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

ANNUAL REPORT **2018**

Leading
Modern Chinese Medicine
Promoting Health Industry

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Chen Zhong
Mr. Xu Sheng (appointed on 1 December 2018)
Ms. Lee Ching Ton Brandelyn
(resigned on 23 January 2018)

Independent non-executive Directors
Ms. Cheng Li
Prof. Luo Guoan
Mr. Cheung Chun Yue Anthony
(appointed on 1 January 2019)
Mr. Sun Liutai (ceased on 1 January 2019)

BOARD COMMITTEES

Audit Committee
Mr. Cheung Chun Yue Anthony *(Committee Chairman)*
(appointed on 1 January 2019)
Mr. Sun Liutai *(Committee Chairman)*
(ceased on 1 January 2019)
Ms. Cheng Li
Prof. Luo Guoan

Remuneration Committee
Ms. Cheng Li *(Committee Chairman)*
Ms. Xin Yunxia
Mr. Cheung Chun Yue Anthony
(appointed on 1 January 2019)
Mr. Sun Liutai (ceased on 1 January 2019)

Nomination Committee
Mr. Li Zhenjiang *(Committee Chairman)*
Prof. Luo Guoan
Mr. Cheung Chun Yue Anthony
(appointed on 1 January 2019)
Mr. Sun Liutai (ceased on 1 January 2019)

Corporate Social Responsibility and Sustainability Committee
Mr. Cheung Chun Yue Anthony *(Committee Chairman)*
(appointed on 1 January 2019)
Ms. Xin Yunxia
Ms. Cheng Li
Prof. Luo Guoan

AUTHORISED REPRESENTATIVES

Mr. Li Huimin
Mr. Lee Bun Ching, Terence

COMPANY SECRETARY

Mr. Lee Bun Ching, Terence

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

Corporate Information

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation Limited

The Hongkong and Shanghai Banking Corporation Limited

The Bank of East Asia, 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

2877 (Main Board of
The Stock Exchange of Hong Kong Limited)

WEBSITES

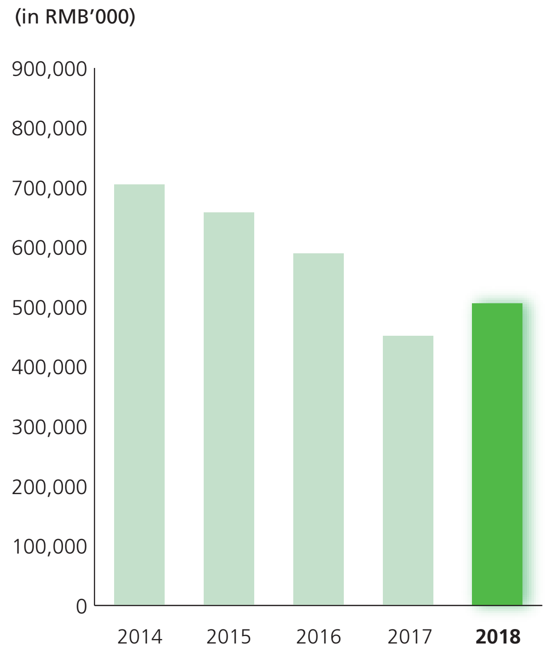
www.shineway.com.hk
www.shineway.com

Financial Highlights

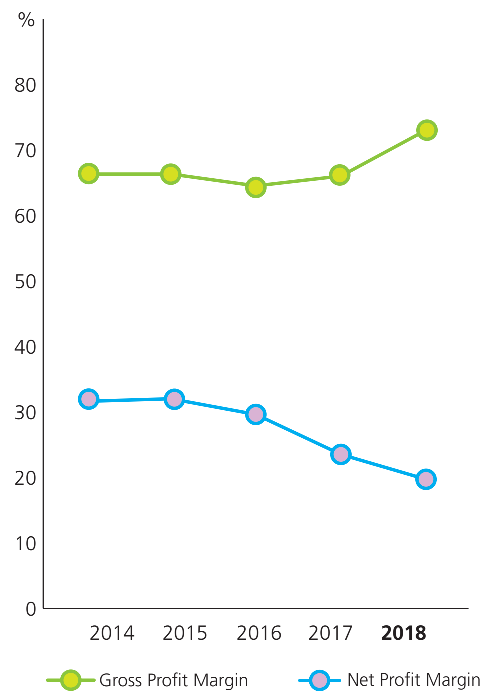
(in RMB'000)

	2014	2015	2016	2017	**2018**
RESULTS					
Turnover	2,229,201	2,054,809	1,993,379	1,919,608	**2,570,196**
Gross profit	1,478,003	1,360,919	1,286,495	1,267,084	**1,876,047**
Profit before taxation	863,736	797,165	695,254	587,822	**669,130**
Profit attributable to owners of the Company	704,775	657,906	589,196	451,553	**505,876**
Basic earnings per share	RMB0.85	RMB0.80	RMB0.71	RMB0.55	**RMB0.62**
Dividends	272,910	264,640	264,640	264,640	**261,185**
ASSETS AND LIABILITIES					
Total assets	5,907,324	6,153,102	6,465,262	6,665,113	**6,731,791**
Total liabilities	(1,014,416)	(857,131)	(838,589)	(844,158)	**(966,010)**
Net assets	4,892,908	5,295,971	5,626,673	5,820,955	**5,765,781**
Non-controlling interests	(437)	–	–	–	**–**
Total equity attributable to owners of the Company	4,892,471	5,295,971	5,626,673	5,820,955	**5,765,781**

Profit Attributable to Owners of the Company



Gross and Net Profit Margins



Chairman's Statement

Dear Shareholders,

The year of 2018 marks the 40th anniversary of China's open-door policy. It is also the first year of an new era of Shineway. Guided by the Group's strategies and innovations made by our staff, the Group achieved its victory moment in this first year of transformation. Most of the Group's key products had re-entered their upward spirals in sales. Both turnover and profit had increased, which marked the end of our downward sales performance over the last few years. During the year, the Group's two exclusive products, Huamoyan Granule and Qing Kai Ling Soft Capsule made their monumental entries into the National Essential Drugs List. Historically, this is the first time for the Group's exclusive products to enter into the National Essential Drugs List. A number of our key products were also admitted into various provincial drugs reimbursement lists during the year, prompting medical institutions and the general public keener to use our products. Meanwhile, after four years of development, TCM Formula Granules profoundly doubled its sales three years in a row and emerged as a new growth driver for the Group. During the year, the Group was approved as a pilot enterprise of TCM Formula Granules by the Yunnan province, while the Gansu province had also authorized the Group to set up factories there for the production of Shineway's TCM Formula Granules. The Group is now diligently working on its qualifications for entering into several other provinces and capital cities, and the business of TCM Formula Granules for the Group has a promise future.

For 2018, though the Group's core business had ceased from declining and started to rebound, we, as management of the Group, were well-versed that it was still quite far from our strategic growth targets, despite such revival on our operating results. Hence, we must make greater effort and commit to a more innovative strategic plan in 2019 in return for the support and trust granted to the Group by investors and shareholders.

As the new round of the country's reform on its medical and healthcare systems continues to deepen, the pharmaceutical industry is confronting with enormous challenges arisen from national macroeconomic control policies such as the new administrative actions on health insurance, the new regulations on centralized procurements, and the regulatory monitoring over adjuvant drugs. Nonetheless, publication of the new edition of the National Essential Drugs List, the deepened implementation of the "Traditional Chinese Medicine Law", the government support on the development of traditional Chinese medicine, the gradual opening of the TCM formula granule market, and the policies on hierarchical diagnosis and treatment would provide the Chinese medicine industry with more favourable opportunities on its development.

To get a foothold in such new era and to fulfill our vision as a trendsetter to create value in Chinese medicine industry and our goal to raise core competence, the Board is further optimizing the Group's future development strategies. In 2019, the Group will continue to shift its core business action plans from sales channel driven to points-of-sales users driven. Likewise, the Group will expedite the establishment of its direct-sales teams and strengthen its academic-based and value-driven marketing. In addition to stabilizing sales growth of injections, and expediting the expansion of market share of the orally taken products, the Group will deploy resources for marketing promotion on strategic key products, and forge a new image of the Group as a trendsetter and market value leader in new traditional Chinese medicine, to enhance the market coverage as well as competitive edge of our products. Furthermore, the Group is deepening the market coverage of TCM Formula Granules in Hebei province and forging its potential presence in other provinces and municipalities. Lastly, the Group is also nurturing new business growth with initiatives such as refined TCM decoctions, health supplements, and e-commerce, etc.

Chairman's Statement

Moreover, the Group's "Pseudomonas Aeruginosa Injection", a kind of biopharmaceutical medication, has been admitted in eight provincial/municipal drug reimbursement lists. In 2019, the Group will strengthen the evidence-based medical support and marketing for "Pseudomonas Aeruginosa Injection", and reshape its marketing with academic-base approach and value driver promotion. The Group anticipates that "Pseudomonas Aeruginosa Injection" will become one of the new growth drivers for the Group.

In 2019, the Group's research and development team is set to continue the progress on developing new dosage forms of the "Ancient and Classical Prescriptions" and the Phase III clinical trial of "Sailuotong Capsule" in Australia, while accelerating the process of Phase III clinical trial of "Sailuotong Capsule" in China. Likewise, the Group is commencing its research on the clinical preparation of compound traditional Chinese medicine formula and kick off the exploratory research on TCM injections as botanical medicine. The Group is also accelerating the formation of our academic marketing system and consummating a variety of evidence-based medical researches to ensure our key products can be admitted into expert guidelines and specialists' consensus in a more rapid manner and to strengthen the application of clinical evidence and their commercialization. Furthermore, the Group is proactively building a system of experts to strengthen the academic reputation and brand of our strategic products.

With regard to improving our strategic positioning, the Group's TCM industrial park in the Chuxiong Prefecture of Yunnan Province has already commenced trial production and is expected to move into official operation in May 2019. The Group's influence and market presence in southwestern region of China is escalating. The Group is also about to commence its TCM formula granules and healthcare products industrialization projects in the Gansu province to research and manufacture TCM formula granules and healthcare products such as Ancient and Classical Prescriptions, refined TCM decoctions, health-preserving tea and health supplements, etc, to bring new buoyancy for our business.

For the year past, our entire staff had contributed to the Group's business advancement relentlessly with unremitting support and dedication in their relevant positions. On behalf of the Board, I would like to extend my cordial gratitude and make sincere greeting to each of them who had work diligently for the Company over the last year. I would also like to convey my heartfelt thanks to shareholders, customers and partners for their continuous support and trust to the Group.

Li Zhenjiang
Chairman of the Board
Hong Kong, 29 March 2019

Management Discussion and Analysis

BUSINESS REVIEW

Turnover and profit both resumed growth momentum in 2018

During 2018, the Group commenced its new initiatives in sales and marketing by building its direct-sales teams to comprehensively strengthen market presence and coverage on terminal-customers. The work to establish point of terminal sales in hospitals, grass-root medical institutions and retail pharmacies have been steadily advancing. Most of the Group's key products resumed growth in sales during the year. Meanwhile, sales of TCM formula granules continued to increase rapidly. Coupling with implementation of the "Two-Invoices System", overall sales and profit had resumed growth momentum.

During the year, the Group's turnover increased by 33.9%, among which injection products increased by 36.9% and orally taken products by 30.8%. Overall gross profit jumped 48.1%. However, net profit for 2018 was only grown by 12.0% due to (a) a shortfall of RMB62,234,000 in other income arisen from receiving an annual government subsidy after the year ended which was expected to be received before the end of the year, and (b) the significant increases of selling and distribution costs as well as research and development expenditure by 93.6% and 32.8% respectively as compared to last year.

