facilitates them to discharge their duties under the relevant requirements of the Listing Rules.

The Board held four Board meetings and one annual general meeting ("AGM") in 2016. Details of the attendance of the Board are as follows:

	Attended/Held	
	Board Meeting	**AGM**
Executive Directors		
Mr. Li Zhenjiang *(Chairman)*	4/4	1/1
Ms. Xin Yunxia	4/4	1/1
Mr. Li Huimin	4/4	1/1
Ms. Lee Ching Ton Brandelyn	4/4	1/1
Mr. Chen Zhong	4/4	1/1
Dr. Wang Zheng Pin (resigned on 1 January 2016)	0/0	0/0
Independent Non-executive Directors		
Ms. Cheng Li	4/4	1/1
Mr. Sun Liutai	4/4	1/1
Mr. Hung Randy King Kuen (resigned on 30 March 2017)	4/4	1/1

The Directors acknowledged that they are responsible for the preparation of the accounts which give a true and fair view of the affairs of the Group. The auditor is responsible to form an independent opinion, based on their audits, on the Group's financial statements and express their opinions.

The Board has the overall responsibility to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investments and the Company's assets. The internal audit department has been conducting regular review of the system's effectiveness and reports to the Directors and the audit committee on its material findings.

Every newly appointed Director will be given an induction so as to ensure that he/she has appropriate understanding of the Group's business and of his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Directors may request the Company to provide independent professional advice at the Company's expense to discharge his/her duties to the Company.

Following the resignation of Mr. Hung on 30 March 2017, there remains two INEDs, the number of which falls below the minimum number required under Rules 3.10(1) and 3.10A of the Listing Rules. The Company is identifying a suitable candidate to fill the vacancy of the INED with a view to fulfilling the minimum required number of INEDs under the Listing Rules as soon as practicable within three months from 30 March 2017 pursuant to Rule 3.11 of the Listing Rules.

Ms. Lee Ching Ton Brandelyn is the daughter of Mr. Li Zhenjiang, the Chairman and the executive Director.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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 (the "President").

Mr. Li Zhenjiang has been both the Chairman and President. 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 maximises effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors' training is an ongoing process. During the year, the Company had provided to the Directors regular updates and presentations on changes and developments to the Group's business and to the legislative regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors are required to provide the Company with their record of training they received during the year ended 31 December 2016. During the year ended 31 December 2016, the Board has reviewed and monitored the training and continuous professional development of Directors and senior management.

Pursuant to code provision A.6.5 of the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2016, all Directors have participated in continuous professional development by attending training courses and/or referring materials on the topics related to corporate governance and regulations:

	Attending training course	Self-study of relevant materials and/or regulatory updates
Executive Directors		
Mr. Li Zhenjiang	✓	✓
Ms. Xin Yunxia	✓	✓
Mr. Li Huimin	✓	✓
Ms. Lee Ching Ton Brandelyn	–	✓
Mr. Chen Zhong	–	✓
Dr. Wang Zheng Pin (resigned on 1 January 2016)	✓	✓
Independent Non-executive Directors		
Ms. Cheng Li	✓	✓
Mr. Sun Liutai	–	✓
Mr. Hung Randy King Kuen (resigned on 30 March 2017)	✓	✓

TERM OF OFFICE AND RE-ELECTION

Each of the INEDs has been appointed for a term of two years. The appointment of each of the INEDs is subject to retirement by rotation in accordance with the Articles of Association.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee with written terms of reference as disclosed on the Company's websites and the website of the Stock Exchange. The primary duties of the Remuneration Committee include the following:

I. to make recommendation to the Board on (a) the Company's policy and structure for all remuneration of Directors and senior management, and (b) the Company's establishment of a formal and transparent procedure for developing policy on such remuneration;

2. to determine the specific remuneration packages of all executive Directors, and senior management, including benefits in kind, pension rights, and compensation payments (including any compensation for loss or termination of office or appointment);

3. to make recommendation to the Board on the remuneration of the INEDs;

4. to have due consideration of all relevant factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

5. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

6. to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. to review and approve the compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

8. to ensure that no Director or any of his associates is involved in deciding his own remuneration.

As at the date of this annual report, the members of the Remuneration Committee comprises two INEDs, Ms. Cheng Li and Mr. Sun Liutai, and executive Director Ms. Xin Yunxia. Ms. Cheng Li is the chairman of the Remuneration Committee. The Remuneration Committee met four times during the year to assess the performance of executive Directors and to discuss renewal of service contracts of Directors.

Individual attendance of each Remuneration Committee member was as follows:

	Attendance
Ms. Cheng Li *(Chairman)*	4/4
Mr. Sun Liutai	4/4
Ms. Xin Yunxia	4/4

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

The emoluments of the Directors are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Further details on the emolument policy and basis of determining the emolument payable to the Directors are disclosed on page 49 of this annual report.

The Group's share option scheme as described on pages 40 to 44 of this annual report is adopted as the Group's long term incentive scheme.

NOMINATION COMMITTEE

The Nomination Committee was established with written terms of reference in compliance with the Code. Upon the resignation of Mr. Hung on 30 March 2017, the Nomination Committee comprises of Mr. Li Zhenjiang (an executive Director) and Mr. Sun Liutai (an INED). Accordingly, the Company fails to meet code provision A.5.1 of the Code, which stipulates that the nomination committee should comprise a majority of independent non-executive directors, and terms of reference of the Nomination Committee. The Board will appoint an appropriate person to fill the vacancy in the Nomination Committee as soon as practicable.

Mr. Li Zhenjiang is the chairman of the Nomination Committee. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, appointment, reappointment of Directors and Board succession and assessing the independence of the INEDs. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspective, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, and length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee did not hold any meeting during the year ended 31 December 2016.

All Directors are appointed for a fixed term. The Articles of Association required that one-third of the Directors (including executive Directors and INEDs) shall retire each year. The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

AUDIT COMMITTEE

As at the date of this annual report, the Audit Committee comprises Mr. Sun Liutai and Ms. Cheng Li. Following the resignation of Mr. Hung on 30 March 2017, the number of members of the Audit Committee falls below the minimum number required under Rule 3.21 of the Listing Rules and terms of reference of the Audit Committee. The Board will appoint an appropriate person to fill the vacancy in the Audit Committee as soon as practicable within three months from 30 March 2017 pursuant to Rule 3.23 of the Listing Rules.

All of the members of the Audit Committee are INED. Mr. Sun Liutai, who has appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the Audit Committee. No member of this committee is a member of the former or external auditor of the Company. The committee members possess diversified industry experience.

The Audit Committee's primary responsibilities include overseeing the relationship with the Company's external auditor, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted terms of reference of the audit committee which complies with the provisions of the Code. The terms of reference of the Audit Committee is available on the Company's websites and the website of the Stock Exchange.

Individual attendance of each Audit Committee member during the year ended 31 December 2016 was as follows:

	Attendance
Mr. Sun Liutai *(Chairman)*	4/4
Ms. Cheng Li	4/4
Mr. Hung Randy King Kuen (resigned on 30 March 2017)	4/4

The Audit Committee met on four occasions during the year and the report on the work performed by the Audit Committee can be found on page 70 of this annual report.

CORPORATE GOVERNANCE FUNCTION

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Board as a whole and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During 2016, members of the Board have reviewed and discussed, among other things, the Company's policies and practices on corporate governance at regular board meetings. They have also reviewed and monitored the training and continuous professional development of directors, and the Company's policies and practices on compliance with legal and regulatory requirements as well as its disclosure in the Corporate Governance Report. The Board has reviewed the code of conduct applicable to employees and directors setting out the standards of behaviour that the Company expects from them and the guidelines on how they should handle different situations in business dealings with the Group.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring that appropriate and effective risk management and internal control systems are established and maintained within the Group. The main features of the Group's risk management and internal control systems include the setting up of a management structure with limits of authority, and is designed to help the Group achieve its business objectives, to protect its assets against unauthorised use or disposition, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations. The risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate all risks of failure in the group's operational systems and in the achievement of the group's business objectives.

The process used by the Group to identify, evaluate and manage significant risks is summarised as follows:

(1) Risk identification: identify risks that may pose a potential impact on the Group's business and operations through the management and the internal control department;

(2) Risk evaluation: evaluate the identified risks based on the likelihood of the occurrence and impact level of the risk; and

(3) Response to risk: according to the evaluation results on the magnitude of the risk, risk management strategies are determined by the internal control department, and through appropriate mechanisms of the Company to ensure the effective implementation of internal control procedures to prevent and reduce the risks.

In relation to the handling and dissemination of inside information in accordance with the Listing Rules and the SFO, the Group has adopted measures including raising awareness of confidentiality in the Group, issuing notices regarding "black-out" period and restrictions on dealings to directors and employees on a regular basis to ensure compliance when handling and disclosing inside information.

The Board and the Audit Committee have delegated the Group's internal audit department to conduct quarterly review of the effectiveness and adequacy of the risk management and internal control systems of the Group covering all material controls, including financial, operational and compliance controls as well as risk management functions. The internal control department of the Group plays a major role in monitoring the risk management and internal controls of the group and reports directly to the Audit Committee. It has full access to review all aspects of the Group's activities, risk management and internal controls.

Based on the assessments made during the year by the Group's internal audit department, the Board considered that the risk management and internal control systems of the Group are effective and adequate and the Audit Committee has found no material deficiencies on the risk management and internal controls based on the assessments made by the Group's internal audit department.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration paid to the members of senior management by bands during the year is set out below:

Remuneration Bands (RMB)	Number of individuals
0 – 1,000,000	1
1,000,001 – 2,000,000	2
Total	3

AUDITOR'S REMUNERATION

Since 2004, Deloitte Touche Tohmatsu has been appointed as the Group's external auditor by shareholders annually. During the year, the fees charged to the accounts of the Company and its subsidiaries for Deloitte Touche Tohmatsu's statutory audit services amounted to HK$1,900,000 (2015: HK$1,960,000), and in addition to a total of HK$398,000 (2015: HK$410,000) for other services, including the review of interim financial statements.

ACCOUNTABILITY AND AUDIT

The Directors acknowledged their responsibility to present a balanced, clear and understandable assessment of the Group's performance, position and prospects in the consolidated financial statements of the annual and interim reports. They are not aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the financial statements of the group is set out in the Independent Auditor's Report on pages 71 to 76.

