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 2017

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Ms. Lee Ching Ton Brandelyn (resigned on 23 January 2018)
Mr. Chen Zhong

Independent non-executive Directors

Ms. Cheng Li
Mr. Sun Liutai
Prof. Luo Guoan (appointed on 16 June 2017)
Mr. Hung Randy King Kuen (resigned on 30 March 2017)

BOARD COMMITTEES

Audit Committee

Mr. Sun Liutai (*Committee Chairman)*
Ms. Cheng Li
Prof. Luo Guoan (appointed on 16 June 2017)
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
Prof. Luo Guoan (appointed on 16 June 2017)
Mr. Hung Randy King Kuen (resigned on 30 March 2017)

AUTHORISED REPRESENTATIVES

Mr. Li Huimin
Mr. Lee Bun Ching, Terence (appointed on 1 July 2017)
Ms. Wong Mei Shan (resigned on 1 July 2017)

COMPANY SECRETARY

Mr. Lee Bun Ching, Terence (appointed on 1 July 2017)
Ms. Wong Mei Shan (resigned on 1 July 2017)

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

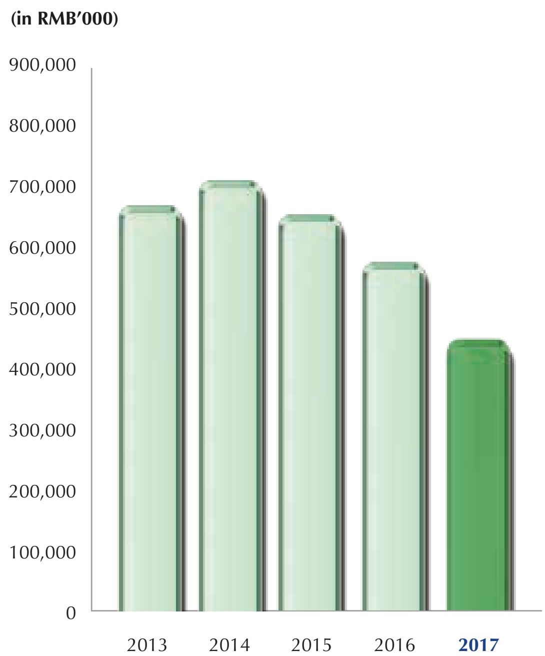
www.shineway.com.hk
www.shineway.com

Financial Highlights

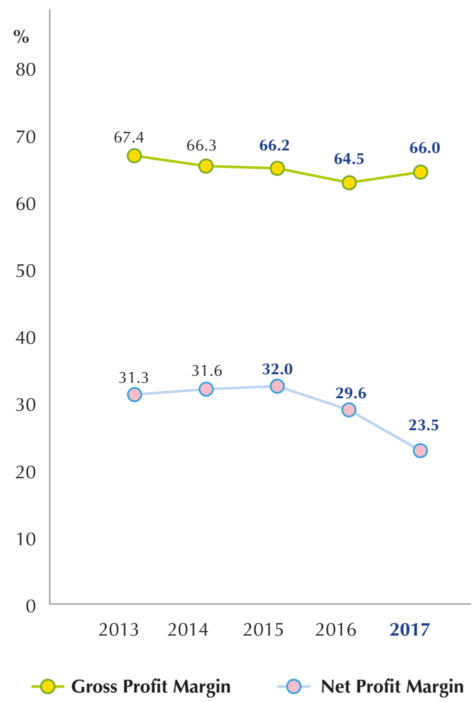
(in RMB'000)

	2013	2014	2015	2016	**2017**
RESULTS					
Turnover	2,187,115	2,229,201	2,054,809	1,993,379	**1,919,608**
Gross profit	1,474,423	1,478,003	1,360,919	1,286,495	**1,267,084**
Profit before taxation	859,646	863,736	797,165	695,254	**587,822**
Profit attributable to shareholders	683,647	704,775	657,906	589,196	**451,553**
Basic earnings per share	RMB0.83	RMB0.85	RMB0.80	RMB0.71	**RMB0.55**
Dividends	272,910	272,910	264,640	264,640	**264,640**
ASSETS AND LIABILITIES					
Total assets	5,738,294	5,907,324	6,153,102	6,465,262	**6,665,113**
Total liabilities	(1,308,678)	(1,014,416)	(857,131)	(838,589)	**(844,158)**
Net assets	4,429,616	4,892,908	5,295,971	5,626,673	**5,820,955**
Non-controlling interests	(522)	(437)	–	–	**–**
Total equity attributable to shareholders	4,429,094	4,892,471	5,295,971	5,626,673	**5,820,955**

Profit Attributable to Shareholders



Gross and Net Profit Margins



Chairman's Statement

Dear Shareholders,

During 2017, the Group's operating environment was still in dire straits as we witnessed the downward spiral of our main business, with the results of operations reaching a record low in our history. The Group posted a fall of 33.8% in interim profit. Despite a pickup in the second half of the year, profit for the year still fell by 23.4%. The weakness in sales had led to increases in costs and, worse still, our net profit margin had sunk to its bottom since the Group went public. Our share price crashed to extreme low in the year because our business performance failed to meet market expectations, and on top of the restrictions imposed on a number of Chinese medicine injections under the new national drug reimbursement list. The Group's ranking had accordingly slid to only the 100th among China's Top 100 pharmaceutical enterprises rated by the Ministry of Industry and Information Technology. In the annual sales conference at the beginning of 2018, the Head of Sales of the Group described the performance in the past year as "the Insulting Year of 2017".

In spite of facing serious challenges, the Group adhered to its ultimate goal and unswervingly implemented marketing transformation and reform. Currently, pharmaceutical policies are swinging to favour the development of our industry. Claim restrictions on a few of Chinese medicine injections have been lifted under the newest drug reimbursement list of certain provinces and the capital cities. Pricing policy on centralized procurements is no longer predicated upon the lowest price. Instead, purchasing over the "Direct Web-Listing" based on high quality at competitive prices is being phased in. A number of provinces and cities have taken steps to unify drugs purchased by grass-root medical institutions with those of Class II & III hospitals, thus making the industry usher to step into a new round of development. In 2018, all of the Group's internal conferences adopted "New Era, New Start and New Glory" as their main theme. The year of 2018 was marked as the new era to quicken the pace of business development of the Group, a new era for all personnel of the Group to break the shackles of traditions, and a new start for the Shineway sales team. We strive to go full steam ahead, rebuild our image and carve out a new glorious future!

In 2018, the Group will start to implement the new "Amoeba" business model. The idea is to enable all personnel to think like shareholders and assume responsibilities like senior executives. With the introduction of innovative incentive models, a new era will be created in which all personnel will act as operators of the Group. Our sales and marketing teams will unswervingly transform to target terminal customers and academic-led marketing, while pinning their focus on the exploitation of medical terminals, invest extensively into academic-led promotion, and ultimately increase the sales from hospitals. Our strategy on retail terminal customers will also undergo transformation from distributing to monomer pharmacies to strategic cooperation with Top 100 chains and regional leaders, thus raising the channel coverage of chain drug stores and raise the proportion of sales to retail terminal customers. Our new marketing effort will concentrate in top-level academic-led promotion activities, with the spotlight on osteoarthrosis, infection, chronic cardiac, cerebral diseases, and our "Shen Miao" brand of paediatric medicines. We are also accelerating our drive to expand our TCM formula granules across the country. Close negotiations were being made with a number of provinces and cities, and our entering to other provinces are steadily progressing. The Group is continuing our production capacity expansion for TCM formula granules to adequately guarantee its supply in the next three to five years.

By continuously investing in research and development, the Group aims its focus in developing new Chinese medicines with unique curative effects. The treatments of chronic diseases, particularly the fields where no cures can be provided by Western medicine are our spotlight. In addition, the Group is well placed to take advantage of our knowhow on modernizing Chinese medicines to treat cardiovascular and cerebrovascular diseases, diabetes, orthopaedic disorders, tumour, gynaecological diseases, neurodegenerative diseases and infectious diseases, especially paediatric infectious diseases. Extensive effort will also be put into accelerating the commercialization of our research findings and to ensure that clinical and production approvals for new products must be obtained each year. We will publish seminal academic articles to form the evidence-based proof for medicine academic promotion of our products, and eventually lead products into the recommended clinical practices and guidelines. The end results are to render academic-led support for the market development of the Group's new innovative products for the sustainable development of the Group.

I am faithful that the Group's sales and profits will resume sustainable growth in 2018. On behalf of the Board of Directors, I would like to take this opportunity to thank all the shareholders, customers and strategic partners for their trust and unremitting support as well as the dedication of the management team and staff in spite of severe challenges in 2017. Let's join hands and make concerted effort towards the essential goal of Shineway's sustainable development.

Li Zhenjiang
Chairman of the Board
Hong Kong, 29 March 2018

Management Discussion and Analysis

OVERVIEW

China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") are principally engaged in research and development, production and sales of modern Chinese medicines mainly in the format of injections, soft capsules and granules. The Group's products are primarily sold in the PRC.

In 2017, the Group's prescription and over-the-counter ("OTC") medicines accounted for approximately 75.8% and 24.2% of the Group's turnover respectively. These medicines are primarily applied for the treatments of (i) cardiovascular and cerebrovascular diseases, respiratory system diseases, colds and fevers, and digestive system diseases that commonly affect the middle and old aged people and/or children; and (ii) viral diseases. In 2017, approximately 46.0% of the Group's turnover was derived from the products for the treatment of cardiovascular and cerebrovascular diseases. The products for anti-viral treatment and other products contributed approximately 20.7% and 33.3% respectively of the Group's turnover.

A total of 75 medicines of the Group are included in National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance Drug Catalogue (2017 edition) (a.k.a the "National Drug Reimbursement List"). In addition, 18 medicines of the Group are included in provincial/municipal drug reimbursement list. A total of 23, 14 and 3 medicines are respectively included in national low-price medicine catalogues, provincial low-price medicine catalogues as well as catalogues of emergency drugs for direct online procurements by hospitals without the need of tendering. A total of 16 products regularly manufactured by the Group are exclusive products.

The Group's sales network covers over 30 provinces, cities and autonomous regions across the country. As at the end of 2017, the Group's sales team had over 2,400 sales personnel, covering over 4,800 Class II and III hospitals, approximately 150,000 grass-root medical institutions, and approximately 100,000 retail pharmacies. The Group also had 150 first-tier distributors and 2,500 sales agents.

Management Discussion and Analysis

BUSINESS REVIEW

In 2017, the Group recorded a turnover of RMB1,919,608,000, a decrease of 3.7% as compared to the previous year. Sales by product format for the year are set out as follows:

	Sales (RMB)	Growth rate	**Percentage of total sales in 2017 (%)**	Percentage of total sales in 2016 (%)
Injections	982,246,000	-11.5%	**51.2%**	55.7%
Soft Capsules	356,281,000	-2.0%	**18.6%**	18.2%
Granules	328,798,000	-14.4%	**17.1%**	19.3%
TCM Formula Granules	132,109,000	+273.0%	**6.8%**	1.8%
Other product formats	120,174,000	+19.6%	**6.3%**	5.0%
Total	1,919,608,000	-3.7%	**100.0%**	100%

INJECTION PRODUCTS

In 2017, the Group recorded RMB982,246,000 on sales of injection products, representing a decrease of 11.5% as compared to the previous year. Revenue from injection products was lower mainly due to the decline in sales of Qing Kai Ling Injection and Shen Mai Injection. In 2017, injection products accounted for 51.2% of the Group's total turnover as compared to 55.7% in the previous year.

The new National Drug Reimbursement List, issued at the end of February 2017, requires 26 kinds of Chinese medicine injections (including Qing Kai Ling Injection, Shen Mai Injection and Shu Xie Ning Injection) to be used at Class II or above medical institutions for prescribed therapeutic purposes to be eligible for the state insurance claim. Accordingly, distributors and grass-root medical institutions had taken a wait-and-see attitude in the short run, and reduced their purchase orders of Chinese medicine injection products.

Nonetheless, the sales revenue of injection products saw a turnaround in the second half of 2017. Quarterly sales of injection products are set out as follows:

	Q1	**Q2**	**Q3**	**Q4**	**Annual**
RMB					
2017	199,094,000	211,498,000	260,573,000	311,081,000	982,246,000
2016	249,569,000	293,698,000	278,464,000	288,059,000	1,109,790,000
Change	-20.2%	–28.0%	–6.4%	+8.0%	–11.5%

Management Discussion and Analysis

The Group's Qing Kai Ling Injection was mainly used in medical institutions below Class II. However, the Group believes that a considerable number of patients receiving medical treatment of Chinese medicine injections (including Qing Kai Ling Injection) in medical institutions below Class II would pay for the drugs without claiming the state medical insurance. In addition, a relatively large proportion of the Group's Shen Mai Injection and Shu Xie Ning Injection were used in Class II or above medical institutions. The sales breakdown of Chinese medicine injections by terminal customers is as follows:

Product format	Year	Class III hospitals	Class II hospitals	Grass-root medical institutions	Pharmacies	Total
Injections	2016	15%	25%	57%	3%	100%
	2017	18%	32%	47%	3%	100%

The Group's Chinese medicine injections have evident efficacy and are priced reasonably. Restrictions imposed on insurance claims did not change doctors' basis and habits on drug prescription. Accordingly, the sales of Chinese medicine injections started to rebound in the fourth quarter. The Group expects sales of Chinese medicine injections will resume growth in the coming years. That said, the ratio of sales of Chinese medicine injections to total revenue will gradually turn smaller as the sales of the Group's oral type products may rise more rapidly.

As at the end of 2017, the Group's Chinese medicine injection production capacity was approximately 3.2 billion vials per annum. The Group is currently the largest Chinese medicine injections manufacturer in the PRC in terms of sales volume and production capacity. The Group believes that currently it has enough production capacity for its Chinese medicine injection to satisfy the rising demand in the future.

SOFT CAPSULE AND GRANULE PRODUCTS

In 2017, the Group focused on restructuring our sales channels and rationalizing the retail selling prices for various oral type products, by reducing or stopping the distribution of a number of oral type products to terminal retail pharmacies that did not follow our retail price suggestions. This led to a decline in overall sales of soft capsule and granule products. In 2017, the Group recorded RMB356,281,000 on sales of soft capsule products, which decreased by 2.0% as compared to the previous year. This was mainly due to the 9.7% sales decrease of Wu Fu Xin Nao Qing Soft Capsule as compared to the previous year, offset by approximately 13.9% sales increase of Huo Xiang Zheng Qi Soft Capsule as compared to the previous year. At the same time, sales of granule products decreased by 14.4% to RMB328,798,000 as compared to the previous year. This was mainly resulted from the 30.1% and 41.9% sales decrease of Pediatric Qing Fei Hua Tan Granule and Pediatric Hua Tan Zhi Ke Granule respectively as compared to the previous year, offset by 32.3% sales increase of Huamoyan Granule.

Soft capsule and granule products respectively accounted for 18.6% and 17.1% of the Group's turnover in 2017, as compared to 18.2% and 19.3% in the previous year. The sales breakdown of soft capsule and granule products by terminal customers is as follows:

Product format	Year	Class III hospitals	Class II hospitals	Grass-root medical institutions	Pharmacies	Total
Soft capsules	2016	3%	7%	39%	51%	100%
	2017	3%	6%	34%	57%	100%
Granules	2016	1%	6%	31%	62%	100%
	2017	3%	6%	30%	61%	100%

The Group will actively promote the growth of oral type products such as soft capsule and granule products in the coming year. Our restructuring of sales channels and rationalization of retail prices have laid a foundation for sales growth of such products. The Group is expanding the coverage of terminal sales points for oral type products, aiming to spur our exclusive products in the National Drug Reimbursement List such as Huamoyan Granule, Qing Kai Ling Soft Capsule and Dan Deng Tong Nao Soft Capsule etc., to become hundred-million-RMB products more quickly. The Group believes oral type products will witness faster growth than Chinese medicine injection products in the coming years.

The Group's production capacity of soft capsule and granule products were 3.5 billion capsules per annum and 3.4 billion bags per annum respectively at the end of 2017. The Group is currently the largest Chinese medicine soft capsule and Chinese medicine granule manufacturer in the PRC in terms of sales volume and production capacity. The Group believes that currently it has enough production capacity of soft capsule and granule products to satisfy the rising demand in the future.

TCM FORMULA GRANULES

Traditional Chinese medicine ("TCM") formula granules was the fastest growing product format of the Group in 2017. Sales of TCM formula granules reached RMB132,109,000, up 273.0% as compared to the previous year. In 2017, the sales network of the Group's TCM formula granule products covered over 100 TCM hospitals in Hebei Province. The coverage ratio was about 70%, and 120 units of smart medicine dispensing systems of the Group were installed in these hospitals, with 1.2 units in each hospital on average. These systems were used to sell the Group's over 600 types of TCM formula granules that were included in the health insurance catalogue of Hebei Province. During the year, most of the Group's TCM formula granule products were sold in more than 100 TCM hospitals in Hebei Province. The Group is expanding the sales coverage of TCM formula granule products in other hospitals across Hebei Province, accelerating the products' entry into other provinces, and expediting the expanding of our sales team at the end-market, with the goal of pushing forward our TCM formula granules to become another strong growth potential product of the Group.

Management Discussion and Analysis

In 2017, the Group's production capacity of TCM formula granules increased from 300 million bags (grams) to 600 million bags (grams) per annum. In addition, the Group expects to complete the revamping of its production workshop by the end of April 2018, and to reach a maximum production capacity to 2 billion bags (grams) per annum upon installation of additional production equipment.

OTHER PRODUCTS

In 2017, sales of other products amounted to RMB120,174,000, representing an increase of 19.6% as compared to the previous year. Other products mainly include tablets, hard capsules, oral liquid and pills. Sales of Compound Liquorice Tablet, Xue Sai Tong Dripping Pill and Dan Deng Tong Nao Soft Capsule, all of which are products with strong growth potentials, reached RMB42,648,000, RMB22,597,000 and RMB6,431,000 respectively, representing growths of 27.3%, 45.4% and 34.0% respectively as compared to the previous year.

KEY PRODUCTS ANALYSIS

The sales of the Group's key products for 2016 and 2017 are set out as follows:

	2016	Percentage of total (%)	**2017**	Percentage of total (%)	Change in sales
Core Products					
Qing Kai Ling Injection	474,204,000	23.8%	**316,188,000**	16.5%	-33.3%
Shu Xie Ning Injection	253,346,000	12.7%	**297,012,000**	15.5%	+17.2%
Shen Mai Injection	195,878,000	9.8%	**189,731,000**	9.9%	-3.1%
Wu Fu Xin Nao Qing Soft Capsule	197,164,000	9.9%	**178,090,000**	9.3%	-9.7%
Products with high growth potentials					
Huo Xiang Zheng Qi Soft Capsule	75,015,000	3.8%	**85,455,000**	4.5%	+13.9%
Qing Kai Ling Soft Capsule	28,984,000	1.5%	**26,389,000**	1.4%	-9.0%
Dan Deng Tong Nao (Hard and Soft) Capsule	15,755,000	0.8%	**16,219,000**	0.8%	+2.9%
Paediatric Qing Fei Hua Tan Granule	119,242,000	6.0%	**83,357,000**	4.3%	-30.1%
Huamoyan Granule	45,524,000	2.3%	**60,211,000**	3.1%	+32.3%
Compound Liquorice Tablet	33,506,000	1.7%	**42,648,000**	2.2%	+27.3%
TCM formula granules	35,414,000	1.8%	**132,109,000**	6.8%	+273.0%
Total		74.1%		74.3%	

During 2016 and 2017, the Group's key products coverage by various catalogues of medical insurance and low-price/emergency medicines were as follows:

Products	National medical insurance		Provincial medical insurance		Low-price medicine catalogue		Emergency medicine catalogue	
	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**
Qing Kai Ling Injection:	Yes	**Yes**			5 Provinces	**13 Provinces**	National (2ml)	**National (2ml)**
Shu Xie Ning Injection	Yes	**Yes**						
Shen Mai Injection	Yes	**Yes**						
Wu Fu Xin Nao Qing Soft Capsule	–	**–**	7 Provinces	**6 Provinces**	5 Provinces	**5 Provinces**		
Huo Xiang Zheng Qi Soft Capsule	Yes	**Yes**			National	**National**	National	**National**
Qing Kai Ling Soft Capsule	–	**Yes**						
Dan Deng Tong Nao Capsule	Yes	**Yes**						
Dan Deng Tong Nao (Soft) Capsule	–	**–**	8 Provinces	**8 Provinces**				
Pediatric Qing Fei Hua Tan Granule	–	**–**	3 Provinces	**4 Provinces**				
Huamoyan Granule	–	**Yes**						
Compound Liquorice Tablet	Yes	**Yes**			National	**National**		
TCM formula granules	–	**–**	1 Province	**1 Province**				

Management Discussion and Analysis

CORE PRODUCTS

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

Qing Kai Ling Injection is included in the National Drug Reimbursement List and has been 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.