Most key products re-entered into growth tracks, but the extent of growth fell short of the Group's targets

As at the end of 2018, there were a total of more than 110 products regularly manufactured by the Group, including 20 exclusive products and 18 products admitted in the National Essential Drugs List. In addition, 23 products were included in the National Low-Priced Medicine Catalogue, whereas 16 products were included in the Provincial Low-Priced Medicine Catalogue; and 3 products were included in the Catalogue of Emergency Use Drugs. Sales of the Group's key products in 2018 are set out as follows:

	2017 RMB'000	**2018** **RMB'000**	**Growth** **rate**
Core products			
Qing Kai Ling Injection	316,188	**458,374**	45.0%
Shu Xie Ning Injection	297,012	**436,259**	46.9%
Shen Mai Injection	189,731	**216,594**	14.2%
Wu Fu Xin Nao Qing Soft Capsule	178,090	**206,659**	16.0%
Products with high growth potential			
TCM Formula Granules	132,109	**313,734**	137.5%
Huo Xiang Zheng Qi Soft Capsule	85,455	**98,436**	15.2%
Pediatric Qingfei Huatan Granule	83,357	**95,387**	14.4%
Pseudomonas Aeruginosa Injection	51,998	**66,380**	27.7%
Compound Liquorice Tablet	42,648	**59,730**	40.1%
Huamoyan Granule	60,211	**56,946**	–5.4%
Qing Kai Ling Soft Capsule	26,389	**39,084**	48.1%
Xiesaitong Dripping Pill	22,597	**23,177**	2.6%
Dan Deng Tong Nao Capsule	16,219	**16,274**	0.3%
Others	417,604	**483,162**	15.7%
Total	1,919,608	**2,570,196**	33.9%

Management Discussion and Analysis

While most key products re-entered into growth tracks, the extent of growth fell short of the Group's targets. It was mainly because overall sales growth of the products in the fourth quarter had slowed down to only 1.1%, as compared to the growth rates of 68.3%, 53.6% and 29.9% recorded in the first three quarters respectively. The table below shows the quarterly and annual growth rates for each product dosage form in 2018 as compared to last year:

	year-on-year growth rate in 2018					
	First quarter	Second quarter	Third quarter	Fourth quarter	Full year	Sales Full year RMB'000
Injection Products	**85.3%**	**56.2%**	**25.6%**	**2.2%**	**36.9%**	**1,344,395**
Soft Capsules	**36.3%**	**37.7%**	**3.2%**	**–36.4%**	**9.0%**	**388,218**
Granules	**46.6%**	**33.2%**	**23.2%**	**–14.8%**	**15.4%**	**379,378**
TCM Formula Granules	**151.5%**	**142.3%**	**134.0%**	**129.3%**	**137.5%**	**313,734**
Other Dosage Forms	**23.4%**	**19.9%**	**33.0%**	**4.6%**	**20.2%**	**144,471**
Orally Taken Products	**51.3%**	**50.8%**	**34.6%**	**–0.1%**	**30.8%**	**1,225,801**
Total	**68.3%**	**53.6%**	**29.9%**	**1.1%**	**33.9%**	**2,570,196**

The slow growth recorded in the fourth quarter was attributable to various factors. First, the pandemic outbreak of flu in last winter already pushed the Group's base figure of the fourth quarter of 2017 sales for the Group's anti-influenza drugs to a relatively high level. Second, shortage of a chemical compound raw material had caused sales revenue of a western medication used for the treatment of atherosclerosis to decrease significantly. Lastly, the Group had commenced to explore models for reform and new sales strategies in the fourth quarter of 2018 as organizational structure of the sales team will be re-adjusted in line with the new strategic directions for the next three years, resulting in a slowdown in growth of product sales at various points of sales, on top of the continued cut down of production and shipment for Huamoyan Granules for strategic reasons. The abovementioned matters continued to extend their effects to the first two months of 2019, and accordingly would cause negative growth on overall turnover of the first quarter of 2019.

Profit contribution from orally taken products had been increasing

In recent years, Chinese medicine injections have been subject to challenges from the country's medical insurance related control policies such as claim restrictions imposed by the drug reimbursement lists, the intensified supervision on adjuvant medications, while the national standards for re-evaluation of Chinese medicine injections are yet to be announced. The Group's main strategic directions in responses are to create new growth points and expand the sales momentum of orally taken products to reduce concentration of profit contribution from Chinese medicine injection products.

Management Discussion and Analysis

As estimated from sales data, Chinese medicine injection products constituted a larger proportion in overall sales due to the effect brought by "Two-Invoices System" in 2018. But on the contrary, the proportion of profit contributed from orally taken products outweighed that of Chinese medicine injection products in 2018. The following table shows their proportions of sales and gross profit contribution after adjusting "Two-Invoices System" effect:

	Percentage of total sales in 2018	Percentage of gross profit in 2018
Chinese medicine injections products	**52.3%**	**38.0%**
Orally taken products	**47.7%**	**62.0%**
Total	**100.0%**	**100.0%**

In 2018, the Chinese medicine injection products after adjusted for the "Two Invoices System" effect only contributed 38.0% to the Group's overall gross profit. Among such, Qing Kai Ling Injection contributed to 19.1% of the Group's overall gross profit, and only 6.2% and 5.5% were by Shu Xie Ning Injection and Shen Mai Injection respectively, after adjusting "Two-Invoices System" effect.

In 2019, the Group will implement growth strategies with main focus on orally taken products. The key objectives are to lay ways to rapidly increase the market share as well as adding new growth points for orally taken products, while stabilizing sales growth of Chinese medicine injections products. Orally taken products will continue to expand their weight on sales and profit in the coming years.

TCM Formula Granules recorded doubling sales three years in a row and are expediting their entrance into other provinces and capital cities

The sales of TCM Formula Granules of the Group increased by 137.5% in 2018, which had been doubling three years in a row, and becoming a new driver for the Group's revenue and profit. The Group believes that domestic sales of TCM Formula Granules of the Group to China customers are currently ranked sixth nationwide. At present, coupling with the move to expanding coverage of Class II hospitals in Hebei Province, the Group is in the progress of penetrating into grass-root medical institutions and speeding up our positioning into other provinces' markets.

During 2018, two subsidiaries of the Group were selected into the lists of pilot enterprises for research and development of TCM Formula Granules in Yunnan Province and Gansu Province. Meanwhile, production lines of TCM Formula Granules set up in the Chuxiong Prefecture of Yunnan Province had already commenced trial production. It is expected that the production lines will be officially put into operation in May 2019, with an annual production capacity of 1 billion bags (grams), symbolizing our official entry of the Group's TCM Formula Granules into the Yunnan market. At present, the Group had also started the construction of its TCM Formula Granules and Greater Health Industrialization Project in Gansu Province, with annual production capacity also amounting to 1 billion bags (grams) as well. The construction period of this project will be 18 months and is expected to be completed by May 2020. Currently, the Group is working diligently on its entry qualifications for other provinces and capital cities.

Management Discussion and Analysis

During the year, the sales network of the Group's TCM Formula Granules had covered 215 hospitals in Hebei Province, and Shineway's smart medicine dispensing systems of the Group were installed in these hospitals, with 1 to 2 units in each hospital on average and in general, an average of 4 to 8 units were installed in Class III hospitals. These systems were used to dispense over 600 types of the Group's TCM Formula Granules that are exclusively included in the Drugs Reimbursement List of Hebei Province. During the year, significantly large majority of the Group's TCM Formula Granules were sold in these 215 hospitals in Hebei Province.

National policies in China has been supporting the development of TCM Formula Granules. It is expected that the TCM Formula Granules industry will be deregulated to an open market. Presently, the market sizes of TCM Formula Granules and TCM decoction pieces are roughly estimated to be RMB13 billion and RMB 220 billion respectively. External analysis believes that the market size of TCM Formula Granules might expand to RMB50 billion within three years upon opening of the market. Production capacity of the Group's TCM Formula Granules will reach 4 billion bags (grams) in 2019. As one of the major producers of TCM Formula Granules, the Group will be a beneficiary upon opening of the market.

Deepen cooperation with targeted retail drug store chains to spur sales volume of orally taken products

During the year, the Group kicked start its transformation and upgrading of its business by switching from channel-driven sales to terminal customers and end users driven. Hence, the Group had entered into long-term strategic cooperation agreements with a handful of targeted retail pharmacy chains to expand the number of targeted retail pharmacy coverage, and took actions to strengthen our sales and marketing to retail targeted pharmacy chains. In 2018, sales of the Group relevant to retail pharmacies were estimated to account for 25.1% of total turnover to reach RMB645,985,000, representing an increase of 19.4% as compared to last year. Among which, sales relevant to pharmacy chain stores were estimated to increase by 26.3%, and to single store pharmacies increased by 14.9%. The Group's sales relevant to retail pharmacies are approximated as follows:

	2017	**2018**	**Sales growth**	**Growth rate**
	RMB'000	RMB'000	RMB'000	
Pharmacy chain stores	214,258	270,561	56,303	26.3%
Single store pharmacies	326,760	375,424	48,664	14.9%
Retail pharmacies	541,018	645,985	104,967	19.4%

According to the research taken internally, the Group currently reached a coverage of 76,000 targeted retail pharmacies. Among them, 34,000 stores were targeted chain pharmacies and 42,000 were single store pharmacies. Since early 2018, the numbers of targeted pharmacy chain stores and single store pharmacies coverage had increased and decreased by 11,000 and 6,800 stores respectively.

Leading by the mission to enhance the growth momentum of orally taken products, the Group is geared to pursue a partnership cluster consisting of several hundred thousands of retail pharmacy chains. It is the Group's intention to deepen the cooperation with renowned targeted retail pharmacy chains which share the same values with the Group through provision of product exclusivity and geographic exclusivity to form a win-win cooperative system. Likewise, the Group's retail pharmacy sales and marketing teams will put their key focus on revamping a dozen of orally taken products including Huo Xiang Zheng Qi Soft Capsule, Qing Kai Ling Soft Capsule and Pediatric Qingfei Huatan Granule. By upgrading the package design of these products and implementing precision advertising and marketing, the Group aims to bolster a valuable brand new image for the Group's medications.

Extending coverage to over thousands of targeted hospitals nationwide to accelerate the entering of orally taken products

Through more evidence-based medical researches and academic promotion, the Group's dedicated hospital sales and management teams are set to leverage on urban Class III hospitals as the academic benchmark to promote the sales of a dozen of our exclusive orally taken products as well as Chinese medicine injections to public hospitals at county levels and urban Class II hospitals, and to accelerate the entering of the Group's orally taken products. Based on internally generated statistics, the relevant sales made by our direct sales team and distributor-covered targeted and non-targeted hospital terminal customers together accounted for approximately 18.6% of the overall total sales, reaching approximately RMB477,556,000, representing an increase of 28.6% as compared to last year.

In 2019, the Group is set to expand the headcount of our dedicated hospital sales and management team by more than 50%. The Group has laid a goal to build up a hospital terminal network that covers thousands of targeted county-grade hospitals, city-grade hospitals, and key 3A hospitals in the next three years.

The Group's orally taken products, Huamoyan Granule and Qing Kai Ling Soft Capsule, are important business growth drivers for the hospital sales team in 2019. Huamoyan Granule is an innovative medication exclusively produced by the Group. It is the only innovative Chinese medicine for treating synovitis approved by the former China State Food and Drug Administration. Huamoyan Granules and Qing Kai Ling Soft Capsules (another exclusive product of the Group) made their initial entrance into the National Reimbursement Drug List in February 2017. They were both admitted into the National Essential Drugs List released by the National Health Commission of China in November 2018. A new sugar free version of Huamoyan Granule is also made available on the online procurement platforms for medical institutions in several provinces, adding momentum for its entrance into the targeted hospitals in 2019.

Riding on our established network of community medical institutions to capture opportunities brought by convergence of two insurance schemes and the hierarchical diagnosis policies

The Group's dedicated community medical sales team covers more than 127,000 targeted grass-root medical institutions ranging from township hospitals, county-level private hospitals, community medical centres, maternal and child health centres, factory-based and mine hospitals, epidemic prevention stations, as well as community and village clinics.

According to statistical data by our direct sales team and distributors, sales of the Group's various products relevant to grass-root medical institutions in 2018 accounted for 44.0% of overall sales, reaching approximately RMB1,130,177,000, representing an increase by 27.8% as compared to last year. Among them, sales of injections, soft capsules and granules relevant to grass-root medical institutions recorded an increase of 36.6%, a decrease of 9.0% and an increase of 12.5% respectively. Qing Kai Ling Injection was the Group's product with the highest sale volume and largest increase in sales relevant to grass-root medical institutions. During the year, Qing Kai Ling Injection was widely used in countering viral infections and recorded sales relevant to grass-root medical institutions reaching approximately RMB391,376,000, an increase of 39.7% as compared to last year and amounting to 85.4% of Qing Kai Ling Injection's total sales in 2018.

Management Discussion and Analysis

The Group believes that the movements toward convergence of the municipal and township worker, and residents medical insurance with the new farming village cooperative insurance scheme, as well as the hierarchical diagnosis policies will be beneficial to the sales of the Group's Qing Kai Ling Injection and a handful of our grass-root orally taken products brought forth by convergence of the two insurance schemes. Accordingly, intensifying the academic promotion for products including Huamoyan Granule, Qing Kai Ling Soft Capsule, Wufu Xinnaoqing Soft Capsule and Dan Deng Tong Nao Capsule are our critical growth drivers for the community medical institution market in 2019. In 2019, the Group will ride on the advantages of our existing network to lead a faster speed of growth of the grass-root orally taken products. At the same time, the Group will strengthen its effort in cultivating community medical institutions and to deepen our cooperation with them. In the coming three years, the Group will ride on our established network of community medical institutions to capture opportunities brought by convergence of the two insurance schemes and the hierarchical diagnosis policies.