In preparing the financial statements for the year ended 31 December 2016, the Directors have adopted appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

The Group has announced its annual and interim results in a timely manner within the limits of three months and two months respectively after the end of the relevant financial periods, as laid down in the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS

The Group attaches great priority to communication with shareholders and investors. Since our listing on the Main Board of the Stock Exchange in December 2004, the Group has regularly met with investors to increase corporate transparency. During the year ended 31 December 2016, the Group met and/or held telephone conferences with a number of investors and participated in institutional investor conferences. We held a number of site visits for investors.

To foster effective communication, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its websites and the website of the Stock Exchange.

Since October 2005, to enable the shareholders to better evaluate the operations and performance of the Group, the Group has been announcing quarterly financial information on turnover in due course after the relevant period ended.

The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communication between the Board and shareholders. Directors and senior management will make an effort to attend the annual general meeting. The chairman of the Board, as well as the respective chairmen of the Audit Committee and the Remuneration Committee and external auditor will usually be available during the annual general meeting to address shareholders' queries. All shareholders are given at least 20 clear business days' notice of the annual general meeting and they are encouraged to attend the annual general meeting and other shareholders' meetings. Questions from the shareholders at such meetings are encouraged and welcomed.

SHAREHOLDERS' RIGHTS

(i) Procedures for members to convene an extraordinary general meeting ("EGM")

Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Board or the Company Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the Shareholder(s) concerned himself (themselves) may do so in the same manner.

If the requisition is in order, the Company Secretary will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the requisition is invalid, the Shareholders concerned will be advised of this outcome and accordingly, an EGM will not be convened as requested.

The notice period to be given to all the registered members for consideration of the proposal raised by the shareholders concerned at a EGM varies according to the nature of the proposal, as follows:

– not less than twenty-one clear days' notice in writing if the proposal constitutes a special resolution of the Company; and

– not less than fourteen clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

(ii) Procedures for putting enquiries to the Board

Shareholder(s) may at any time put forward their enquiries to the Board by sending letter to:
Company Secretary
China Shineway Pharmaceutical Group Limited
Suite 3109, 31/F
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

(iii) Procedures for putting forward proposals at shareholders' meetings

According to our articles of association, any shareholder(s) duly qualified to attend and vote at general meetings of the Company wish(es) to propose a person (other than himself) for election as a director (the "Candidate") at a general meeting of the Company, the following documents must be lodged at the head office or registered office: (i) a written notice of such proposed duly signed by the shareholder(s) concerned; and (ii) a written consent duly signed by the Candidate indicating his/her willingness to be elected. The period for lodgment of the above documents (being a period of at least seven days) shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

INVESTOR RELATIONS

During the year, there is no significant change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company and that of the Stock Exchange.

CODE OF CONDUCT

Employees of the Group have maintained high levels of ethical standards. The Group published an employee handbook, setting out standards of professional and ethical conduct for all employees of the Group. Trainings on the contents of the employee handbook have been held regularly. The employees at all levels are expected to act in an honest, diligent and responsible manner.

Environmental, Social and Governance Report

GUIDELINE

To increase the understanding of the Company's stakeholders towards the Group's approach to sustainability, this Environmental, Social and Governance ("ESG") report is issued by the Group in accordance with, integrating the general circumstances of the Group, the ESG Reporting Guide set out in Appendix 27 of the Listing Rules. The Company has complied with the "comply or explain" provisions set out in the ESG Reporting Guide for the year ended 31 December 2016. The Board has reviewed and approved the ESG report and acknowledged its accuracy, truthfulness and completeness.

SCOPE OF REPORT

The data of the ESG report were collected from relevant departments of the Company. The ESG report covers the environmental and social performance of the Group for the financial year ended 31 December 2016. The Company will continue to widen the scope and optimise the framework in the coming reporting cycles, as well as improve the disclosure arrangement in the ESG report.

1. Environmental Protection

1.1 Emissions, the Environment and Natural Resources

Medicine manufacturers in the PRC must comply with environmental laws and regulations stipulated by the State and the local environment protection bureaux. Those laws and regulations include provisions relating to the prevention and treatment of sewage and exhaust fumes and the prevention of industrial pollution. In accordance with PRC environmental laws and regulations, companies are required to carry out environmental impact studies before engaging in new construction projects to ensure that the production processes meet the required environmental standards.

The major waste produced during the Groups' production process and the corresponding policies to minimise the impact on the environment and natural resources include:

- organic waste from the extraction process – the Group has set aside a specific area within its facilities to gather this organic waste for locals to take away, which are then used as fertiliser;

- waste water – the Group has its own waste water treatment facilities to treat the waste water from its production processes; and

- alcohol – the Group has its own recycling facilities for recycling alcohol.

The Group was awarded ISO14001 environmental management certification by the British Standards Institution in recognition of the standard of the environmental protection measures at its production facilities. The Group has not violated any environmental laws or regulations of the PRC, and the Group's production facilities comply with the applicable PRC standards relating to environmental protection measures.

1.2 Use of Resources

At the same time, the Group aims to reduce the adverse effect that could result to environmental burden in the course of operation. While maintaining premium quality in production process, the Group actively minimises the waste and reduces the consumption of resources. All along, SHINEWAY encouraged staff to be environmentally friendly at work and implemented different environmental protection measures to reduce the impact on environment as summarised below:

1. *Electricity consumption*
   - Turn off all power consuming devices (lights, air conditioners, computers, display screens) before leaving office
   - Switch off the water dispensers before long holidays
   - Recommend all offices to set the room temperature to not lower than 26°C in summer time, and not higher than 23°C in winter time
   - Reduce the number of lamp tubes in offices by half as appropriate
2. *Paper consumption*
   - Promote the use of recycled paper
   - Use double-sided printing to reduce paper consumption by half
   - Use email instead of paper for internal communication whenever practical
3. *Water consumption*
   - Conduct regular maintenance on valves and pipe. Leakage pipeline must be replaced or repaired in time
   - Recycle the cooling water used in the production process

4. *Other aspects*

- Collect used ink cartridges in office and return to suppliers

- Recycle batteries to reduce land pollution

2. Social

2.1 Employment and Labour Standards

As at 31 December 2016, the Group has 3,867 full-time employees in China and Hong Kong. The Group has complied with the relevant laws and regulations, such as the Labour Contract Law of the PRC, Labour Law of the PRC, Employment Ordinance of Hong Kong.

The following tables summarize the employment data in age and gender.

	Number of employees
Gender	
Male	1,990
Female	1,877
Total	3,867
Age Group	
< 30	1,855
30-39	1,560
40-49	350
50-59	95
> 60	7
Total	3,867

Employee Turnover Number and Rate by Gender and Age Group

	Gender	
	Male	**Female**
Age Group		
< 30	512 (54%)	333 (37%)
30-39	429 (53%)	246 (32%)
40-49	33 (18%)	23 (14%)
50-59	9 (18%)	5 (11%)
> 60	4 (100%)	0 (0%)

The remuneration system of the Group is built based on the position, achievement, contribution and capability of the staff. Pay scales of different ranks are consistently designed by reference to the pay in market. Specific factors would also be taken into account to determine the pay, such as duties, all-rounded capabilities (including work experience, education, qualifications, etc), job performance and contribution. The Group carries out the performance appraisal by end of every year and considers promotion and salary review for those who outperform. The Group also executes human resources-related policies in accordance with the national and regional laws and regulations. Discretionary bonus is offered based on individual performance.

The group promises not to employ child labour and requests any new joined staff to provide true and accurate personal information. The Group will immediately terminate the probation period or the employment contract of anyone who provides false information or breaches the Group's rules.

No cases regarding child labor, forced labor or other illegal acts were reported by the Group.

2.2 Health and Safety

The Company always puts the health and safety of its employees in the first place. It protects the production safety of its staff, and is committed to providing its employees with healthcare as well as a safe, healthy and protected working environment.

The Company's production workshops are all installed with equipment for dust, noise and poison protection. Signs of dangerous goods are set up, and the use and storage of combustible and explosive goods is regulated. Its production staff members are provided with appliances for labour protection including protection equipment to minimise the damages to the health of its employees.

2.3 Development and Training

In order to align with the development of the Group, staff training are provided persistently, such as safety training, first aids training, management certificate studies, and top-up courses for specialized skills. While instilling corporate values to employees, staff is trained with good conduct and professional knowledge and skills. The Group also provides its new production staff with intense training in GMP production methods, safe operating procedures and regulations combined with focused training on their individual duty. In addition, mentors are assigned to new production employees to give them specific on-the-job training to ensure that new joiner operate efficiently and work well as a team. Our staff is required to familiarise themselves with our most updated guidelines and to renew their relevant qualifications, certifications or licenses from time to time. In 2016, other than on sites training, our employees received over 6,000 hours of training. Subjects included health and safety, technical training and information technology. We solicit feedback and recommendations from participants on training programs to improve the quality and effectiveness of training.

3. Operation Practices

3.1 Supply Chain Management

As at 31 December 2016, the Group had approximately 270 suppliers which are all from China. The Group follows principles of fairness, justice, openness, timeliness and effectiveness to select quality suppliers. Price is not the sole basis, the Group will compare price between products or services of the same quality, and compare service quality between products or services of the same price.

By adhering to the principles of quality, integrity and mutual benefits with suppliers, the Group is able to control product quality and cost from the source. The Group has established a number of standardized Chinese medicine planting bases, in conjunction with assessing suppliers' product quality, delivery, price, service and other aspects, the supplier mechanism is constantly improved. Through training and development, the Group is able to bring strategic partners with mutual benefits together, forming a strategic alliance among a number of quality suppliers.

3.2 Product Responsibility

All the product formats of the Group have passed the new GMP certification, and implements strict control measures throughout its production process in accordance with GMP and ISO9001 requirements. Raw materials, packaging materials, semi-finished products and finished goods are subject to quality checks to ensure compliance with relevant standards.

The Group has a comprehensive quality control department and a complete quality assurance system, with strict quality supervision and quality inspection procedures. The quality control center is recognised as "Accredited Laboratory" by China National Accreditation Service for Conformity Assessment. Besides, a comprehensive inspection on workshop and facilities, equipment, materials and products, production management, quality management, product despatch and recall, is conducted at least twice annually in accordance with the requirements of GMP and other relevant laws and regulations, to ensure the quality assurance system carries on effectively.

In 2016, there is no product subject to recalls for safety and health reasons.