Sales of Qing Kai Ling Injection declined by approximately 33.3% in 2017. This is primarily because the new edition of the National Drug Reimbursement List requires Qing Kai Ling Injection to be used at Class II or above medical institutions for prescribed therapeutic purposes in order to be eligible for the state insurance claim. Accordingly, distributors and grass-root medical institutions had taken a wait-and-see attitude in the short run, and reduced their purchase orders of Qing Kai Ling Injection.

Nevertheless, the Group firmly believes Qing Kai Ling Injection will resume growth in the coming years, primarily because:

1. The Group's Qing Kai Ling Injection is mainly used in medical institutions below Class II, where the Group believes that a considerable number of patients receiving medical treatment of Qing Kai Ling Injection in medical institutions below Class II, would pay for the drugs without claiming the state medical insurance.

2. Not all provinces followed the restriction guidelines set out in the National Drug Reimbursement List. During the year, the newest edition of drug reimbursement lists of four provinces show no restriction on the insurance claim concerning use of Qing Kai Ling Injection. Likewise, the newest edition of drug reimbursement list issued by the city of Beijing in March 2018 also does not restrict insurance claim concerning use of Qing Kai Ling Injection.

3. As of the end of 2017, Qing Kai Ling Injection was included in low-price medicine catalogues of a total of 13 provinces. As many provincial centralized purchases start to implement direct web-listing for low-price medicines, procurement prices of Qing Kai Ling Injection are expected to rise in many provinces.

4. As a medicine recommended by state institutions for anti-influenza, Qing Kai Ling Injection enjoys a massive demand. China has been affected by a serious influenza epidemic since the beginning of 2018, which resulted in demands that outstripped supplies of Qing Kai Ling Injection. The psychological impact exerted by insurance claim restrictions upon distributors and grass-root medical institutions will gradually fade away.

In 2018, Qing Kai Ling Injection will be set to cover all terminal points. The Group will further expand its coverage over grass-root medical institutions such as urban community healthcare service centres, health centres in towns and townships, etc. In addition, the Group will start to penetrate into countryside health centres (health rooms), and strive to increase product prices at the provinces where Qing Kai Ling Injection is included in local low-price medicine catalogues. The Group will also expedite the product's entry into the low-price medicine catalogues of the remaining provinces and capital cities, and make efforts to increase listed prices on the direct web-listing for procurements. The Group is also stepping up its efforts in expanding its sales coverage to county-level hospitals, Class II or above medical institutions, and private medical institutions (which are ineligible for state medical insurance).

Shu Xie Ning Injection: for treatment of cardio-cerebrovascular disease, coronary heart disease, angina pectoris, cerebral embolism, cerebral vasospasm, etc.

In 2017, sales of Shu Xie Ning Injection increased by approximately 17.2%. The product is included in National Drug Reimbursement List, and is applied in treatment of acute and chronic brain dysfunction and its sequelae, ischemic heart disease, eye bleeding and neurological disorder, ear bleeding and neurological disorder, peripheral circulation disorders, etc. with superb efficacy.

Shu Xie Ning Injection was primarily sold to Class II and above medical institutions through sales agencies, while a relatively small proportion of its sales was derived from medical institutions below Class II. The Group's terminal sales team is now taking over coverage in areas where sales agencies cannot reach, and actively extend its sales coverage to county-level public hospitals and private hospitals, so as to drive sales volume in these areas and institutions. In addition, the Group will step up academic-based promotion in these hospitals where sales volumes are low. By virtue of these measures, the Group looks forward to achieving sustainable growth in sales of Shu Xie Ning Injection.

Management Discussion and Analysis

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

In 2017, the Group's sales of Shen Mai Injection reached RMB189,731,000, representing a decrease of 3.1% as compared to the previous year.

Shen Mai Injection is included in "National Drug Reimbursement List". It is also a drug recommended by 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. Shen Mai Injection can enhance cancer patients' immunity, and be used in conjunction with chemotherapeutics to create synergism. It can also alleviate the toxic side effects of chemotherapeutics. Shen Mai Injection has been awarded the title of National Reassuring Medicine (全國百姓放心藥), and First Price of the Hebei Science and Technology Advancement Award (河北省科技進步一等獎). The Group's Shen Mai Injection is the only Shen Mai injection that has completed a massive safety re-evaluation study covering 30,000 cases, and is also the only Shen Mai injection that has finished material basis study.

Shen Mai Injection was sold to Class II and above medical institutions through master agencies, while half of its sales were derived from grass-root medical institutions. In the coming year, the Group will leverage on urban Class III hospitals as the academic benchmark, to actively expand its sales coverage to public hospitals (primarily at county level) and private hospitals. Sales teams at the grass-root terminal points will focus on health centres and core community customers. The Group will also leverage its platform across health centres to penetrate into lower-tier countryside health rooms managed by these health centres. The Group will promote expert lectures in these health rooms so as to enhance their usage of the product.

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

Sales of Wu Fu Xin Nao Qing Soft Capsule reached RMB178,090,000, representing a decrease of 9.7% as compared to the previous year. This was mainly due to the Group's restructuring of sales channels and rectification of the retail selling prices of Wu Fu Xin Nao Qing Soft Capsule in 2017 by reducing or stopping the distribution to terminal retail pharmacies that did not follow our retail price suggestions. These initiatives caused negative growth in sales of Wu Fu Xin Nao Qing Soft Capsule.

Wu Fu Xin Nao Qing Soft Capsule is ranked among the top ten cardiovascular Chinese medicines in China. The "Wu Fu" trademark is certified as a "China Famous Trademark". It is also one of the lowest in cost of average daily dosage among similar cardiovascular medicines. The medicine is used for prevention and treatment of cerebral infarction, coronary heart disease, angina and hyper-lipidemia, as well as the recovery after such diseases. Wu Fu Xin Nao Qing Soft Capsule was sold to retail pharmacies and grass-root medical institutions. Its sales was primarily derived from Hebei Province and Henan Province. In the coming years, the Group's terminal sales team will vigorously explore other provincial markets with good potential and strengthen promotion of the product at the partner retail pharmacies. The Group will also strengthen its sales efforts in targeted pharmacies and actively promote the product's quality and efficacy. In addition, the Group will adopt a new market development incentive mechanism, in a bid to motivate terminal sales team to actively market the product at grass-root medical institutions (including health centres, countryside doctors, clinics, community healthcare service centres, healthcare service stations, etc.) in provincial markets that have good potential.

Management Discussion and Analysis

PRODUCTS WITH STRONG GROWTH POTENTIALS

Huo Xiang Zheng Qi Soft Capsule: for prevention and treatment of heat stroke, stomach-ache, nausea and diarrhoea, acclimatization sickness

In 2017, sales of Huo Xiang Zheng Qi Soft Capsule reached RMB85,455,000, representing an increase of 13.9% as compared to the previous year.

Due to its effective efficacy, Huo Xiang Zheng Qi is a very popular OTC Chinese medicine. According to market estimates, the total market size of Huo Xiang Zheng Qi can be over RMB3 billion. Compared with popular product formats of other manufacturers, the liquid medicine extractions contained in Huo Xiang Zheng Qi Soft Capsule can deliver more bioavailable and generate efficacy more rapidly. In addition, the sealed shell of soft capsule can protect users from the bitter tastes of Chinese medicinal materials, which makes the product more acceptable to both adults and children. Moreover, the sealed shell can prevent oxidization and volatility of active ingredients of medicines, so as to enhance stability of the product's ingredients, improve the product's efficacy, and make the product easier to carry.

The Group's Huo Xiang Zheng Qi Soft Capsule was primarily sold to retail pharmacy chains. The Group held an advantageous market position in Hebei Province, Henan Province, Shandong Province and Beijing, where the Group's Huo Xiang Zheng Qi Soft Capsule enjoyed strong reputation. However, Huo Xiang Zheng Qi Soft Capsule did not achieve faster growth in the past mainly because the Group made insufficient investment in advertisement and the product was not as well known as local market leaders in other provinces. In addition, the sales channels for the product were overlapping, which impacted the stability of retail prices. In some provinces, its retail prices were relatively low. Hence, some retail pharmacy chains cannot realize their target profits from our product and thus lack motivation to promote our product.

In the coming year, the Group will correct these inadequacies so as to achieve higher growth. The Group will increase its investment in advertising, adjust its business structure, market in an orderly manner, keep sound management over product prices, and ensure profitability of pharmacies so as to enhance their motivation. In addition, the Group will enter into strategic partnership with pharmacy chains, launch supportive programs for pharmacy chains, and enhance the promotion in pharmacies. The Group will also continue to expand its sales coverage to more stores under pharmacy chains, and strive to increase sales of the product at pharmacy chains in other provinces. The Group will also expand terminal sales coverage of the product to grass-root medical institutions including hospitals, clinics, health rooms, health centres, etc.

Pediatric Qing Fei Hua Tan Granule – for children infected by respiratory tract infections

Market analysis shows that the sales of cough-relieving and sputum-reducing Chinese medicines have exceeded RMB13 billion. The sales of top-selling cough-relieving TCM products in 2017 were estimated at RMB800 million. Pediatric Qing Fei Hua Tan Granule of the Group used to reach retail pharmacies through distributors, with sales in 26 provinces in China. The sales in Pediatric Qing Fei Hua Tan Granule 2017 recorded RMB83,357,000, a decrease of 30.1% year on year, which can be primarily attributed to the Group's restructuring on sales channels of Pediatric Qing Fei Hua Tan Granule and rectification on its terminal prices in 2017, by reducing or stopping distributing of this product to retail pharmacies that failed to follow the suggested retail prices. During this period, the sales at chained pharmacies under direct management by the Group's sales teams increased.

The daily cost of taking Pediatric Qing Fei Hua Tan Granule is half that of its largest rival of cough-relieving Chinese medicine for children. Sedating and narcotic potent Western antitussive medicine should be avoided as much as possible for children. Otherwise, the sputum in children's lungs may fail to be expectorated and hence silt up in the airway, leading to exacerbated lung distension or other pulmonary diseases. The Pediatric Qing Fei Hua Tan Granule of the Group uses cough-relieving Chinese medicines that are safe, effective, and suitable for children above 0 years of age. Pediatric Qing Fei Hua Tan Granule has a three-in-one effect – lung heat clearing, phlegm reducing, and cough relieving – and hence boasts strong competitiveness.

In the coming year, the Group will continue to cultivate and expand our network of pharmacy chains, and at the same time, to maintain retail prices to ultimately ensure pharmacy profits and their enthusiasm. We will also provide supporting programs to chained pharmacies to enhance the efforts of their promotions and on site recommendations to end customers, as well as activate grassroots medical markets including hospitals, clinics and medical rooms to make them become new growth points.

In 2018, the Group will also leverage the strategic partnerships with pharmacy chains to promote sales growth of the Group's pediatric pharmaceutical portfolios using Pediatric Qing Fei Hua Tan Granule as the driving force.

Management Discussion and Analysis

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

The sales of Qing Kai Ling Soft Capsule decreased by 9.0% year on year to RMB26,389,000, which can be primarily attributed to the Group's restructuring on sales channels of Qing Kai Ling Soft Capsule and rectification on its terminal prices in 2017, by reducing or stopping distributing to dealers and retail pharmacies that failed to meet the suggested retail prices.

Qing Kai Ling Soft Capsule had been primarily sold to monomer pharmacies and pharmacy chain, followed by clinics and chained mono-drugstores. The product is with huge market potential for the treatment of upper respiratory tract infections, tonsillitis, acute pharyngitis, acute tracheitis and other indications. Chained pharmacies have a great demand for antiviral Chinese medicines. Qing Kai Ling Soft Capsule was introduced in the National Drug Reimbursement List in February 2017 and then included by various provinces' drug reimbursement lists in August and September. Qing Kai Ling preparations are of huge demand as they are anti-influenza medications recommended by state agencies. The influenza outbreak at the beginning of 2018 caused a shortage of Qing Kai Ling Soft Capsule. The Group is pacing up in expanding its coverage of chained pharmacies and monomer pharmacies in various provinces. Qing Kai Ling Soft Capsule is both a prescription drug and a nonprescription drug. The Group will leverage its grassroots market synergy from Qing Kai Ling Injection for health practitioners to promote using Qing Kai Ling Soft Capsule at home of patients who received treatments with Qing Kai Ling Injection at clinics, community centers and hospitals.

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

Huamoyan Granule's sales reached RMB60,211,000 in 2017, an increase of 32.3% over the same period of last year.

Huamoyan Granule was introduced in the National Drug Reimbursement List in February 2017 and then included by various provinces' drug reimbursement lists in August and September 2017. The product targets osteoarthritis, rheumatoid arthritis, arthritis from athletic injuries, gouty arthritis, recovery after joint surgeries and other osteoarthropathia. Osteoarthropathia has a large patient base and its treatment enjoys huge market potential. A majority of osteoarthritis patients are the middle-aged and the elderly, with female patients outnumbering male ones. Around 50% of the population above 60 years old are suffering from osteoarthritis, and the disease's prevalence rate among people over 75 years old is 80%. The disability rate of osteoarthritis is 53%. Rheumatoid arthritis is plaguing more than 50 million patients nationwide, with about 5 million new cases each year. Most patients are postmenopausal women. However, not many choices are currently available from clinical therapeutic drugs (dominated by orally taken nonsteroidal anti-inflammatory and analgesic drugs). This poses a strong demand for new clinical medications, and hence creates a huge market potential. Huamoyan Granule is the only innovative medicine for osteoarthritis with synovitis as its therapeutic target in China. Yet its coverage of target hospitals in 2017 was less than 2.6% only, indicating a vast untapped market.

The Group is speeding up our effort to work with more tertiary hospitals in key cities to set up academic pacesetters for synovitis treatment, and vigorously extending our reach to county-level public hospitals and urban Class II hospitals which are targeted to be the major source of sales. Meanwhile, the Group also try to boost the sales from large and medium-sized chained pharmacies with hospital prescriptions. Huamoyan Granule is expected to present a rapidly growing momentum in the next three years.

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

The sales of Dan Deng Tong Nao Hard Capsule and Soft Capsule in this year increased by 2.9% year on year to RMB16,219,000.

Dan Deng Tong Nao Capsule is an exclusive product of the Group which targets for cerebral ischemic stroke and transient ischemic attack. Antiplatelet plays a dominant role in treating cerebral ischemic strokes, but clinical Western medicines may cause bleeding and other risks, so orally taken proprietary Chinese medicines are recommended by therapeutic guidelines. Dan Deng Tong Nao Capsule is an exclusive and proved traditional Yi-Clan medicine recipe with anti-platelet and neuroprotective effects.

Dan Deng Tong Nao Hard Capsule is enlisted in the National Drug Reimbursement List. Dan Deng Tong Nao Soft Capsule is included by drug reimbursement lists of eight provinces and is primarily available at Class II and above medical institutions (including medical institutions in other provinces not covered by their drug reimbursement list). The coverages of Dan Deng Tong Nao Hard Capsule and Soft Capsule at their target hospitals in 2017 were relatively small, indicating a vast market potential to cultivate.

The marketing strategy for Dan Deng Tong Nao in the next three years will mainly focus on working with more tertiary hospitals in key cities to set up academic pacesetters for synovitis treatment, while vigorously extending our reach to county-level public hospitals and urban Class II hospitals to make them become major source of sales. Meanwhile, the Group will expand coverage at grassroots medical institutions and drive the sales at chained pharmacies with hospital prescriptions. Dan Deng Tong Nao Hard Capsule and Soft Capsule are expected to incur a rapidly growing momentum in the next three years.

Management Discussion and Analysis

TCM formula granules

TCM formula granule was the highest-growing dosage form of the group in 2017. Public hospitals continue to be allowed to markup TCM formula granules and national policies are also in favor of continued growth of TCM formula granules. Meanwhile, TCM formula granule industry will soon be deregulated. The Group is expected to become one of the beneficiaries upon the industry opening-up.

The Group is the only modern Chinese medicine company that fully applies Chinese medicine injection production technology (which represents the highest technical merit of modern TCM) and the related quality control philosophy, to the research and development and production processes of TCM formula granules. Leveraging state-of-the-art production techniques, the Group ensures a consistent material basis of our TCM formula granules. Meanwhile, the Group also joins hands with colleges and universities, scientific research institutions and clinical hospitals in exploring basic pharmacodynamics and clinical application of Shineway TCM formula granules. TCM Formula Granules Quality Research, a book co-authored by Shineway Pharmaceutical Group Limited ("Shineway Pharmaceutical") and Hebei University of Chinese Medicine, was officially put on sale in January 2018. The book received strong support and instructions from the Department of Science and Technology of Hebei Province, Hebei Education Department, Hebei Provincial Administration of Traditional Chinese Medicine, the Department of Science and Technology of Shijiazhuang City, and Shijiazhuang Intellectual Property Office. The book contains 101 kinds of common TCM formula granules in clinic practice and inspects and analyzes each TCM formula granule with modern analyzing technologies by its quality criteria. Ultimately the book establishes identification and analyzing method system to reflect the overall quality and characteristics of TCM formula granules in a bid to cast some reference for TCM formula granule quality control. Given that no uniform technical and quality standards or requirements at the national level are in place for TCM formula granules at present, this book is of guiding significance for the quality standard research and clinical application of TCM formula granules.

The Group stays committed to a perfect alignment of TCM formula granules and modern technologies. Our modern TCM extraction workshops are a national high-tech industrialization demonstration project of the largest production scale and the highest technical standard nationwide. We own the only full-course automatically controlled production line for TCM extraction which uses unique pre-processing technologies for Chinese herbal pieces to guarantee stable product quality across different batches of our formula granules. Meanwhile, the Group adopts fine granules (smaller in size compared to granules) as our finalized formula granule form, which secures faster dissolution that comes to resemble decoction absorption. The Group applies international leading techniques such as TCM fingerprint, near-infrared online monitoring, dynamic countercurrent extraction, fully dynamic refluxing extraction, supercritical fluid extraction (SFE), and attritioning, to TCM formula granule production. As a result, our TCM formula granules can retain the performance of the original Chinese herbal pieces in terms of effective constituents, correlation between properties, tastes and meridian entries, indications and the efficacy, and stay safe, efficacious, stable and under control for every batch of the same kind of TCM formula granules.

The Group looks forward to another year of high-speed growth for TCM formula granules.

NEW PRODUCTS – RESEARCH AND DEVELOPMENT

With a strong presence in research, the Group's Shineway Medicine Research Institute provides unique and innovative new medicine pipeline. Currently, it hosts a total of 48 research staff as well as a post-doctoral research workstation and an academician workstation. The research institute has established long-term scientific research partnerships with Tsinghua University, Peking University and China Academy of Chinese Medical Sciences. Our modern TCM research program was awarded the Second Prize of the National Science and Technology Advancement Award, standing for the highest technical attainment of TCM pharmacy.

At present, the Group has more than 90 ongoing research cases either in pharmacy experiment or in clinical trials, including 14 new medicine research programs (one of which is based in Australia), 2 major national science and technology programs, and 6 R&D programs under provincial or municipal support. A total of 15 clinical trials (including one based in Australia) are currently underway.

Among the clinical trial projects, there is one innovative new medicine with great potential:

Sailuotong Capsule – expected to be launched to market in 2021

Sailuotong Capsule, a new multi-component Chinese medicine targeting vascular dementia is in its Phase III clinical trial and expected to enter the market in 2021 after its clinical trials in Australia and China to be completed by the end of 2020. Australia is a member state of the Pharmaceutical Inspection Co-operation Scheme (PIC/S) and has signed mutual recognition agreements with 20-plus EU countries. TGA(Therapeutic Goods Administration)-certified traditional Chinese medicine will have access to the EU and multiple countries and markets in Asia.

Dementia is the number 4 killer after heart disease, cancer and stroke. Vascular dementia is the second biggest contributor to dementia following Alzheimer's disease. There is no effective cure currently, and the clinical therapeutics only serves to postpone the proceeding of the disease and slow down functional degeneration. Sailuotong Capsule may bring hope to people suffering from dementia upon success of its clinical trials.

According to a World Health Organization ("WHO") report published 2012, the global dementia patients totaled around 35.6 million in 2010, and the figure is expected to double once every 20 years, which will bring the total number of patients to 65.7 million in 2030, and to 115 million in 2050. There are nearly 7.7 million new dementia patients every year, that is, one new dementia patient every 4 seconds. Around 46% patients were from Asia, 31% are from Europe, 16% are from America, and 7% are from Africa. Dementia causes earlier death and the median survival of an Alzheimer's disease patient is estimated at 7.1 years, while that of a vascular dementia patient is 3.9 years. As the WHO report estimated, the global cost for dementia diseases in 2010 was as high as USD604 billion, and 89% was contributed by high-income countries, with the direct medical cost taking 16% (that is, USD96.6 billion). By frequency, the four most common dementia subtypes are Alzheimer's disease, vascular dementia, dementia with Lewy bodies (DLB) and frontotemporal dementia (FTD). The Alzheimer's disease accounts for 41% and the vascular dementia accounts for 32%, estimated the WHO report on shares of dementia subtypes by referring to the dementia report in Britain.