Chronic diseases management ignites promising prospect for the Group's good efficacy products

During the year, the Group had launched an initiative that was based mainly on utilizing Xiesaitong Dripping Pill and Tongmai Granule to bring forward sales of a group of other products which treat and manage chronic disease as a package for health and geriatric. Such product group will be mainly sold to targeted pharmacy chain stores and clinics. At the same time, prospect potential of andrological hospitals and gynaecological hospitals will also be cultivated. The related marketing promotion will focus on coping with chronic illnesses on cardiovascular, kidney and liver weakening, gynaecological chronic diseases, andrological health and sub-health to turn the Group's chronic disease products of good efficacy to become new growth drivers. In 2018, sales generated from products in respect of tackling chronic diseases reached RMB27,459,000, representing an increase by 41.0% as compared to last year.

The recent release of China's annual government work report revealed that it will act diligently on the prevention and treatment of chronic diseases and is going to admit out-patient medications for diseases such as high blood pressure and diabetes into the drugs reimbursement list. The Group is now actively expanding our professional sales and marketing team and forming a professional system for management and strategic promotion of our product lines for tackling chronic diseases to ignite their promising prospect.

Launching TCM refined decoction product line to seize the market of common and high morbidity diseases

During the year, the Group applied its high-quality standards for TCM formula granules to launch a new TCM refined decoction product line. Utilizing a new business model by combining both our direct sales team and independent sales agents, the Group is endeavoured to exploit into terminal markets of hospitals, grass-root medical institutions and pharmacy chain stores. The respective new product line will be officially launched in early 2019.

TCM refined decoctions are single-herb TCM formula granules, made by modern technologies for the extraction, condensation and drying of TCM decoction pieces, and can be consumed easily like coffee without the further preparation that TCM decoction pieces usually require. The hygienic and convenient image of the products close the distance of more youngsters to TCM.

The Group's TCM refined decoctions are primarily made from directly-intake decoctions that are in line with the TCM philosophy on promoting greater healthcare. They are primarily originated from the innovated specialty decoctions of Tibetan medicine and Yi medicine and supplemented with other decoctions that are both for food and treatments. Year 2019 will be the year of laying foundation and building networks and the main focus is on the establishment of sales team responsible for terminal sales. Riding on the synergy of the Group's TCM Formula Granules, our TCM refined decoctions would have a board market potential.

Management Discussion and Analysis

Speeding up our biopharmaceutical product to enter into more expect consensus and specialist guidelines on gastrointestinal cancer and bladder cancer

The key curative effects of the Group's Pseudomonas Aeruginosa Injection, a kind of biopharmaceutical product, are (1) auxiliary treatment of malignant tumour, (2) improve human body's immune status, and (3) reduce the incidence of infection. Currently, the product is being listed in a total of eight provincial and municipal drugs reimbursement lists including Hebei, Henan, Guangdong, Jiangsu, Beijing, Tianjin, Anhui, and Gansu. In 2018, the product generated sales amounting to RMB66,380,000, representing an increase by 27.7% as compared to last year.

It is the Group's expectation that the growth of this biopharmaceutical product will speed up in 2019. The Group will conduct a number of evidence-based medical researches to gather new medical evidence to facilitate clinical promotion of Pseudomonas Aeruginosa Injection. Furthermore, the Group will commence in-depth research on the potential indications of this product and focus on consummating the medical research evidence that support and speed up its entries into more expert consensus and specialist guidelines on gastrointestinal cancer and bladder cancer. Another main focus of the Group is to exploit the product's entry into national flagship hospitals to foster the sales into other hospitals.

Increasing investment in its research on new products and evidenced-based researches

The Group continued to increase its effort in research and development of new products and committed to cultivating exclusive products through self-run research and development. The Group is set to carry out redevelopment on a number of key products as well as exploratory researches on TCM injections as botanical medications, to add new elements for our business growth in the coming years. Meanwhile, the Group is also strengthening the application and commercialization of evidence-based medical research to provide strong academic support on the Group's key products for their nurturing.

The Group's research and development expenses increased by approximately by 32.8% in 2018, which approximated to 5.0% of turnover in 2018 (2017: 5.0%). At present, the Group has a total of 13 ongoing research projects either in pharmaceutical experiment or in clinical trials, including 5 new medicine research programs (1 of which is based in Australia), 2 research projects major national science and technology programs, and 4 research programs under provincial or municipal support. A total of 3 clinical trials (including 1 based in Australia) are currently underway.

The Group's key research initiative "Sailuotong Capsule", a modernized and innovative compound TCM for curing vascular dementia is now under phase III clinical trials. It is expected that the product will be launched to the market upon completion of clinical trials in Australia and China in 2021 and 2023 respectively. The phase II clinical trial report of "Sailuotong Capsule" can be downloaded from the following internet hyperlinks:

https://www.trci.alzdem.com/article/S2352-8737(18)30007-6/fulltext

https://www.trci.alzdem.com/article/S2352-8737(18)30007-6/pdf

The Group is set to capitalize the opportunities brought by research and development to modernize the ancient and classical prescriptions and envisages that the relevant research and development work can be finished by 2020.

The Group will begin conducting a series of evidence-based medical studies on its biopharmaceutical product "Pseudomonas Aeruginosa Injection" in 2019, which serves to provide new evidence-based medical evidence for the promotion of "Pseudomonas Aeruginosa Injection" on clinical use.

Management Discussion and Analysis

The number of targeted sales terminals increased by 14.7% in 2018

During the year, the Group's marketing approach was gradually shifting from distribution channel driven to all terminals driven. The role of our sales team was also shifted from mainly assisting distributors to promote the Group's products to establishing ties with targeted medical institutions and targeted pharmacies to directly promote the demand for the products. In 2018, the Group covered a total of 211,000 targeted sales terminals of hospitals, grass-root medical institutions and retail pharmacies, an increase of 14.7% as compared to 184,000 in 2017.

Admission into more provincial drug reimbursement lists making the general public keener on Shineway's products

As of the end of 2018, a total of 77 medications of the Group were admitted in the National Drugs Reimbursement List and a total of 33 products had been included in the provincial drug reimbursement lists (as compared to 18 products in 2017). It is a national policy in PRC to make available more choices on drugs for the grass-root medical institutions. The Group believes that, as the Group's products entered into more provincial/municipal drug reimbursement lists, medical practitioners and the general public will be keener on choosing and using the Group's good-quality-good-prices products.

FINANCIAL ANALYSIS

Turnover

In 2018, the Group recorded an increase in turnover of 33.9% from last year. Sales of injection products reached approximately RMB1,344,395,000, up approximately 36.9% as compared with 2017. Sales of injection products accounted for approximately 52.3% of the Group's turnover. Sales of soft capsule products were approximately RMB388,218,000, up approximately 9.0% from last year. Soft capsule products accounted for approximately 15.1% of the Group's turnover. Sales of granule products amounted to approximately RMB379,378,000, up approximately 15.4% from last year. Granule products accounted for 14.8% of the Group's turnover. Sales of TCM formula Granules were approximately RMB313,734,000, a surge of 137.5% from last year and accounted for 12.2% of the Group's turnover. Sales of the Group's products in other formats were approximately RMB144,471,000 which accounted for approximately 5.6% of the Group's turnover.

Sales of prescription and over-the-counter ("OTC") medicines of the Group for the year were RMB1,875,585,000 and RMB694,611,000, equal to 73.0% and 27.0% of the Group's turnover, respectively (2017: 75.8% and 24.2%).

The aggregate sales attributable to the largest customer and ten largest customers combined of the Group were 3.7% and 24.8% respectively of the Group's turnover for the year.

Cost of Sales

Cost of sales in 2018 was approximately RMB694,149,000, representing approximately 27.0% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 56.9% (2017: 56.3%), 12.6% (2017: 13.0%) and 30.5% (2017: 30.7%) of total cost of sales respectively.

Gross Margin

In 2018, average gross margins of injection products, soft capsule products, granule products and TCM formula granule products were approximately 74.5% (2017: 64.7%), 77.3% (2017: 71.8%), 67.1% (2017: 64.1%) and 74.9% (2017: 73.7%) respectively. Overall gross margin was 73.0% (2017: 66.0%).

Management Discussion and Analysis

Other Income

Other income mainly includes government subsidies of RMB29,817,000 (2017: RMB74,433,000). The government subsidies mainly represented incentives received from government for research and development and investments in relevant regions in PRC by the Group.

Investment Income

Investment income mainly includes interest income from bank deposits and investments in financial products of RMB78,739,000 (2017: RMB53,578,000) and RMB54,707,000 (2017: RMB47,975,000) respectively.

Distribution Costs

Distribution costs comprise of advertising expenses, distribution and promotion expenses, wages of sales persons and other market promotion and development expenses. In 2018, the distribution costs have increased by approximately 93.6% and accounted for approximately 38.8% of turnover in 2018 as compared to 26.8% in last year. It was mainly due to the increase in distribution and promotion expenses of 199.2% from last year. Distribution and promotion expenses accounted for 27.5% (2017: 12.3%) of the Group's turnover.

Administrative Expenses and Research and Development Costs

In 2018, administrative expenses have increased by 3.6% from last year, representing approximately 10.0% (2017: 12.9%) of the Group's turnover. Administrative expenses comprised of non-productive depreciation expenses of fixed assets and amortization expenses of intangible assets which accounts for 2.8% of the Group's total turnover in 2018 (2017: 3.9%). Research and development expenses have increased by approximately 32.8% from last year, accounted for approximately 5.0% of the Group's turnover in 2018 as compared to 5.0% in 2017.

Income Tax Rates

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 15% (2017: 9%). 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 2017 and 2018. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

In 2018, the effective tax rate of the Group was 24.4% (2017: 23.2%). The increase in effective tax rate was mainly due to the increased profit distribution of the PRC subsidiaries which in turn increased the withholding tax thereof.

Profit for the year

The Group's profit attributable to owners of the Company for 2018 was RMB505,876,000, representing an increase of 12.0% from 2017. The increase in profit was mainly attributable to the increased turnover, gross profit and operating profit.

Liquidity and Financial Resources

As at 31 December 2018, bank balances and cash of the Group amounted to approximately RMB3,611,485,000 (2017: RMB3,532,385,000), of which approximately RMB3,550,407,000 (2017: RMB3,489,094,000) were denominated in RMB, others being equivalent to approximately RMB52,848,000, RMB4,851,000 and RMB3,379,000 (2017: RMB34,592,000, RMB5,542,000 and RMB3,157,000) were denominated in Hong Kong Dollars, Australian Dollars and United States Dollars respectively.

Management Discussion and Analysis

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.

Dividends

Details of dividends are set out in the directors' report on page 23 of this annual report.

Capital Structure

For the year ended 31 December 2018, there was no change in the capital structure of the Group and issued share capital of the Company.

Trade Receivables backed by Bank Bills and Trade Receivables

As at 31 December 2018, trade receivables backed by bank bills and trade receivables decreased and increased by 22.2% and 142.3% respectively as compared to the balance as at 31 December 2017. Turnover days of trade receivables backed by bank bills and trade receivables were 58.0 days and 17.5 days (2017: 91.5 days and 11.7 days) respectively.

Inventories

As at 31 December 2018, inventories in the amount of RMB405,498,000, increased by approximately 44.7%, as compared to the balance as at 31 December 2017. As at 31 December 2018, raw materials, work in progress and finished goods accounted for 31.0%, 33.4% and 35.6% (2017: 24.7%, 25.2% and 50.1%) of inventories respectively. Turnover of finished goods inventories in 2018 was 74.9 days as compared to 73.2 days in 2017.

Property, Plant and Equipment

As at 31 December 2018, property, plant and equipment amounted to approximately RMB1,403,661,000, slightly increased by approximately 0.13% as compared to the balance as at 31 December 2017. The new construction works were mainly the Modern TCM Industrial Park located in Yunnan and the TCM Formula Granules workshops modification project located in Shijiazhuang amounted to approximately RMB119,969,000 in total. Besides there were also new additions to buildings, plant and machineries, office equipment and motor vehicles of approximately RMB39,634,000 in total during the year. The depreciation of property, plant and equipment expenses for the year amounted to RMB155,425,000 (2017: RMB154,253,000).

Intangible Assets

Intangible assets represent patents and production licenses with finite useful lives. In 2018, the amortization of intangible assets expense was approximately RMB42,042,000.

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.

Trade payables backed by Bank Bills and Trade Payables

As at 31 December 2018, turnover days of trade payables back by bank bills and trade payables were 18.7 days and 98.0 days (2017: 30.5 days and 95.4 days).

Management Discussion and Analysis

Employees

As at 31 December 2018, the Group had 3,649 (2017: 3,442) employees. Remuneration was determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provided other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong were also enrolled in the Mandatory Provident Fund Scheme.