3.3 Anti-corruption

The Group puts strong emphasis on integrity, requiring all employees to raise the awareness of personal and business ethics including law-abiding behavior and practices. The Group is in compliance with the related laws and regulations, such as the Criminal Law of the PRC, Anti-corruption and Bribery Law of the PRC and the Prevention of Bribery Ordinance of Hong Kong. On-the-job training is provided to new joiners and regular self-discipline training is conducted to sales staff.

The Group does not tolerate any form of corruption, there is a code of conduct in the employee handbook. A 'Honesty and Self-discipline Undertaking' has to be signed by sales staff when they join the Company to prohibit employees from requiring, charging or accepting any form of interest from people, companies or organisations who do business with the Group. Suppliers are required to sign an "Anti-Commercial Bribery Agreement" when signing a contract with the Group.

The audit department of the Group is responsible for monitoring the management decisions of the Group, standardise its internal and external reporting channels and enhance its internal and external supervision, preventing any employee misconduct. In 2016, there was no bribery case reported by the Group.

4. Commitment to our Community

The Group is devoted to take on corporate social responsibility by encouraging its employees to serve the local community. During the year, relief supplies and consolation were provided to flood-affected areas in Hubei and Hebei Provinces, estimated market value amounting to more than RMB500,000. In the future, the Company will further broaden the public interest vision, explore diversified contribution methods, and build a harmonious society through social donations and other activities.

1. Donated emergency medicine to Hubei flood area, and carried out fund-raising activities

In July 2016, severe rains occurred in Huanggang, Jingmen, Xiaogan, Wuhan and other areas in Hubei Province. China Shineway took immediate action, actively fight against floods, and donated market value of approximately RMB300,000 medicine to support disaster areas. At the same time, the Group set up seven "material donation station" in Shijiazhuang city, to encourage general public to donate relief supplies to the disaster areas.

The market value of approximately RMB300,000 medicine donated by China Shineway, including such brand drugs as Huo Xiang Zheng Qi Soft Capsules, Liyan Jiedu Granule, Compound Paracetamol Artificial Cow-bezoar, for anti-inflammatory, anti-viral, influenza treatment and diarrhea treatment, which effectively protected the health of the people in disaster areas.

2. *Donated materials to Jingxing flood area*

In 19-20 July 2016, a wide range of continuous heavy rainfall, including heavy rain in the western mountains, which has been rare in recent years occurred in Shijiazhuang City. Jingxing, Zanhuang, Pingshan counties suffered varying scales of flood. After the disaster, China Shineway actively responded to the "Flood Relief, Rebuild Homes" call from Federation of Trade Unions in Shijiazhuang City, donated medicines which are in great need for post-disaster reconstruction work. With anti-inflammatory, anti-viral, influenza treatment functions, Huo Xiang Zheng Qi Soft Capsules and Compound Paracetamol Artificial Cow-bezoar were able to prevent epidemic of diseases induced by the flood disaster.

3. *Promotional activities on drug safety*

In November 2016, China Shineway conducted the first publicity campaign on drug safety in Jiangsu Province, namely "Small Shen Miao, Big Shineway" ("小神苗大神威") Drug Safety For Children China Tour. In the campaign, China Shineway released children's safe medication guide and attracted a large number of children. Through tutorial on drug safety for children, the knowledge was widely spread to primary and secondary school students and their parents. The aim to reduce children drug abuse and promote children's medication awareness has been achieved.

The campaign was affirmed and praised by parents of the participants. Such activity is full of edutainment, on one hand, it fully inspired the painting enthusiasm of children, on the other hand, the Group is able to safeguard children's health via disseminating drug safety knowledge.

The second activity of "Small Shen Miao, Big Shineway" Drug Safety For Children China Tour has been carrying out continually in other regions.

Audit Committee Report

Dear Shareholders,

The Audit Committee formally met four times during the year and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditor as and when necessary, to consider the external auditor's proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgmental areas, accounting principles and practice adopted by the Group; review the external auditor's management letter and management's response; and review the Group's adherence to the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The Audit Committee recommended the Board to re-appoint Deloitte Touche Tohmatsu as external auditor for the fiscal year 2016 and recommended to approve the interim and annual reports.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Sun Liutai *(Chairman)*
Ms. Cheng Li
Mr. Hung Randy King Kuen (resigned on 30 March 2017)

30 March 2017

Deloitte. 德勤

To the Shareholders of 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)

OPINION

We have audited the consolidated financial statements of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 77 to 140, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on goodwill	
We identified the impairment assessment of goodwill as a key audit matter due to the involvement of significant judgements and assumptions in estimating the recoverable amount of the cash-generating units to which goodwill has been allocated.. The carrying amount of goodwill as at 31 December 2016 is RMB159,291,000 and for the purpose of impairment testing, as disclosed in note 16 to the consolidated financial statements, goodwill has been allocated to the cash-generating units of research and development, manufacturing and trading of pharmaceutical products. The recoverable amounts of the cash-generating units were determined based on the value in use calculations which require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.	Our procedures in relation to the impairment assessment on goodwill included: • Obtaining an understanding of the management's process and basis adopted in preparing the cash flow forecasts, including significant assumptions; • Assessing the reasonableness of the key assumptions made by the management, including growth rates and gross profit margin by comparing the prior year cash flow projections with the current year actual cash flows; • Testing the appropriateness of key inputs applied by the management in preparing the cash flow forecasts against historical performance, including revenue, cost of sales and operating expenses, with reference to the future strategic plans of the Group; • Assessing the key factors in determining the discount rates, including the Group's debt and equity ratio, return on investments and other risk factors, and comparing to discount rates adopted in the pharmaceutical industry for reasonableness; and • Evaluating the sensitivity analysis performed by the management in respect of the growth rates and discount rates to assess the extent of impact on the the value in use.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on property, plant and equipment and intangible assets	
We identified the impairment assessment of property, plant and equipment and intangible assets of a subsidiary as a key audit matter due to the involvement of significant judgements and assumptions in estimating the recoverable amount of the cash-generating unit to which property, plant and equipment and intangible assets have been allocated. With reference to the financial performance of a subsidiary which is engaged in research and development, manufacturing and trading of pharmaceutical products, management considered that indicators of impairment of certain property, plant and equipment and intangible assets of the Group existed as at 31 December 2016. Accordingly, management assessed whether there was any impairment of the property, plant and equipment and intangible assets used by that subsidiary at 31 December 2016 by preparing a value in use calculation. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amounts of property, plant and equipment and intangible assets for which management has performed impairment assessment as at 31 December 2016 are RMB23,958,000 and RMB311,568,000, respectively.	Our procedures in relation to the impairment assessment on property, plant and equipment and intangible assets included: • Obtaining an understanding of the management's process and basis adopted in preparing the cash flow forecasts, including significant assumptions; • Challenging the key assumptions adopted by management, including growth rates and gross margin, by referring to the industry information and management's budget; • Assessing the key factors in determining the discount rates, including the subsidiary's debt and equity ratio, return on investments and other risk factors, and comparing to discount rates adopted in the pharmaceutical industry for reasonableness; • Comparing the expected changes in selling prices and direct costs used against historical performance and discussing with management on revenue growth strategies and cost initiatives in respect of the subsidiary; and • Evaluating the sensitivity analysis performed by the management in respect of the growth rates and discount rates to assess the extent of impact on the calculations of the value in use.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Leung Chui Shan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Turnover	5	**1,993,379**	2,054,809
Cost of sales		**(706,884)**	(693,890)
Gross profit		**1,286,495**	1,360,919
Other income		**23,692**	83,780
Investment income	6	**100,578**	97,410
Net exchange gain		**6,385**	1,848
Distribution costs		**(370,650)**	(375,492)
Administrative expenses		**(277,654)**	(302,307)
Research and development costs		**(73,592)**	(68,932)
Finance costs	7	**–**	(61)
Profit before taxation	8	**695,254**	797,165
Taxation	9	**(106,058)**	(139,450)
Profit and total comprehensive income for the year		**589,196**	657,715
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**589,196**	657,906
Non-controlling interests		**–**	(191)
		589,196	657,715
Earnings per share	12		
– Basic (RMB)		**71 cents**	80 cents
– Diluted (RMB)		**71 cents**	80 cents

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	13	**1,466,458**	1,529,020
Prepaid lease payments	14	**160,578**	154,495
Intangible assets	15	**348,353**	388,744
Goodwill	16	**159,291**	159,291
Deposits for intangible assets	17	**58,000**	58,000
Deferred tax assets	18	**21,586**	23,061
		2,214,266	2,312,611
Current assets			
Inventories	19	**294,410**	340,858
Trade receivables	20	**51,122**	31,046
Bill receivables	20	**502,553**	426,277
Prepayments, deposits and other receivables	20	**128,562**	170,901
Amount due from a related company	21	**–**	1,943
Tax recoverable		**1,442**	–
Pledged bank deposits	22	**54,506**	43,247
Bank balances and cash	22	**3,218,401**	2,826,219
		4,250,996	3,840,491
Current liabilities			
Trade payables	23	**164,620**	180,879
Bills payables	23	**54,506**	43,247
Other payables and accrued expenses	23	**396,088**	452,065
Amounts due to related companies	24	**16,086**	3,292
Deferred income	25	**13,554**	4,648
Tax payable		**28,202**	17,477
		673,056	701,608
Net current assets		**3,577,940**	3,138,883
Total assets less current liabilities		**5,792,206**	5,451,494
Non-current liabilities			
Deferred tax liabilities	18	**56,431**	62,952
Deferred income	25	**109,102**	92,571
		165,533	155,523
Net assets		**5,626,673**	5,295,971

Consolidated Statement of Financial Position

At 31 December 2016

	NOTE	2016 RMB'000	2015 RMB'000
Capital and reserves			
Share capital	26	**87,662**	87,662
Reserves		**5,539,011**	5,208,309
Total equity		**5,626,673**	5,295,971

The consolidated financial statements on pages 77 to 140 were approved and authorised for issue by the Board of Directors on 30 March 2017 and are signed on its behalf by:

LI ZHENJIANG
DIRECTOR

LI HUIMIN
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital	Share premium	Merger reserve	Statutory surplus reserve fund	Discretionary surplus reserve fund	Share options reserve	Accumulated profits	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note a)	(Note b)	(Note b)					
At 1 January 2015	87,662	767,388	83,758	432,179	154,760	45,508	3,321,216	4,892,471	437	4,892,908
Profit and total comprehensive income for the year	–	–	–	–	–	–	657,906	657,906	(191)	657,715
Transfers	–	–	–	2,595	–	–	(2,595)	–	–	–
Dividends paid (Note 11)	–	–	–	–	–	–	(272,910)	(272,910)	–	(272,910)
Recognition of equity-settled share-based payments	–	–	–	–	–	17,753	–	17,753	–	17,753
Capital contribution by non-controlling shareholders	–	–	–	–	–	–	–	–	26,105	26,105
Acquisition of additional interest in subsidiaries	–	–	–	–	–	–	751	751	(26,351)	(25,600)
At 31 December 2015	87,662	767,388	83,758	434,774	154,760	63,261	3,704,368	5,295,971	–	5,295,971
Profit and total comprehensive income for the year	–	–	–	–	–	–	589,196	589,196	–	589,196
Transfers	–	–	–	2,176	–	–	(2,176)	–	–	–
Dividends paid (Note 11)	–	–	–	–	–	–	(264,640)	(264,640)	–	(264,640)
Recognition of equity-settled share-based payments	–	–	–	–	–	6,146	–	6,146	–	6,146
Lapse of share options	–	–	–	–	–	(4,577)	4,577	–	–	–
At 31 December 2016	87,662	767,388	83,758	436,950	154,760	64,830	4,031,325	5,626,673	–	5,626,673

Notes:

(a) Merger reserve of the Group represents the difference between the net asset value of the subsidiaries and the nominal amount of the Company's shares which were issued as consideration for the subsidiaries at the time of the group reorganisation in preparation for the listing of the Company's shares.