Sailuotong Capsule is composed of medicative parts extracted from saffron, ginseng and ginkgo biloba leaf. In the past, traditional Chinese medicine was much-maligned for its undefined material base and unclear action mechanisms. Sailuotong Capsule is a muti-component Chinese medicine from modern innovation. Its medicative components are separated and purified from medicinal materials through a series of modern technical means and the molecular constitution of its medicative components is also clarified for further pharmacodynamics studies. After the efficacy of each component is identified, the components are then combined properly to form new medicines with higher efficacy. Unlike other traditional Chinese medicines, Sailuotong Capsule, though of traditional Chinese medicine components, features clear chemical composition and action mechanisms which echo its clinical effect, marking a major breakthrough of traditional Chinese medicine modernization.

Sailuotong Capsule was named as a National Science and Technology Major Project in 2017 and received financial support from the government.

PROSPECT

The recent changes in business environment of the pharmaceutical industry are turning into catalysts for the Group's business growth in the next few years.

The centralized drug procurement practice unbuckles procurement decisions from purely based on the lowest price. Instead, procurement decisions become leaning to "direct web-listing" quotations where both quality and cost effectiveness count. As a result, the Group is able to gradually tune drug prices to a more reasonable and yet competitive level. The Group can now re-tap to provinces and cities due to the irrationally low prices as set by some tenders in the past. It is expected that the average prices and sales volume of a diversity of products of the Group will increase.

According to data from an independent research report, the total market value of grassroots public medical institutions in 2016 exceeded RMB130 billion, representing an annual growth rate of 23.7% since 2010. At present, a number of provinces and capital cities have started merging the urban and municipal medical insurance until new farm village cooperative medical insurance. Essentially, it is a general alignment of the scope of medicines purchased by grassroots medical institutions, with those procured online by class II and III hospitals in relevant provinces and cities, to effect the sharing of one single drug reimbursement list for all public medical institutions. In effect, a large variety of drugs will no longer be restricted from purchasing by grassroot medical institutions. Moreover, other provinces in China are also gradually increasing their proportion of non-essential drugs used by grassroots medical institutions. Accordingly, the Group's is actively adding sales channels toward distributing to farm village health centers and clinics. With the Group's reputation and advantages in the market of grassroots medical institutions, the convergence trend of drug procurement by grassroots medical institutions and class II and III hospitals will definitely benefit the Group.

The reimbursement restriction for Chinese medicine injections was not completely followed by the drug reimbursement lists of a total of four provinces and the city of Beijing, in contrary to the National Drug Reimbursement List. This adds to the Group's confidence in possible removal of reimbursement restrictions for Chinese medicine injections in more provinces. The severe flu epidemic made the supply of Qing Kai Ling Injection run short, rekindling the demand for TCM injections which may resume the growing momentum in 2018. Nevertheless, the Group believes that the proportion of Chinese medicine injections in overall sales will continue to turn smaller in the next year. A major reason is that the sales growth rates of our orally taken products such as soft capsules, granules and TCM formula granules are expected to far exceed that of Chinese medicine injections in the coming year.

Management Discussion and Analysis

The Group actively reengineered our sales and marketing infrastructure in 2017, laying the foundation for promoting the strategic transformation of sales and marketing model in 2018. We are gradually shifting from being distributor-channel-driven to all-terminal driven and our sales team also expanded from 1,200 to 2,400 people. The major job responsibilities of most of our salespeople also changed from promotional support for distributors to establishing direct contact with hospitals, grassroots medical institutions, and pharmacy personnel to stimulate their demands for the Group's products. In 2018, we began to use a management system named "Amoeba" to encourage our sales teams and other operation departments to deliver sinstainable growth. Amoeba transformed the Group's human resources and restructured our sales teams and a majority of departments into many smaller profit centers with self-supporting accounting functions. The sales team traditionally centralized managed by the headquarters now has authority for decision-making on their financial affairs, marketing and promotion and human resource management. This allows sales teams and most departments to dwell on how to play out their full capabilities to fulfill the Group's development vision together like an operator. The Group believes that, with the aforementioned major organizational restructuring, along with the steadily progress of establishing direct channels to hospitals and pharmacies, the Group will unleash the huge market potential of our orally taken products. Riding of the big trend of hierarchical treatment, a series of our orally taken products will enter into a path of rapid growth.

STATE PROTECTED CHINESE MEDICINES

As of the date of this announcement, four products of the Group are listed as state-protected Chinese medicines. They are Lianshentonglin Tablet, Jiangzhi Tongluo Soft Capsule, Qihuangtongmi Soft Capsule and Shujin Tongluo Granule.

FINANCIAL ANALYSIS

Turnover

In 2017, the Group recorded a decrease in turnover of 3.7% from last year. Sales of injection products reached RMB982,246,000, down approximately 11.5% as compared with 2016. Sales of injection products accounted for 51.2% of the Group's turnover. Sales of soft capsule products were RMB356,281,000, down 2.0% from last year. Soft capsule products accounted for approximately 18.6% of the Group's turnover. Sales of granule products amounted to RMB328,798,000, down 14.4% from last year. Granule products accounted for 17.1% of the Group's turnover. Sales of TCM formula Granules were RMB132,109,000, a surge of 273% from last year and accounted for 6.8% of the Group's turnover. Sales of the Group's products in other formats were RMB120,174,000 which accounted for approximately 6.3% of the Group's turnover.

The aggregate sales attributable to the largest customer and ten largest customers combined of the Group were 5.3% and 28.6% respectively of the Group's turnover for the year.

Cost of Sales

Cost of sales in 2017 was RMB652,524,000, representing 34.0% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 56.3% (2016: 60.4%), 13.0% (2016: 12.5%) and 30.7% (2016: 27.1%) of total cost of sales respectively.

Gross Margin

In 2017, average gross margins of injection products, soft capsule products, granule products and TCM formula granule products were 64.7% (2016: 62.8%), 71.8% (2016: 73.5%), 64.1% (2016: 63.9%) and 73.7% (2016: 62.3%) respectively. Overall gross margin was 66.0% (2016: 64.5%).

Other Income

Other income mainly includes government subsidies of RMB74,433,000 (2016: RMB18,949,000). The government subsidies mainly represented incentives received from government for research and development and 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 of RMB53,578,000 (2016: RMB65,817,000) and RMB47,975,000 (2016: RMB34,761,000) respectively.

Distribution Costs

Distribution costs comprise of advertising expenses, distributor promotion expenses, wages of sales persons and other market promotion and development expenses. In 2017, the distribution costs have increased by approximately 39.0% and accounted for 26.8% of turnover in 2017 as compared to 18.6% in last year. It was mainly due to the respective increase in advertising expenses and distributor promotion expenses of 49.6% and 97.6% from last year. Advertising expenses and distributor promotion expenses accounted for 5.7% (2016: 3.6%) and 12.3% (2016: 6.0%) of the Group's turnover respectively.

Administrative Expenses and Research and Development Costs

In 2017, the Group strengthened its cost control policy, administrative expenses have decreased by 10.9% from last year, representing approximately 12.9% (2016: 13.9%) of the Group's turnover. Administrative expenses also comprised of non-productive depreciation expenses of fixed assets and amortization expenses of intangible assets which accounts for 3.9% of the Group's total turnover in 2017 (2016: 3.5%). Research and development expenses have increased by approximately 31.1% from last year, accounted for approximately 5.0% of the Group's turnover in 2017 as compared to 3.7% in 2016.

Management Discussion and Analysis

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%.

A subsidiary which is operating in Western China has been granted tax concession by the local tax bureau and was entitled to PRC EIT at concessionary rate of 9% for both 2016 and 2017. The tax concession granted to that subsidiary operating in Western China expired in 2017. Certain subsidiaries which were 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 2016 and 2017. The tax concessions granted to certain subsidiaries recognised as High and New-tech Enterprise expired at the end of 2017. The related subsidiaries are in the process to apply for extension of the tax concessions. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

In 2017, the effective tax rate of the Group was 23.2% (2016: 15.3%). The increase in effective tax rate was mainly due to the increased withholding tax of profit distribution of the PRC subsidiaries.

Profit for the year

The Group's profit attributable to owners of the Company for 2017 was RMB451,553,000, representing a decrease of 23.4% from 2016. The decrease in profit was mainly attributable to the decreased turnover and increased in expenses.

Dividends

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

Capital Structure

For the year ended 31 December 2017, there was no change in the capital structure of the Group and issued share capital of the Company.

Liquidity and Financial Resources

As at 31 December 2017, bank deposits of the Group amounted to approximately RMB3,532,385,000 (2016: RMB3,218,401,000), of which approximately RMB3,489,094,000 (2016: RMB3,004,983,000) were denominated in RMB, others being equivalent to approximately RMB34,592,000, RMB5,542,000 and RMB3,157,000 (2016: RMB44,109,000, RMB5,074,000 and RMB164,235,000) 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 2017, bills and trade receivables decreased and increased by 8.6% and 40.5% respectively as compared to the balance as at 31 December 2016. Turnover days of bills and trade receivables were 91.5 days and 11.7 days (2016: 85.0 days and 7.5 days respectively).

Inventories

As at 31 December 2017, inventories in the amount of RMB280,209,000, decreased by approximately 4.8%, as compared to the balance as at 31 December 2016. As at 31 December 2017, raw materials, work in progress and finished goods accounted for 24.7%, 25.2% and 50.1% (2016: 31.1%, 27.7% and 41.2%) of inventories respectively. Turnover of finished goods inventories in 2017 was 73.2 days as compared to 65.0 days in 2016.

Property, Plant and Equipment

As at 31 December 2017, property, plant and equipment amounted to approximately RMB1,401,824,000, decreased by approximately 4.4% as compared to the balance as at 31 December 2016. The new construction works were mainly located in Shijiazhuang, which comprised of various workshops, exhibition center and logistic center projects amounted to approximately RMB56,909,000 in total. Besides there were also new additions to buildings, plant and machineries, office equipment and motor vehicles of approximately RMB35,062,000 in total during the year.

Intangible Assets

Intangible assets represent patents and production licenses with finite useful lives. In 2017, the amortization of intangible assets expense was approximately RMB40,391,000.

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) Company 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 2017, turnover days of bills and trade payables were 30.5 days and 95.4 days (2016: 25.2 days and 89.2 days).

Management Discussion and Analysis

Employees

As at 31 December 2017, the Group had 3,442 (2016: 3,867) 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 loss for the year was arising from the change in exchange rate between Renminbi and Hong Kong Dollars/Australian Dollars. As at 31 December 2017, 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 2017 (2016: Nil).

Loans and bank borrowings

As at 31 December 2017, the Group had bills payables of RMB54,389,000 (2016: RMB54,506,000). These liabilities are repayable within one year and were pledged by pledging bank deposits amounting RMB43,401,000 (2016: RMB54,506,000) and bills receivable amounting RMB11,200,000 (2016: Nil). Details of the pledged bank deposits are set out in note 20 to the consolidated financial statements of this report. Except the bills payables, the Group had no other loans and bank borrowings as at 31 December 2017.

Directors and Senior Management

DIRECTORS

Executive Directors

LI Zhenjiang (李振江), aged 62, 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, 11th and 12th 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 who has resigned on 23 January 2018.

XIN Yunxia (信蘊霞), aged 54, 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 Science & Technology Co., Ltd. ("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 50, 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 35, was an executive Director appointed in 2012 and resigned on 23 January 2018. 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 51, 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 58, 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 54, 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.

Directors and Senior Management

LUO Guoan (羅國安), aged 71, was appointed as an INED on 16 June 2017. Graduated with biochemical engineering profession, and subsequently obtained master degree in chemistry from East China University of Science and Technology. Prof. Luo is the head of the Collaboration Centre of Network for Traditional Chinese Medicine of National Education Ministry, professor and doctoral tutor of Department of Chemistry in Tsinghua University. Prof. Luo is currently the committee chairman of the biopharmaceutical technology branch of China Medicinal Biotech Association, council chairman of the National Conference on Pharmaceutical Analysis and the chairman of Chinese Medicine Product Development and Cultivation of Professional Committee in China Association of Traditional Chinese Medicine. Prof. Luo is a well-known expert in the field of Chinese medicine analysis and quality control. He has long been engaged in drug analysis and traditional Chinese medicine systems and biological research. He has published a book titled "Systems Biology for Traditional Chinese Medicine" which is an international publication of traditional Chinese medicine system biology monographs.

SENIOR MANAGEMENT

Liu Tiejun (劉鐵軍), aged 43, joined the predecessor of the Group in 1999 and was appointed as vice president of the Group on May 16, 2013. He is qualified as a senior engineer and is a certified Pharmacist. He graduated from Hebei Medical University in 1999 with a bachelor's degree in pharmacy. Mr. Liu is a member of the China Association of Chinese Medicine (Chinese Medicine Branch) and a deputy director of the National and Local United Engineering Laboratory for the Development Technology of New Chinese Medicine Injection. He has received Model Worker of Hebei Province Award by the People's Government of Hebei Province. Mr. Liu is and is currently the Production vice president and the legal representative of the Shineway Pharmaceutical Group Limited (formerly known as Shineway Pharmaceutical Company Limited). He is responsible for overseeing the Group's Production technology management with over 18 years of experience.

Zhang Yudong (張宇棟), aged 44, joined the Group in 1994. He graduated from Hebei University of Economics and Business with major in marketing and obtained a bachelor's degree in pharmacy. He has served as director of Investment, general manager of hospital division and general manager of terminal division. Since November 2017, he has been the general manager of sales and marketing. He is responsible for the sales and marketing management of the Group with 23 years of experience.

Directors and Senior Management

HUNG Randy King Kuen (孔敬權), aged 52, is the Director of Investor Relation of the Group. Mr Hung has more than 20 years of experience as CFO, executive director and independent non-executive director of various listed companies in Hong Kong. He was an executive director of the Group from 2005 to 2010, and was appointed as a non-executive director of the Group in 2011 and continued to serve as an independent non-executive director of the Group from 2014 to March 2017. Currently, Mr. Hung is also serving as a council member and the Chairman of Training Committee of the Hong Kong Institute of Directors, and the Vice Chairman of Hong Kong Investor Relations Association.

Mr. Hung is a fellow CPA of Hong Kong and a licensed CPA of the State of California, USA. He holds an MBA degree from University of London and a Bachelor degree 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, a Specialist Certificate in Corporate Finance from the Hong Kong Securities and Investment Institute, and a Certificate in Investor Relations from the UK Investor Relations Society. He has extensive experience in IPO, corporate finance and investor relation.

COMPANY SECRETARY

LEE Bun Ching, Terence (李品正), aged 45, is the Financial Controller and Company Secretary of the Group. He has joined the company in 2011 as the Financial Controller and was appointed as the Company Secretary and an Authorised Representative with effect from 1 July 2017. 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.

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 2017.

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 6 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 2017, 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.

RESULTS

The results of the Group for the year ended 31 December 2017, prepared in accordance with the International Financial Reporting Standards, are set out in the consolidated statement of profit or loss and other comprehensive income on page 123 of this annual report.

DIVIDENDS

An interim dividend of RMB11 cents per share, amounting to RMB90,970,000, was paid to the shareholders on 30 October 2017.

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 2017, to be paid out of the share premium account of the company on 15 June 2018, to the shareholders whose names appear on the register of members of the Company on 8 June 2018. 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 2018.

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 12 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 notes 24 and 35 to the consolidated financial statements, respectively. As at 31 December 2017, the Company's reserves available for distribution to shareholders amounted to RMB442,896,000 (2016: RMB585,468,000).

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 (resigned on 23 January 2018)
Mr. Chen Zhong

Independent Non-Executive Directors:

Ms. Cheng Li
Mr. Sun Liutai
Prof. Luo Guoan (appointed on 16 June 2017)
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.

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. Prof. Luo has been appointed as an INED of the Company with effect from 16 June 2017. Details of Prof. Luo's appointment and biography information were disclosed in the announcement of the Company dated 16 June 2017.

Ms. Lee Ching Ton Brandelyn resigned on 23 January 2018 as Executive Director, to spend more time to handle her personal affairs. Ms. Lee Ching Ton Brandelyn confirmed that she has no disagreement with the Board and she 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 proposed for re-election at the forthcoming annual general meeting 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 Zhenjiang, Ms. Xin Yunxia and Mr. Sun Liutai will retire from the Board at the forthcoming AGM. Pursuant to Article 86(3) of the Articles of Association, Prof. Luo Guoan will hold office until 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 9 to the consolidated financial statements.

CHANGE IN DIRECTOR'S INFORMATION

Save as the resignations of Mr. Hung Randy King Kuen on 30 March 2017 as Independent non-executive director and Ms. Lee Ching Ton Brandelyn on 23 January 2018 as Executive Director and appointment of Prof. Luo Guoan on 16 June 2017 as Independent non-executive director, 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 other than employment 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 2017.

Directors' Report

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

Save as disclosed in note 33 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 2017, 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)	546,802,990	66.12%
Li Huimin	Company	Beneficiary owner	1,020,000	0.12%
Lee Ching Ton Brandelyn (Resigned on 23 January 2018)	Company	Beneficiary owner	835,000	0.10%
Xin Yunxia	Company	Beneficiary owner	540,000	0.07%
Chen Zhong	Company	Beneficiary owner	280,000	0.03%

Note: These 546,802,990 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 546,802,990 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 2017, 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 2017, 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	546,802,990	66.12%
Fiducia Suisse SA (Notes 1 and 2)	Trustee of discretionary trust	546,802,990	66.12%

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 2017, 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 exercised 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.

Directors' Report

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 2017**	**Granted during the year**	**Lapsed during the year**	**As at 31 Dec 2017**	**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	17,550,000	–	(1,400,000)	16,150,000	1	11.84
		21,150,000	–	(1,400,000)	19,750,000		

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.

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 2017**	**Granted during the year**	**Lapsed during the year**	**As at 31 Dec 2017**	**Note**	**Exercise price per share (HK$)**
Other Employees	1 Jun 2016	1,000,000	–	–	1,000,000	3	8.39
Other Employees	30 Aug 2017	–	3,000,000	–	3,000,000	4	7.21
		1,000,000	3,000,000	–	4,000,000		

(3) 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.

(4) The options have a validity period of 10 years, from 30 August 2017 to 29 August 2027 (both dates inclusive).

The Share Options will be exercisable upon achievement of the relevant performance targets.

The closing price per share immediately before the date on which the options were granted was HK$7.19.

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 LISTED SECURITIES

During the year ended 31 December 2017, the Company or its subsidiaries did not purchase, sell or redeem any listed securities 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. On 26 March 2018, the Group has adopted a share award scheme for its employees. Details of the share award scheme are set out in the Company's announcement dated 26 March 2018.

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 5.3% and 18.4% 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 3.2% and 12.2% 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 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 2017 are RMB8,932,541 and RMB9,000,000 respectively (2016: RMB8,628,317 and RMB8,700,000 respectively).

On 9 February 2018, General Services Agreement I has been renewed for a period of three years from 1 January 2018. The proposed annual caps for General Services Agreement I for the three years ending 31 December 2020 are RMB10,500,000, RMB11,500,000 and RMB12,500,000 respectively.

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 2017 are RMB2,556,000 and RMB2,600,000 respectively (2016: RMB2,473,582 and RMB2,500,000 respectively).

On 9 February 2018, General Services Agreement II has been renewed for a period of three years from 1 January 2018. The proposed annual caps for General Services Agreement II for the three years ending 31 December 2020 are RMB2,400,000, RMB2,600,000 and RMB2,800,000 respectively.

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 2017 both are RMB1,277,100 (2016: RMB1,277,100).

On 9 February 2018, Land Lease Agreement I has been renewed for a period of three years from 1 January 2018. The proposed annual caps for Land Lease Agreement I for the three years ending 31 December 2020 are RMB1,400,000.

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 2017 both are RMB1,012,397 (2016: RMB1,012,397).

On 9 February 2018, Land Lease Agreement II has been renewed for a period of three years from 1 January 2018. The proposed annual caps for Land Lease Agreement II for the three years ending 31 December 2020 are RMB1,100,000.

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 2017 are nil and RMB60,000,000 respectively (2016: RMB35,554 and RMB50,000,000 respectively).

Hotel Services Agreement with Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")

On 9 February 2018, a Hotel Services Agreement (the "Hotel Services Agreement") was entered into between Shineway Pharmaceutical and Kang Yue Hotel, 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 Hotel Service Agreement, Kang Yue Hotel has agreed to provide Shineway Pharmaceutical with room rental and hotel services for a period of three years from 1 January 2018. The proposed annual caps for Hotel Services Agreement for the three years ending 31 December 2020 are RMB3,368,000, RMB3,668,000 and RMB4,268,000 respectively.

Training Agreement with Shijiazhuang Municipal Luancheng County Shineway Training School ("Shineway Training School")

On 9 February 2018, a Training Agreement (the "Training Agreement") was entered into between Shineway Pharmaceutical and Shineway Training School, 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 Training Agreement, Shineway Training School has agreed to provide Shineway Pharmaceutical with training services and training venue for a period of three years from 1 January 2018. The proposed annual caps for Training Agreement for the three years ending 31 December 2020 are RMB5,000,000.

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, (3) the Supply Agreement, (4) the Hotel Services Agreement and (5) the Training 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 33 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. Details of the share option scheme adopted by the Company are set out in the section "Share Option Scheme" above.

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 9 to the consolidated financial statements.

The contributions to pension schemes for Directors for the financial year are disclosed in note 9 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 2017 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 64. 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 2017 as required under the Listing Rules.