Exposure to Fluctuations in Exchange Rates

A majority of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and a majority of its bank deposits are in Renminbi and Hong Kong Dollars. The exchange gain for the year was arising from the change in exchange rate between Renminbi and Hong Kong Dollars/Australian Dollars. As at 31 December 2018, 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 2018 (2017: Nil).

Loans and bank borrowings

As at 31 December 2018, the Group had trade payables backed by bank bills of RMB16,693,000 (2017: RMB54,389,000). These liabilities are repayable within one year and were pledged by bank deposits amounting RMB16,693,000 (2017: bank deposits of RMB43,401,000 and trade receivable backed by bank bills of RMB11,200,000). Details of the pledged bank deposits are set out in note 20 to the consolidated financial statements. Except for the trade payables backed by bank bills, the Group had no other loans and bank borrowings as at 31 December 2018.

Directors and Senior Management

DIRECTORS

Executive Directors

LI Zhenjiang (李振江), aged 63, 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.

XU Sheng (徐勝), aged 44, is an executive Director and chief executive officer of the Group appointed on 1 December 2018. Mr. Xu studied Traditional Chinese Medicine at the Chengdu University of Traditional Chinese Medicine. He was honored as an outstanding entrepreneur of the city of Kunming, a Top Ten Newcomer in Chinese Pharmaceutical Industry, and an outstanding entrepreneur of the city of Wuhan. Mr. Xu is currently holding academic positions, including the executive vice chairman and general secretary of the specialized committee of Chinese medicine culture in the World Federation of Chinese Medicine Societies, secretary of specialized committee of Chinese medicines culture in the China Association of Traditional Chinese Medicine. Mr. Xu has more than 20 years of experience in the operation of Chinese medicine enterprises.

XIN Yunxia (信蘊霞), aged 55, 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 51, 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.

Directors and Senior Management

CHEN Zhong (陳鍾), aged 52, is an executive Director of the Group. 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, 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 59, 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 55, was appointed as an INED in 2010 and ceased as an INED on 1 January 2019. 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.

LUO Guoan (羅國安), aged 72, 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.

Directors and Senior Management

CHEUNG Chun Yue Anthony (張振宇), aged 36, was appointed as an INED on 1 January 2019. Mr. Cheung has more than 10 years of experiences in finance and asset management and had served key positions in renowned international firms, including Gartmore Investment Management, Pictet Asset Management and BNP Paribas S.A. Mr. Cheung is currently the Managing Director of Hamon Asset Management Limited. He is also an independent non-executive director and a member of the audit committee of IPE GROUP LIMITED (stock code: 929), and the China representative of the Chartered Institute for Securities and Investment. Mr. Cheung holds a bachelor's degree in economics from the London School of Economics and Political Science of the University of London and obtained a Certificate in Professional Accountancy from the School of Continuing and Professional Studies of the Chinese University of Hong Kong.

SENIOR MANAGEMENT

LIU Tiejun (劉鐵軍), aged 44, 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 45, 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.

HUNG Randy King Kuen (孔敬權), aged 53, 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.

Directors and Senior Management

COMPANY SECRETARY

LEE Bun Ching, Terence (李品正), aged 46, 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 2018.

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 7 to 17 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 2018, 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, a share option scheme and a share award 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.

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 2018, 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 56 of this annual report.

DIVIDENDS

An interim dividend of RMB11 cents per share, which is calculated on the basis of 827,000,000 shares in issue less 12,395,000 shares held for share award scheme as at 12 October 2018, amounting to RMB89,607,000, was paid to the shareholders on 30 October 2018.

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 2018, to be paid out on 18 June 2019, to the shareholders whose names appear on the register of members of the Company on 11 June 2019. 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 2019.

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 4 of this annual report. The summary does not form part of the audited financial statements.

Directors' Report

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 33 to the consolidated financial statements, respectively. As at 31 December 2018, the Company's reserves available for distribution to shareholders amounted to RMB710,337,000 (2017: RMB442,896,000).

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
Mr. Chen Zhong
Mr. Xu Sheng (appointed on 1 December 2018)
Ms. Lee Ching Ton Brandelyn (resigned on 23 January 2018)

Independent Non-Executive Directors:
Ms. Cheng Li
Prof. Luo Guoan
Mr. Cheung Chun Yue Anthony (appointed on 1 January 2019)
Mr. Sun Liutai (ceased on 1 January 2019)

The biographical details of the Directors are set out on pages 18 to 20 of this annual report.

Ms. Lee Ching Ton Brandelyn resigned as Executive Director on 23 January 2018, 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 her resignation.

Mr. Xu Sheng ("Mr. Xu") was appointed as Executive Director and Chief Executive Officer of the Company with effect from 1 December 2018. Details of Mr. Xu's appointment and biography information were disclosed in the announcement of the Company dated 30 November 2018.

Directors’ Report

Mr. Sun Liutai ceases to serve as the Independent non–executive directors (the “INED”) upon the expiry of the terms of directorship pursuant to his appointment letter with effect from 1 January 2019. Mr. Sun Liutai 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 cessation as INED. Mr. Cheung Chun Yue Anthony (“Mr. Cheung”) was appointed as an INED of the Company with effect from 1 January 2019. Details of Mr. Cheung’s appointment and biography information were disclosed in the announcement of the Company dated 31 December 2018.

Each of Mr. Li Zhenjiang, Ms. Xin Yunxia and Mr. Li Huimin have entered into a service contract with the Company for a term of two years commencing from 1 October 2018. Mr. Chen Zhong and Mr. Xu Sheng have entered into a service contract with the Company for a term of two years commencing from 1 December 2018. 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 Huimin, Mr. Chen Zhong and Ms. Cheng Li will retire from the Board at the forthcoming AGM. Pursuant to Article 86(3) of the Articles of Association, Mr. Xu Sheng and Mr. Cheung Chun Yue Anthony 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 resignation of Ms. Lee Ching Ton Brandelyn on 23 January 2018 as Executive Director and cessation of Mr. Sun Liutai on 1 January 2019 as Independent non-executive director, and the appointment of Mr. Xu Sheng as Executive Director and chief executive office on 1 December 2018 and Mr. Cheung Chun Yue Anthony on 1 January 2019 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 2018.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

Save as disclosed in note 32 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, either directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2018, 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%
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.

Directors' Report

Certain Directors have been granted share options under the 2004 Scheme and the 2015 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 2018, 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 2018, 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 2018, 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.

Directors' Report

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.

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 2018**	**Reclassification during the year**	**Granted during the year**	**Lapsed during the year**	**As at 31 Dec 2018**	**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	16,150,000	800,000	–	(2,300,000)	14,650,000	1	11.84
		19,750,000	–	–	(2,300,000)	17,450,000		

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

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

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 year are as follows:

		No. of shares comprised in share options					
Name of grantees	**Date of grant**	**As at 1 Jan 2018**	**Granted during the year**	**Lapsed during the year**	**As at 31 Dec 2018**	**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
Mr. Xu Sheng	17 Dec 2018	–	2,000,000	–	2,000,000	5	9.56
		4,000,000	2,000,000	–	6,000,000		

(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 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$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.

(5) The options have a validity period of 6 years from the date of grant on 17 December 2018.

The options are exercisable in tranches:

(i) up to 20% within such period(s) during the year commencing on 17 December 2019 to be designated by the Company;

(ii) up to 20% within such period(s) during the year commencing on 17 December 2020 to be designated by the Company;

(iii) up to 20% within such period(s) during the year commencing on 17 December 2021 to be designated by the Company;

(iv) up to 20% within such period(s) during the year commencing on 17 December 2022 to be designated by the Company; and

(v) up to 20% within such period(s) during the year commencing on 17 December 2023 to be designated by the Company.

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$8.90.

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

SHARE AWARD SCHEME

On 26 March 2018, the Company adopted the share award scheme (the "Scheme") with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group. The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. Unless terminated earlier by the Board of Directors pursuant to the Scheme, the Scheme shall be valid and effective for a period of ten years commencing on the adoption date.

Pursuant to the Scheme, the Board of Directors may, from time to time, at its absolute discretion cause to be paid to the trustee sums of money from the Company's resources for the purchase of shares to be held on trust in accordance with the Scheme and the trust deed. Such sums of money shall be applied towards the purchase of the specific number of shares from the open market according to the written instructions of the Board of Directors. The Board of Directors shall not make any further award which will result in the number of shares awarded by the board of directors under the Scheme exceeding 10% of the issued share capital of the Company as at the adoption date. The maximum aggregate number of the awarded shares which may be awarded to a selected employee under the Scheme shall not exceed 1% of the issued share capital of the Company as at the adoption date.

During the year ended 31 December 2018, 29,867,000 shares were purchased by the trustee from the market at an average price of approximately HK$11.63 (equivalent to RMB10.18) per share, with an aggregate amount of HK$347,461,000 (equivalent to RMB304,256,000). No shares were granted to eligible employees pursuant to the Scheme during the year ended 31 December 2018. At the end of the reporting period, there are 29,867,000 shares held by the trustee.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2018, 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.

Directors' Report

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 3.7% and 16.2% 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 13.7% 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 9 February 2018, 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, catering services for a term commencing from 1 January 2018 until 31 December 2020. The transaction amount and cap amount of such transaction for the year ended 31 December 2018 are RMB9,641,732 and RMB10,500,000 respectively (2017: RMB8,932,541 and RMB9,000,000 respectively).

The proposed annual caps for General Service Agreement I for the year ending 31 December 2019 and 31 December 2020 are RMB11,500,000 and RMB12,500,000 respectively.

General Services Agreement between Hebei Shineway and Shineway (Sanhe) Property Development Limited (formerly known as Shineway Medical Science & Technology (Lang Fang) Co., Ltd) ("Shineway Sanhe")

On 9 February 2018, Hebei Shineway, a wholly-owned subsidiary of the Company, and Shineway Sanhe 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 Sanhe. Accordingly, Shineway Sanhe is a connected person of the Company within the meaning of the Listing Rules. Pursuant to the General Services Agreement II, Shineway Sanhe has agreed to provide Hebei Shineway with property management services, catering services for a term commencing from 1 January 2018 until 31 December 2020. The transaction amount and cap amount of such transaction for the year ended 31 December 2018 are RMB2,266,242 and RMB2,400,000 respectively (2017: RMB2,556,000 and RMB2,600,000 respectively).

The proposed annual caps for General Service Agreement II for the year ending 31 December 2019 and 31 December 2020 are RMB2,600,000 and RMB2,800,000 respectively.

Land Lease Agreement with Shineway Medical

On 9 February 2018, 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 2018. 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 2018 both are RMB1,400,000 (2017: RMB1,277,100).

The proposed annual caps for Land Lease Agreement I for the year ending 31 December 2019 and 31 December 2020 both are RMB1,400,000.

Land Lease Agreement with Shineway Sanhe

On 9 February 2018, a land lease agreement (the "Land Lease Agreement II") was entered into between Hebei Shineway and Shineway Sanhe. Pursuant to the Land Lease Agreement II, Shineway Sanhe has conditionally leased to Hebei Shineway a land with an area of approximately 20,986 square meters owned by Shineway Sanhe for a period of three years from 1 January 2018. 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 2018 are both RMB1,100,000 respectively (2017: RMB1,012,397).

The proposed annual caps for Land Lease Agreement II for the year ending 31 December 2019 and 31 December 2020 both are RMB1,100,000.

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 transaction amount and cap amount of such transaction for the year ended 31 December 2018 are RMB2,238,786 and RMB3,368,000 respectively (2017: RMB0).

The proposed annual caps for Hotel Services Agreement for the year ending 31 December 2019 and 31 December 2020 are 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 transaction amount and cap amount of such transaction for the year ended 31 December 2018 are RMB2,406,585 and RMB5,000,000 respectively (2017: RMB0).

The proposed annual caps for Training Agreement for the year ending 31 December 2019 and 31 December 2020 both 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 Hotel Services Agreement and (4) 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 32 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 and share award scheme adopted by the Company are set out in the sections "Share Option Scheme" and "Share Award Scheme" above.

Directors' Report

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 2018 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 37 to 48. Details of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Social Responsibility and Sustainability 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 2018 as required under the Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

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

CHARITABLE DONATIONS

During the year, the Group has devoted 340 hours and donated RMB3,640,000 to charitable activities which will be disclosed in "Community Contribution" in the Environmental, Social and Governance Report to be published.

Directors' 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 2019

Corporate Governance Report

Dear Shareholders,

CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2018, 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 provision A.2.1 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 five executive Directors and three INEDs. The names of the Directors and their respective biographies are set out on pages 18 to 20 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.

Four board committees, namely, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") , the nomination committee (the "Nomination Committee") and the Corporate Social Responsibility and Sustainability Committee (the "CSR and sustainability 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.