(b) Statutory surplus reserve fund and discretionary surplus reserve fund are appropriated each year by certain subsidiaries in the People's Republic of China (the "PRC") on the basis of 10% of the profit after taxation as determined by the board of directors of the relevant subsidiaries and at the rate decided by the shareholders annually, respectively, in accordance with the Articles of Associations ("Articles") of the relevant subsidiaries. According to the provision of the Articles, in normal circumstances, this reserve should only be used for making up losses, capitalisation into capital and expansion of production and operation.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	NOTE	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before taxation		**695,254**	797,165
Adjustments for:			
Depreciation of property, plant and equipment		**150,656**	150,258
Amortisation of prepaid lease payments		**4,075**	3,860
Amortisation of intangible assets		**40,391**	12,185
Loss (gain) on disposal of property, plant and equipment		**247**	(1,517)
Interest expense		**–**	61
Interest income		**(65,817)**	(52,254)
Investment income from debt-related products		**–**	(7,633)
Investment income from short-term financial products		**(34,761)**	(37,523)
Unrealised exchange (gain) loss		**(3,000)**	3,681
Government grant recognised as other income		**(3,835)**	(30,542)
Share-based payments expense		**6,146**	17,753
Operating cash flows before movements in working capital		**789,356**	855,494
Decrease (increase) in inventories		**46,448**	(40,056)
(Increase) decrease in trade and bills receivables		**(96,352)**	141,793
Decrease (increase) in prepayments, deposits and other receivables		**53,972**	(10,994)
(Decrease) increase in trade and bills payables		**(5,000)**	20,409
Increase (decrease) in other payables and accrued expenses		**32,186**	(43,728)
Decrease (increase) in amount due from a related company		**1,943**	(1,943)
Increase (decrease) in amounts due to related companies		**12,794**	(3,770)
Cash generated from operations		**835,347**	917,205
PRC Enterprise Income Tax paid		**(101,821)**	(172,498)
Net cash generated from operating activities		**733,526**	744,707

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Investing activities			
Interest received		**54,125**	35,453
Withdrawal of pledged bank deposits		**43,247**	240,410
Net proceeds from short-term financial products	6	**34,761**	37,523
Government grants received		**29,272**	16,338
Proceeds from disposal of property, plant and equipment		**845**	5,097
Purchase of property, plant and equipment		**(96,292)**	(106,557)
Payment for acquisition of a subsidiary in prior year	29	**(78,360)**	–
Placement of pledged bank deposits		**(54,506)**	(43,247)
Purchase of land use rights		**(10,500)**	(14,793)
Disposal of a subsidiary	30	**(2,298)**	–
Proceeds from redemption of debt related products		**–**	307,633
Acquisition of subsidiaries	29	**–**	(301,072)
Acquisition of debt-related products		**–**	(300,000)
Deposits for intangible assets		**–**	(6,000)
Purchase of intangible assets		**–**	(11)
Net cash used in investing activities		**(79,706)**	(129,226)
Financing activities			
Dividends paid		**(264,640)**	(272,910)
Repayment of bank loans		**–**	(200,000)
Acquisition of additional interests of subsidiaries		**–**	(600)
Interest paid		**–**	(219)
Net cash used in financing activities		**(264,640)**	(473,729)
Net increase in cash and cash equivalents		**389,180**	141,752
Cash and cash equivalents at beginning of the year		**2,826,219**	2,688,148
Effect of exchange rate changes of cash and cash equivalents		**3,002**	(3,681)
Cash and cash equivalents at end of the year, representing bank balances and cash		**3,218,401**	2,826,219

1. GENERAL

China Shineway Pharmaceutical Group Limited ("The Company") is a listed company registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 August 2002 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Forway Investment Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability. The addresses 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 also the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in the note 38.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatory effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time in the current year.

Amendments to IAS 1	Disclosure initiative
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants
Amendments to IFRSs	Annual improvements to IFRSs 2012 – 2014 cycle
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception
Amendments to IFRS 11	Accounting for acquisitions of interest in joint operations

Except as described as below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Amendments to IFRSs that are mandatory effective for the current year (Continued)

Amendments to IAS 1 "Disclosure initiative"

The Group has applied the amendments to IAS 1 "Disclosure initiative" for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The grouping and ordering of certain notes related to acquisition of subsidiaries, share-based payment transactions and commitments have been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Specifically, information to capital risk management and financial instruments were reordered to notes 33 and 34, respectively. Other than the above presentation and disclosure changes, the application of the amendments to IAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

New and amendments to IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial instruments[1]
IFRS 15	Revenue from contracts with customers and the related amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign currency transactions and advance consideration[1]
Amendments to IFRS 2	Clarifications and measurement of share-based payment transactions[1]
Amendments to IFRS 4	Apply IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"[1]
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to IFRSs	Annual improvements to IFRSs 2014 – 2016 cycle[4]
Amendments to IAS 7	Disclosure initiative[5]
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses[5]
Amendments to IAS 40	Transfers of investment property[1]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.
5 Effective for annual periods beginning on or after 1 January 2017.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and amendments to IFRSs issued but not yet effective (Continued)

IFRS 9 "Financial instruments"

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge amounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 "Financial instruments: Recognition and measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, the application of HKFRS 9 in the future may have an impact on the measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and amendments to IFRSs issued but not yet effective (Continued)

IFRS 15 "Revenue from contracts with customers"

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures but will not have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and amendments to IFRSs issued but not yet effective (Continued)

IFRS 16 "Leases"

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 "Leases" and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Company currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB5,679,000 as disclosed in note 31. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of the Company anticipate that the application of the other new and amendments to IFRSs will have no material effect on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance (the "CO").

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based payment", leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial instruments: Recognition and measurement", when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising from an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values over their useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets comprise loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, amount due from a related company, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contracts, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period normally ranging from six months to one year, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and bills receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or bills receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bills payables and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants (Continued)

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees
For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. The estimated uncertainty mainly includes gross margin, discount rate and growth rate Where the actual future cash flows are less than expected, or change in facts and circumstances of which results in downward revision of future cash, a material impairment loss or a further impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill is RMB159,291,000 (2015: RMB159,291,000). Details of the recoverable amount calculation are disclosed in note 16.

Estimated impairment of property, plant and equipment and intangible assets

When there is indication that property, plant and equipment and intangible assets with finite useful lives may be impaired, the Group estimates the recoverable amount of the relevant asset or the cash-generating unit to which the asset belongs. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit in which the relevant assets are attached to, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The estimated uncertainty mainly includes gross margin, discount rate and growth rate Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss or a further impairment loss may arise. As at 31 December 2016, the carrying amounts of property, plant and equipment and intangible assets of a subsidiary for which management has performed impairment assessment are RMB23,958,000 and RMB311,568,000, respectively. Details of the recoverable amount calculation are disclosed in notes 13 and 15.

5. TURNOVER AND SEGMENT INFORMATION

Operating segments

The Group's operation was regarded as a single segment, being an enterprise engaged in research and development, manufacturing and trading of Chinese pharmaceutical products. The Chairman of the Board of Directors of the Group, being the chief operating decision maker ("CODM"), reviews the revenue and the profit for the year of the Group as a whole for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM. Therefore, the operation of the Group constitutes one single reportable segment.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2016	2015
	RMB'000	RMB'000
Injections	**1,109,790**	1,166,627
Soft capsules	**363,424**	410,470
Granules	**384,301**	392,850
Others	**135,864**	84,862
	1,993,379	2,054,809

Geographical information

Sales of the Group to external customers were substantially made in the People's Republic of China (the "PRC") including Hong Kong.

All non-current assets of the Group including goodwill are located in the PRC including Hong Kong.

Information about major customers

For each of the year ended 31 December 2016 and 2015, there was no customer with turnover accounted for more than 10% of the Group's total turnover.

6. INVESTMENT INCOME

	2016 RMB'000	2015 RMB'000
Interest on bank deposits	**65,817**	52,254
Investment income from short-term financial products (Note a)	**34,761**	37,523
Investment income from debt related products (Note b)	**–**	7,633
	100,578	97,410

Notes:

(a) These short-term financial products, which are related to debt and equity instruments and foreign currencies, carried effective interest rate ranged from 3.6% to 4.4% (2015: 4.0% to 6.4%) per annum. In the opinion of the directors of the Company, these short-term financial products are large in amounts, with quick turnover and short maturities. Accordingly, the cash receipts and payments for these short-term financial products are presented on a net basis in the consolidated statement of cash flows.

(b) These debt related products were entered into and matured during the year ended 31 December 2015 with effective interest rate ranged from 5.3% to 6.0% per annum. No debt related products were entered during the year ended 31 December 2016.