Directors' Report

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 RMB1,035,500 which are disclosed in "Community Contribution" 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, 29 March 2018

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 2017, 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 likely to be in possession of inside 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 and its code of conduct regarding Directors' securities transactions during the financial year.

BOARD OF DIRECTORS

As at the date of this annual report, the Board comprises four executive Directors and three 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 and review of the board composition; and

3. 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 2017. 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 (resigned on 23 January 2018)	4/4	1/1
Mr. Chen Zhong	4/4	1/1
Independent Non-executive Directors		
Ms. Cheng Li	4/4	1/1
Mr. Sun Liutai	4/4	1/1
Prof. Luo Guoan (appointed on 16 June 2017)	2/2	–
Mr. Hung Randy King Kuen (resigned on 30 March 2017)	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.

Ms. Lee Ching Ton Brandelyn, who has resigned on 23 January 2018, is the daughter of Mr. Li Zhenjiang, the Chairman and the executive Director.

Corporate Governance Report

INDEPENDENT NON-EXECUTIVE DIRECTORS

Following the resignation of Mr. Hung as an INED of the Company on 30 March 2017, the Company was not in compliance with the following Listing Rules (i) Rule 3.10(1), which stipulates that the Board must include at least three independent non-executive directors; (ii) Rule 3.10A, which stipulates that the number of independent non-executive directors shall represent at least one-third of the board; After the appointment of Prof. Luo as an INED and a member of each of audit and nomination committees of the Company on 16 June 2017, the Company fully complies with the requirements of Rules 3.10(1) and 3.10A of the Listing Rules.

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 2017. During the year ended 31 December 2017, 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 2017, 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 (resigned on 23 January 2018)	–	✓
Mr. Chen Zhong	–	✓
Independent Non-executive Directors		
Ms. Cheng Li	✓	✓
Mr. Sun Liutai	–	✓
Prof. Luo Guoan (appointed on 16 June 2017)	✓	✓
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:

1. 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 and has duly discharged the above duties.

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 pages 48 to 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. The members of the Nomination Committee comprise one executive Director, Mr. Li Zhenjiang and two Independent Non-executive Director Mr. Sun Liutai and Prof. Luo Guoan. Following the resignation of Mr. Hung Randy King Kuen as an INED and a member of the nomination committee of the Company on 30 March 2017, the Nomination Committee comprised one Executive Director and one Independent Non-executive Director. As such, from 31 March 2017 to 15 June 2017, the Nomination Committee did not comprise a majority of Independent Non-executive Directors as required under code provision A.5.1 of the Code. Following the appointment of Prof. Luo Guoan on 16 June 2017 as an Independent Non-executive Director and a member of Nomination Committee of the Company, the Company now meets all the requirement under code provision A.5.1 of the Code.

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. During 2017, the Nomination Committee held one meeting and has duly discharged the above duties.

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.

Individual attendance of each Nomination Committee member during the year ended 31 December 2017 was as follows:

	Attendance
Mr. Li Zhenjiang *(Chairman)*	1/1
Mr. Sun Liutai	1/1
Prof. Luo Guoan (appointed on 16 June 2017)	–
Mr. Hung Randy King Kuen (resigned on 30 March 2017)	–

AUDIT COMMITTEE

As at the date of this annual report, the Audit Committee comprises Mr. Sun Liutai, Ms. Cheng Li and Prof. Luo Guoan. Following the resignation of Mr. Hung as an INED and a member of the audit committee of the Company on 30 March 2017, the Company was not in compliance with Rule 3.21 of the Listing Rules, which stipulates that the audit committee shall comprise of at least three members. As such, from 31 March 2017 to 15 June 2017, the Audit Committee did not comprise of at least three members. After the appointment of Prof. Luo as an INED and a member of the Audit Committee of the Company on 16 June 2017, the Company fully complies with the requirements of 3.21 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 2017 was as follows:

	Attendance
Mr. Sun Liutai *(Chairman)*	4/4
Ms. Cheng Li	4/4
Prof. Luo Guoan (appointed on 16 June 2017)	3/3
Mr. Hung Randy King Kuen (resigned on 30 March 2017)	1/1

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 116 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 2017, 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
2,000,001 – 3,000,000	0
3,000,001 – 4,000,000	1
Total	4

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 (2016: HK$1,900,000), and in addition to a total of HK$398,000 (2016: HK$398,000) 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 117 to 122.

Corporate Governance Report

In preparing the financial statements for the year ended 31 December 2017, 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 2017, 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 an 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

INTRODUCTION AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE GUIDELINE

This Environmental, Social and Governance Report (the "ESG Report" or the "Report") summarizes the Group's environmental, social and governance ("ESG") initiatives, plans and performance, and demonstrates its commitment to sustainable development.

The core businesses of the Group are mainly engaged in the research, development, manufacturing and marketing of modern Chinese medicine businesses. Its main products include injections, soft capsules and granules.

The Group believes that environmental protection, low-carbon principle, conservation of resources, and sustainable development are the social trends. In the pursuit of a successful and sustainable business model and to achieve continuous success, the Group recognizes the importance of incorporating ESG concepts into its risk management mechanism and the corresponding measures are going to be taken from day-to-day operations and governance perspectives.

Management Structure

During the year ended 31 December 2017, the Group has established relevant task forces to handle issues related to ESG reporting. In order to demonstrate the Group's commitment to sustainable development, the Group aims to establish Sustainability Committee and Sustainability Task Force in 2018 in order to be responsible for and govern the Group's related sustainability issues and monitor it as well as be responsible for the preparation of ESG report, and reporting to the board of directors.

Corporate Governance

The Board has the responsibility to lead and govern the Group and is responsible for managing and supervising the Group's affairs. As regards the corporate governance practices of the Group, the attendance rate of directors has been published in the Corporate Governance report on pages 53 to 58.

In addition, the Group does not have unequal voting rights.

Environmental, Social and Governance Report

REPORTING SCOPE

Unless otherwise stated, the ESG Report mainly covers the Group's main subsidiary focusing on the research, manufacturing and sale of Chinese medicine, namely the Shineway Pharmaceutical Group Limited, located in Luancheng, Shijiazhuang, Hebei province, China.

The Group will continue to assess the major ESG areas of our different businesses or major subsidiaries to determine the Reporting Scope of the ESG report.

REPORTING FRAMEWORK

The ESG Report is prepared in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guidelines" or the "Reporting Guide") of the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited. The Report also contains Standard Disclosure from the Global Reporting Initiative ("GRI") Sustainability Reporting Guidelines ("GRI G4 Standard Disclosure"). The Company has complied with the "comply or explain" provision set out in the Reporting Guide for the year ended 31 December 2017.

REPORTING PERIOD

The report is the second ESG Report issued by the Group. The first ESG Report was issued in April 2017.

The ESG Report details the ESG activities and challenges of the Group, and measures taken by the Group during the year ended 31 December 2017.

STAKEHOLDER ENGAGEMENT

The Group recognizes the stakeholders and their views on the Group's business and ESG issues. To understand and respond to the concerns of stakeholders, the Group communicates with our key stakeholders (including employees, investors/shareholders, customers, suppliers, government and regulatory bodies, communities, non-governmental organizations and the media) through different channels. The Group's communication channels with the main stakeholders are as follows:

Key Stakeholders	Communication Channel
Employees	Employee Opinion Survey
	Channels for Employees Feedback (form, suggestion box, etc.)
	Regular Management Newsletter and Performance Evaluations
	Employee Newsletter and Broadcasting
	Intranet
	Staff Seminars
Investors/Shareholders	Annual General Meeting
	Annual Report and Interim Report
	Announcements and Circulars
	Investor Conferences
	Monthly Newsletter
	Investor Relation Officer
	Hotline
Customers	Customer Satisfaction Survey and Feedback Form
	Customer Service Center
	Customer Service Manager
	Customer Meetings and Company Visits
Suppliers	Supplier Management Conferences and Events
	Supplier On-Site Audit Management System
Government and Regulatory Bodies	Regular Conference
	Performance Report
	Written Response to Public Consultation
Communities, Non-Governmental Organizations and the Media	Seminars, Lectures and Workshops
	Public/Community Events and Partnership Projects on Different Topics
	Community Investment Program
	Company Visits

The Group will take into account the expectations of our stakeholders when formulating our operational strategies and ESG measures, and work together to continuously improve our ESG performance to create greater value for the community.

Environmental, Social and Governance Report

MATERIALITY ASSESSMENT

The management and employees who are responsible for the key functions of the Group have participated in preparing this Report, assisting the Group in reviewing its operation, identifying key ESG issues and assessing the importance of these issues to our businesses and stakeholders. We compiled a questionnaire in accordance to the identified material ESG issues to collect information from the relevant departments and business units of the Group.

The following table summarizes the Group's material ESG issues included in this report:

The Reporting Guide	Material environmental, social and governance aspects of the Group	
A. Environment		
A1. Emissions	Emissions, Wastewater and Waste Management	P. 70
	Greenhouse Gas Emission	P. 73
A2. Use of Resources	Energy Consumption	P. 77
	Water Consumption	P. 80
	Use of Packaging Materials	P. 80
A3. Environment and Natural Resources	Environment and Natural Resources	P. 81
B. Society		
B1. Employment	Employee Benefits and Equal Opportunities Policies	P. 83
B2. Health and Safety	Safety Production	P. 86
B3. Development and Training	Development and Training for Employees	P. 87
B4. Labor Standards	Prevention of Child Labor and Forced Labor	P. 89
B5. Supply Chain Management	Environmental and Social Risk Management of Supply Chain	P. 90
	Sustainable Supply Chain Management	P. 91
B6. Product Responsibility	Quality and Safety of Products and Services	P. 92
	Customer Service, After-sale Service and Privacy Policy	P. 96
	Intellectual Property Management	P. 97
B7. Anti-Corruption	Anti-corruption and Fraud Prevention	P. 98
B8. Community Investment	Community Contribution	P. 99

As at the year ended 31 December 2017, the Group confirmed that appropriate and effective management policies and internal control mechanism for ESG issues are established and confirmed that the information disclosed in the Report meets the Reporting Guide.

CONTACT US

We welcome comments and suggestions from our stakeholders. You may provide your comments on the ESG Report or towards our performance in respect of sustainability via email to info@shineway.com.

Our achievements in Corporate Sustainability

Replacement of energy-saving lighting

Saving about 1.08 million kWh per year

Combustion of reprocessed Chinese medicine waste residue instead of using coal

Saving about 20 tonnes of coal per day

Investment of RMB 20 million to upgrade denitration technology (SCR)

Nitrogen oxide (NOx) concentration reduced from 80mg/m³ to below 30mg/m³

Total water consumption of the Group in 2017

reduced by 12%

Recycled Water Utilization

Over 80%

Case of Product Recall in 2017

0

Reported Forced and Child Labor cases in 2017

0

Local Purchases in 2017

Over 98%

Environmental, Social and Governance Report

A. ENVIRONMENT

A1. Emissions

General Disclosure and Key Performance Indicators ("KPIs")

Environmental Protection Management Policy and Compliance Issues

As a leading Chinese pharmaceutical manufacturer, the Group has been committed to environmental protection and strictly complies with the environmental laws and regulations formulated by the State and local environmental protection authorities. Such laws and regulations related to the prevention and treatment of wastewater, waste gas and industrial pollution include, but are not limited to, the "Environmental Protection Law of the People's Republic of China", "Law of the People's Republic of China on the Prevention and Control of Water Pollution", "Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution", "Law of the People's Republic of China on Promoting Clean Production", "Emission Standards for Water Pollutants from Chinese Pharmaceutical Industries (GB 21906-2008)", and "Atmospheric Pollutant Emission Standard of the Thermal Power Plants", etc.

The Group recognizes the importance of establishing an environmental protection mechanism and has formulated relevant policies, regulations and procedures to regulate the generation of sewage and exhaust gas pollution in production operations, including but not limited to the "Policy on the Management of Environmental Self-regulatory Systems", "Policy on the Management of Environmental Protection Responsibility", "Policy on the Management of Pollution Control Facilities", and "Policy on the Solid Waste Management". The Group has continuously complied with the environmental protection laws and regulations formulated by the State and local environmental authorities, improved the mechanism and related policies, focused on and supervised the emission issues in our operation, and finally achieved the goals of energy conservation, pollution reduction and efficiency enhancement. The Group has been awarded the ISO14001 certification by the British Standards Institution, which recognizes the standards of environmental protection measures at its production facilities.

In addition, according to the requirements of the "Measures for the Self-Monitoring and Information Disclosure by the Enterprises subject to Intensive Monitoring and Control of the State (for Trial Implementation)" (No. 81 [2013] of the Ministry of Environmental Protection) issued by Ministry of Environmental Protection of the People's Republic of China, environmental protection laws and regulations formulated by the State and local governments, requirements of technical specifications for environmental monitoring and actual conditions of the Group, the Group and our subsidiaries have prepared our own internal-monitoring plans for pollution generated by business activities, standardized and carried out internal-monitoring activities, understood the emission status of pollutants and their impacts on the quality of the surrounding environment, and ensured that our responsibilities on environmental protection have been fulfilled. In addition, according to China's environmental laws and regulations, the Group has formulated the "Construction Project Environmental Impact Assessment and 'Three Simultaneous' Management Procedures". According to that procedure, environmental impact assessment has to be carried out and has to be passed before the commencement of a new construction project to ensure that the production process satisfies the required environmental standards.

In order to ensure that the measures are implemented, the Vice President of Environmental Protection oversees the Group's environmental management work, and each department in the Group has to cooperate with the Vice President of Environmental Protection and they are also responsible for implementing relevant environmental policies under their scope of work. The departments include, but are not limited to, Safety and Environmental Department, Equipment Technology Transformation Department, Production Management Department, Technology Department, Finance Department, Human Resources Department, Security Department, President Office and Quality Assurance Department. Under the leadership of the Group's person in charge of environmental protection, major environmental protection working meetings and internal control meetings shall be held for reporting the work progress of environmental protection and resolving major issues of environmental protection on timely basis, including but not limited to the issues related to emission of exhaust gas and Greenhouse Gas ("GHG"), sewage discharge to water and land, generation of hazardous and non-hazardous wastes, etc.

The Group has also formulated a "Contingency Plan for Emergent Environmental Incidents" to standardize and strengthen the emergency handling of emergent environmental incidents. With a focus on prevention, we gradually improve the early warning, disposal and aftercare mechanisms for handling emergent environmental incidents. The mechanism also mitigates the negative impacts on the environment and business operations to the Group caused by environmental emergent incidents, including environmental pollution accidents, leakages, explosions, transportation incident, abnormal emissions, natural disasters, etc.

Environmental, Social and Governance Report

During the year ended 31 December 2017, the Group did not violate any environmental protection laws or regulations in China, nor did it have significant fines, non-monetary penalties and litigation relating to environmental violations. The Group's production facilities strictly comply with the standards relating to environmental protection measures in China.

An Overview on Generated Emissions

The main emissions generated from the Group's production process are:

- Exhaust Gas Emission: Nitrogen oxides ("NOx"), Sulphur dioxide ("SO2") and Dust

- Sewage Discharge: Wastewater generated from our operations

- Waste Discharge: Mainly for solid waste generated from pharmaceutical production, including waste residue of Chinese herbal medicines and boiler slag. Others include general waste and liquid waste.

Exhaust Gas Emission

The Group is committed to maintaining environmental quality by using clean energy to reduce pollution and waste in the production process in order to mitigate and even eliminate the adverse effects of the production and operational activities of enterprises on the ecological environment, and reduce emissions. Over the years, the Group has been committed to environmental protection and has adopted a number of appropriate measures and governing methods to ensure that its responsibility for environmental protection has been fulfilled.

During the year ended 31 December 2017, the Group's total emission of exhaust gases was approximately 22.82 tonnes, including NOx, SO2 and dust; total GHG emissions were approximately 153,410 tonnes and total GHG emissions per employee (tonnes/employee) were approximately 44.57 tonnes.

Summary of Exhaust Gas Emission Performance:

Exhaust Gas Emission Category	Total emissions in tonnes
NOx	11.95
SO2	4.89
Dust	5.98
Total	22.82

Summary of GHG Emission Performance:

GHG Scope[1]	Total emissions in tonnes	Intensity – total GHG emissions per employee (tonnes/employee)
Direct GHG emission (Scope 1)	117,620 tonnes	34.17 tonnes
Indirect GHG emission (Scope 2 and 3)	35,790 tonnes	10.40 tonnes
Total GHG emission (Scope 1, 2 and 3)	153,410 tonnes	44.57 tonnes

Note 1:

Direct GHG emissions (Scope 1) mainly include boiler combustion emissions, while indirect greenhouse gas emissions (Scope 2 and 3) mainly include electricity consumption and anaerobic treatment of industrial wastewater. Greenhouse gas emission data are presented in terms of carbon dioxide equivalent, with reference to, including but not limited to, the reporting requirements of the "GHG Protocol Corporate Accounting and Reporting Standard" issued by the World Resources Institute and the World Business Council for Sustainable Development, "Greenhouse Gas Emissions Accounting Methods and Reporting Guide for Other Industries in Hebei Province" issued by Hebei Development and Reform Commission and the latest published Baseline Emission Factors for Regional Power Grids in China.

In the course of production and operation, the Group actively promotes clean production, energy conservation and emission reduction, and has continuously invested in environmental protection to mitigate emissions. The Group uses clean energy sources such as natural gas and other measures to mitigate the generation of exhaust gas from the source in order to avoid environmental pollution.

Environmental, Social and Governance Report

In terms of dust control, the Group has currently three sets of electric bag dust removal facilities, three sets of double alkali desulfurization facilities, and three sets of SNCR method denitrification facilities. The Group also focuses on the detection of pollutant concentrations to ensure that all types of pollutants are discharged in compliance with the State and local environmental regulations and to fulfill the commitment of maintaining the environment of the Group and surrounding communities. At the same time, Chinese herbal medicine waste residue produced during production can be used for replacing coal for boilers, which can save approximately 20 tonnes of standard coal per day, while incineration residues can also be used as biological fertilizer to achieve land reuse.

The Group also invested RMB3,000,000 to the treatment of Volatile Organic Compounds (VOCs) at the No.2 Extraction Plant of Chinese Medicine, with a processing capacity of 8,000 cubic meters per hour.

In order to further mitigate the concentration of NOx in boiler exhaust gas, the Group also invested RMB5,000,000 to upgrade the technological standard of denitration of boilers and upgrade the treatment method of exhaust gas to a selective catalytic reduction (SCR) process. Therefore, significant environmental results were achieved, the concentration reduced from the original average of 80mg/m^3 to 30mg/m^3 or less. On the other hand, the upgrade of the boiler fume treatment was performed by adding a wet electrostatic precipitator to the back of the original electrostatic + bag filter to mitigate the emission concentration from the original draw of 35 mg/m^3 to below 10 mg/m^3.

For the stench gas produced by the projects in the animal research center, it is disposed with compliance to relevant environmental standards after being treated with alkali absorption and activated carbon adsorption.

Sewage Discharge

The wastewater from the Group's production process is mainly the wastewater from the production workshop, the Chinese herbal medicines, and the equipment cleaning wastewater. During the year ended 31 December 2017, the Group's total sewage discharge was approximately 570,941 tonnes. Approximately 160,000 tonnes of water were reused through reclaimed water, mainly used for greening, cooling tower make-up water, boiler make-up water, etc., to achieve comprehensive utilization of sewage. The total actual sewage discharge of the Group was approximately 410,941 tonnes, and the total amount of sewage discharged by each employee (tonnes/employee) was approximately 119.39 tonnes.

Summary of Sewage Discharge Performance:

Type of Sewage	Total discharge in tonnes	Intensity – Total wastewater discharge per employee (tonnes per employee)
Wastewater	410,941	119.39

All wastewater are treated at the Group's sewage treatment station with a treatment capacity of 5,000 tonnes/day. Anaerobic digestion, aerobic bioremediation and deep processing is adopted to ensure stable operation of the sewage treatment facilities and continuous and stable water quality which is up to standard. Sewage after treatment complies with relevant standards and is disposed into district sewage treatment plant of Luancheng. The Group has continuously upgraded the sewage treatment station to further improve the sewage decolorization process.

Under the premise of mitigating sewage discharge, the Group adopts circulating water comprehensive utilization project in the production process to reduce the use of water resources. Circulating water comprehensive utilization project effectively recycles cooling water for reuse after cooling. The project makes the utilization rate of circulating water more than 80%. This helps us to save water and improve the utilization rate of resources.

Hazardous and Non-hazardous Waste Disposal

The Group's solid waste mainly includes solid waste generated in the production process of Chinese medicine, mainly Chinese herbal medicine waste residue and boiler slag, etc. In addition, the Group does not generate hazardous waste except for a very small amount of waste liquid generated by our research centers. For the waste liquid generated by the scientific research center, we will entrust qualified hazardous waste treatment service provider for harmless disposal.

During the year ended 31 December 2017, the total amount of non-hazardous waste generated by the Group was approximately 4,800 tonnes and the total amount of non-hazardous generated per employee (tonnes/employee) was approximately 1.39 tonnes.