Corporate Governance Report

The Board held four Board meetings and one annual general meeting in 2018. 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	0/1
Mr. Li Huimin	4/4	1/1
Ms. Lee Ching Ton Brandelyn (resigned on 23 January 2018)	0/0	0/0
Mr. Chen Zhong	4/4	1/1
Mr. Xu Sheng (appointed on 1 December 2018)	1/1	0/0
Independent Non-executive Directors		
Ms. Cheng Li	4/4	1/1
Prof. Luo Guoan	4/4	1/1
Mr. Cheung Chun Yue Anthony (appointed on 1 January 2019)	–	–
Mr. Sun Liutai (ceased on 1 January 2019)	4/4	1/1

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

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

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

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.

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. Mr. Li Zhenjiang has been both the Chairman and President before 1 December 2018. His responsibilities are clearly set out in writing and approved by the Board. After the appointment of Mr. Xu Sheng as an executive director and chief executive officer of the Company and the cessation of Mr. Li Zhenjiang as President of the Company on 1 December 2018, the Company fully complies with the requirements of code provision A.2.1.

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 2018. During the year ended 31 December 2018, 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 2018, 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 *(Chairman)*	✓	✓
Ms. Xin Yunxia	✓	✓
Mr. Li Huimin	✓	✓
Ms. Lee Ching Ton Brandelyn (resigned on 23 January 2018)	–	✓
Mr. Chen Zhong	–	✓
Mr. Xu Sheng (appointed on 1 December 2018)	–	✓
Independent Non-executive Directors		
Ms. Cheng Li	✓	✓
Prof. Luo Guoan	✓	✓
Mr. Cheung Chun Yue Anthony (appointed on 1 January 2019)	✓	✓
Mr. Sun Liutai (ceased on 1 January 2019)	–	✓

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 member of the Remuneration Committee comprises two INEDs, Ms. Cheng Li, Mr. Sun Liutai (up to date of cessation on 1 January 2019) , Mr. Cheung Chun Yue Anthony (from date of appointment on 1 January 2019) 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
Ms. Xin Yunxia	4/4
Mr. Cheung Chun Yue Anthony (appointed on 1 January 2019)	0/0
Mr. Sun Liutai (ceased on 1 January 2019)	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 34 to 35 of this annual report.

The Group's share option scheme and share award scheme as described on pages 28 to 31 of this annual report are 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. As at the date of this annual report, the members of the Nomination Committee comprise one executive Director, Mr. Li Zhenjiang and two Independent Non-executive Director Prof. Luo Guoan, Mr. Sun Liutai (up to date of cessation on 1 January 2019) and Mr. Cheung Chun Yue Anthony (from date of appointment on 1 January 2019).

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 2018, the Nomination Committee held two 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 2018 was as follows:

	Attendance
Mr. Li Zhenjiang *(Chairman)*	2/2
Prof. Luo Guoan	2/2
Mr. Cheung Chun Yue Anthony (appointed on 1 January 2019)	0/0
Mr. Sun Liutai (ceased on 1 January 2019)	2/2

AUDIT COMMITTEE

As at the date of this annual report, the Audit Committee comprises Mr. Sun Liutai (up to date of cessation on 1 January 2019), Mr. Cheung Chun Yue Anthony (from date of appointment on 1 January 2019), Ms. Cheng Li and Prof. Luo Guoan.

All of the members of the Audit Committee are INED. Mr. Cheung Chun Yue Anthony (from date of appointment on 1 January 2019), 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 2018 was as follows:

	Attendance
Mr. Cheung Chun Yue Anthony (appointed on 1 January 2019)	0/0
Mr. Sun Liutai *(Chairman)* (ceased on 1 January 2019)	4/4
Ms. Cheng Li	4/4
Prof. Luo Guoan	4/4

The Audit Committee met on four occasions during the year and the report on the work performed by the Audit Committee can be found on page 49 of this annual report.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY COMMITTEE

The company has established a Corporate Social Responsibility and Sustainability Committee on 4 March 2019.

Mr. Cheung Chun Yue Anthony (from date of appointment on 1 January 2019) is the chairman of the Corporate Social Responsibility and Sustainability Committee. As at the date of this annual report, the members of the Corporate Social Responsibility and Sustainability Committee comprise one executive Director, Ms. Xin Yunxia and two Independent Non-executive Director Ms. Cheng Li and Prof. Luo Guoan.

The Corporate Social Responsibility and Sustainability Committee's primary responsibilities include formulate and review the Company and its subsidiaries'(the "Group") responsibilities, visions, strategies, frameworks, principles and policies of corporate social responsibility and sustainable development (including but not limited to environmental, social and governance issues) and implement relevant policies approved by the Board. The Company has adopted terms of reference of the Corporate Social Responsibility and Sustainability Committee. The terms of reference of the Corporate Social Responsibility and Sustainability Committee is available on the Company's websites and the website of the Stock Exchange.

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 2018, 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	0
1,000,001 – 2,000,000	3
2,000,001 – 3,000,000	0
3,000,001 – 4,000,000	0
4,000,001 – 5,000,000	1
Total	4

Corporate Governance Report

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$2,000,000 (2017: HK$1,900,000), and in addition to a total of HK$833,000 (2017: HK$398,000) for other services, including the review of interim financial statements and tax advisory services.

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 consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 50 to 55.

In preparing the consolidated financial statements for the year ended 31 December 2018, 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 2018, 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.

Corporate Governance Report

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.

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 2018 and recommended to approve the interim and annual reports.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Sun Liutai *(Chairman)* (ceased on 1 January 2019)
Mr. Cheung Chun Yue Anthony *(Chairman)* (appointed on 1 January 2019)
Ms. Cheng Li
Prof. Luo Guoan

29 March 2019

Independent Auditor's Report

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 56 to 122, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS Standards") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the 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.

Independent Auditor's Report

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 2018 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

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 the cash-generating unit which is engaged in research and development, manufacturing and trading of pharmaceutical products, the management considered that impairment indicators of certain property, plant and equipment and intangible assets of the Group existed as at 31 December 2018. 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 2018 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 2018 are RMB19,278,000 and RMB240,067,000, respectively, as disclosed in notes 12 and 14 to the consolidated financial statements.

How our audit addressed the key audit matter

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.

Independent Auditor's Report

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 IFRS Standards 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.

Independent Auditor's Report

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.

- 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.

Independent Auditor's Report

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

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 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	**2018** **RMB'000**	2017 RMB'000
Turnover	5	**2,570,196**	1,919,608
Cost of sales		**(694,149)**	(652,524)
Gross profit		**1,876,047**	1,267,084
Other income		**38,772**	79,181
Investment income	6	**133,446**	101,553
Net exchange gain (loss)		**2,616**	(980)
Selling and distribution costs		**(997,351)**	(515,216)
Administrative expenses		**(256,274)**	(247,289)
Research and development costs		**(128,126)**	(96,511)
Profit before taxation	7	**669,130**	587,822
Taxation	8	**(163,254)**	(136,269)
Profit and total comprehensive income for the year		**505,876**	451,553
Earnings per share	11		
— Basic (RMB)		**62 cents**	55 cents
— Diluted (RMB)		**62 cents**	55 cents

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	*12*	**1,403,661**	1,401,824
Prepaid lease payments	*13*	**163,778**	156,073
Intangible assets	*14*	**287,920**	307,962
Goodwill	*15*	**159,291**	159,291
Deposits for intangible assets	*16*	**36,000**	58,000
Deferred tax assets	*17*	**28,196**	21,670
		2,078,846	2,104,820
Current assets			
Inventories	*18*	**405,498**	280,209
Trade receivables	*19*	**174,034**	71,822
Trade receivables backed by bank bills	*19*	**357,471**	459,506
Prepayments, deposits and other receivables	*19*	**87,457**	171,514
Tax recoverable		**307**	1,456
Pledged bank deposits	*20*	**16,693**	43,401
Bank balances and cash	*20*	**3,611,485**	3,532,385
		4,652,945	4,560,293
Current liabilities			
Trade payables	*21*	**196,414**	176,368
Trade payables backed by bank bills	*21*	**16,693**	54,389
Other payables, accrued expenses and contract liabilities	*21*	**464,350**	426,358
Amounts due to related companies	*22*	**15,935**	15,935
Deferred income	*23*	**41,452**	19,389
Tax payable		**45,429**	16,854
		780,273	709,293
Net current assets		**3,872,672**	3,851,000
Total assets less current liabilities		**5,951,518**	5,955,820

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Deferred tax liabilities	*17*	**60,631**	60,945
Deferred income	*23*	**125,106**	73,920
		185,737	134,865
Net assets		**5,765,781**	5,820,955
Capital and reserves			
Share capital	*24*	**87,662**	87,662
Reserves		**5,678,119**	5,733,293
Total equity		**5,765,781**	5,820,955

The consolidated financial statements on pages 56 to 122 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

LI ZHEN JIANG
DIRECTOR

LI HUI MIN
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	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	Shares held for share award scheme RMB'000	Accumulated profits RMB'000	Total equity RMB'000
At 1 January 2017	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**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**505,876**	**505,876**
Transfers	**–**	**–**	**–**	**3,671**	**–**	**–**	**–**	**(3,671)**	**–**
Purchase of shares under share award scheme	**–**	**–**	**–**	**–**	**–**	**–**	**(304,256)**	**–**	**(304,256)**
Dividends paid (Note 10)	**–**	**(171,578)**	**–**	**–**	**–**	**–**	**–**	**(89,607)**	**(261,185)**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**4,391**	**–**	**–**	**4,391**
Lapse of share options	**–**	**–**	**–**	**–**	**–**	**(7,457)**	**–**	**7,457**	**–**
At 31 December 2018	**87,662**	**422,140**	**83,758**	**445,262**	**154,760**	**65,828**	**(304,256)**	**4,810,627**	**5,765,781**

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 2018

	2018 RMB'000	2017 RMB'000
Operating activities		
Profit before taxation	**669,130**	587,822
Adjustments for:		
Depreciation of property, plant and equipment	**155,425**	154,253
Amortisation of prepaid lease payments	**4,525**	4,440
Amortisation of intangible assets	**42,042**	40,391
Loss on disposal of property, plant and equipment	**1,706**	540
Unrealised exchange loss (gain)	**969**	(3,500)
Interest income	**(78,739)**	(53,578)
Investment income from short-term financial products	**(45,977)**	(47,975)
Investment income from financial products	**(8,730)**	–
Government grant recognised as other income	**(11,501)**	(23,709)
Share-based payments expense	**4,391**	7,369
Operating cash flows before movements in working capital	**733,241**	666,053
(Increase) decrease in inventories	**(125,289)**	14,201
(Increase) decrease in trade receivables	**(177)**	22,347
Decrease (increase) in prepayments, deposits and other receivables	**77,105**	(98,745)
(Decrease) increase in trade payables	**(17,650)**	11,631
(Decrease) increase in other payables and accrued expenses	**(6,308)**	18,511
Increase in contract liabilities	**12,034**	–
Decrease in amounts due to related companies	**–**	(151)
Cash generated from operations	**672,956**	633,847
PRC Enterprise Income Tax paid	**(113,370)**	(123,201)
Withholding tax paid	**(27,000)**	(20,000)
Net cash from operating activities	**532,586**	490,646

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
Investing activities			
Placement of financial products		**(415,800)**	–
Proceeds from redemption of financial products		**424,530**	–
Net proceeds from short-term financial products	6	**45,977**	47,975
Placement of pledged bank deposits		**(16,693)**	(43,401)
Withdrawal of pledged bank deposits		**43,401**	54,506
Interest received		**85,921**	109,436
Government grants received		**84,750**	5,975
Proceeds from disposal of property, plant and equipment		**651**	1,786
Purchase of property, plant and equipment		**(127,337)**	(91,825)
Purchase of land use rights		**(12,460)**	–
Net cash from investing activities		**112,940**	84,452
Financing activities			
Dividends paid		**(261,185)**	(264,640)
Repurchase of shares held for share award scheme		**(304,256)**	–
Cash used in financing activities		**(565,441)**	(264,640)
Net increase in cash and cash equivalents		**80,085**	310,458
Cash and cash equivalents at beginning of the year		**3,532,385**	3,218,401
Effect of exchange rate changes of cash and cash equivalents		**(985)**	3,526
Cash and cash equivalents at end of the year, representing bank balances and cash		**3,611,485**	3,532,385

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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. Its ultimate controlling party is Mr. Li Zhenjiang, who is also the Chairman of the Group. 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 engaged in research and development, manufacturing and trading of Chinese pharmaceutical products.

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

New and amendments to IFRS Standards that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRS Standards issued by the International Accounting Standards Board (the "IASB") for the first time in the current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 – 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to IFRS Standards 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.

IFRS 15 "Revenue from Contracts with Customers"

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and IAS 11 and the related interpretations.

The Group recognises revenue from the sales of Chinese pharmaceutical products which arise from contracts with customers.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in note 3.