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings	**–**	61

8. PROFIT BEFORE TAXATION

	2016 RMB'000	2015 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments (see note 10)	**13,488**	15,041
Other staff costs	**226,347**	265,677
Other staff's pension costs	**50,446**	51,897
Share-based payments expense for other staff	**4,350**	14,818
	294,631	347,433
Less: Capitalised in inventories	**(107,713)**	(111,642)
	186,918	235,791
Depreciation of property, plant and equipment	**150,656**	150,258
Amortisation of prepaid lease payments	**4,075**	3,860
Amortisation of intangible assets	**40,391**	12,185
Total depreciation and amortisation	**195,122**	166,303
Less: Capitalised in inventories	**(151,183)**	(122,825)
	43,939	43,478
Auditor's remuneration	**1,696**	1,660
Loss (gain) on disposal of property, plant and equipment	**247**	(1,517)
Rental expenses under operating lease in respect of rented premises	**7,472**	7,110
Government subsidies (included in other income) (Note)	**(18,949)**	(75,258)

Note: The government subsidies represent the amounts received from the local government by the subsidiaries of the Company. In 2016, government subsidies of (a) RMB15,114,000 (2015: RMB44,716,000) represent incentives received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB3,835,000 (2015: RMB30,542,000) represent recognition of deferred income upon completion of related research activities (note 25).

9. TAXATION

	2016 RMB'000	2015 RMB'000
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**111,619**	122,864
(Over)underprovision in prior years	**(4,765)**	5,161
Withholding tax on distributed profits	**4,250**	29,500
	111,104	157,525
Deferred tax:		
Current year	**(5,046)**	(1,075)
Withholding tax on undistributed profits	**–**	(17,000)
	(5,046)	(18,075)
	106,058	139,450

The taxation charge for the year can be reconciled to the profit before taxation as follows:

	2016 RMB'000	2015 RMB'000
Profit before taxation	**695,254**	797,165
Tax at the applicable tax rate of 25% (2015: 25%)	**173,814**	199,291
Tax effect of expenses not deductible for tax purposes	**6,020**	7,729
Tax effect of income not taxable for tax purposes	**(8,076)**	(9,604)
Tax losses not recognised	**9,735**	7,720
Income tax on concessionary rate	**(76,110)**	(85,401)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,196**	2,059
Withholding tax on distributed profits of subsidiaries operating in the PRC	**4,250**	12,500
(Over)underprovision in prior years	**(4,765)**	5,161
Others	**(6)**	(5)
Taxation charge for the year	**106,058**	139,450

9. TAXATION (Continued)

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the year. The Company and its subsidiaries operating in Hong Kong do not have assessable profits, accordingly, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

A subsidiary which is operating in Western China has been granted tax concession by the local tax bureau and is entitled to PRC EIT at concessionary rate of 9% for both years, for which the tax concession will expire in 2017. Certain subsidiaries which are recognised as High and New-tech Enterprise have been granted tax concessions for which by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both years. The tax concessions will expire in 2017. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

Under the applicable corporate tax law in Australia, income tax is charged at 30% of the estimated assessable profits. No provision for Australian income tax has been made in the consolidated financial statements as the subsidiary operating in Australia has no assessable profits for both years.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the CO, is as follows:

		Other emoluments				
	Fees	Salaries, allowance and other benefits in kind	Performance related incentive payments	Pension costs	Share-based payments expense	Total remuneration
	RMB'000	RMB'000	RMB'000 (Note)	RMB'000	RMB'000	RMB'000
Year ended 31 December 2016						
Executive directors:						
Li Zhenjiang	**300**	**4,343**	**–**	**16**	**–**	**4,659**
Xin Yunxia	**173**	**2,505**	**–**	**16**	**496**	**3,190**
Li Huimin	**71**	**1,031**	**–**	**16**	**407**	**1,525**
Lee Ching Ton Brandelyn	**64**	**923**	**–**	**16**	**397**	**1,400**
Chen Zhong	**115**	**1,670**	**–**	**16**	**496**	**2,297**
Wang Zheng Pin (resigned on 1 January 2016)	**–**	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors:						
Sun Liutai	**139**	**–**	**–**	**–**	**–**	**139**
Cheng Li	**139**	**–**	**–**	**–**	**–**	**139**
Hung Randy King Kuen (resigned on 30 March 2017)	**139**	**–**	**–**	**–**	**–**	**139**
	1,140	**10,472**	**–**	**80**	**1,796**	**13,488**
Year ended 31 December 2015						
Executive directors:						
Li Zhenjiang	285	4,119	–	15	–	4,419
Xin Yunxia	164	2,376	–	15	616	3,171
Li Huimin	68	992	80	15	594	1,749
Lee Ching Ton Brandelyn	60	875	–	15	493	1,443
Chen Zhong	109	1,584	–	17	616	2,326
Wang Zheng Pin (resigned on 1 January 2016)	59	847	–	15	616	1,537
Independent non-executive directors:						
Sun Liutai	132	–	–	–	–	132
Cheng Li	132	–	–	–	–	132
Hung Randy King Kuen	132	–	–	–	–	132
	1,141	10,793	80	92	2,935	15,041

Note: The performance related incentive payments were determined with reference to the Group's results and the individual's performance for the year.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Mr. Li Zhenjiang is also the chief executive of the Company and his emoluments disclosed above included those for services rendered by him as chief executive.

The five highest paid individuals of the Group included 5 directors (2015: 5), details of whose emoluments are set out above.

During the year, no remuneration was paid by the Group to the directors or highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during the year.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the Group's operating results, individual performance and market statistics.

11. DIVIDENDS

	2016 **RMB'000**	2015 RMB'000
Dividends recognised as distributions during the year:		
Final dividend paid for 2015 of RMB12 cents (2014: RMB12 cents) per share	**99,240**	99,240
Special dividend paid for 2015 of RMB9 cents (2014: RMB10 cents) per share	**74,430**	82,700
Interim dividend paid for 2016 of RMB11 cents (2015: RMB11 cents) per share	**90,970**	90,970
	264,640	272,910
Dividends proposed:		
Proposed final dividend of RMB12 cents (2015: RMB12 cents) per share	**99,240**	99,240
Proposed special dividend of RMB9 cents (2015: RMB9 cents) per share	**74,430**	74,430
	173,670	173,670

11. DIVIDENDS (Continued)

The final dividend of RMB12 cents per share and special dividend of RMB9 cents per share, totalling RMB21 cents per share, in an aggregate amount of RMB173,670,000, have been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2016 RMB'000	2015 RMB'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**589,196**	657,906

	Number of ordinary shares	
	2016	2015
Number of ordinary shares for the purpose of basic and diluted earnings per share	**827,000,000**	827,000,000

The computation of diluted earnings per share for the year ended 31 December 2016 and 2015 has not assumed the exercise of the Company's share options because the adjusted exercise prices of the share options (after the adjustment of the fair value of the unvested share options) were higher than the average market prices of those shares for the outstanding period during the year ended 31 December 2016 and 2015.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machineries RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2015	1,085,149	1,011,766	60,626	4,835	88,327	2,250,703
Currency realignment	–	–	70	–	–	70
Additions	1,110	10,855	4,663	287	56,508	73,423
Acquisition of subsidiaries (note 29)	17,260	16,220	974	256	–	34,710
Disposals	(2,109)	(10,381)	(168)	(1,892)	–	(14,550)
Reclassifications	–	16,265	–	–	(16,265)	–
At 31 December 2015	1,101,410	1,044,725	66,165	3,486	128,570	2,344,356
Currency realignment	–	–	74	–	–	74
Additions	2,014	9,552	2,431	711	74,475	89,183
Disposals	–	(4,797)	(2,663)	(505)	–	(7,965)
Reclassifications	8,536	3,263	–	–	(11,799)	–
At 31 December 2016	1,111,960	1,052,743	66,007	3,692	191,246	2,425,648
DEPRECIATION						
At 1 January 2015	197,955	436,171	37,798	4,054	–	675,978
Currency realignment	–	–	70	–	–	70
Charge for the year	54,784	87,597	7,626	251	–	150,258
Eliminated on disposals	(1,275)	(7,726)	(162)	(1,807)	–	(10,970)
At 31 December 2015	251,464	516,042	45,332	2,498	–	815,336
Currency realignment	–	–	71	–	–	71
Charge for the year	55,774	87,674	6,697	511	–	150,656
Eliminated on disposals	–	(3,820)	(2,563)	(490)	–	(6,873)
At 31 December 2016	307,238	599,896	49,537	2,519	–	959,190
CARRYING VALUES						
At 31 December 2016	804,722	452,847	16,470	1,173	191,246	1,466,458
At 31 December 2015	849,946	528,683	20,833	988	128,570	1,529,020

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives after taking into account their estimated residual values using the straight-line method as follows:

Buildings	20 years or over the unexpired lease terms, whichever is shorter
Plant and machineries	3 to 10 years
Office equipment	5 years
Motor vehicles	3 years

The buildings are located in the PRC.

During the year, the management performed an impairment assessment on certain property, plant and equipment of a subsidiary with carrying amount of RMB23,958,000 in accordance with IAS 36. The management estimated the recoverable amount of the cash-generating unit of which these property, plant and equipment have been allocated. The recoverable amount is higher than the carrying amount of these property, plant and equipment and accordingly, no impairment loss has been recognised. Particulars regarding impairment testing are disclosed in note 16.

14. PREPAID LEASE PAYMENTS

	2016 **RMB'000**	2015 RMB'000
Leasehold land in the PRC	**164,953**	158,528
Less: Amount charged within one year (included in other receivables)	**(4,375)**	(4,033)
	160,578	154,495

Movements of prepaid lease payments are as follows:

	2016 **RMB'000**	2015 RMB'000
At 1 January	**158,528**	145,466
Addition during the year	**10,500**	14,793
Acquisition of subsidiaries (note 29)	**–**	2,129
Expense for the year	**(4,075)**	(3,860)
At 31 December	**164,953**	158,528

The lease term over which the prepaid lease payments are amortised ranged from 45 to 50 years.

15. INTANGIBLE ASSETS

Movements of intangible assets are as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	**388,744**	23,286
Addition	**–**	11
Acquisition of subsidiaries (note 29)	**–**	377,632
Amortisation for the year	**(40,391)**	(12,185)
At 31 December	**348,353**	388,744

The intangible assets represent patents with finite useful lives. Such intangible assets are amortised on straight-line basis over the useful lives from 2 to 20 years.

During the year, the management performed an impairment assessment on certain intangible assets with carrying amount of RMB311,568,000 in accordance with IAS 36. The management estimated the recoverable amount of the cash-generating unit of which these intangible assets have been allocated. The recoverable amount is higher than the carrying amount of these intangible assets and accordingly, no impairment loss has been recognised. Particulars regarding impairment testing are disclosed in note 16.