Summary of Non-hazardous Waste Discharge Performance:

Type of Non-hazardous Waste	Total discharge in tonnes	Intensity – Total non-hazardous waste discharged per employee (tonnes per employee)
Chinese medicine waste residue	2,000	0.58
Boiler slag	2,800	0.81
Total	4,800	1.39

For the treatment of solid waste, various departments and production lines classify and manage the generated solid waste, take measures for comprehensive utilization to mitigate treatment pressure. In addition, the Group has adopted advanced production processes and has used environmentally friendly raw materials to carry out clean production, take source control, comprehensive utilization and recycling to minimize the amount of solid waste. The Group makes good use of and processes the waste residue of Chinese medicine to replace boiler coal, which can save approximately 20 tonnes/day of standard coal. Incineration residue generated can also be used as fertilizer for farmers and boiler slag can be used as building material.

In addition, in order to strengthen the Group's solid waste management to ensure that the Group's solid waste disposal process complies with the requirements of environmental protection laws and regulations of the State, the Group has formulated the "Policy on the Solid Waste Management", that the transfer of hazardous substances in the production process are recorded, a regular recycling and disposal agreement is signed with the qualified hazardous goods recycling company. Pharmaceutical waste and products, packaging waste and raw materials are destructed under the supervision of the Quality Assurance Department.

During our operations, the Group inevitably generates waste, but through effective waste disposal strategies and policies, the Group has minimized the environmental risks and impacts of the waste disposal.

A2. Use of Resources

General Disclosure and KPIs

Energy Consumption

The Group strictly adheres to the concept of development of "Energy Efficiency and Recycling Production", and has obtained ISO14001 "Environmental Management System" certified by the British Standards Institution. We have also been awarded the title of "Advanced Enterprise of Environmental Protection in Hebei Province" by the Hebei Provincial Department of Environmental Protection.

The Group recognizes the importance of energy efficiency and has formulated relevant policies and regulations, including but not limited to the "Policy on the Energy Management" and the "Policy on the Energy Measurement Information System Management", to regulate the effective use of resources in production and operation. The Group continues to comply with environmental laws and regulations formulated by the State and local environmental authorities, continuously improves the mechanism and relevant policies to achieve the goal of effective use of resources to mitigate pollution and increase efficiency.

Under the norms of relevant regulations, the Group has actively carried out energy efficiency measures to reduce the amount of energy consumption in the production process and to implement energy efficiency principle in each production line. The Group incorporated the principals of energy conservation, emission reduction, low carbon and recycling into our management, ensured them from the process system, and organized each system to excavate the potential of energy conservation from the production. For example, in the field of energy management, our production lines have used different types of energy controls such as energy consumption index control, daily inspection, etc.

In order to achieve energy efficiency, the Group has established effective energy measurement, monitoring, statistics, quota assessment mechanism, and set up the corresponding energy management positions. Through the internal implementation of energy metering management information system, the utilization of online monitoring of key energy-consuming equipment, scientific analysis and management of various departments of energy use, we put an end to energy wasting. The promotion and implementation of the Group's various energy efficiency measures, result in the effective mitigation of the environmental impacts caused by our energy usage in the operation. Thus, a win-win situation among economic efficiency and environmental protection is achieved. Therefore, the Group was included in Green Factories List issued by the Ministry of Industry and Information Technology of the People's Republic of China ("Ministry of Industry and Information Technology").

During the year ended 31 December 2017, the Group's electricity consumption and steam consumption and its intensity were:

Type of Energy	Total consumption volume	Intensity – Total energy consumption per employee (units per employee)
Electricity	9,257,100 kWh	2,689.45 kWh
Steam	245,885 tonnes	74.05 tonnes

One of the Group's objectives in environmental protection is to conserve energy. To this end, the Group has completed a variety of improvement projects to save energy and mitigate emissions:

1. Air compressor series for compression: To combine different workshops together to share the usage of three air compressors, so as to achieve savings of 58 tonnes of standard coal.

2. Installs frequency converter for the cooling water pump: To install frequency converter obsoleted from the sewage station in the comprehensive building cooling water pump and to enable the frequency conversion system for the standby water pump in the animal room, thus realized the reduction of usage of 24 tonnes of standard coal; and

3. The use of green lighting: Replacement of 4,369 numbers of 36 Watts T8 lamps by 18 Watts T8 lamps. Replacement of 9,059 numbers of 28 Watts T5 lamps by 14 Watts T5 lamps. After the replacement by energy-saving lighting, 1.08 million kWh of annual electricity saving was achieved.

4. Update of the asynchronous and low-efficiency motors: The asynchronous and low-efficiency motors were replaced by permanent magnet synchronous motors, thereby saving 22 tonnes of standard coal.

Apart from the above projects, the Group also reformed its electricity facilities. Through the use of electricity efficiency testing to comprehensively promote energy-saving technical transformation programs such as the application of inverter control, high voltage compensation, harmonic control, etc., we are able to reduce reactive loss.

The Group also makes good use of the Energy Management System to monitor the water, steam, electricity and other energy mediums consumed in our operation by the usage of the automatic, monitoring and decentralized control system, so as to realize the efficient utilization of energy. The Group has developed a reduction target of energy consumption per RMB10,000 turnover for -4.5% in 2017, and we finally achieved a reduction of energy consumption per RMB10,000 turnover for -5.6%.

The Group also encourages our employees to respond to environmental initiatives and implement different environmental protection measures to mitigate the impact on the environment in our daily operations, as summarized below:

Electricity utilization

- Turn off all unnecessary power-consuming equipment (lights, air conditioners, computers, displays) before leaving;

- Turn off water supply machine before long holiday;

- During the summer, office air conditioning temperature should be adjusted to not less than 26 degrees Celsius; During the winter, the maximum set temperature should be 23 degrees Celsius; and

- Halve the amount of light equipment used in the office with reference to the environment.

Use of paper

- Reuse recycled paper;

- Use double-sided printing to reduce paper consumption by half;

- E-mail should be used instead of issuing paper files for internal communication unless it is necessary; and

- Promote office automation system and paperless office.

Others

- Collect the used ink cartridges in each office and return them to the suppliers;

- Collect the rechargeable batteries to reduce land pollution; and

- Reduce the frequency of employee travel and encourage employees to take low-carbon means of transport for official travel.

Water Consumption and Use of Packaging materials

Water Consumption

During the year ended 31 December 2017, the Group's water consumption was as follows:

Type	Total consumption volume in tonnes	Intensity – Total water consumption per employee (tonnes per employee)
Water Consumption	735,000	213.54

In order to reduce the use of water resources, the Group has adopted circulating water comprehensive utilization project in its production processes. The circulating water comprehensive utilization project effectively recycles and reuses the cooling water, thus we are able to save water and improve the resource utilization rate. The Group's cooling tower circulating pool has a total storage capacity of 2,400 tonnes, a daily replenishment capacity of 310 tonnes, and a circulating water utilization rate of about 85%. In addition, the Group has also taken different measures to improve the quality of utilized circulating water: adding slow-release scale inhibitor, bactericidal algicide and bottle washing water for injection into the circulated water to improve the quality of it, increasing the concentration multiple from 2.5 to 3.5, etc.

The Group's gardening water system is derived from condensed water from the production plant, we use these condensed water to green the environment. We have also changed the cleaning methods to save water, such as changing water pipe flushing to spray gun or using cleaning ball, etc. The Group also regularly repairs and maintains the valves and pipelines, leaking pipelines must be replaced and repaired on a timely basis.

As a result of the Group's active water conservation measures, the Group's total water consumption decreased by approximately 12% in 2017 compared with the total water consumption in 2016.

Use of Packaging materials

In addition, during the year ended 31 December 2017, the total quantity of packaging materials used by the Group was:

Type	Total consumed quantities
Carton	1,553,187 boxes
Packing Box	184,577,852 boxes
Instructions	189,554,951 pieces

A3. Environment and Natural Resources

General Disclosure and KPIs

The main raw materials used by the Group for production are all kinds of Chinese herbs, and our production and operation may have slight impacts on the environment and natural resources.

Notwithstanding, the Group recognizes the importance of the impact of its operations on the environment and natural resources. In addition to complying with environmental regulations and international standards, the Group also integrates the concepts of environmental protection and environmental management into its operational decisions, daily operational activities and internal management. It strives to develop into an enterprise which is high-tech, low resource consumption and less environmental pollution, and achieving a win-win situation among economic efficiency, environmental protection and society towards the goal of environmental sustainability.

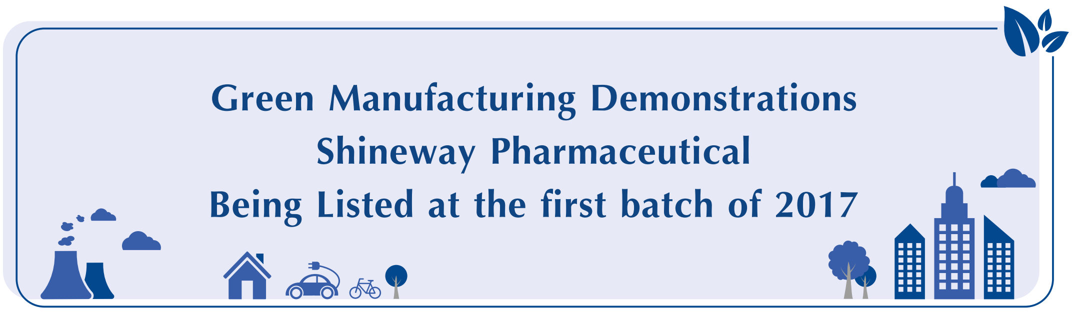
During the process of the feasibility study, preliminary design, construction start-up and commencement of construction projects, the Group strictly complies with the relevant regulations and procedural requirements promulgated by the State and local government such as the "Policy on the Administration of Construction Project Environmental Protection" and so on, and also complies with the relevant internal regulations. All of our construction projects have been successively passed the environmental impact assessment.

In order to reduce the significant impact on the environment and natural resources, the Group's subsidiaries prepare corporate pollution internal-monitoring plans to standardize the supervisory activities, and master the status of corporate pollutant emissions and the potential impact of business operations on environmental quality. The Group also promotes green office and environmental friendly production by the 4R principles of "Reducing, Reusing, Recycling and Replacing" to minimize the impact of our operations on the environment. Where applicable, the Group adopts green procurement strategies and the most practical technologies to protect natural resources. With respect to construction projects, the Group has formulated the "Construction Project Environmental Impact Assessment and 'Three Simultaneous' Management Procedures" to regulate and strengthen the environmental protection management of the Group's new, modified, and expanded construction projects to prevent construction projects from causing environmental pollution and ecological damage.

In order to implement the relevant provisions of relevant laws and regulations, the Group established an environmental safety emergency response mechanism based on the actual situation of the Group, and formulated the "Emergency Plan for Emergency Environmental Incidents", so as to ensure that the emergency work can be started quickly, efficiently and orderly, and to avoid and minimize the environmental losses and hazards caused by emergency environmental incidents.

Shineway Pharmaceutical Being Listed at the First Batch of Green Manufacturing Demonstrations in 2017

In 2017, the Ministry of Industry and Information Technology announced the first list of green manufacturing demonstrations, 13 pharmaceutical companies including the Group were being included in the list. Selected companies will receive key support from relevant national and local policies.



Being listed as the first batch of green manufacturing demonstrations in the China highlights the Group's emphasis and practice on sustainable supply chain management strategies.

B. SOCIETY

B1. Employment

General Disclosure

Employee Benefits And Equal Opportunity Policies

Equal Opportunities, Diversity and Anti-Discrimination

"People-oriented" is the concept of human resources management adopted by the Group and is also the cornerstone of the Group's long-term development. The Group believe that under the corporate culture of "talent and team spirit", we can achieve "ensure profit and balanced development" in the process of growth. With this concept and as an equal opportunity employer, the Group is committed to provide a working environment without discrimination. This includes arrangements for all employees of the Group, such as recruitment, transfer, training, promotion, conduct, remuneration and welfare levels, hours of work, holidays, dismissal, etc. to ensure equal opportunities and fair treatment for all employees and job applicants.

Ratio of Men to Women of the Group

Year	Male	Percentage	Female	Percentage	Total	Percentage
2017	1,771	51.45%	1,671	48.55%	3,442	100%

The Age Distribution among Employees of the Group

Year	Under 30 years old	30-39 years old	40-49 years old	50-59 years old	60 years old or above	Total
2017	1,347	1,653	343	94	5	3,442
Percentage	39.13%	48.02%	9.97%	2.73%	0.15%	100%

The Regional Distribution among Employees of the Group

Year	Hebei	Beijing	Shandong	Sichuan	Yunnan	Guangdong	Others	Total
2017	2,470	42	91	125	100	34	580	3,442
Percentage	71.76%	1.22%	2.64%	3.63%	2.91%	0.99%	16.85%	100%

Recruitment and promotion

The Group formulates the "Policy on the Group Recruitment Management" in an open, fair and transparent principle. The policy regulates recruitment management, defines the recruitment process and methods, regulates employee recruitment, selection, recruitment, and regularization procedures, and improves recruitment efficiency and quality, to timely meet the overall manpower needs of the Group. The Group has also formulated the "Policy on the Labor Contract Management" to uniformly regulate and manage labor contracts, including the termination and its process of labor contracts.

The Number of Employees by Category of the Group

Year	Frontline employees (non-technical)	Frontline employees (technical)	Office employees	Department head	Company representative	Total
2017	980	1,658	683	113	8	3,442
Percentage	28.47%	48.17%	19.84%	3.28%	0.24%	100%

Remuneration and benefits

The Group establishes a salary mechanism based on the concept of remuneration by position, performance, contribution and ability, and develops a unified salary grading table according to the market price and the position. At the same time, the remuneration standard is determined on the basis of specific conditions including but not limited to the job responsibilities of the employees, personal comprehensive capabilities (including work experience, academic qualifications, professional qualifications, etc.), personal work performance, and contribution to the Group. At the end of each year, the Group evaluates the performance of its employees and raises the position or salary of those who are evaluated as outstanding. The Group has also issued human resources related policies in accordance with relevant regulations of the State and the local government. Discretionary bonuses and other performance awards are based on the financial performance of the Group and the performance of individual employees. In addition, employees can enjoy public holiday, casual leave, sick leave, work injury leave, maternity leave and annual leave and other paid leave.

Employees are the most important asset of the Group. Employees' sense of belonging and health are closely related to the success of the Group. In order to create a work-life balance environment and increase employee's sense of belonging to the Group, the Group has been making every effort to improve its policies and measures, including organizing activities related to networking, sports, recreation, health and caring for employees.

In line with the "people-oriented" approach, policies and measures, the Group was once again named the 2017 Top Employer of China – Top 10 in the City.

During the year ended 31 December 2017, the Group was not aware of any material non-compliance with laws and regulations relating to human resources.

B2. Health and Safety

General Disclosure

Safety Production

Human resources are the valuable asset of the Group. The Group puts the health and safety of its employees first, and adheres to the production policy of "safety first, give priority to prevention, and comprehensive management". Thus, the "Policy on the Safety Management" has been formulated as a standard with reference to the actual situation of the Group according to the "Safety Production Law of the People's Republic of China", "Fire Protection Law of the People's Republic of China" and other relevant laws and regulations. We protect our employees through safety production, commit ourselves to provide health care for our employees, provide employees with a safe, healthy and protected working environment, and take all appropriate measures to protect the health and safety of employees. The Group strives to minimize the damage to the health of employees by equipping dust removal, noise elimination and anti-virus equipment and other equipment in production workshops, standardizing the setting of dangerous goods identification signs, regulating the use and storage of flammable and explosive materials, and providing protective equipment and other labor protection products for frontline employees.

The Group set up a safety production committee to lead the Group's safety work and establish a safety responsibility mechanism in all levels. We educate and supervise our employees to strictly implement the Group's safety production rules and policies and safety procedures, and conduct regular safety education and training to all employees. The Group regularly arranges exercises such as first aid, fire extinguishing, evacuation, leakage and evacuation to enhance employees' safety awareness. Before the new processes, new products, new equipment, and new technologies are put into production, the production workshops and related departments are required to understand and master their safety technical characteristics, formulate relevant safety operation policies and precautions, take effective safety protection measures, and conduct special safety training and education for employees. The Group has also complied an employee handbook, which sets out detailed occupational safety policies and procedures for the reference of all departments.

In order to strengthen the safety management of hazardous chemicals, the Group has formulated the "Policy on the Safety Management for Hazardous Chemicals", which stipulates the safety requirements for the storage, use, transportation, and disposal of hazardous chemicals, to safeguard the Group's assets and employees' lives and property and to protect the environment. In addition, the "Policy on the Special Equipment Safety Management" formulated by the Group regulates the management of special equipment by employees to ensure the safe operation of equipment, to provide legal, safe, reliable, economical and effective facilities and equipment for the development of the Group, and making the work at equipment safety management to be systematic, standardized, institutionalized, and in a scientific track.

Apart from establishing a comprehensive rotating shift system to ensure that all employees can have sufficient time for rest, the Group also values two-way communication with employees and has established appropriate accident reporting and investigation mechanisms to encourage employees to report various accidents and other unsafe factors. The Group timely investigates and eliminates potential accidents, effectively prevents and reduces accidents, to safeguard the lives of employees and the Group's properties.

In addition, the Group also recognizes the great importance of the safety production management of outsourcing projects. Therefore, the Group has formulated the "Policy on the Safety Management for Outsourcing Projects" to standardize and clarify the responsibility for safe production of outsourced projects and implement safe production responsibilities to prevent and reduce the occurrence of security accidents in various outsourcing projects.

During the year ended 31 December 2017, the Group was not aware of any material non-compliance with laws and regulations relating to employee's health and safety.

B3. Development and Training

General Disclosure

Development and Training for Employees

To cope with the Group's development pace, the Group has continued to conduct trainings for employees to instill the Group's value to employees while training employees to instill good conduct, professional knowledge and skills for employees. For example: safety training, first aid training, management certificate courses, and other value-added professional skills courses.

The Group also provides intensive training for new frontline employees on the quality control system based on Good Manufacturing Practice of Medical Products ("GMP") production methods, safe operating procedures and codes, and provides focused training based on the nature of individual work. Apart from that, the Group appoints counselors for newly hired employees to provide special on-the-job training to ensure that new employees can work efficiently and cooperate smoothly with other employees. Employees need to be familiar with the Group's latest guidelines and regularly update the relevant qualifications, certificates or licenses. In addition to on-site training in 2017, employees also participated in different types of training, including health and safety, technical training and information technology. We also receive feedback and suggestions from training participants to improve the quality and effectiveness of training. In addition, the Group conducts training demand research for its employees to fully understand the training requirements for the Group's development, various business areas, and staff skills enhancement, so that our training can truly meet the needs of employees and the Group.

The Group's Training Frequencies by Gender

	2017	
Employees' Gender	**Training Frequencies by Gender**	**Average Training Frequencies by Gender**
Male	5,481	3.09
Female	6,016	3.60

The Group's Training Frequencies by Category

	2017	
Category	**Training Frequencies by Category**	**Average Training Frequencies by Category**
Company representative	103	12.88
Department head	1,183	10.47
Office employees	2,643	3.87
Frontline employees (technical)	4,961	2.99
Frontline employees (non-technical)	2,607	2.66

In 2017, the Group partnered with the Bloomington Management Consulting Group to introduce the Amoeba Management Project as a training platform to make employees become a part of the Group's management to achieve a win-win situation among our employees and the Group. Training courses include role positioning, team management techniques and so on. In the mid-year of 2017, the Group's training center was also put into use.

B4. Labour Standards

General Disclosure

Prevention of Child Labor And Forced Labor

The Group has promised not to use any child labor and required new employees to provide true and accurate personal data when they are onboard. The Human Resource Department strictly reviews the entry documents including medical examination certificates, academic certificates, identity cards, and household registration information. The Group recruits workers in a fair, open, just and voluntary manner.

According to the "Policy on the Labor Contract Management" formulated by the Group, members of the Group sign legal labor contracts with its employees to ensure no compulsory use of forced labor. For the employee that uses false information or violates the provisions of the Group will be dismissed or the labor contract will be terminated immediately.

During the year ended 31 December 2017, the Group was not aware of any material non-compliance with laws and regulations relating to preventing child labor and forced labor.

B5. Supply Chain Management

General Disclosure

Environmental and Social Risk Management of Supply Chain

Quality, trust, mutual benefit are the guidelines of the Group in supply chain management. The Group selects and manages the suppliers according to the requirements of GMP and under the principles of being open, fair, efficient and timely. Supply chain management has always been one of the key aspects of the Group's quality control system. In order to ensure the quality of raw materials, auxiliary materials and packaging materials used, the Group has formulated the "Policy on the Supplier Management", "Policy on the Supplier On-Site Audit Management" and "Supplier Quality Evaluation Management Procedures", etc., in strict accordance with the requirements of the "Pharmaceutical Administration Law of the People's Republic of China," "Policy for the Control of Drug Manufacturing Quality", GMP and other related laws and regulations. The Group has established a gradually improving supplier management system that clearly define the suppliers' quality and evaluate them under the objective, fair and open standards.