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

New and amendments to IFRS Standards that are mandatorily effective for the current year (Continued)

IFRS 15 "Revenue from Contracts with Customers" (Continued)

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under IFRS 15 at 1 January 2018
	RMB'000	RMB'000	RMB'000
Current liabilities			
Other payables, accrued expenses and contract liabilities			
— Other payables and accrued expenses	426,358	(70,648)	355,710
— Contract liabilities	–	70,648	70,648

As at 1 January 2018, an amount of RMB70,648,000 in respect of contract for future purchases to be made by customers previously included in other payables and accrued expenses was reclassified to contract liabilities.

The application of IFRS 15 has had no material impact on the Group's accumulated profits as at 1 January 2018.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Reclassification	Amounts without application of IFRS 15
	RMB'000	RMB'000	RMB'000
Current liabilities			
Other payables, accrued expenses and contract liabilities			
— Other payables and accrued expenses	381,668	82,682	464,350
— Contract liabilities	82,682	(82,682)	–

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

New and amendments to IFRS Standards that are mandatorily effective for the current year (Continued)

IFRS 15 "Revenue from Contracts with Customers" (Continued)

Impact on the consolidated statement of cash flows

	As reported	Reclassification	Amounts without application of IFRS 15
	RMB'000	RMB'000	RMB'000
(Decrease) increase in other payables and accrued expenses	(6,308)	12,034	5,726
Increase in contract liabilities	12,034	(12,034)	–

As at 31 December 2018, an amount of RMB82,682,000 in respect of contract for future purchases to be made by customers was classified as contract liabilities and the amount would have been included in other payables and accrued expenses without application of IFRS 15.

IFRS 9 "Financial Instruments"

In the current year, the Group has applied IFRS 9 and the related consequential amendments to other IFRS Standards. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

Classification and measurement of financial assets

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. There is no change in classification and measurement on the Group's financial assets.

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

New and amendments to IFRS Standards that are mandatorily effective for the current year (Continued)

IFRS 9 "Financial Instruments" (Continued)

Impairment under ECL model

The Group has applied IFRS 9 simplified approach to measure ECL using lifetime ECL for trade receivables. Customers are assessed for ECL by categorising into receivables fully backed by bank bills and not backed by bank bills. To measure the ECL, trade receivables not backed by bank bills are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings. Debtors with trade receivables backed by bank bills are assessed individually taking into consideration of the credit rating and reputation of the banks issuing the bills.

ECL for other financial assets at amortised cost, including other receivables, pledged bank deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against accumulated profits as the estimated allowance under the ECL model was not significant.

New and amendments to IFRS Standards issued but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2015–2017 Cycle[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after a date to be determined.

3 Effective for annual periods beginning on or after 1 January 2021.

4 Effective for business combinations and assets acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to IFRS Standards mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRS Standards will have no material impact on the consolidated financial statements in the foreseeable future.

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

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

IFRS 16 "Leases"

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the 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, upfront prepaid payments will continue to be presented as investing or operating cash flows in accordance with the nature as appropriate.

Under IAS 17, the Group has already recognised 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.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB9,084,000 as disclosed in note 27. 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.

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

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

IFRS 16 "Leases" (Continued)

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated profits without restating comparative information.

Amendments to IAS 1 and IAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRS Standards and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRS Standards 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 (the "Listing Rules") and by the Hong Kong Companies Ordinance (the "CO").

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

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".

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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.

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 (or any of the cash-generating unit within the group of cash-generating units), the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

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

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 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 except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (Continued)

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss and is included in the "investment income" line item.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, other receivables, pledged bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. Customers are assessed for ECL by categorising into receivables fully backed by bank bills and not backed by bank bills. To measure the ECL, trade receivables not backed by bank bills are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings. Debtors with trade receivables backed by bank bills are assessed individually taking into consideration of the credit rating and reputation of the banks issuing the bank bills.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are classified into FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'investment income' line item.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018 (Continued)

(ii) 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 receivables, other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

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, 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 is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements 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.

Purchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at amortised cost

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

Derecognition

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable 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 cost 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 effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets — 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 followings have been demonstrated:

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

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

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

Intangible assets acquired in a business combination

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Intangible assets acquired in a business combination (Continued)

Derecognition of intangible assets

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

Impairment on tangible and intangible assets other than goodwill

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).

The recoverable amount of tangible and intangible assets are estimated individually, 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

Under IFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The Group recognises revenue on sale of pharmaceutical products at a point in time when control of the goods has transferred, being when customer's acceptance has been obtained. Transportation and other related activities that occur before customers obtain control of the related goods are considered as fulfilment activities.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2) (Continued)

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Revenue recognition (prior to 1 January 2018)

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Retirement benefit costs

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

Short-term employee benefits

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

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

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

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.

Share award scheme

The consideration paid by the trustee for purchasing the Company's shares from the market is presented as "shares held for share award scheme" and the amount is deducted from total equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RMB, which is the functional currency of the Company, at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (translation reserve).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, which 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 2018, the carrying amount of goodwill is RMB159,291,000 (2017: 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 are indicators that property, plant and equipment and intangible assets with finite useful lives may be impaired, the Group estimates the recoverable amount of the relevant asset or the cash-generating unit to which the asset belongs. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit in which the relevant assets are attached to, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The estimated uncertainty mainly includes gross margin, discount rate and growth rate. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss or a further impairment loss may arise. As at 31 December 2018, the carrying amounts of property, plant and equipment and intangible assets of a subsidiary for which the management has performed impairment assessment are RMB19,278,000 (2017: RMB21,566,000) and RMB240,067,000 (2017: RMB276,163,000), respectively. Details of the recoverable amount calculation are disclosed in notes 12 and 14.

5. TURNOVER AND SEGMENT INFORMATION

Operating segments

The Group is engaged in research and development, manufacturing and trading of Chinese pharmaceutical products. Information reported to the Chairman of the Board of Directors of the Group, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment focuses on revenue analysis by products. No other discrete financial information is provided other than the Group's results and financial position as a whole. Accordingly, only entity-wide disclosures are presented.

Revenue from major products

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

	2018 **RMB'000**	2017 RMB'000
Injections	**1,344,395**	982,246
Soft capsules	**388,218**	356,281
Granules	**379,378**	328,798
TCM formula granules	**313,734**	132,109
Others	**144,471**	120,174
	2,570,196	1,919,608

The Group sells pharmaceutical products to the wholesale market and directly to customers. Revenue is recognised when control of the products has transferred to customers, being at the point the products are delivered to the customer. The normal credit term is six months to one year upon delivery while certain customers will make advanced payment before delivery. Only products with quality defects are allowed to be returned to the Group within a specified period of time upon receipt by the customers. The transaction price has been estimated taking into account of variable consideration such as discount and rebates.

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Revenue from major products (Continued)

As at 31 December 2018, contracts with customers with unsatisfied performance obligations have original expected duration of one year or less. As permitted under IFRS 15, the aggregate amount of transaction price allocated to these unsatisfied contracts is not disclosed.

Geographical information

Sales of the Group to external customers were substantially made in the PRC including Hong Kong.

All non-current assets of the Group including goodwill except deferred tax assets and financial instruments are located in the PRC including Hong Kong.

Information about major customers

For each of the year ended 31 December 2018 and 2017, there was no customer with turnover accounted for more than 10% of the Group's total turnover.

6. INVESTMENT INCOME

	2018 **RMB'000**	2017 RMB'000
Interest on bank deposits	**78,739**	53,578
Investment income from short-term financial products *(Note)*	**45,977**	47,975
Investment income from financial products *(Note)*	**8,730**	—
	133,446	101,553

Note: The financial products and short-term financial products are measured at FVTPL for both years. The redemption amount (including the return) of such products is related to the performance of underlying debt instruments, equity instruments or foreign currencies. The investment income represents the difference between initial investment amounts and redemption amounts. In the opinion of the directors of the Company, the short-term financial products are large in amounts, with quick turnover and short maturities ranging from one to three months. 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

	2018 RMB'000	2017 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments (see note 9)	**11,014**	11,829
Other staff costs	**233,784**	195,788
Other staff's pension costs	**52,056**	40,237
Share-based payments expense for other staff	**4,046**	6,464
	300,900	254,318
Less: Capitalised in inventories	**(116,401)**	(102,680)
	184,499	151,638
Depreciation of property, plant and equipment	**155,425**	154,253
Amortisation of prepaid lease payments	**4,525**	4,440
Amortisation of intangible assets	**42,042**	40,391
Total depreciation and amortisation	**201,992**	199,084
Less: Capitalised in inventories	**(161,117)**	(153,735)
	40,875	45,349
Auditor's remuneration	**1,751**	1,589
Loss on disposal of property, plant and equipment	**1,706**	540
Rental expenses under operating lease in respect of rented premises	**4,594**	4,517
Government subsidies (included in other income) (Note)	**(29,817)**	(74,433)

Note: The government subsidies represent the amounts received from the local government by the subsidiaries of the Company. In 2018, government subsidies of (a) RMB18,316,000 (2017: RMB50,724,000) represent incentives received in relation to engagement of the subsidiaries of the Company in High Technology business. The grants were unconditional, approved and received during the year of recognition; and (b) RMB11,501,000 (2017: RMB23,709,000) represent recognition of deferred income upon completion of related research activities (note 23).

8. TAXATION

	2018 RMB'000	2017 RMB'000
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**130,441**	107,969
Underprovision in prior years	**12,653**	3,870
Withholding tax on distributed profits	**27,000**	20,000
	170,094	131,839
Deferred tax	**(6,840)**	4,430
	163,254	136,269

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	**669,130**	587,822
Tax at the applicable tax rate of 25% (2017: 25%)	**167,283**	146,956
Tax effect of expenses not deductible for tax purposes	**7,117**	7,821
Tax effect of income not taxable for tax purposes	**(7,127)**	(5,356)
Tax losses not recognised	**11,821**	11,127
Income tax on concessionary rates	**(61,668)**	(59,164)
Withholding tax on distributed profits of subsidiaries operating in the PRC	**16,000**	20,000
Withholding tax on undistributed profits of subsidiaries operating in the PRC	**17,160**	11,000
Underprovision in prior years	**12,653**	3,870
Others	**15**	15
Taxation charge for the year	**163,254**	136,269

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8. TAXATION (Continued)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Hong Kong Profits Tax was calculated at a flat rate of 16.5% on the estimated assessable profits for the year ended 31 December 2017. As the Company and its subsidiaries operating in Hong Kong do not have assessable profits, 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% for both years.

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 15% (2017: 9%) for the year. Certain subsidiaries which are recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both years. 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% (2017: 27.5%) 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.

During the year ended 31 December 2018, the State Taxation Administration of Hebei Province has issued additional tax assessments to a subsidiary regarding intergroup transactions for prior years. A payment of RMB11,739,000 was made by the Group and recorded as underprovision for EIT in prior years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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, and allowance RMB'000	Pension costs RMB'000	Share-based payments expense RMB'000	Total remuneration RMB'000
Year ended 31 December 2018					
Executive directors:					
Li Zhenjiang	294	4,259	16	–	4,569
Xin Yunxia	170	2,457	16	94	2,737
Li Huimin	70	1,012	16	78	1,176
Chen Zhong	113	1,638	16	94	1,861
Xu Sheng (appointed on 1 December 2018)	–	100	6	66	172
Lee Ching Ton Brandelyn (resigned on 23 January 2018)	5	69	1	13	88
Independent non-executive directors:					
Luo Guoan	137	–	–	–	137
Sun Liutai (ceased on 1 January 2019)	137	–	–	–	137
Cheng Li	137	–	–	–	137
	1,063	9,535	71	345	11,014

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

	Fees RMB'000	Salaries, and allowance 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
Chen Zhong	108	1,564	15	250	1,937
Lee Ching Ton Brandelyn (resigned on 23 January 2018)	60	864	15	200	1,139
Independent non-executive directors:					
Luo Guoan (appointed on 16 June 2017)	71	–	–	–	71
Cheng Li	130	–	–	–	130
Sun Liutai	130	–	–	–	130
Hung Randy King Kuen (resigned on 30 March 2017)	33	–	–	–	33
	1,042	9,807	75	905	11,829

Mr. Cheung Chun Yue Anthony was appointed as independent non-executive director of the Company on 1 January 2019. No remuneration was paid to him during both years.

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 was also the chief executive of the Company up to 1 December 2018 and Mr. Xu Sheng was appointed as the chief executive of the Company on 1 December 2018. Their emoluments disclosed above included those for services rendered by them as chief executives.