16. GOODWILL

	2016	2015
	RMB'000	RMB'000
COST		
At 1 January	**159,291**	99,654
Acquisition of subsidiaries (note 29)	**–**	59,637
At 31 December	**159,291**	159,291

For the purpose of impairment testing, goodwill has been allocated to the cash-generating units including subsidiaries with principal activities of research and development, manufacturing and trading of pharmaceutical products.

During the year ended 31 December 2016, the management of the Group has determined that there are no impairment of any of its CGUs containing goodwill.

16. GOODWILL (Continued)

The basis of recoverable amounts of the above cash-generating units and their major underlying assumptions are summarised below:

The recoverable amounts of the cash-generating units have been determined based on value in use calculations which use cash flow projections based on most recent financial budgets approved by management covering a five-year period, and discount rates of 9.2%-9.3% (2015: 10.6%). Cash flows beyond the five-year period have been extrapolated using an estimated constant growth rates of 0%-2% (2015: 1%) which do not exceed the average growth rate for the relevant markets.

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which includes gross margin, discount rates and growth rates, such estimation is based on the unit's past performance and management's expectations for the market development. The management believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the group of units to exceed the aggregate of its recoverable amount.

17. DEPOSITS FOR INTANGIBLE ASSETS

Included in the deposits for intangible assets is an amount of RMB22,000,000 (2015: RMB22,000,000) paid for acquisition of certain patents. The legal titles of the patents will only be transferred to the Group upon the completion of construction of relevant production plant. As the construction of the production plant is still in progress, the legal titles of the patents have not been transferred and the acquisition has not been completed.

Included in the deposits for intangible assets is an amount of RMB36,000,000 (2015: RMB36,000,000) paid for development of certain patents. The legal titles of the patents will only be transferred to the Group upon the completion of the development process and the grant of patents from the local government authority. As the development process is still in progress, the legal titles of the patents have not been granted and the transaction has not been completed.

18. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016	2015
	RMB'000	RMB'000
Deferred tax assets	**21,586**	23,061
Deferred tax liabilities	**(56,431)**	(62,952)
	(34,845)	(39,891)

The followings are the major deferred tax assets (liabilities) and assets recognised and movement thereon during the current and prior years.

	Accelerated tax depreciation	**Deferred income**	**Fair value adjustment arising from acquisition of subsidiaries**	**Others**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	5,025	17,811	(5,748)	(16,610)	478
Acquisition of subsidiaries (note 29)	–	–	(58,444)	–	(58,444)
(Charge) credit to profit or loss	(201)	(933)	2,128	17,081	18,075
At 31 December 2015	4,824	16,878	(62,064)	471	(39,891)
(Charge) credit to profit or loss	(146)	(933)	6,466	(341)	5,046
At 31 December 2016	4,678	15,945	(55,598)	130	(34,845)

At the end of the reporting period, the Group has unused tax losses of RMB202,280,000 (2015: RMB164,360,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of RMB96,870,000 (2015: RMB64,944,000) that will expire in 5 years (2015: 5 years). Other losses may be carried forward indefinitely.

18. DEFERRED TAXATION (Continued)

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated undistributed profits of the PRC subsidiaries amounting to RMB3,939,803,000 (2015: RMB3,333,562,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

19. INVENTORIES

	2016	2015
	RMB'000	RMB'000
Raw materials	**91,660**	122,758
Work in progress	**81,547**	87,530
Finished goods	**121,203**	130,570
	294,410	340,858

20. TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Trade receivables	**51,122**	31,046
Bills receivables	**502,553**	426,277
	553,675	457,323

The Group allows a credit period normally ranging from six months to one year to its trade customers. The following is an aged analysis of trade and bills receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2016	2015
	RMB'000	RMB'000
Within 6 months	**546,953**	456,704
Over 6 months but less than 1 year	**6,722**	619
	553,675	457,323

20. TRADE AND OTHER RECEIVABLES (Continued)

Before accepting any new customer, the Group has appointed a special team to monitor the potential customer's credit quality and define credit limits by customer, which are reviewed every year. There is no adverse change in the credit quality of the customers from the date of credit was initially granted and no allowance for doubtful debts was provided at the end of the reporting period. All of the trade and bills receivables are not past due.

Prepayments, deposits and other receivables of the Group mainly represent interest income receivables, advance to suppliers and value added tax recoverable.

Included in prepayments, deposits and other receivables is amount due from Jing Li Yuan Biotechnology Limited 精力源生物科技有限公司 ("Jing Li Yuan"), a related company which is ultimately controlled by the controlling shareholder of the Company and a former subsidiary of the Company, amounting to RMB944,000 at 31 December 2016 (2015: nil). The balance is unsecured, interest-free and repayable on demand.

Included in prepayments, deposits and other receivables was an amount due from Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical"), a related company which is ultimately controlled by the controlling shareholder of the Company, amounting to nil at 31 December 2016 (2015: RMB52,598,000). The balance was unsecured, interest-free and repayable on demand.

21. AMOUNT DUE FROM A RELATED COMPANY

	2016 **RMB'000**	2015 RMB'000
Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores")	–	1,943

Shineway Drugstores is ultimately controlled by the controlling shareholder of the Company.

The Group allowed a credit period of 30 days to Shineway Drugstores. The amount due from Shineway Drugstores was unsecured, interest-free and aged within 6 months based on invoice date at 31 December 2015 (2016: nil).

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At 31 December 2016, pledged bank deposits of RMB54,506,000 (2015: RMB43,247,000) represented certain bank deposits pledged to banks to secure bills payables of the Group amounting to RMB54,506,000 (2015: RMB43,247,000). The pledged bank deposits carry fixed interest rate at 1.55% (2015: from 1.55% to 2.05%) per annum. The pledged bank deposits will be released upon the settlement of the relevant bills payables.

At the end of the reporting period, bank balances and cash of RMB3,004,980,000 (2015: RMB2,351,162,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is regulated by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

The effective interest rate on bank balances ranged from 0.01% to 1.35% (2015: 0.01% to 1.35%) per annum as at 31 December 2016.

23. TRADE AND OTHER PAYABLES

	2016 **RMB'000**	2015 RMB'000
Trade payables	**164,620**	180,879
Bills payables	**54,506**	43,247
	219,126	224,126

23. TRADE AND OTHER PAYABLES (Continued)

An aged analysis of the Group's trade and bills payables at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
Within 6 months	**197,387**	211,678
Over 6 months but less than 1 year	**1,807**	1,131
Over 1 year but less than 2 years	**11,298**	4,055
Over 2 years	**8,634**	7,262
	219,126	224,126

Trade and bills 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.

Other payables and accrued expenses of the Group mainly represent payables for acquisition of property, plant and equipment, receipts in advance from customers, promotion expenses payable, deposits received from sales personnel and value added tax payable.

24. AMOUNTS DUE TO RELATED COMPANIES

	2016 RMB'000	2015 RMB'000
Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang")	**9,008**	3,292
Shineway Medical	**6,927**	–
Shineway Drugstores	**151**	–
	16,086	3,292

Shineway Lang Fang is ultimately controlled by the controlling shareholder of the Company.

The Group allowed a credit term of 30 days to Shineway Lang Fang and Shineway Medical. The amounts due to related companies are unsecured and interest-free.

25. DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
At 1 January	**97,219**	109,423
Addition during the year	**29,272**	16,338
Acquisition of subsidiaries (note 29)	**–**	2,000
Recognised as other income	**(3,835)**	(30,542)
At 31 December	**122,656**	97,219
Analysed for reporting purpose as		
Current liabilities	**13,554**	4,648
Non-current liabilities	**109,102**	92,571
	122,656	97,219

Included in the deferred income at 31 December 2016 are government subsidies amounting to RMB58,878,000 (2015: RMB29,708,000) in relation to research and development expenses on certain new products not yet recognised. The subsidy is recognised as deferred income because there is an obligation to repay the subsidy if the related research is not successfully completed. The amount will be recognised in profit or loss when the related research is successfully completed. During the year, the Group received RMB29,272,000 (2015: RMB16,338,000) government subsidies in relation to research and development expenses and recognised RMB102,000 (2015: RMB26,809,000) in profit or loss as the related researches are successfully completed.

Included in the deferred income at 31 December 2016 is a government subsidy amounting to RMB63,778,000 (2015: RMB67,511,000) received in 2011 in relation to a development project, including the construction of production premises and acquisition of plant and machineries, in 邛崍醫藥產業園 (Qionglai Pharmaceutical Area) in Sichuan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for management's intended use. The development project was completed in 2014 and the deferred income has been amortised and recognised as other income in profit or loss over the useful lives of the related assets. Deferred income amounting to RMB3,733,000 (2015: RMB3,733,000) is transferred to profit or loss during the year.

26. SHARE CAPITAL

	Number of shares	Amount
	'000	'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 31 December 2016	5,000,000	HK$500,000
Issued and fully paid:		
At 1 January 2015, 31 December 2015 and 31 December 2016	827,000	HK$82,700
Shown in the financial statement as		RMB87,662

27. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme which was adopted pursuant to a resolution passed on 10 November 2004 (the "Old Scheme") for a period of 10 years. A new share option scheme (the "New Scheme") was adopted at the extraordinary general meeting of the Company held on 29 May 2015 for a period of 10 years. The primary purpose of the Old Scheme and New Scheme is to provide incentives to:

(a) director or employee of any members of the Group;

(b) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or employee of any member of the Group;

(c) any consultant, professional and other advisers to any member of the Group;

(d) any chief executive or substantial shareholder of any member of the Group;

(e) any associate of any director, chief executive or substantial shareholder of any member of the Group; and

(f) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up options.

The Old Scheme has expired on 9 November 2014 and the New Scheme will expire on 28 May 2025.

27. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The total number of shares in respect of which options may be granted under the Old Scheme and New 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.

Options 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 was determined by the directors of the Company, and would 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.