The Group exercises stringent assessment when selecting suppliers. The Quality Assurance Department of the Group is responsible for the quality assessment of the production material and its suppliers, and comprehensively considers the supplier's operating qualifications, plant facilities, environmental control mechanism, and quality assurance systems in accordance with the "Policy on the Supplier Management". The Quality Assurance Department is also responsible for continuously developing and exploring suppliers with potentials and ensuring the legitimacy and compliance of sources of materials. Before suppliers are qualified in the "List of Approved Suppliers", they must pass an audit trail and objective assessment. The Group will only enter into contracts and purchases with listed suppliers. In addition, they must comply with relevant environmental and social regulations. During the year ended 31 December 2017, the Group had 218 qualified local suppliers, accounting for more than 98% of the total.

Based on the "Policy on the Supplier Profile Management" and "Policy on the Supplier On-site Audit Management", etc., the Group implements supplier dynamic monitoring and management to ensure that all supplier files are corrected, completed and updated. It also implements strategic on-site audits at different levels to ensure the active control of the entire procurement activities and is committed to continuously develop and cultivate strategic partners that share the common goal of mutual beneficial with the Group.

The Group has established the "Quality Management Evaluation Regulation for Suppliers", which evaluates suppliers in terms of their quality, delivery, price and service, eliminates inferior suppliers that are incompatible with the requirements of the Group. It also continuously strengthens, optimizes and enhances the performance of the supply chain management system including but not limited to the management of suppliers' database and the daily operation of the supplier evaluation mechanism.

Sustainable Supply Chain Management

The Group believes that a sustainable supply chain management strategy is the key to our long-term and rapid development. The quality of our pharmaceutical products is directly and clearly related to the quality of medicinal materials we procured, so we have been strictly adhering to the "Source at the place of origin", "Direct purchase without agents", and "Local sourcing come first" supply chain management principles. For example, we purchase red ginseng directly from Jilin and purchase Ophiopogon japonicus directly from Zhejiang. Moreover, we sources both from "company + farmers", and thus have established a numbers of standardized Chinese medicine source bases in Hebei, Jilin, Xinjiang, Shandong and other places. Thus, we are able to implement Chinese herbs traceability management. Beginning from the ecological environment, seeding to cultivation, delivering and packaging, the whole process can be traced, monitored and controlled. The process owners are accountable and responsible. Thus, the Group is able to ensure that the medicinal materials are green, natural, non-polluted, and possessing authenticity.

In 2017, the Ministry of Industry and Information Technology announced the first list of green manufacturing demonstrations, 13 pharmaceutical companies including the Group were being included in the list. Selected companies will receive key support from relevant policies of the State and local governments. Being listed as the first batch of green manufacturing demonstrations in the China highlights the Group's emphasis and practice on sustainable supply chain management strategy.

Source at Origin to Ensure High Quality Standard

The Group insists our products to fully ensure high quality. We implement a comprehensive quality management system to control every step in the operation procedure. We ensure our Chinese medicine products are produced in the way of Safe, Effective, Stable, and Controllable.

At the procurement of medicinal raw materials, the Group always stick to the principle of "Source at the place of origin", "Direct purchase without agents", and "Local sourcing come first". We directly purchase medicinal raw materials from the local farms and gardens and our internal production control standard is very high that exceeds the national standards.

B6. Product Responsibility

General Disclosure

Quality and Safety of Products And Services

All medical products of the Group have passed GMP certification, and are strictly controlled under the GMP and ISO 9001 throughout the production process. We also inspected raw materials, packaging materials, semi-finished products and finished products to ensure compliance with relevant standards. At the same time, the Group has set up the "Policy on the Management of the Acceptance of Chinese Herbal Medicines and Chinese Herbal Pieces" to standardize the acceptance procedures and requirements for medicines in order to ensure product quality and safety to protect the interest of the Group and increase employees' awareness of quality requirements. The policy also clearly states the quality control procedures for the inventory and production process of Chinese herbal medicines to ensure that the quality of raw materials meets standards.

The Group has a complete Quality Assurance Department and a comprehensive quality assurance system. It has strict quality supervision and quality inspection procedures and has a Quality Control Center which has "Laboratory Accreditation" qualification from the "China National Accreditation Service for Conformity Assessment" (CNAS). In addition, we conduct at least two comprehensive inspections every year in accordance with GMP requirements and relevant laws and regulations, covering plant, facilities, equipment, materials and products, production management, quality control, product shipment and recall, etc. In order to continuously improve and ensure product quality, the Group has set up the "Policy on the Quality Responsibility Reporting" to standardize the process of reporting quality responsibility to ensure that product quality responsibility can be handled in a timely manner and effectively control the potential risks of quality responsibility accidents.

The Group deliberately set up the "Policy on the Special Item Safety Management" according to "Pharmaceutical Administration Law of the People's Republic of China", "Regulation on the Control of Narcotic Drugs and Psychotropic Drugs", "Measures for the Transport of Narcotic Drugs and Psychotropic Drugs", "Regulation on the Administration of Precursor Chemicals", "Measures for the Administration of Precursor Chemicals for Drugs", "Regulation on the Safety Administration of Dangerous Chemicals", "Measures for the Purchase and Authorization for Road Transport of Highly Toxic Chemicals" and other regional laws and regulations. This policy is to strengthen the safety management, use, and supervision of the Group's special items (such as materials containing psychotropic substances) to prevent the happening of accidents and leakage of any special items.

At the same time, according to the laws of the State and other related laws and regulations, the Group establishes the "Policy on the Management of Drug Recalls" in a standardized manner, which can be started at any time and implemented promptly to ensure the effectiveness of the recall. Thus, we can effectively recall products known or suspected of quality problems from the market to minimizing the impact on patients. If there is no product needs to be recalled, the Group regularly conducts drug recall drills in accordance with the "Drug Simulation Recall Emergency Plan".

Due to strict product quality policies, satisfied results were achieved. During the year ended 31 December 2017, the Group did not experience any cases of product quality problems that caused the need to recall drugs (The percentage of the total number of products sold or shipped throughout the year that are required to be recalled for safety and health reasons is 0%).

In addition, the Group's after-sales service department is responsible for the collection, evaluation, and reporting of the adverse drug reactions from the product of the Group, while the Quality Assurance Department has full-time staffs responsible for the monitoring of adverse drug reactions. The Group implements an adverse drug reaction reporting mechanism, regulates the management of reports and monitoring of adverse drug reaction, and promptly reports adverse drug reactions collected to ensure the safety of drug use for patients.

Due to the Group's emphasis on quality and our comprehensive quality assurance system, the Group has been consistently rated as an outstanding enterprise in the domestic pharmaceutical industry, including but not limited to:

- The Outstanding Enterprise of the Quality Control Group in the Chinese Pharmaceutical Industry in 2016;

- Awarded by the Hebei Science & Technology Department for the "Study on the Preparation Process and Quality Standard of Chinese Herbal Formula Granules – Hebei Provincial Scientific and Technological Achievement Certificate" (result level: leading in China);

- "Comprehensive Formulation – Oral Fluids Team (1st Production Line)" of China Shineway Pharmaceutical Group Limited was named the Hebei Province Quality Trustworthy Team in 2016; and

- "Comprehensive Formulation – Formula Granule Team (2nd Production Line)" of China Shineway Pharmaceutical Group Limited was named the Hebei Province Quality Trustworthy Team in 2016.

Quality Awards

During the year ended 31 December 2017, in addition to the above-mentioned awards, the Group also received the following awards:

- Excellent Enterprise in the Quality Control Group Activities in the Chinese Pharmaceutical Industry;
- Quality and Efficiency Enterprises in Hebei;
- The Top Ten Brand Customers of Hebei Radio and Television in 2017;
- On-Site Teaching Base of the Advanced Training School of the State Food and Drug Administration;
- Study on the Preparation Process and Quality Standard of Chinese Herbal Formula Granules – Hebei Quality and Technology Award – First Prize;
- "Comprehensive Formulation – Formula Granule Team (2nd Production Line)" – National Quality Trustworthy Team 2017";
- "Extraction of Traditional Chinese Medicine – Extraction and Concentration Team (2nd Production Line)" – Hebei Province Quality Trustworthy Team in 2016 – Second Prize;
- Huoxiang Zhengqi Soft Capsule won the Highest Recommendation Rate of Chinese Pharmacy Clerk in 2016-2017 (summer-heat clearing);
- The Shenmiao Series of Medicines were awarded the Highest Brand Recommendation Rate for Chinese Pharmacy Clerk during 2016-2017 (pediatric drugs); and
- Pediatric Paracetamol Atificial Cow-bezoar and Chlorphenamine Maleate Granules was awarded as Hebei Province Brand-Name Products.

Customer Service, After-sales Service and Privacy Policy

The Group values customers' inquiries and complaints. The Group regulates the handling of complaints by customers and consumers in accordance with the "Policy on the Customer Complaints Management" to safeguard the Group's reputation and increase customer satisfaction. We have set up a special agency which staffed with full-time staff, to manage, analysis and process consumer complaints. We provide reasonable explanations for general complaints, and allow consumers to fill out the "Customer Complaint Registration Form" to register their complaints and report them to relevant departments. After that, the professional technicians from the Group's Quality Assurance Department and other related departments will be organized to quickly form an investigation team to handle and study the complaints, conduct investigation of the incidents, and conduct necessary inspections. The final investigation report will be reported to the department head of the Quality Assurance Department.

We have set a time limit for the responsible departments so as to effectively resolve consumer complaints. If medicines with major quality problems are identified after the investigation, the drugs will be recalled according to the "Standards for Drug Recall Operation Procedures". In addition, the "Management Measures for Returns and Exchange of Finished Products" formulated by the Group regulates the processing and approval procedure for returns and exchanges, improves the timeliness and correctness of returns and exchanges, and hence enhances customer satisfaction.

During the year ended 31 December 2017, the Group received a total of two minor complaints from consumers, which were properly handled in accordance with the standard handling process and reported to the Quality Assurance Department for corrective and preventive action.

In terms of privacy, the Group's customer information systems are accessible only to authorized staff, and staff from other departments are required to apply, process and provide information strictly to get approval before they can access such information.

Intellectual Property Management

The Group continues to strengthen the protection of intellectual property rights. According to laws and regulations including but not limit to the "Patent Law of the People's Republic of China" and "Trademark Law of the People's Republic of China", the Group has established and improved the Group's patent management and working mechanism, which formulated a multi-layered intellectual property rights mechanism including the "General Principles of Intellectual Property Rights Management", "Policy on the Trademark Management", "Policy on the Patent Management", "Policy on the Confidentiality", "Policy on the Contract Management", and "Reward and Punishment Measures for R&D Projects", to clearly regulate the application and management of patent rights and the planning, use and protection of trademarks. This management and working mechanism enhances all members of the Group's awareness of intellectual property rights and trademarks, gives full play to the role of intellectual property rights in our business operations. Thus, corporate interests are protected.

We conduct background investigation on employees' integrity. When employees get onboard, non-competition provisions have been added in the labor contract, and they need to sign a statement on the protection of intellectual property rights when they leave the Group. In the process of research and development, we apply for patent to protect valuable inventions on a timely basis. The Group conducts real-time monitoring of trademark infringement of products in the market and combats on infringing goods and counterfeit trademarks immediately.

The Group has a confidential mechanism in accordance with relevant laws and regulations concerning the protection of intellectual property rights. All employees and external research partners involved in research and development projects must enter into confidentiality agreement with the Group. The agreement stipulate that the relevant personnel must keep relevant information confidential, and must bear the responsibility of preventing disclosure of secrets. In addition, we strictly distinguish the responsibilities of the members involved in the different stages of the R&D process, ensuring that each member will only gain professional knowledge related to a particular stage of the R&D project (rather than the entire process).

During the year ended 31 December 2017, the Group was not aware of any material non-compliance with laws and regulations relating to qualities of products and services.

B7. Anti-Corruption

General Disclosure

Anti-corruption and Fraud Prevention

The Group actively promotes and educates all levels of employees to consciously maintain their integrity in legal compliance, honesty, self-discipline, and dedication of work. The Group complied with related laws and regulations such as "the Criminal Law of the People's Republic of China", the "Anti-Corruption and Bribery Law of the People's Republic of China", and the "Prevention of Bribery Ordinance of Hong Kong". The Group has set up the "Policy on the Corporate Integrity and Self-discipline" to regulate employees working behaviors, encourage employees to be honest, self-disciplined, and diligent in order to reduce the Group's business and operational risk, and protect the interest of the Group and the benefit of its employees. In addition, the Group provides discipline awareness and anti-corruption training regularly for all levels of managers, back-end operation and sales staff.

The Group does not tolerate any form of corruption and has written the code of conduct in the employee handbook. When sales staff join the Group, they have to sign the "Letter of Commitment on Integrity and Self-discipline" which declared that they are acknowledged to prohibit from receiving gifts or material interest from business related persons, companies or organizations. When signing a contract with a supplier or an outsourcing project contractor, an anti-commercial bribery agreement is included in the appendix of the procurement contract.

Whistleblowing mechanism

Apart from the anti-bribery and anti-corruption policies in the Group's staff handbook, the Group also encourages employees and all business related parties, including customers and suppliers, to proactively report any suspected misconduct issues to the Group.

The Group also has set up relevant external reporting procedures and regularly reviewed the effectiveness of the Group's internal reporting mechanism. The audit department of the Group is responsible for the effectiveness of the whistleblowing mechanism, regulating the management procedure, standardizing the internal and external inspection channels so as to strengthen the supervision mechanism to effectively prevent the employees at all levels of the Company from misconduct and non-performing of their duties.

The Group has complied with relevant laws and regulations of Hong Kong and PRC. During the year ended 31 December 2017, the Group did not notify any material non-compliance with the relevant laws and regulations of bribery, extortion, fraud and money laundering and did not have any concluded legal cases regarding corrupt practices brought against the Group or our employees.

B8. Community Investment

General Disclosure

Community Contribution

The Group endeavors to perform its corporate responsibilities, actively supports charitable projects and public welfare activities, and does its best to promote the development of philanthropy. We cooperate with the government in making contributions to disaster relief, poverty alleviation, helping the elderly, supporting the education for the needy, etc. We also provide intellectual, material, and financial support for the public service areas including health care, education, culture, etc. From time to time, the Group provides volunteers with training, strengthens corporate culture construction and comprehensively enhances employees' awareness on social responsibility. We also encourage employees to make charitable donations, and actively participate in charitable activities.

The Group has also set up the "Guidance for the Employee Caring Fund". By promoting the traditional virtues of mutual help and assistance among employees, we help employees who are in difficulties as much as possible and solve their immediate needs. It fully embodies the caring spirit of "taken from the employees and used by the employees, full participation, focusing on assistance, and mutual help".

The Group has participated in many charitable donations over the years and has repeatedly received government's recognition of the Group's contribution to the industry and society as a whole. The Group has been awarded the Ministry of Civil Affairs "China Charity Award", the "China Red Cross Fraternity Medal", the "China Pharmaceutical Enterprises Social Responsibility Award", and the Advanced Private Enterprise in Employment and Social Security in China, Hebei Province "The Most Social Responsible Enterprises" and other honors.

Charity Activities and Related Information that the Group Participated in 2017

The Construction of Shineway Chinese Medicine Cultural Landscape and the Museum of Chinese Medicine Culture – Implementing the spirit of the 19th National Congress, carrying forward the culture of Chinese medicine, and revitalizing the cause of traditional Chinese medicine

During the year ended December 31 2017, the Group built the Shineway Chinese Medicine Cultural Landscape and the Museum of Chinese Medicine Culture, aiming to respect the sages, self-cultivation, and posterity. Through this project, we take the initiative to undertake the responsibility of propagating and popularizing the cultural knowledge of Chinese medicine, and show the great charm of the culture of Chinese medicine to the general public. This also arouses passion of public and employee of Chinese medicine culture, so as to create a strong cultural learning atmosphere for learning the culture and history of Chinese medicine.

Launching "Shineway Scholarship of Teaching"

In September 2017, the Group established the "Shineway Scholarship of Teachings" in the Hanlin College of Medicine and School of Nursing, Nanjing University of Chinese Medicine. They are two categories: Outstanding Teacher Award and Outstanding Counsellor Award/Class Teacher Award. The prizes of the Outstanding Teacher Award are: Winner (RMB4,000 x1), 1st Runner Up (RMB2,000 x 2) and 2nd Runner Up (RMB1,000 x 3). The prize of Outstanding Counsellor Award/Class Teacher Award is RMB1,500 x 3.

Launching "Shineway Pharmaceutical·Peking University Training Course for Outstanding Grassroots Doctors"

During April to September 2017, the Group invested more than RMB600,000 to carry out four training courses for outstanding grassroots doctors in Peking University Health Science Center, with a total of nearly 400 grassroots doctors from 13 provinces and cities in China received the training. This training course is one of the charity activities that the Group has conducted in cooperation with Peking University to reply to the national policy to serve the majority of grassroots doctors and improve the standard of diagnosis and treatment of them. These training courses improved the professional skills of grassroots doctors and deepened their understanding of Chinese medicine products. The doctors said that they would better serve the public in their work and provide more professional and safe medical treatment for patients in the future.

The Launch of Healthcare Medical Research Project of Hebei Province and The Grand Opening of Shineway Hospital of Traditional Chinese Medicine

On August 9, 2017, Shineway Hospital of Traditional Chinese Medicine, Hebei Provincial Hospital of Traditional Chinese Medicine and Hebei Academy of Chinese Medical Science carried out the Healthcare Medical Research Project of Hebei Province. The project aims to improve the standard of Chinese medicine services in Hebei Province. All parties will jointly carry out academic research, new drug development, medical services, and drug production through resource sharing and cooperation to promote the technology in the field of traditional Chinese medicine and to improve the core competitiveness of Chinese medicine industry in our province. On the same day, Shineway Hospital of Traditional Chinese Medicine also announced opening and will provide the most professional, safest and personalized high-quality health care services to the public.

Provided Medical Assistance to Minority Villages and Ethnic Groups In Hezhou, Guangxi Province

In July 2017, the Group worked with the Red Cross Society of Hezhou, Guangxi Province to conduct free medical consultations, free medical services, free drug distribution and other activities for ethnic groups and minority villages living in Hezhou City to help the patients in the families with difficulties and to reduce their medical economics burden.

Launching "Square Dance Competition – Shineway Charity and Health Trek" in Eight Cities in China

During June 2017 to October 2017, the Group invested more than RMB300,000 to launch "Square Dance Competition – Shineway Charity and Health Trek" in different cities including Tianshui (in Gansu), Honghe (in Yunnan), Baoding (in Hebei), Kunming (in Yunnan), Taiyuan (in Shanxi), Guyuan (in Ningxia), Wuzhou (in Guangxi), etc. Through the activities, we promoted the knowledge of healthy joint to public and awakened public awareness of the importance of physical activity. At the same time, we also provided free medical service at the event site and provided free consultation for middle-aged and elderly people attending the event. The event will continue throughout the whole China in coming future.

Launched two sessions of "Reinforcement of Medical Treatment Training Course" for outstanding grassroots doctors with XiangYa School of Medicine, CSU

In response to the national policy, to help grassroots doctors to improve professional and technical level and to build qualified physicians team, the Group and the XiangYa School of Medicine, CSU held two sessions of "Outstanding Grassroots Doctor Medical Treatment Training Course" in 26-27 September 2017 and 26-28 November 2017. A total of about 150 outstanding grassroots doctors from all over the country have attended the training.