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

Of the five individuals with the highest emoluments in the Group, three (2017: four) were directors including Mr. Li Zhenjiang as the chief executive of the Company whose emoluments are included in the disclosures above. Details of the remuneration for the year of the remaining two (2017: one) highest paid individual in the capacity as an employee are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries and other benefits	**2,886**	556
Pension costs	**32**	6
Share-based payments expense	**2,954**	2,794
	5,872	3,356

The emoluments were within the following band:

	Number of employee	
	2018	2017
HKD1,500,001 to HKD2,000,000 (equivalent to RMB1,313,000 to RMB1,751,000)	**1**	–
HKD4,000,001 to HKD4,500,000 (equivalent to RMB3,344,000 to RMB3,763,000)	**–**	1
HKD5,000,001 to HKD5,500,000 (equivalent to RMB4,378,000 to RMB4,816,000)	**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

	2018	2017
	RMB'000	RMB'000
Dividends recognised as distributions during the year:		
Final dividend paid for 2017 of RMB12 cents (2017: paid for 2016 of RMB12 cents) per share	**98,045**	99,240
Special dividend paid for 2017 of RMB9 cents (2017: paid for 2016 of RMB9 cents) per share	**73,533**	74,430
Interim dividend paid for 2018 of RMB11 cents (2017: RMB11 cents) per share	**89,607**	90,970
	261,185	264,640

	2018	2017
	RMB'000	RMB'000
Dividends proposed:		
Proposed final dividend of RMB12 cents (2017: RMB12 cents) per share	**95,656**	99,240
Proposed special dividend of RMB9 cents (2017: RMB9 cents) per share	**71,742**	74,430
	167,398	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 RMB167,398,000, 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. The aggregate amount of RMB167,398,000 has been calculated on the basis of 827,000,000 shares in issue less 29,867,000 shares held for share award scheme as at 31 December 2018.

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:

	2018	2017
	RMB'000	RMB'000
Profit for the year attributable to the owners of the Company for the purpose of basic and diluted earnings per share	**505,876**	451,553

	Number of shares	
	2018	2017
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of basic earnings per share	**816,386,455**	827,000,000
Effect of dilutive potential ordinary shares:		
Share options	**1,475,219**	–
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of diluted earnings per share	**817,861,674**	827,000,000

The computation of diluted earnings per share for the year ended 31 December 2017 has not assumed the exercise of the Company's share options because the adjusted exercise prices of the share options (after the adjustment of the fair value of the unvested share options) were higher than the average market prices of those shares for the outstanding period during the year ended 31 December 2017.

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 2017	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
Currency realignment	–	–	45	–	–	45
Additions	3,453	31,482	4,692	7	119,969	159,603
Disposals	(1,243)	(18,438)	(12)	(30)	–	(19,723)
Reclassifications	29,971	45,350	–	–	(75,321)	–
At 31 December 2018	1,199,655	1,173,759	74,540	2,633	192,516	2,643,103
DEPRECIATION						
At 1 January 2017	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
Currency realignment	–	–	29	–	–	29
Charge for the year	63,568	86,271	5,264	322	–	155,425
Eliminated on disposals	(853)	(16,473)	(11)	(29)	–	(17,366)
At 31 December 2018	427,389	748,721	61,210	2,122	–	1,239,442
CARRYING VALUES						
At 31 December 2018	772,266	425,038	13,330	511	192,516	1,403,661
At 31 December 2017	802,800	436,442	13,887	827	147,868	1,401,824

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 engaged in research and development, manufacturing and trading of pharmaceutical products with carrying amount of RMB19,278,000 (2017: RMB21,566,000) 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

	2018 RMB'000	2017 RMB'000
Leasehold land in the PRC	**168,448**	160,513
Less: Amount charged within one year (included in other receivables)	**(4,670)**	(4,440)
	163,778	156,073

Movements of prepaid lease payments are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	**160,513**	164,953
Addition during the year	**12,460**	–
Expense for the year	**(4,525)**	(4,440)
At 31 December	**168,448**	160,513

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

14. INTANGIBLE ASSETS

	RMB'000
COST	
At 1 January 2017 and 31 December 2017	405,157
Transfer from deposits for intangible assets	22,000
At 31 December 2018	427,157
AMORTISATION	
At 1 January 2017	56,804
Charge for the year	40,391
At 31 December 2017	97,195
Charge for the year	42,042
At 31 December 2018	139,237
CARRYING VALUES	
At 31 December 2018	287,920
At 31 December 2017	307,962

The intangible assets represent patents with finite useful lives which were acquired from third parties or purchased as a part of a business combination in prior years.. Such intangible assets are amortised on a straight-line basis over the useful lives representing the patent period from 10 to 20 years.

Included in intangible assets is an amount of RMB240,067,000 (2017: RMB276,163,000) representing the carrying amount of a production patent of a bio-pharmaceutical product acquired in 2015. The net carrying amount will therefore be amortised over the remaining useful lives of 6 (2017: 7) years.

During the year, the management performed an impairment assessment on certain intangible assets of a cash-generating unit engaged in research and development, manufacturing and trading of pharmaceutical products with carrying amount of RMB240,067,000 (2017: RMB276,163,000) 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

	2018 RMB'000	2017 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 2018, the management of the Group has determined that there is no impairment of any of its cash-generating units containing goodwill.

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%–15.1% (2017: 12.0%–12.1%). Cash flows beyond the five-year period have been extrapolated using an estimated constant growth rates of 0%–1% (2017: 0%–1%) which do not exceed the average growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which 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 believes 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

	2018 RMB'000	2017 RMB'000
Deposit for development of patents (Note (a))	**36,000**	36,000
Deposit for acquisition of patents (Note (b))	**–**	22,000
	36,000	58,000

Notes:

(a) Pursuant to the agreements, 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. The deposit will be refunded to the Group if the patents are not successfully registered.

(b) Pursuant to the agreements, 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 has been completed during the year ended 31 December 2018, the legal titles of the patents have been transferred and the acquisition has been completed. Accordingly, the amount was transferred to intangible assets.

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:

	2018 **RMB'000**	2017 RMB'000
Deferred tax assets	**28,196**	21,670
Deferred tax liabilities	**(60,631)**	(60,945)
	(32,435)	(39,275)

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

	Accelerated tax depreciation RMB'000	**Deferred income** RMB'000	**Fair value adjustment arising from acquisition of subsidiaries** RMB'000	**Withholding tax on undistributed profits** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2017	4,678	15,945	(55,598)	–	130	(34,845)
(Charge) credit to profit or loss	(146)	(170)	6,466	(11,000)	420	(4,430)
At 31 December 2017	4,532	15,775	(49,132)	(11,000)	550	(39,275)
(Charge) credit to profit or loss	(138)	3,152	6,466	(17,160)	3,520	(4,160)
Withholding tax paid	–	–	–	11,000	–	11,000
At 31 December 2018	**4,394**	**18,927**	**(42,666)**	**(17,160)**	**4,070**	**(32,435)**

At the end of the reporting period, the Group has unused tax losses of RMB291,745,000 (2017: RMB247,878,000) 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 RMB172,327,000 (2017: RMB139,350,000) that will expire in 5 years (2017: 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 RMB4,290,611,000 (2017: RMB4,116,311,000) 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

	2018 RMB'000	2017 RMB'000
Raw materials	**125,675**	69,050
Work in progress	**135,252**	70,752
Finished goods	**144,571**	140,407
	405,498	280,209

19. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**174,034**	71,822
Trade receivables backed by bank bills	**357,471**	459,506
	531,505	531,328

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 receivables and trade receivables backed by bank bills presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2018 RMB'000	2017 RMB'000
Within 6 months	**515,697**	526,832
Over 6 months but less than 1 year	**15,808**	4,496
	531,505	531,328

As at 31 December 2018, total bills received amounting to RMB357,471,000 (2017: RMB459,506,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one 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 as at 31 December 2017. All of the trade receivables are not past due for both years.

Prepayments, deposits and other receivables of the Group mainly represent interest income receivables of RMB2,045,000 (2017: RMB9,227,000), prepayments of RMB62,623,000 (2017: RMB131,226,000) and value added tax recoverable of RMB15,599,000 (2017: RMB14,147,000).

19. TRADE AND OTHER RECEIVABLES (Continued)

At 31 December 2017, trade receivables backed by bank bills of RMB11,200,000 (2018: nil) are pledged to banks to secure trade payables backed by bank bills of the Group amounting to RMB10,988,000 (2018: nil).

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 31.

20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At 31 December 2018, bank deposits of RMB16,693,000 (2017: RMB43,401,000) are pledged to banks to secure trade payables backed by bank bills of the Group amounting to RMB16,693,000 (2017: RMB43,401,000). The pledged bank deposits carry prevailing market interest rate at 3% (2017: fixed interest rate at 1.55%) per annum. The pledged bank deposits will be released upon the settlement of the relevant trade payables backed by bank bills.

At the end of the reporting period, bank balances and cash of RMB3,521,811,000 (2017: RMB3,374,086,000) 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 0.125% to 1.00% (2017: 0.01% to 1.35%) per annum as at 31 December 2018.

21. TRADE AND OTHER PAYABLES

	2018 **RMB'000**	2017 RMB'000
Trade payables	**196,414**	176,368
Trade payables backed by bank bills	**16,693**	54,389
	213,107	230,757

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

	2018 **RMB'000**	2017 RMB'000
Within 6 months	**195,170**	202,463
Over 6 months but less than 1 year	**4,814**	5,099
Over 1 year but less than 2 years	**1,006**	10,533
Over 2 years but less than 3 years	**9,035**	8,086
Over 3 years	**3,082**	4,576
	213,107	230,757

The average credit period taken for trade purchase ranges from two months to six months.

21. TRADE AND OTHER PAYABLES (Continued)

Other payables and accrued expenses of the Group (excluding revenue-related contract liabilities stated below) mainly represent payables for acquisition of property, plant and equipment of RMB102,703,000 (2017: RMB70,437,000), accrued expenses of RMB154,533,000 (2017: RMB102,353,000), deposits received of RMB95,562,000 (2017: RMB134,487,000) and value added tax payable of RMB17,391,000 (2017: RMB27,637,000).

The Group has recognised the following revenue – related contract liabilities:

	31 December 2018 RMB'000	1 January 2018* RMB'000
Contract liabilities	**82,682**	70,648

* The amount in this column is after the adjustment from the application of IFRS 15. Such amount was included in other payables as at 31 December 2017.

The Group receives certain amount of the contract values as receipt in advance upon receiving the purchase orders from customers. The receipt in advance results in contract liabilities being recognised until the customer obtains control of the goods.

For the contract liabilities as at 1 January 2018, the entire balance is recognised as revenue during the year ended 31 December 2018.

22. AMOUNTS DUE TO RELATED COMPANIES

	2018 RMB'000	2017 RMB'000
Shineway (Sanhe) Property Development Limited ("Shineway Sanhe") (formerly known as Shineway Medical Science & Technology (Lang Fang) Co., Ltd.)	**9,008**	9,008
Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	**6,927**	6,927
	15,935	15,935

Shineway Sanhe and Shineway Medical 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

	2018 RMB'000	2017 RMB'000
At 1 January	**93,309**	122,656
Addition during the year	**84,750**	5,975
Recognised as other income	**(11,501)**	(23,709)
Transfer to other payables (Note)	**–**	(11,613)
At 31 December	**166,558**	93,309
Analysed for reporting purpose as		
Current liabilities	**41,452**	19,389
Non-current liabilities	**125,106**	73,920
	166,558	93,309

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 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 2018 are government subsidies amounting to RMB55,227,000 (2017: RMB33,265,000) 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 RMB29,730,000 (2017: RMB5,975,000) government subsidies in relation to research and development expenses and recognised RMB7,768,000 (2017: RMB19,976,000) in profit or loss as the related researches are successfully completed.

Included in the deferred income at 31 December 2018 is a government subsidy amounting to RMB56,311,000 (2017: RMB60,044,000) 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 (2017: RMB3,733,000) is transferred to profit or loss during the year.

Included in the deferred income at 31 December 2018 is a government subsidy amounting to RMB55,020,000 (2017: nil) received in 2018 in relation to a development project, including the construction of production facilities, in 楚雄州 (Chuxiong Prefecture) in Yunnan 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 is not yet completed as at 31 December 2018 and no deferred income has been amortised and recognised as other income in profit or loss.

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24. SHARE CAPITAL

	Number of shares '000	Amount '000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	5,000,000	HK$500,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 31 December 2018	827,000	HK$82,700
Shown in the financial statement as		RMB87,662

There were no changes in the Company's authorised, issued and fully paid share capital during both years.

During the year ended 31 December 2018, 29,867,000 shares were purchased by the trustee from the market. Detail are set out in note 25.

25. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

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

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

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

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

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

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

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

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

As at 31 December 2018, number of shares in respect of which options has been granted and remained outstanding under the Old Scheme and New Scheme was 17,450,000 and 6,000,000 respectively (2017: 19,750,000 and 4,000,000), representing 2.11% and 0.73% respectively (2017: 2.39% and 0.48%) of the shares of the Company in issue at that date.