Details of specific categories of options granted under the Old Scheme are as follows:

Date of grant	Vesting period	Vesting proportion	Exercise period	Exercise price
				HK$
2.9.2013	2.9.2013 – 1.9.2014	20%	2.9.2014 – 1.9.2019	11.84
	2.9.2013 – 1.9.2015	20%	2.9.2015 – 1.9.2019	11.84
	2.9.2013 – 1.9.2016	20%	2.9.2016 – 1.9.2019	11.84
	2.9.2013 – 1.9.2017	20%	2.9.2017 – 1.9.2019	11.84
	2.9.2013 – 1.9.2018	20%	2.9.2018 – 1.9.2019	11.84
5.9.2013	5.9.2013 – 4.9.2014	20%	5.9.2014 – 4.9.2019	11.84
	5.9.2013 – 4.9.2015	20%	5.9.2015 – 4.9.2019	11.84
	5.9.2013 – 4.9.2016	20%	5.9.2016 – 4.9.2019	11.84
	5.9.2013 – 4.9.2017	20%	5.9.2017 – 4.9.2019	11.84
	5.9.2013 – 4.9.2018	20%	5.9.2018 – 4.9.2019	11.84
7.11.2014	7.11.2014 – 6.11.2015	20%	7.11.2015 – 6.11.2020	14.12
	7.11.2014 – 6.11.2016	20%	7.11.2016 – 6.11.2020	14.12
	7.11.2014 – 6.11.2017	20%	7.11.2017 – 6.11.2020	14.12
	7.11.2014 – 6.11.2018	20%	7.11.2018 – 6.11.2020	14.12
	7.11.2014 – 6.11.2019	20%	7.11.2019 – 6.11.2020	14.12

27. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Details of specific categories of options granted under the New Scheme are as follows:

Date of grant	Vesting period	Vesting proportion	Exercise period	Exercise price HK$
1.6.2016	1.6.2016 – 31.5.2017	20%	1.6.2017 – 31.5.2022	8.39
	1.6.2016 – 31.5.2018	20%	1.6.2018 – 31.5.2022	8.39
	1.6.2016 – 31.5.2019	20%	1.6.2019 – 31.5.2022	8.39
	1.6.2016 – 31.5.2020	20%	1.6.2020 – 31.5.2022	8.39
	1.6.2016 – 31.5.2021	20%	1.6.2021 – 31.5.2022	8.39

The following table discloses movements of the Company's share options held by employees and directors pursuant to the Old Scheme and the New Scheme during the year:

		Number of share options				
Date of grant	Exercise price	Outstanding at beginning of the year	Reclassification (Note)	Granted during the year	Lapsed during the year	Outstanding at end of the year
For the year ended 31 December 2016						
Directors						
2.9.2013	11.84	4,100,000	(1,000,000)	–	–	3,100,000
5.9.2013	11.84	500,000	–	–	–	500,000
		4,600,000	(1,000,000)	–	–	3,600,000
Employees						
2.9.2013	11.84	18,400,000	1,000,000	–	(1,850,000)	17,550,000
7.11.2014	14.12	2,000,000	–	–	(2,000,000)	–
1.6.2016	8.39	–	–	1,000,000	–	1,000,000
		20,400,000	1,000,000	1,000,000	(3,850,000)	18,550,000
		25,000,000	–	1,000,000	(3,850,000)	22,150,000
Exercisable at end of the year						–
Weighted average exercise price (HK$)		12.02	–	8.39	13.02	11.68

Note: Being reclassification of share options upon resignation of a director.

27. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

		Number of share options				
Date of grant	**Exercise price**	**Outstanding at beginning of the year**	**Reclassification**	**Granted during the year**	**Lapsed during the year**	**Outstanding at end of the year**
For the year ended 31 December 2015						
Directors						
2.9.2013	11.84	4,100,000	–	–	–	4,100,000
5.9.2013	11.84	500,000	–	–	–	500,000
		4,600,000	–	–	–	4,600,000
Employees						
2.9.2013	11.84	20,400,000	–	–	(2,000,000)	18,400,000
7.11.2014	14.12	2,000,000	–	–	–	2,000,000
		22,400,000	–	–	(2,000,000)	20,400,000
		27,000,000	–	–	(2,000,000)	25,000,000
Exercisable at end of the year						–
Weighted average exercise price (HK$)		12.01	–	–	11.84	12.02

27. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

During the year ended 31 December 2016, options were granted pursuant to the New Scheme on 1 June 2016. The estimated fair value of the options granted on that date was HK$2,544,000 (2015: nil).

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

Grant date	**1.6.2016**
Share price (HK$)	8.39
Exercise price (HK$)	8.39
Expected volatility	43.13%
Expected life (years)	6
Risk-free rate	1.02%
Expected dividend yield	3.30%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 6 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Change in the subjective input may materially affect the fair value estimates.

The Group recognised a total expense of RMB6,146,000 (2015: RMB17,753,000) for the year ended 31 December 2016 in relation to share options granted by the Company.

28. RETIREMENT BENEFITS PLANS

The employees of the Group's PRC subsidiaries participate in retirement and medicare insurances in accordance with the PRC laws and related regulations. When an employee joins the Group, he is enrolled with the local retirement plan. Contributions to the retirement insurance, borne by the Group and the employee jointly at the proportions stipulated by the local Municipal Government, are paid to the social insurance institutions monthly. When the employee retires, he receives his retirement funds from the insurance company directly and is also entitled to enjoy medical benefits after retirement provided by the insurance company. Other than the contributions, the Group has no forfeited contribution nor obligation for any related retirement benefits.

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, with maximum of HK$1,500 per employee per month, to the MPF Scheme, which contribution is matched by employees.

The total expense recognised in the consolidated statement of profit or loss and other comprehensive income of RMB50,526,000 (2015: RMB51,989,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

29. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2015

In August 2015, the Group acquired 60% equity interest in Yunnan Shineway Spirin Pharmaceutical Company Limited 雲南神威施普瑞藥業有限公司 ("Shineway Spirin"), which is engaged in the manufacturing and trading of pharmaceutical products in the PRC, at a cash consideration of RMB42,000,000. This transaction has been accounted for using the acquisition method.

	RMB'000
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	8,719
Intangible assets	21,347
Inventories	10,604
Trade receivables	4,921
Bills receivables	378
Prepayment, deposits and other receivables	25,059
Tax recoverable	976
Bank balances and cash	1,430
Trade payables	(1,230)
Other payables	(1,605)
Deferred tax liabilities	(5,337)
	65,262
Goodwill arising on acquisition:	
Consideration transferred	42,000
Plus: Non-controlling interests (40%)	26,105
Less: Net assets acquired	(65,262)
	2,843

Goodwill arose on the acquisition of Shineway Spirin because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Shineway Spirin. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

29. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2015 (Continued)

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

	RMB'000
Net cash inflow arising on acquisition:	
Cash consideration	(42,000)
Deposit for acquisition of a subsidiary	42,000
Bank balances and cash acquired	1,430
Net cash inflow in respect of the acquisition of a subsidiary	1,430

During the year ended 31 December 2015, Shineway Spirin contributed RMB4,409,000 to the Group's turnover and made a loss of RMB798,000 for the period between the date of acquisition and the end of the reporting period.

Had the acquisition of Shineway Spirin been effected on 1 January 2015, the total amount of revenue of the Group for the year ended 31 December 2015 would have been RMB2,060,883,000, and the amount of the profit for the year would have been RMB656,557,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

In September 2015, the Group acquired 100% equity interest in Beijing Wanter Bio-Pharmaceutical Co., Ltd. 北京萬特爾生物製藥有限公司 ("Beijing Wanter"), which is engaged in the research and development, manufacturing and trading of pharmaceutical products in the PRC, at a cash consideration of RMB389,550,000. This transaction has been accounted for using the acquisition method.

29. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2015 (Continued)

	RMB'000
Assets acquired and liabilities recognised at the date of acquisition are as follow:	
Property, plant and equipment	25,991
Prepaid lease payments	2,129
Intangible assets	356,285
Inventories	4,526
Other receivables	8
Bank balances and cash	648
Deferred income	(2,000)
Other payables	(1,724)
Deferred tax liabilities	(53,107)
	332,756
Goodwill arising on acquisition:	
Consideration transferred	389,550
Less: Net assets acquired	(332,756)
	56,794

Goodwill arose on the acquisition of Beijing Wanter because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Beijing Wanter. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

29. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2015 (Continued)

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

	RMB'000
Net cash outflow arising on acquisition:	
Cash consideration	(389,550)
Amount unpaid and included in other payables	8,040
Bank balances and cash acquired	648
Net cash outflow in respect of the acquisition of a subsidiary	(380,862)

During the year ended 31 December 2015, Beijing Wanter contributed RMB4,721,000 to the Group's turnover and made a loss of RMB8,987,000 for the period between the date of acquisition and the end of the reporting period.

Had the acquisition of Beijing Wanter been effected on 1 January 2015, the total amount of revenue of the Group for the year ended 31 December 2015 would have been RMB2,067,631,000, and the amount of the profit for the year would have been RMB639,414,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

30. DISPOSAL OF A SUBSIDIARY

In July 2016, the Group entered into a sale and purchase agreement with Shineway Medical to dispose of the entire equity interests in Jing Li Yuan, a wholly-owned subsidiary of the Group, at a cash consideration of RMB80,000,000. The net assets of Jing Li Yuan at the date of disposal were as follows:

	RMB'000
Analysis of assets and liabilities over which control was lost:	
Other receivables	401
Bank balances and cash	82,298
Other payables	(2,694)
Tax payable	(5)
Net assets disposed of	80,000
Gain on disposal of a subsidiary:	
Cash consideration received	80,000
Less: Net assets disposed of	(80,000)
Gain on disposal	–
Net cash outflow arising on disposal:	
Cash consideration	80,000
Less: Bank balances and cash disposed of	(82,298)
Net cash outflow in respect of the disposal of a subsidiary	(2,298)

31. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**4,332**	6,372
In the second to fifth year inclusive	**1,347**	4,800
	5,679	11,172

Operating lease payments represent rentals payable by the Group for certain of its warehouse, staff quarters and offices. Leases are negotiated for terms ranged from 1 to 3 years with fixed rental.

Included in the above, the Group had future aggregate minimum lease payments under non-cancellable operating leases with related parties which are ultimately controlled by the controlling shareholder of the Company as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**2,289**	4,592
In the second to fifth year inclusive	**–**	4,592
	2,289	9,184

32. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– in respect of acquisition of property, plant and equipment	**305,847**	364,152
– in respect of acquisition of intangible assets	**84,000**	84,000

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders. The Group's overall strategy remains unchanged from prior year.

33. CAPITAL RISK MANAGEMENT (Continued)

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves.

The Group actively and regularly reviews and manages its capital structure and makes adjustments to it in light of the changes in the Group's business and economic conditions.