The Group's Invested Money and Donated Medicines and Items for Charity Activities (2017)

Type	Unit	Amount
Total amount of money invested in charity activities	RMB	1,035,500
Total amount of time invested in charity activities	Hours	388
Total amount of medicines donated in charity activities	Boxes, Bags	560

Index Table of ESG Reporting Guidelines of the Stock Exchange of Hong Kong Limited and Its Correspondence with the GRI G4 Standard

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement	Corresponding GRI G4 Standard Disclosure	The Content of the Corresponding GRI G4 Standard Disclosure	The Disclosure Level of the Corresponding GRI G4 Standard Disclosure	Page
Aspect A1: Emissions						
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emission – Environmental Protection Management Policy and Compliance Issues	G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions For non-compliance with environmental laws and regulations	Full-disclosure	P. 70
KPI A1.1 ("Comply or explain")	The types of emissions and respective emissions data.	Emission – Exhaust Gas Emission, Sewage Discharge, Hazardous and Non-hazardous Waste Disposal	G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	Full-disclosure	P. 73, 75-76
			G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Partial disclosure	
			G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	Partial disclosure	
			G4-EN21	Nox, sox, and other significant air emissions	Partial disclosure	
KPI A1.2 ("Comply or explain")	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	Emission – Exhaust Gas Emission	G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	Full disclosure	P. 73
			G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Partial disclosure	
			G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	Partial disclosure	
			G4-EN18	Greenhouse gas (GHG) emissions intensity	Partial disclosure	
KPI A1.3 ("Comply or explain")	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Emission – Hazardous and Non-hazardous Waste Disposal	G4-EN23	Total weight of waste by type and disposal method	Full disclosure	P. 76

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement	Corresponding GRI G4 Standard Disclosure	The Content of the Corresponding GRI G4 Standard Disclosure	The Disclosure Level of the Corresponding GRI G4 Standard Disclosure	Page
KPI A1.4 ("Comply or explain")	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Emission – Hazardous and Non-hazardous Waste Disposal	G4-EN23	Total weight of waste by type and disposal method	Full disclosure	P. 76
KPI A1.5 ("Comply or explain")	Description of measures to mitigate emissions and results achieved.	Emission – Exhaust Gas Emission, Sewage Discharge				P. 73-75
KPI A1.6 ("Comply or explain")	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emission – Hazardous and Non-hazardous Waste Disposal	G4-EN23	Total weight of waste by type and disposal method	Full disclosure	P. 75-76
Aspect A2: Use of Resources						
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources – Energy Consumption, Water Consumption and Use of Packaging materials				P. 77-80
KPI A2.1 ("Comply or explain")	Direct and/or indirect consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity.	Use of Resources – Energy Consumption	G4-EN3 G4-EN5	Energy consumption within the organization Energy intensity	Partial disclosure Full disclosure	P. 78
KPI A2.2 ("Comply or explain")	Water consumption in total and intensity.	Use of Resources – Water Consumption and Use of Packaging materials				P. 80
KPI A2.3 ("Comply or explain")	Description of energy use efficiency initiatives and results achieved.	Use of Resources – Energy Consumption	G4-EN6 G4-EN7	Reduction of energy consumption Reductions in energy requirements of products and services	Partial disclosure Partial disclosure	P. 77-79
KPI A2.4 ("Comply or explain")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources – Water Consumption and Use of Packaging materials	G4-EN10	Percentage and total volume of water recycled and reused	Partial disclosure	P. 80

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement	Corresponding GRI G4 Standard Disclosure	The Content of the Corresponding GRI G4 Standard Disclosure	The Disclosure Level of the Corresponding GRI G4 Standard Disclosure	Page
KPI A2.5 ("Comply or explain")	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Use of Resources – Water Consumption and Use of Packaging materials				P. 80
Aspect A3: Environment and Natural Resources						
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources				P. 81
KPI A3.1 ("Comply or explain")	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources				P. 81
Aspect B1: Employment						
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment – Employee Benefits And Equal Opportunity Policies	G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Full disclosure	P. 83-85

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement	Corresponding GRI G4 Standard Disclosure	The Content of the Corresponding GRI G4 Standard Disclosure	The Disclosure Level of the Corresponding GRI G4 Standard Disclosure	Page
KPI B1.1 (Recommended Disclosures)	Total workforce by gender, employment type, age group and geographical region.	Employment – Employee Benefits And Equal Opportunity Policies	G4-10	a. Report the total number of employees by employment contract and gender. b. Report the total number of permanent employees by employment type and gender. c. Report the total workforce by employees and supervised workers and by gender. d. Report the total workforce by region and gender. e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including Employees and supervised employees of contractors. f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	Partial disclosure	P. 84-85
			G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other Indicators of diversity.	Partial disclosure	

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement	Corresponding GRI G4 Standard Disclosure	The Content of the Corresponding GRI G4 Standard Disclosure	The Disclosure Level of the Corresponding GRI G4 Standard Disclosure	Page
Aspect B2: Health and Safety						
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety – Safety Production	G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Full disclosure	P. 86-87
KPI B2.3 (Recommended Disclosures)	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety – Safety Production				P. 86-87
Aspect B3: Development and Training						
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training – Development and Training for Employees	G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Full disclosure	P. 87-88
KPI B3.1 (Recommended Disclosures)	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and Training – Development and Training for Employees				P. 88
Aspect B4: Labour Standards						
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards – Prevention of Child Labor And Forced Labor	G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions For non-compliance with laws and regulations	Full disclosure	P. 89

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement	Corresponding GRI G4 Standard Disclosure	The Content of the Corresponding GRI G4 Standard Disclosure	The Disclosure Level of the Corresponding GRI G4 Standard Disclosure	Page
KPI B4.1 (Recommended Disclosures)	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards – Prevention of Child Labor And Forced Labor	G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	Partial disclosure	P. 89
			G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	Partial disclosure	
KPI B4.2 (Recommended Disclosures)	Description of steps taken to eliminate such practices when discovered.	Labour Standards – Prevention of Child Labor And Forced Labor	G4-HR5	Operations and suppliers identified as having significant risk for incidents of child Labor, and measures taken to contribute to the effective abolition of child labor	Partial disclosure	P. 89
			G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of Forced or compulsory labor	Partial disclosure	
Aspect B5: Supply Chain Management						
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management – Environmental and Social Risk Management of Supply Chain				P. 90-92

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement	Corresponding GRI G4 Standard Disclosure	The Content of the Corresponding GRI G4 Standard Disclosure	The Disclosure Level of the Corresponding GRI G4 Standard Disclosure	Page
KPI B5.1 (Recommended Disclosures)	Number of Suppliers by geographical region.	Supply Chain Management – Environmental and Social Risk Management of Supply Chain	G4-EC9	Proportion of spending on local suppliers at significant locations of operation	Partial disclosure	P. 90
			G4-12	Describe the organization's supply chain	Full disclosure	
KPI B5.2 (Recommended Disclosures)	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management – Environmental and Social Risk Management of Supply Chain	G4-EN32	Percentage of new suppliers that were screened using environmental criteria	Full disclosure	P. 90-92
			G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	Full disclosure	
Aspect B6: Product Responsibility						
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility – The Quality And Safety of Product And Service	G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	Full disclosure	P. 92-94
			G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	Full disclosure	
			G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Full disclosure	
			G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Full disclosure	

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement	Corresponding GRI G4 Standard Disclosure	The Content of the Corresponding GRI G4 Standard Disclosure	The Disclosure Level of the Corresponding GRI G4 Standard Disclosure	Page
			G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Full disclosure	
KPI B6.1 (Recommended Disclosures)	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility – The Quality And Safety of Product And Service				P. 93
KPI B6.2 (Recommended Disclosures)	Number of products and service related complaints received and how they are dealt with.	Product Responsibility – Customer Service, After-sales Service and Privacy Policy	G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Full disclosure	P. 96
KPI B6.3 (Recommended Disclosures)	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility – Intellectual Property Management				P. 97
KPI B6.4 (Recommended Disclosures)	Description of quality assurance process and recall procedures	Product Responsibility – The Quality And Safety of Product And Service				P. 93
KPI B6.5 (Recommended Disclosures)	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Product Responsibility – Customer Service, After-sales Service and Privacy Policy				P. 96
Aspect B7: Anti-Corruption						
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption – Anti-corruption and Fraud Prevention	G4-SO5	Confirmed incidents of corruption and actions taken	Full disclosure	P. 98
			G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Full disclosure	

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement	Corresponding GRI G4 Standard Disclosure	The Content of the Corresponding GRI G4 Standard Disclosure	The Disclosure Level of the Corresponding GRI G4 Standard Disclosure	Page
KPI B7.1 (Recommended Disclosures)	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption – Anti-corruption and Fraud Prevention	G4-SO5	Confirmed incidents of corruption and actions taken	Full disclosure	P. 98
KPI B7.2 (Recommended Disclosures)	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption – Anti-corruption and Fraud Prevention				P. 98
Aspect B8: Community Investment						
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment – Community Contribution				P. 99
KPI B8.1 (Recommended Disclosures)	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Investment – Charity Activities and Related Information that the Group Participated in 2017	G4-EC7	Development and impact of infrastructure investments and services supported	Full disclosure	P. 99-102
KPI B8.2 (Recommended Disclosures)	Resources contributed (e.g. money or time) to the focus area.	Community Investment – Charity Activities and Related Information that the Group Participated in 2017				P. 99-102

Environmental, Social and Governance Report

Apart from the GRI G4 standard disclosures disclosed in the Content Index Table of the ESG Reporting Guidelines, the report also discloses the following related standard disclosures:

General Standard Disclosures

General Standard Disclosures	Content of the Standard Disclosure	Section/Statement	Disclosure Level	Pages
G4-3	Report the name of the organization.	Reporting Scope	Full disclosure	P. 66
G4-4	Report the primary brands, products, and services.	Introduction and Environmental, Social and Governance Guideline	Full disclosure	P. 65
G4-5	Report the location of the organization's headquarters.	Reporting Scope	Full disclosure	P. 66
G4-6	Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Reporting Scope	Full disclosure	P. 66
G4-7	Report the nature of ownership and legal form.	Reporting Scope	Full disclosure	P. 66
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	Introduction and Environmental, Social and Governance Guideline	Full disclosure	P. 65
G4-18	a. Explain the process for defining the report content and the Aspect Boundaries. b. Explain how the organization has implemented the Reporting Principles for Defining Report Content.	Reporting Scope	Full disclosure	P. 66
G4-19	List all the material aspects identified in the process for defining report content.	Materiality Assessment	Full disclosure	P. 68

General Standard Disclosures

General Standard Disclosures	Content of the Standard Disclosure	Section/Statement	Disclosure Level	Pages

G4-20	For each material aspect, report the aspect boundary within the organization, as follows:
	• Report whether the aspect is material within the organization
	• If the aspect is not material for all entities within the organization (as described in G4-17), select one of the following two approaches and report either:
	  • The list of entities or groups of entities included in G4-17 for which the aspect is not material or
	  • The list of entities or groups of entities included in G4-17 for which the aspects is material
	• Report any specific limitation regarding the aspect boundary within the organization
		Materiality Assessment	Full disclosure	P. 68

G4-24	Provide a list of stakeholder groups engaged by the organization.	Stakeholder Engagement	Full disclosure	P. 67
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	Stakeholder Engagement	Full disclosure	P. 67
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	Stakeholder Engagement	Partial disclosure	P. 67

General Standard Disclosures

General Standard Disclosures	Content of the Standard Disclosure	Section/Statement	Disclosure Level	Pages
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	Reporting Period	Full disclosure	P. 66
G4-29	Date of most recent previous report (if any).	Introduction and Environmental, Social and Governance Guidelines	Full disclosure	P. 65
G4-30	Reporting cycle (such as annual, biennial).	Reporting Period	Full disclosure	P. 66
G4-31	Provide the contact point for questions regarding the report or its contents.	Contact Us	Full disclosure	P. 68
G4-34	Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	Introduction and Environmental, Social and Governance Guidelines	Partial disclosure	P. 65
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	Introduction and Environmental, Social and Governance Guidelines	Full disclosure	P. 65

Specific Standard Disclosures

Specific Standard Disclosures	Content of the Standard Disclosure	Section/Statement	Disclosure Level	Pages
G4-EN22	Total water discharge by quality and destination	Emissions – Sewage Discharge, Use of Resources – Water Consumption and Use of Packaging Materials	Full disclosure	P. 74-80
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	Product Responsibility – The Quality And Safety of Product And Service	Full disclosure	P. 93
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	Emissions – Environmental Protection Management Policy and Compliance Issues	Full disclosure	P. 72
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part time employees, by significant locations of operation	Employment – Employee Benefits And Equal Opportunity Policies	Full disclosure	P. 85
G4-LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	Employment, Health and Safety	Full disclosure	P. 87
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	Labour Standard – Prevention of Child Labor Or Forced Labor	Full disclosure	P. 89
G4-SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	Anti-Corruption – Anti-corruption and Fraud Prevention	Full disclosure	P. 98

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 2017 and recommended to approve the interim and annual reports.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Sun Liutai *(Chairman)*
Ms. Cheng Li
Prof. Luo Guoan (appointed on 16 June 2017)
Mr. Hung Randy King Kuen (resigned on 30 March 2017)

29 March 2018

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 123 to 188, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 Standards 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 on 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 2017 is RMB159,291,000 and for the purpose of impairment testing, as disclosed in note 15 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 on property, plant and equipment and intangible assets of a cash-generating unit 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 cash-generating unit which is engaged in research and development, manufacturing and trading of pharmaceutical products, the management considered that indications of impairment of certain property, plant and equipment and intangible assets of the Group existed as at 31 December 2017. Accordingly, the management assessed whether there was any impairment of the property, plant and equipment and intangible assets used by that cash-generating unit at 31 December 2017 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 the management has performed impairment assessment as at 31 December 2017 are RMB21,566,000 and RMB276,163,000, respectively, as disclosed in notes 12 and 14 to the consolidated financial statements.	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 the management, including growth rates and gross margin, by referring to the industry information and the management's budget; • Assessing the key factors in determining the discount rates, including the cash-generating unit'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 the management on revenue growth strategies and cost initiatives in respect of the cash-generating unit; 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
29 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Turnover	5	**1,919,608**	1,993,379
Cost of sales		**(652,524)**	(706,884)
Gross profit		**1,267,084**	1,286,495
Other income		**79,181**	23,692
Investment income	6	**101,553**	100,578
Net exchange (loss) gain		**(980)**	6,385
Distribution costs		**(515,216)**	(370,650)
Administrative expenses		**(247,289)**	(277,654)
Research and development costs		**(96,511)**	(73,592)
Profit before taxation	7	**587,822**	695,254
Taxation	8	**(136,269)**	(106,058)
Profit and total comprehensive income for the year		**451,553**	589,196
Earnings per share	11		
– Basic (RMB)		**55 cents**	71 cents
– Diluted (RMB)		**55 cents**	71 cents

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	12	**1,401,824**	1,466,458
Prepaid lease payments	13	**156,073**	160,578
Intangible assets	14	**307,962**	348,353
Goodwill	15	**159,291**	159,291
Deposits for intangible assets	16	**58,000**	58,000
Deferred tax assets	17	**21,670**	21,586
		2,104,820	2,214,266
Current assets			
Inventories	18	**280,209**	294,410
Trade receivables	19	**71,822**	51,122
Bills receivables	19	**459,506**	502,553
Prepayments, deposits and other receivables	19	**171,514**	128,562
Tax recoverable		**1,456**	1,442
Pledged bank deposits	20	**43,401**	54,506
Bank balances and cash	20	**3,532,385**	3,218,401
		4,560,293	4,250,996
Current liabilities			
Trade payables	21	**176,368**	164,620
Bills payables	21	**54,389**	54,506
Other payables and accrued expenses	21	**426,358**	396,088
Amounts due to related companies	22	**15,935**	16,086
Deferred income	23	**19,389**	13,554
Tax payable		**16,854**	28,202
		709,293	673,056
Net current assets		**3,851,000**	3,577,940
Total assets less current liabilities		**5,955,820**	5,792,206

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Deferred tax liabilities	17	**60,945**	56,431
Deferred income	23	**73,920**	109,102
		134,865	165,533
Net assets		**5,820,955**	5,626,673
Capital and reserves			
Share capital	24	**87,662**	87,662
Reserves		**5,733,293**	5,539,011
Total equity		**5,820,955**	5,626,673

The consolidated financial statements on pages 123 to 188 were approved and authorised for issue by the Board of Directors on 29 March 2018 and are signed on its behalf by:

LI ZHENJIANG	**LI HUIMIN**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes In Equity

For the year ended 31 December 2017

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note a)	Statutory surplus reserve fund RMB'000 (Note b)	Discretionary surplus reserve fund RMB'000 (Note b)	Share options reserve RMB'000	Accumulated profits RMB'000	Total equity RMB'000
At 1 January 2016	87,662	767,388	83,758	434,774	154,760	63,261	3,704,368	5,295,971
Profit and total comprehensive income for the year	–	–	–	–	–	–	589,196	589,196
Transfers	–	–	–	2,176	–	–	(2,176)	–
Dividends paid (Note 10)	–	–	–	–	–	–	(264,640)	(264,640)
Recognition of equity-settled share-based payments	–	–	–	–	–	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**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**451,553**	**451,553**
Transfers	**–**	**–**	**–**	**4,641**	**–**	**–**	**(4,641)**	**–**
Dividends paid (Note 10)	**–**	**(173,670)**	**–**	**–**	**–**	**–**	**(90,970)**	**(264,640)**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**7,369**	**–**	**7,369**
Lapse of share options	**–**	**–**	**–**	**–**	**–**	**(3,305)**	**3,305**	**–**
At 31 December 2017	**87,662**	**593,718**	**83,758**	**441,591**	**154,760**	**68,894**	**4,390,572**	**5,820,955**

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 2017

	2017 RMB'000	2016 RMB'000
Operating activities		
Profit before taxation	**587,822**	695,254
Adjustments for:		
Depreciation of property, plant and equipment	**154,253**	150,656
Amortisation of prepaid lease payments	**4,440**	4,075
Amortisation of intangible assets	**40,391**	40,391
Loss on disposal of property, plant and equipment	**540**	247
Interest income	**(53,578)**	(65,817)
Investment income from short-term financial products	**(47,975)**	(34,761)
Unrealised exchange gain	**(3,500)**	(3,000)
Government grant recognised as other income	**(23,709)**	(3,835)
Share-based payments expense	**7,369**	6,146
Operating cash flows before movements in working capital	**666,053**	789,356
Decrease in inventories	**14,201**	46,448
Decrease (increase) in trade and bills receivables	**22,347**	(96,352)
(Increase) decrease in prepayments, deposits and other receivables	**(98,745)**	53,972
Increase (decrease) in trade and bills payables	**11,631**	(5,000)
Increase in other payables and accrued expenses	**18,511**	32,186
(Decrease) increase in amounts due to related companies	**(151)**	12,794
Decrease in amount due from a related company	**–**	1,943
Cash generated from operations	**633,847**	835,347
PRC Enterprise Income Tax paid	**(143,201)**	(101,821)
Net cash generated from operating activities	**490,646**	733,526

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Investing activities			
Interest received		**109,436**	54,125
Withdrawal of pledged bank deposits		**54,506**	43,247
Net proceeds from short-term financial products	6	**47,975**	34,761
Government grants received		**5,975**	29,272
Proceeds from disposal of property, plant and equipment		**1,786**	845
Purchase of property, plant and equipment		**(91,825)**	(96,292)
Placement of pledged bank deposits		**(43,401)**	(54,506)
Payment for acquisition of a subsidiary in prior year		**–**	(78,360)
Purchase of land use rights		**–**	(10,500)
Disposal of a subsidiary	27	**–**	(2,298)
Net cash generated from (used in) investing activities		**84,452**	(79,706)
Financing activity			
Dividends paid		**(264,640)**	(264,640)
Cash used in financing activity		**(264,640)**	(264,640)
Net increase in cash and cash equivalents		**310,458**	389,180
Cash and cash equivalents at beginning of the year		**3,218,401**	2,826,219
Effect of exchange rate changes of cash and cash equivalents		**3,526**	3,002
Cash and cash equivalents at end of the year, representing bank balances and cash		**3,532,385**	3,218,401

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 36.

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

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 7	Disclosure initiative
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to IFRS 12	As part of the annual improvements to IFRS standards 2014 – 2016 cycle

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 IAS 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the followings to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 30. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 30, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

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 amendements[1]
IFRS 16	Leases[2]
IFRS 17	Insurance contracts[4]
IFRIC 22	Foreign currency transactions and advance consideration[1]
IFRIC 23	Uncertainty over income tax treatments[2]
Amendments to IFRSs	Annual improvements to IFRS standards 2015 – 2017 cycle[2]
Amendments to IFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to IFRS 4	Applying IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"[1]
Amendments to IFRS 9	Prepayment features with negative compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to IAS 19	Plan amendment, curtailment or settlement[2]
Amendments to IAS 28	Long-term interests in associates and joint ventures[2]
Amendments to IAS 28	As part of the annual improvements to IFRS standards 2014 – 2016 cycle[1]
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 2021.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (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 2017, the directors of the Company anticipate that all financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39 on initial application of IFRS 9.

In the opinion of the directors of the Company, based on the historical experience of the Group, the default rate of the outstanding balances with customers is low. Hence, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will not have material impact on the Group's future consolidated financial statements.

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.

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

IFRS 15 "Revenue from contracts with customers" (Continued)

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, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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.

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

IFRS 16 "Leases" (Continued)

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 Group 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. Upon application of 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 by the Group.

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 2017, the Group has non-cancellable operating lease commitments of RMB2,354,000 as disclosed in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, 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.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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 in the foreseeable future.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary are derecognised. 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 or, 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.

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 (or groups of cash-generating units) 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 (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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, 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).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)
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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

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 the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 relevant 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 asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 (or a cash-generating unit) 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.

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 Group and when specific criteria have been met for each of the Group's activities, as described below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

Interest income is accrued on a time appointment 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.

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.

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;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure (Continued)

- 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. 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 the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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 accumulated profits.

Taxation

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 2017, the carrying amount of goodwill is RMB159,291,000 (2016: RMB159,291,000). Details of the recoverable amount calculation are disclosed in note 15.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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 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 which results in downward revision of future cash, a material impairment loss or a further impairment loss may arise. As at 31 December 2017, the carrying amounts of property, plant and equipment and intangible assets of a cash-generating unit for which the management has performed impairment assessment are RMB21,566,000 (2016: RMB23,958,000) and RMB276,163,000 (2016: RMB311,568,000), respectively. Details of the recoverable amount calculation are disclosed in notes 12 and 14.

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.

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Revenue from major products

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

	2017	2016
	RMB'000	RMB'000
Injections	**982,246**	1,109,790
Soft capsules	**356,281**	363,424
Granules	**328,798**	384,301
TCM formula granules	**132,109**	35,414
Others	**120,174**	100,450
	1,919,608	1,993,379

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 2017 and 2016, there was no customer with turnover accounted for more than 10% of the Group's total turnover.