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)

Share option scheme (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

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
17.12.2018	17.12.2018 – 16.12.2019	20%	17.12.2019 – 16.12.2024	9.56
	17.12.2018 – 16.12.2020	20%	17.12.2020 – 16.12.2024	9.56
	17.12.2018 – 16.12.2021	20%	17.12.2021 – 16.12.2024	9.56
	17.12.2018 – 16.12.2022	20%	17.12.2022 – 16.12.2024	9.56
	17.12.2018 – 16.12.2023	20%	17.12.2023 – 16.12.2024	9.56

25. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option scheme (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	Reclassification (Note)	Granted during the year	Lapsed during the year	Outstanding at end of the year
For the year ended 31 December 2018						
Directors						
2.9.2013	11.84	3,100,000	(800,000)	–	–	2,300,000
5.9.2013	11.84	500,000	–	–	–	500,000
17.12.2018	9.56	–	–	2,000,000	–	2,000,000
		3,600,000	(800,000)	2,000,000	–	4,800,000
Employees						
2.9.2013	11.84	16,150,000	800,000	–	(2,300,000)	14,650,000
1.6.2016	8.39	1,000,000	–	–	–	1,000,000
30.8.2017	7.21	3,000,000	–	–	–	3,000,000
		20,150,000	800,000	–	(2,300,000)	18,650,000
		23,750,000	–	2,000,000	(2,300,000)	23,450,000
Exercisable at end of the year						–
Weighted average exercise price (HK$)		11.11	–	9.56	11.84	10.91

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

25. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option scheme (Continued)

		Number of share options			
Date of grant	Exercise price HK$	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

During the year ended 31 December 2018, 2,000,000 options were granted pursuant to the New Scheme on 17 December 2018. The estimated fair value of the options granted on that date was HK$3,990,000 (equivalent to RMB3,494,000).

During the year ended 31 December 2017, 3,000,000 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).

25. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option scheme (Continued)

These fair values were calculated using the Binomial model (2017: the Black-Scholes pricing model). The inputs into the model were as follows:

Grant date	17.12.2018	30.8.2017
Share price (HK$)	**8.34**	7.11
Exercise price (HK$)	**9.56**	7.21
Expected volatility	**36.63%**	42.46%
Expected life (years)	**6**	10
Risk-free rate	**2.04%**	1.43%
Expected dividend yield	**3.30%**	5.55%
Barrier (HK$)	**N/A**	15 – 25

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 6 years (2017: 10 years). Change in the subjective input may materially affect the fair value estimates.

The Group recognised a total expense of RMB4,391,000 (2017: RMB7,369,000) for the year ended 31 December 2018 in relation to share options granted by the Company.

Share award scheme

On 26 March 2018, the Company adopted the share award scheme (the "Scheme") with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group. The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. Unless terminated earlier by the Board of Directors pursuant to the Scheme, the Scheme shall be valid and effective for a period of ten years commencing on the adoption date.

Pursuant to the Scheme, the Board of Directors may, from time to time, at its absolute discretion cause to be paid to the trustee sums of money from the Company's resources for the purchase of shares to be held on trust in accordance with the Scheme and the trust deed. Such sums of money shall be applied towards the purchase of the specific number of shares from the open market according to the written instructions of the Board of Directors. The Board of Directors shall not make any further award which will result in the number of shares awarded by the board of directors under the Scheme exceeding 10% of the issued share capital of the Company as at the adoption date. The maximum aggregate number of the awarded shares which may be awarded to a selected employee under the Scheme shall not exceed 1% of the issued share capital of the Company as at the adoption date.

During the year ended 31 December 2018, 29,867,000 shares were purchased by the trustee from the market at an average price of approximately HK$11.63 (equivalent to RMB10.18) per share, with an aggregate amount of HK$347,461,000 (equivalent to RMB304,256,000). No shares were granted to eligible employees pursuant to the Scheme during the year ended 31 December 2018. At the end of the reporting period, there are 29,867,000 shares held by the trustee.

26. RETIREMENT BENEFITS PLANS

The employees of the Group's the 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 RMB52,127,000 (2017: RMB40,312,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

27. 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:

	2018	2017
	RMB'000	RMB'000
Within one year	**5,089**	1,472
In the second to fifth year inclusive	**3,995**	882
	9,084	2,354

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:

	2018	2017
	RMB'000	RMB'000
Within one year	**3,868**	–
In the second to fifth years inclusive	**3,868**	–
	7,736	–

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28. CAPITAL COMMITMENTS

	2018	2017
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– in respect of acquisition of property, plant and equipment	**194,445**	321,631
– in respect of acquisition of intangible assets	**84,000**	84,000

29. 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 is 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 used in financing activities.

	Dividend payable
	RMB'000
At 1 January 2017	–
Financing cash flow (Note)	(264,640)
Dividends declared	264,640
At 31 December 2017	–
Financing cash flow (Note)	(261,185)
Dividends declared	261,185
At 31 December 2018	–

Note: The cash flow represents dividends paid by the Company to the shareholders.

30. 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.

31. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost	**4,162,486**	N/A
Loans and receivables (including cash and cash equivalents)	**N/A**	4,117,798
Financial liabilities		
Amortised cost	**427,309**	391,616

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other 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, other price 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.

	2018 RMB'000	2017 RMB'000
Functional currency against foreign currency		
RMB against Hong Kong Dollars ("HKD")	**39,174**	343
HKD against United States Dollars ("USD")	**3,379**	2,990
HKD against RMB	**28,596**	115,007

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.

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Foreign currency risk (Continued)

Sensitivity analysis (Continued)

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in RMB against HKD. 5% (2017: 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% (2017: 5%) change in HKD. A positive (negative) number below indicates an increase (decrease) in profit for the year where RMB strengthens 5% (2017: 5%) against HKD. For a 5% (2017: 5%) weakening of RMB against HKD, there would be an equal and opposite impact on the profit for the year.

	2018 **RMB'000**	2017 RMB'000
(Decrease) increase in profit for the year	**(529)**	5,733

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.

Other price risk

The Group is exposed to price risk through its investments from short-term financial products and financial products measured at FVTPL (2017: designated at FVTPL). The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. No sensitivity analysis was presented as all investments in short-term financial products and financial products are redeemed at the end of the reporting period.

Credit risk and impairment assessment

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associated with settlement of certain trade receivables are backed by bank bills issued by reputable financial institutions.

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100% (31 December 2017: 99%) of the total trade receivables as at 31 December 2018.

Trade receivables arising from contracts with customers

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. Limits and credit quality of customers are reviewed every year. Certain customers will settle the trade receivables by bank bills issued by banks with high credit rating. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model).

Upon adoption of IFRS 9 on 1 January 2018, the Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for trade receivables.

Management assessed the expected loss on trade receivables not backed by bank bills individually or based on provision matrix by estimation based on historical credit loss experience, general economic conditions of the industry and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Trade receivables not backed by bank bills with gross carrying amounts of RMB39,531,000 as at 31 December 2018 were assessed individually and the remaining balances with gross carrying amounts of RMB134,503,000 were assessed based on provision matrix grouped by internal credit rating as at 31 December 2018 within lifetime ECL (not credit impaired).

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The Group's internal credit rating comprises the following categories:

Low: the customers have a low risk of default and usually repay before end of credit period

Normal: the customers have a normal risk of default and regularly repay on time

High: the customers frequently repay but usually settle after due date

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables arising from contracts with customers (Continued)

The table below details the credit risk exposures of the Group's trade receivables arising from contracts with customers, which are subject to ECL assessment:

2018	External credit rating	Internal credit rating	12-month ECL or lifetime ECL	Gross carrying amount
				HK$'000
Trade receivables not backed by bank bills	N/A	Low	Lifetime ECL (not credit impaired)	39,531
	N/A	Low	Lifetime ECL (provision matrix)	87,794
	N/A	Normal	Lifetime ECL (provision matrix)	46,709
Trade receivables backed by bank bills	A- to AA-*	N/A	Lifetime ECL (not credit impaired)	76,838
	BBB- to BBB+*	N/A	Lifetime ECL (not credit impaired)	205,632
	N/A	Normal	Lifetime ECL (not credit impaired)	75,001

* External credit rating is applied to the banks issuing bank bills.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated. No impairment allowance for trade receivables not backed by bank bills was provided as the amount is insignificant.

In determining the ECL for trade receivables backed by bank bills, the management of the Group considers the loss given default is low as the trade receivables are backed by bank bills issued by banks with high credit rating, and accordingly, no loss allowance was made in the consolidated financial statements.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over three years past due, whichever occurs earlier.

Other receivables

In determining the ECL for other receivables with gross carrying amount of RMB2,803,000 under a low internal credit rating, the Group uses 12-month ECL to perform the assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) individually and uses past due information to assess whether credit risk has increased significantly since initial recognition. For the year ended 31 December 2018, the Group has assessed that the expected loss rates for other receivables were immaterial. Thus, no loss allowance was recognised.

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Pledged bank deposits and bank balances

The management of the Group considers the bank balances and pledged bank deposits that are deposited with the stated-owned financial institutions and reputable banks which are high-credit-quality financial institutions with external credit rating ranged from AA- to BB+ to be low credit risk financial assets. The gross carrying amounts of pledged bank deposits and bank balances at financial institutions with A- to AA-, BBB- to BBB+ and BB+ are RMB1,764,715,000, RMB1,612,175,000 and RMB251,288,000, respectively. The Group uses 12-month ECL to perform the assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) individually based on the average loss rate by reference to credit ratings assigned by international credit-rating agencies. For the year ended 31 December 2018, the Group has assessed that the expected loss rates for bank balances and pledged bank deposits were immaterial. Thus, no loss allowance was recognised.

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 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 financial liabilities are based on the agreed repayment dates.

	Weighted average interest rate	Repayable on demand RMB'000	Less than 6 months RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
2018					
Trade payables	**–**	**–**	**196,414**	**196,414**	**196,414**
Trade payable backed by bank bills	**–**	**–**	**16,693**	**16,693**	**16,693**
Other payables	**–**	**–**	**198,267**	**198,267**	**198,267**
Amounts due to related companies	**–**	**15,935**	**–**	**15,935**	**15,935**
Total		**15,935**	**411,374**	**427,309**	**427,309**
2017					
Trade payables	–	–	176,368	176,368	176,368
Trade payable backed by bank bills	–	–	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

31. 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.

32. 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:

	2018	2017
	RMB'000	RMB'000
Rental expense to Shineway Medical	**1,400**	1,277
Rental expense to Shineway Sanhe	**1,100**	1,012
Rental expense and hotel service fee to Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")	**2,239**	–
Service fee to Shijiazhang Municipal Luancheng County Shineway Training School ("Shineway Training School")	**2,407**	–
Service fee to Shineway Medical	**9,642**	8,933
Service fee to Shineway Sanhe	**2,266**	2,556

On 9 February 2018, the Group entered into a number of agreements with Shineway Medical, Shineway Sanhe, Kang Yue Hotel and Shineway Training School, all of which are ultimately controlled by the controlling shareholder of the Company, for the above transactions. Details are set out in the announcement of the Company dated 9 February 2018.

Compensation of key management personnel

Key management personnel is 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.

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
Non-current assets		
Investments in subsidiaries	**63,599**	63,599
Current assets		
Prepayments	**–**	116
Amounts due from subsidiaries*	**504,873**	539,347
Bank balances and cash	**39,173**	136
	544,046	539,599
Current liabilities		
Other payables	**2,588**	2,199
Amounts due to subsidiaries	**45,486**	1,547
	48,074	3,746
Net current assets	**495,972**	535,853
Net assets	**559,571**	599,452
Capital and reserves		
Share capital	**87,662**	87,662
Reserves (Note)	**471,909**	511,790
Total equity	**559,571**	599,452

Note:

	Other reserves RMB'000
At 1 January 2017	650,298
Total comprehensive income for the year	126,132
Dividends paid	(264,640)
At 31 December 2017	511,790
Total comprehensive income for the year	525,560
Purchase of shares under share award scheme	(304,256)
Dividends paid	(261,185)
At 31 December 2018	471,909

* The management of the Company considered that the ECL on amounts due from subsidiaries is insignificant after assessing the financial position of these subsidiaries.

The application of the new and amendments to IFRS Standards that are effective for the Company's financial year beginning on 1 January 2018 have no material impact on the Company's results and financial positions.

34. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2018 and 2017 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		Principal activities
			2018	2017	
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	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	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	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	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	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

34. 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		Principal activities
			2018	2017	
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	**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 Pharmaceutical 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
Beijing Wanter Bio-Pharmaceutical 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

34. 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		Principal activities
			2018	2017	
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
Shineway Pharmaceutical (Gansu) Company Limited (formerly known as Long Xi Fu Jie Modern Chinese Medicine Technology Limited) (Note c) 神威藥業(甘肅)有限公司 (前稱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

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.

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.