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016	2015
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**3,892,611**	3,434,723
Financial liabilities		
Amortised cost	**366,779**	364,822

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivables, amount due from a related company, pledged bank deposits, bank balances and cash, trade and other payables, bills payables and amounts due to related companies. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

The Company and certain subsidiaries have foreign currency bank balances, which expose the Group to foreign currency risk.

Included in bank balances and trade receivables of the Group are the following amounts denominated in currencies other than the functional currencies of the relevant group entities to which they relate.

	2016	2015
	RMB'000	RMB'000
Hong Kong Dollars ("HKD")	**366**	8,569
United States Dollars ("USD")	**164,235**	171
Australian Dollars ("AUD")	**–**	56,726

34. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Foreign currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to HKD, USD and AUD as disclosed above with the functional currencies of those entities in RMB. The Group is also exposed to USD as disclosed above with the functional currency of that entity in HKD. Under the pegged exchange rate system, the financial impact on exchange difference between HKD and USD will be immaterial, and therefore no sensitivity analysis has been prepared.

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in RMB against HKD and AUD. 5% (2015: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2015: 5%) change in HKD and AUD. A negative number below indicates a decrease in profit for the year where RMB strengthens 5% (2015: 5%) against HKD and AUD. For a 5% (2015: 5%) weakening of RMB against HKD and AUD, there would be an equal and opposite impact on the profit for the year.

	Decrease in profit in the year	
	2016	2015
	RMB'000	RMB'000
HKD	**(15)**	(358)
AUD	**–**	(2,836)

In management's opinion, the sensitivity analysis is unrepresentative of the foreign currency risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

Interest bearing financial instruments are mainly time deposits and pledged bank deposits which are all short-term in nature and carry fixed interest rates. The Group is exposed to fair value interest rate risk in relation to the pledged bank deposits and fixed-rate time deposits (see note 22 for details). The Group is also exposed to cash flow interest rate risk relates to short-term financial products and debt-related products entered and matured during the year and bank balances. The Group currently does not have an interest rate hedging policy. The directors of the Company continuously monitor interest rate exposure and will consider enter into interest rate hedging should the need arise. The directors considered the Group's exposure of the bank balances to interest rate risk is not significant and therefore no sensitivity analysis is presented.

34. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of those financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual bill, trade and other receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

With respect to credit risk arising from the short-term debt-related products and debt-related products entered into and matured during the year, the directors of the Company considered that the Group's exposure to credit risk arising from default of the counterparties over the underlying assets of these products is limited as the investment decisions by the management of the Group are made with reference to the risk level of these products suggested by the banks and to the historical default rate of these products. The Group does not expect any significant loss on these products.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 99% (2015: 99%) of the total trade and bills receivables as at 31 December 2016.

The credit risk on bank deposits is limited because the counterparties are financial institutions with high credit standing.

34. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

	Weighted average interest rate	Repayable on demand	Less than 6 months	Total undiscounted cash flows	Carrying amounts
		RMB'000	RMB'000	RMB'000	RMB'000
2016					
Trade payables	–	–	164,620	164,620	164,620
Bills payables	–	–	54,506	54,506	54,506
Other payables	–	–	131,567	131,567	131,567
Amounts due to related companies	–	16,086	–	16,086	16,086
Total		16,086	350,693	366,779	366,779
2015					
Trade payables	–	–	180,879	180,879	180,879
Bills payables	–	–	43,247	43,247	43,247
Other payables	–	–	137,404	137,404	137,404
Amounts due to related companies	–	3,292	–	3,292	3,292
Total		3,292	361,530	364,822	364,822

34. FINANCIAL INSTRUMENTS (Continued)

Fair value measurement of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

35. MAJOR NON-CASH TRANSACTION

On 29 December 2015, the Group acquired an additional 40% equity interest in Shineway Spirin, from a non-controlling shareholder and part of the consideration amounting to RMB25,000,000 was net off with other receivable from the non-controlling shareholder (2016: nil).

36. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant transactions with related parties during the year:

	2016	2015
	RMB'000	RMB'000
Rental expense to Shineway Medical	**1,277**	3,580
Rental expense to Shineway Lang Fang	**1,012**	1,012
Service fee to Shineway Medical	**8,628**	8,339
Service fee to Shineway Lang Fang	**2,474**	2,396
Sales of Chinese pharmaceutical products to Shineway Drugstores	**36**	15,929

Compensation of key management personnel

Key management personnel are deemed to be the members of the Board of Directors of the Company which has responsibility for planning, directing and controlling the activities of the Group. Remuneration paid for key management personnel is disclosed in note 10.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016	2015
	RMB'000	RMB'000
Non-current assets		
Investments in subsidiaries	**63,599**	63,599
Current assets		
Prepayments	**1**	1
Amounts due from subsidiaries	**780,949**	999,947
Bank balances and cash	**214**	204
	781,164	1,000,152
Current liabilities		
Other payables	**2,332**	2,289
Amounts due to subsidiaries	**104,471**	103,452
	106,803	105,741
Net current assets	**674,361**	894,411
Net assets	**737,960**	958,010
Capital and reserves		
Share capital	**87,662**	87,662
Reserves (Note)	**650,298**	870,348
Total equity	**737,960**	958,010

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

	Other reserves
	RMB'000
At 1 January 2015	725,110
Total comprehensive income for the year	418,148
Dividends paid	(272,910)
At 31 December 2015	870,348
Total comprehensive income for the year	44,590
Dividends paid	(264,640)
At 31 December 2016	650,298

38. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2016 and 2015 are as follows:

Name of company	Place and date of incorporation/ establishment/operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2016	2015	Principal activities
Yuan Da Investment Limited	Hong Kong 10 November 2009	Ordinary share – HK$1	**100%**	100%	Investment holding
Yuan Da International Limited 遠大國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding
Hong Zhan International Limited 宏展國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding
Shineway Pharmaceutical Sales Company Limited (Note a) 神威藥業營銷有限公司	PRC 3 March 2003 for a term of 30 years	Registered capital – RMB98,533,542	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical Group Limited (Note b) 神威藥業集團有限公司	PRC 30 December 2003 for a term of 30 years	Registered capital – US$25,000,000	**100%**	100%	Research and development, manufacturing and trading of Chinese pharmaceutical products

38. PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment/operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2016	2015	Principal activities
Hebei Shineway Pharmaceutical Company Limited (Note b) 河北神威藥業有限公司	PRC 30 December 2003 for a term of 30 years	Registered capital – US$12,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
China Shineway Pharmaceutical (Hong Kong) Limited 中國神威藥業(香港)有限公司	Hong Kong 21 April 2004	Ordinary share – HK$1	**100%**	100%	Trading of Chinese pharmaceutical products
Xizang Shineway Pharmaceutical Company Limited (Note b) 西藏神威藥業有限公司	PRC 7 November 2006 for a term of 10 years	Registered capital – US$1,250,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Hainan) Company Limited (Note b) 神威藥業(海南)有限公司	PRC 21 May 2007 for a term of 10 years	Registered capital – US$3,900,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Chengdu) Company Limited (Note c) 神威藥業(成都)有限公司	PRC 25 December 2009	Registered capital – RMB5,000,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Zhangjiakou) Company Limited (Note c) 神威藥業(張家口)有限公司	PRC 18 November 2002	Registered capital – RMB22,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Sichuan) Limited (Note c) 神威藥業(四川)有限公司	PRC 15 September 2003	Registered capital – RMB15,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Shineway (Shijiazhuang) Chinese Medicine Prepared Herbs Limited (Note c) 神威藥業(石家莊)中藥飲片有限公司	PRC 19 November 2010	Registered capital – RMB3,000,000	**100%**	100%	Trading of Chinese pharmaceutical products and agricultural products
Shineway Pharmaceutical (Minle) Modern Agricultural Limited (Note c) 神威藥業(民樂)現代農業有限公司	PRC 17 June 2012	Registered capital – RMB2,000,000	**100%**	70%	Trading of Chinese pharmaceutical products
Hebei Tongshun Bioenergy Technology Limited (Note c) 河北通順生物質能源科技有限公司	PRC 20 September 2013	Registered capital – RMB10,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products

38. PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment/operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2016	2015	Principal activities
Australia Shineway Technology Pty Ltd.	Australia 29 August 2012	Registered capital – AUD1,000	**100%**	100%	Research and development
Shineway Pharmaceutical Group (Shandong) Company Limited (Note c) 神威藥業集團(山東)有限公司	PRC 27 April 1993	Registered capital – RMB28,000,000 (2015: RMB3,000,000)	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Shineway Spirin (Note c)	PRC 20 November 2014	Registered capital – RMB50,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Beijing Wanter (Note c)	PRC 25 August 2002	Registered capital – RMB8,000,000	**100%**	100%	Research and development, manufacturing and trading of pharmaceutical products
Long Xi Fu Jie Modern Chinese Medicine Technology Limited (Note c) 隴西福佳現代中藥科技有限公司	PRC 9 January 2013	Registered capital – RMB35,000,000	**100%**	100%	Inactive
Shi Jia Zhuang Ji Zhong Feed Technology Limited (Note c) 石家莊市冀中飼料技術開發有限公司	PRC 4 March 2014	Registered capital – RMB500,000	**100%**	N/A	Inactive
Jing Jin Ji Lian Chuang Medicine Research (Beijing) Limited (Note c) 京津冀聯創藥物研究(北京)有限公司	PRC 19 January 2016	Registered capital – RMB10,000,000	**100%**	N/A	Research and development of Chinese pharmaceutical products
Shineway Pharmaceutical US, Inc.	USA 11 November 2014	Registered capital – USD500,000	**100%**	N/A	Inactive
Jing Li Yuan (Notes c and d)	PRC 3 February 2015	Registered capital – RMB80,000,000	**N/A**	100%	Inactive

38. PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment/operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2016	2015	Principal activities
Beijing Shineway Song Biotechnology Company Limited (Note c and e) 北京神威頌生物科技有限公司	PRC 12 January 2013	Registered capital – RMB10,000,000	N/A	100%	Manufacturing and trading of Chinese pharmaceutical products

Notes:

(a) Become a foreign wholly-owned enterprise after the equity interest transfer with effect from 30 March 2005.

(b) Being foreign wholly-owned enterprises.

(c) Being PRC domestic enterprises.

(d) The Company was disposed in July 2016.

(e) The Company was deregistered in July 2016.

Except for Yuan Da Investment Limited, Yuan Da International Limited and Hong Zhan International Limited, all other subsidiaries are indirectly held by the Company.

The above table lists subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.