6. INVESTMENT INCOME

	2017	2016
	RMB'000	RMB'000
Interest on bank deposits	**53,578**	65,817
Investment income from short-term financial products (Note)	**47,975**	34,761
	101,553	100,578

Note: These short-term financial products, which are related to debt and equity instruments and foreign currencies, carried effective interest rate ranged from 4.0% to 5.0% (2016: 3.6% to 4.4%) 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.

7. PROFIT BEFORE TAXATION

	2017 RMB'000	2016 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments (see note 9)	**11,829**	13,488
Other staff costs	**195,788**	226,347
Other staff's pension costs	**40,237**	50,446
Share-based payments expense for other staff	**6,464**	4,350
	254,318	294,631
Less: Capitalised in inventories	**(102,680)**	(107,713)
	151,638	186,918
Depreciation of property, plant and equipment	**154,253**	150,656
Amortisation of prepaid lease payments	**4,440**	4,075
Amortisation of intangible assets	**40,391**	40,391
Total depreciation and amortisation	**199,084**	195,122
Less: Capitalised in inventories	**(153,735)**	(151,183)
	45,349	43,939
Auditor's remuneration	**1,589**	1,696
Loss on disposal of property, plant and equipment	**540**	247
Rental expenses under operating lease in respect of rented premises	**4,517**	7,472
Government subsidies (included in other income) *(Note)*	**(74,433)**	(18,949)

Note: The government subsidies represent the amounts received from the local government by the subsidiaries of the Company. In 2017, government subsidies of (a) RMB50,724,000 (2016: RMB15,114,000) represent incentives received in relation to carrying out business operations in relevant regions in the PRC; and (b) RMB23,709,000 (2016: RMB3,835,000) represent recognition of deferred income upon completion of related research activities (note 23).

8. TAXATION

	2017 **RMB'000**	2016 RMB'000
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**107,969**	111,619
Under(over)provision in prior years	**3,870**	(4,765)
Withholding tax on distributed profits	**20,000**	4,250
	131,839	111,104
Deferred tax:		
Current year	**(6,570)**	(5,046)
Withholding tax on undistributed profits	**11,000**	–
	4,430	(5,046)
	136,269	106,058

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

	2017 **RMB'000**	2016 RMB'000
Profit before taxation	**587,822**	695,254
Tax at the applicable tax rate of 25% (2016: 25%)	**146,956**	173,814
Tax effect of expenses not deductible for tax purposes	**5,875**	6,020
Tax effect of income not taxable for tax purposes	**(4,388)**	(8,076)
Tax losses not recognised	**10,859**	9,735
Income tax on concessionary rate	**(60,452)**	(76,110)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,539**	1,196
Withholding tax on distributed profits of subsidiaries operating in the PRC	**20,000**	4,250
Withholding tax on undistributed profits of subsidiaries operating in the PRC	**11,000**	–
Under(over)provision in prior years	**3,870**	(4,765)
Others	**10**	(6)
Taxation charge for the year	**136,269**	106,058

8. TAXATION (Continued)

Hong Kong Profits Tax is calculated at 16.5% (2016: 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 expired 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 expired in 2017. The related subsidiaries are in the process to apply for extension of the tax concessions. 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 27.5% (2016: 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.

9. 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:

	Fees RMB'000	Salaries, allowance and other benefits in kind RMB'000	Pension costs RMB'000	Share-based payments expense RMB'000	Total remuneration RMB'000
Year ended 31 December 2017					
Executive directors:					
Li Zhenjiang	281	4,067	15	–	4,363
Xin Yunxia	162	2,346	15	250	2,773
Li Huimin	67	966	15	205	1,253
Lee Ching Ton Brandelyn (resigned on 23 January 2018)	60	864	15	200	1,139
Chen Zhong	108	1,564	15	250	1,937
Independent non-executive directors:					
Luo Guoan (appointed on 16 June 2017)	71	–	–	–	71
Sun Liutai	130	–	–	–	130
Cheng Li	130	–	–	–	130
Hung Randy King Kuen (resigned on 30 March 2017)	33	–	–	–	33
	1,042	9,807	75	905	11,829

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

	Fees RMB'000	Salaries, allowance and other benefits in kind RMB'000	Pension costs RMB'000	Share-based payments expense RMB'000	Total remuneration 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 (resigned on 23 January 2018)	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

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.

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

Of the five individuals with the highest emoluments in the Group, four (2016: five) were directors including the chief executive of the Company whose emoluments are included in the disclosures above. Details of the remuneration for the year of the remaining one (2016: nil) highest paid individual in the capacity as an employee are as follows:

	2017	2016
	RMB'000	RMB'000
Salaries and other benefits	**556**	–
Pension costs	**6**	–
Share-based payments expense	**2,794**	–
	3,356	–

The emoluments were within the following band:

	Number of employee	
	2017	2016
HKD4,000,001 to HKD4,500,000 (equivalent to RMB3,344,000 to RMB3,763,000)	**1**	–

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.

10. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Dividends recognised as distributions during the year:		
Final dividend paid for 2016 of RMB12 cents (2016: paid for 2015 of RMB12 cents) per share	**99,240**	99,240
Special dividend paid for 2016 of RMB9 cents (2016: paid for 2015 of RMB9 cents) per share	**74,430**	74,430
Interim dividend paid for 2017 of RMB11 cents (2016: RMB11 cents) per share	**90,970**	90,970
	264,640	264,640

	2017 RMB'000	2016 RMB'000
Dividends proposed:		
Proposed final dividend of RMB12 cents (2016: RMB12 cents) per share	**99,240**	99,240
Proposed special dividend of RMB9 cents (2016: RMB9 cents) per share	**74,430**	74,430
	173,670	173,670

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 annual general meeting.

11. 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:

	2017 RMB'000	2016 RMB'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**451,553**	589,196

	Number of ordinary shares	
	2017	2016
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 years ended 31 December 2017 and 2016 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 years ended 31 December 2017 and 2016.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machineries	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2016	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
Currency realignment	–	–	(64)	–	–	(64)
Additions	188	32,089	2,770	15	56,909	91,971
Disposals	(5,388)	(7,854)	(84)	(1,051)	–	(14,377)
Reclassifications	60,714	38,387	1,186	–	(100,287)	–
At 31 December 2017	1,167,474	1,115,365	69,815	2,656	147,868	2,503,178
DEPRECIATION						
At 1 January 2016	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
Currency realignment	–	–	(38)	–	–	(38)
Charge for the year	61,273	86,215	6,476	289	–	154,253
Eliminated on disposals	(3,837)	(7,188)	(47)	(979)	–	(12,051)
At 31 December 2017	364,674	678,923	55,928	1,829	–	1,101,354
CARRYING VALUES						
At 31 December 2017	802,800	436,442	13,887	827	147,868	1,401,824
At 31 December 2016	804,722	452,847	16,470	1,173	191,246	1,466,458

12. 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 cash-generating unit with carrying amount of RMB21,566,000 (2016: 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 15.

13. PREPAID LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Leasehold land in the PRC	**160,513**	164,953
Less: Amount charged within one year (included in other receivables)	**(4,440)**	(4,375)
	156,073	160,578

Movements of prepaid lease payments are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**164,953**	158,528
Addition during the year	**–**	10,500
Expense for the year	**(4,440)**	(4,075)
At 31 December	**160,513**	164,953

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

14. INTANGIBLE ASSETS

Movements of intangible assets are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**348,353**	388,744
Amortisation for the year	**(40,391)**	(40,391)
At 31 December	**307,962**	348,353

The intangible assets represent patents with finite useful lives. Such intangible assets are amortised on a straight-line basis over the useful lives from 10 to 20 years.

During the year, the management performed an impairment assessment on certain intangible assets of a cash-generating unit with carrying amount of RMB276,163,000 (2016: 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 15.

15. GOODWILL

	2017 RMB'000	2016 RMB'000
COST		
At 1 January and 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 2017, the management of the Group has determined that there is no impairment of any of its cash generating units containing goodwill.

15. GOODWILL (Continued)

The basis of the recoverable amounts of the cash-generating units above 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 12.0%-12.1% (2016: 9.2%-9.3%). Cash flows beyond the five-year period have been extrapolated using an estimated constant growth rates of 0%-1% (2016: 0%-2%) 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 include gross margin, discount rates and growth rates, such estimation is based on the unit's past performance and the 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.

16. DEPOSITS FOR INTANGIBLE ASSETS

Included in the deposits for intangible assets is an amount of RMB22,000,000 (2016: 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 (2016: 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.

17. 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:

	2017	2016
	RMB'000	RMB'000
Deferred tax assets	**21,670**	21,586
Deferred tax liabilities	**(60,945)**	(56,431)
	(39,275)	(34,845)

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

	Accelerated tax depreciation	**Deferred income**	**Fair value adjustment arising from acquisition of subsidiaries**	**Others (Note)**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	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)
(Charge) credit to profit or loss	(146)	(170)	6,466	(10,580)	(4,430)
At 31 December 2017	4,532	15,775	(49,132)	(10,450)	(39,275)

Note: Others mainly represent deferred tax liabilities on undistributed profits of the PRC subsidiaries.

17. DEFERRED TAXATION (Continued)

At the end of the reporting period, the Group has unused tax losses of RMB247,878,000 (2016: RMB207,513,000) 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 RMB139,350,000 (2016: RMB102,138,000) that will expire in 5 years (2016: 5 years). Other losses may be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the 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 RMB4,116,311,000 (2016: RMB3,939,803,000) 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.

18. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**69,050**	91,660
Work in progress	**70,752**	81,547
Finished goods	**140,407**	121,203
	280,209	294,410

19. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**71,822**	51,122
Bills receivables	**459,506**	502,553
	531,328	553,675

19. TRADE AND OTHER RECEIVABLES (Continued)

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 receivable presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2017 RMB'000	2016 RMB'000
Within 6 months	**526,832**	546,953
Over 6 months but less than 1 year	**4,496**	6,722
	531,328	553,675

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 when 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, advances and value added tax recoverable.

Included in prepayments, deposits and other receivables at 31 December 2016 was an 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. The balance was unsecured, interest-free and repayable on demand. Such balance was fully settled in 2017.

At 31 December 2017, bills receivables of RMB11,200,000 (2016: nil) are pledged to banks to secure bills payables of the Group amounting to RMB10,988,000 (2016: nil).

20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At 31 December 2017, pledged bank deposits of RMB43,401,000 (2016: RMB54,506,000) represented certain bank deposits pledged to banks to secure bills payables of the Group amounting to RMB43,401,000 (2016: RMB54,506,000). The pledged bank deposits carry fixed interest rate at 1.55% (2016: 1.55%) 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 RMB3,374,086,000 (2016: RMB3,004,980,000) 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% (2016: 0.01% to 1.35%) per annum as at 31 December 2017.

21. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	RMB'000
Trade payables	**176,368**	164,620
Bills payables	**54,389**	54,506
	230,757	219,126

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

	2017	2016
	RMB'000	RMB'000
Within 6 months	**202,463**	197,387
Over 6 months but less than 1 year	**5,099**	1,807
Over 1 year but less than 2 years	**10,533**	11,298
Over 2 years but less than 3 years	**8,086**	8,634
Over 3 years	**4,576**	–
	230,757	219,126

21. TRADE AND OTHER PAYABLES (Continued)

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 and value added tax payable.

22. AMOUNTS DUE TO RELATED COMPANIES

	2017	2016
	RMB'000	RMB'000
Shineway Medical Science & Technology (Lang Fang) Co., Ltd. ("Shineway Lang Fang")	**9,008**	9,008
Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	**6,927**	6,927
Hebei Shineway Chain Drugstores Co., Ltd. ("Shineway Drugstores")	**–**	151
	15,935	16,086

Shineway Lang Fang, Shineway Medical and Shineway Drugstores are ultimately controlled by the controlling shareholder of the Company.

The amounts due to related companies are non-trade, unsecured, interest-free and repayable on demand.

23. DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
At 1 January	**122,656**	97,219
Addition during the year	**5,975**	29,272
Recognised as other income	**(23,709)**	(3,835)
Transfer to other payables (Note)	**(11,613)**	–
At 31 December	**93,309**	122,656
Analysed for reporting purpose as		
Current liabilities	**19,389**	13,554
Non-current liabilities	**73,920**	109,102
	93,309	122,656

Note: Pursuant to the agreements signed by the Group with its business partners in 2017, the Group is required to pay an amount of RMB11,613,000 out of the government subsidies to those business partners upon fulfilment of the conditions attached to the government subsidies. Accordingly, such balance was transferred to other payables during the year ended 31 December 2017.

Included in the deferred income at 31 December 2017 are government subsidies amounting to RMB33,265,000 (2016: RMB58,878,000) in relation to research and development expenses on certain new products which are not yet recognised. The subsidies are recognised as deferred income because there is an obligation to repay the subsidies 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 RMB5,975,000 (2016: RMB29,272,000) government subsidies in relation to research and development expenses and recognised RMB19,976,000 (2016: RMB102,000) in profit or loss as the related researches are successfully completed.

Included in the deferred income at 31 December 2017 is a government subsidy amounting to RMB60,044,000 (2016: RMB63,778,000) 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 the 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 (2016: RMB3,733,000) is transferred to profit or loss during the year.

24. SHARE CAPITAL

	Number of shares '000	Amount '000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 31 December 2017	5,000,000	HK$500,000
Issued and fully paid:		
At 1 January 2016, 31 December 2016 and 31 December 2017	827,000	HK$82,700
Shown in the financial statement as		RMB87,662

25. 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;

25. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(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.

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.

25. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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
30.8.2017	30.8.2017 – 29.8.2018	100%	30.8.2017 – 29.8.2027	7.21

25. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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:

Date of grant	Exercise price HK$	Number of share options: Outstanding at beginning of the year	Granted during the year	Lapsed during the year	Outstanding at end of the year
For the year ended 31 December 2017					
Directors					
2.9.2013	11.84	3,100,000	–	–	3,100,000
5.9.2013	11.84	500,000	–	–	500,000
		3,600,000	–	–	3,600,000
Employees					
2.9.2013	11.84	17,550,000	–	(1,400,000)	16,150,000
1.6.2016	8.39	1,000,000	–	–	1,000,000
30.8.2017	7.21	–	3,000,000	–	3,000,000
		18,550,000	3,000,000	(1,400,000)	20,150,000
		22,150,000	3,000,000	(1,400,000)	23,750,000
Exercisable at end of the year					–
Weighted average exercise price (HK$)		11.68	7.21	11.84	11.11

25. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Date of grant	Exercise price HK$	Number of share options: 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.

25. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

During the year ended 31 December 2017, options were granted pursuant to the New Scheme on 30 August 2017. The estimated fair value of the options granted on that date was HK$6,682,000 (equivalent to RMB5,587,000).

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 (equivalent to RMB2,272,000).

These fair values were calculated using the Black-Scholes pricing model (2016: Binomial model). The inputs into the model were as follows:

Grant date	**30.8.2017**	1.6.2016
Share price (HK$)	**7.11**	8.39
Exercise price (HK$)	**7.21**	8.39
Expected volatility	**42.46%**	43.13%
Expected life (years)	**10**	6
Risk-free rate	**1.43%**	1.02%
Expected dividend yield	**5.55%**	3.30%
Barrier (HK$)	**15 – 25**	N/A

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 10 years (2016: 6 years). The expected life used in the model has been adjusted, based on the 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 RMB7,369,000 (2016: RMB6,146,000) for the year ended 31 December 2017 in relation to share options granted by the Company.

26. 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 qualified 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 RMB40,312,000 (2016: RMB50,526,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

27. 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)

28. 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:

	2017 RMB'000	2016 RMB'000
Within one year	**1,472**	4,332
In the second to fifth year inclusive	**882**	1,347
	2,354	5,679

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:

	2017 RMB'000	2016 RMB'000
Within one year	**–**	2,289

29. CAPITAL COMMITMENTS

	2017 RMB'000	2016 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– in respect of acquisition of property, plant and equipment	**321,631**	305,847
– in respect of acquisition of intangible assets	**84,000**	84,000

30. RECONCILIATION OF LIABILITY ARISING FROM FINANCING ACTIVITY

The table below details changes in the Group's liability arising from financing activity, including both cash and non-cash changes. Liability arising from financing activity are those for which cash flow was, or future cash flow will be, classified in the Group's consolidated statement of cash flows as cash flow from financing activity.

	Dividend payable RMB'000
At 1 January 2017	**–**
Financing cash flow	**(264,640)**
Dividend declared	**264,640**
At 31 December 2017	**–**

31. 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.

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.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**4,116,341**	3,892,611
Financial liabilities		
Amortised cost	**391,616**	366,779

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivables, 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 of the Group are the following amounts denominated in currencies other than the functional currencies of the relevant group entities to which they relate.

	2017 RMB'000	2016 RMB'000
RMB against Hong Kong Dollars ("HKD")	**343**	366
HKD against United States Dollars ("USD")	**2,990**	164,235
HKD against RMB	**115,007**	–

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Foreign currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to HKD as disclosed above with the functional currencies of those entities in RMB. The Group is also exposed to RMB and 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% (2016: 5%) increase and decrease in RMB against HKD. 5% (2016: 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% (2016: 5%) change in HKD. A positive (negative) number below indicates an increase (decrease) in profit for the year where RMB strengthens 5% (2016: 5%) against HKD. For a 5% (2016: 5%) weakening of RMB against HKD, there would be an equal and opposite impact on the profit for the year.

	2017	2016
	RMB'000	RMB'000
Increase (decrease) in profit for the year	**4,787**	(15)

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 20 for details). The Group is also exposed to cash flow interest rate risk which relates to short-term financial 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.

32. 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 financial 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% (2016: 99%) of the total trade and bills receivables as at 31 December 2017.

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

32. 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
2017					
Trade payables	**–**	**–**	**176,368**	**176,368**	**176,368**
Bills payables	**–**	**–**	**54,389**	**54,389**	**54,389**
Other payables	**–**	**–**	**144,924**	**144,924**	**144,924**
Amounts due to related companies	**–**	**15,935**	**–**	**15,935**	**15,935**
Total		**15,935**	**375,681**	**391,616**	**391,616**
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

32. 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.

33. 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:

	2017	2016
	RMB'000	RMB'000
Rental expense to Shineway Medical	**1,277**	1,277
Rental expense to Shineway Lang Fang	**1,012**	1,012
Service fee to Shineway Medical	**8,933**	8,628
Service fee to Shineway Lang Fang	**2,556**	2,474
Sales of Chinese pharmaceutical products to Shineway Drugstores	**–**	36

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 9.

34. EVENT AFTER THE REPORTING PERIOD

On 26 March 2018, the Group has adopted a share award scheme for its employees. Details of the share award scheme are set out in the Company's announcement dated 26 March 2018.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 RMB'000	2016 RMB'000
Non-current assets		
Investments in subsidiaries	**63,599**	63,599
Current assets		
Prepayments	**116**	1
Amounts due from subsidiaries	**539,347**	780,949
Bank balances and cash	**136**	214
	539,599	781,164
Current liabilities		
Other payables	**2,199**	2,332
Amounts due to subsidiaries	**1,547**	104,471
	3,746	106,803
Net current assets	**535,853**	674,361
Net assets	**599,452**	737,960
Capital and reserves		
Share capital	**87,662**	87,662
Reserves (Note)	**511,790**	650,298
Total equity	**599,452**	737,960

Note:

	Other reserves RMB'000
At 1 January 2016	870,348
Total comprehensive income for the year	44,590
Dividends paid	(264,640)
At 31 December 2016	650,298
Total comprehensive income for the year	126,132
Dividends paid	(264,640)
At 31 December 2017	511,790

36. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2017 and 2016 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 2017	2016	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
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

36. 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 2017	2016	Principal activities
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 products
Shineway Pharmaceutical (Sichuan) Limited) (Note c) 神威藥業(四川)有限公司	PRC 15 September 2003	Registered capital – RMB405,000,000 (2016: RMB400,000,000)	**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)中藥飲片有很公司	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)現代農業有很公司	PRC 17 June 2012	Registered capital – RMB2,000,000	**100%**	100%	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
Australia Shineway Technology Pty Ltd.	Australia 29 August 2012	Registered capital – AUD1,000	**100%**	100%	Research and development of Chinese pharmaceutical products
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	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Yunnan Shineway Spirin Pharmactutical Company Limited (Note c) 雲南神威施普瑞藥業有限公司	PRC 20 November 2014	Registered capital – RMB50,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products

36. 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 2017	2016	Principal activities
Beijing Wanter Bio-Pharmactutical Co., Ltd. (Note c) 北京萬特爾生物製藥有限公司	PRC 25 August 2002	Registered capital – RMB8,000,000	**100%**	100%	Research and development, manufacturing and trading of pharmaceutical products
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%**	100%	Research and development of Chinese 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%	Trading of Chinese pharmaceutical products
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%**	100%	Inactive
Shineway Pharmaceutical US, Inc. (Note d)	The United States of America 11 November 2014	Registered capital – USD500,000	**N/A**	100%	Inactive

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 deregistered in July 2017.

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.