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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS

- Turnover decreased by 3.0% from last year to RMB1,993,379,000.
- Profit for the year decreased by 10.4% from last year to RMB589,196,000.
- Profit for the year decreased mainly attributable to the decrease in turnover and operating profit.
- Basic and diluted earnings per share were RMB0.71.
- Recommended final dividend of RMB12 cents per share and special dividend of RMB9 cents per share.

RESULTS

The board of directors (the "Board") of China Shineway Pharmaceutical Group Limited (the "Company", "China Shineway" or "SHINEWAY") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year ended 31 December 2016

	Notes	**2016** *RMB'000*	2015 *RMB'000*
Turnover	*3*	**1,993,379**	2,054,809
Cost of sales		**(706,884)**	(693,890)
Gross profit		**1,286,495**	1,360,919
Other income		**23,692**	83,780
Investment income	*4*	**100,578**	97,410
Net exchange gain		**6,385**	1,848
Distribution costs		**(370,650)**	(375,492)
Administrative expenses		**(277,654)**	(302,307)
Research and development costs		**(73,592)**	(68,932)
Finance costs	*5*	**–**	(61)
Profit before taxation	*6*	**695,254**	797,165
Taxation	*7*	**(106,058)**	(139,450)
Profit and total comprehensive income for the year		**589,196**	657,715
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**589,196**	657,906
Non-controlling interests		**–**	(191)
		589,196	657,715
Earnings per share	*9*		
– Basic (RMB)		**71 cents**	80 cents
– Diluted (RMB)		**71 cents**	80 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment		**1,466,458**	1,529,020
Prepaid lease payments		**160,578**	154,495
Intangible assets		**348,353**	388,744
Goodwill		**159,291**	159,291
Deposits for intangible assets		**58,000**	58,000
Deferred tax assets	*10*	**21,586**	23,061
		2,214,266	2,312,611
Current assets			
Inventories		**294,410**	340,858
Trade receivables	*11*	**51,122**	31,046
Bills receivables	*11*	**502,553**	426,277
Prepayments, deposits and other receivables		**128,562**	170,901
Amount due from a related company		**–**	1,943
Tax recoverable		**1,442**	–
Pledged bank deposits		**54,506**	43,247
Bank balances and cash		**3,218,401**	2,826,219
		4,250,996	3,840,491
Current liabilities			
Trade payables	*12*	**164,620**	180,879
Bills payables	*12*	**54,506**	43,247
Other payables and accrued expenses		**396,088**	452,065
Amounts due to related companies		**16,086**	3,292
Deferred income	*13*	**13,554**	4,648
Tax payable		**28,202**	17,477
		673,056	701,608
Net current assets		**3,577,940**	3,138,883
Total assets less current liabilities		**5,792,206**	5,451,494
Non-current liabilities			
Deferred tax liabilities	*10*	**56,431**	62,952
Deferred income	*13*	**109,102**	92,571
		165,533	155,523
Net assets		**5,626,673**	5,295,971
Capital and reserves			
Share capital		**87,662**	87,662
Reserves		**5,539,011**	5,208,309
Total equity		**5,626,673**	5,295,971

Notes:

1. GENERAL

The Company is a listed company registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 August 2002 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Forway Investment Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

The Company acts as an investment holding company. The principal subsidiaries of the Company are engaged in research and development, manufacturing and trading of Chinese pharmaceutical products.

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

Amendments to IFRSs that are mandatory effective for the current year

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

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

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

Amendments to IAS 1 "Disclosure initiative"

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

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

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

New and amendments to IFRSs issued but not yet effective

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

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

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

IFRS 9 "Financial instruments"

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

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

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

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

IFRS 15 "Revenue from contracts with customers"

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

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

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

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

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

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

IFRS 16 "Leases"

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

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

3. TURNOVER AND SEGMENT INFORMATION

Operating segments

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

Revenue from major products

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

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

Geographical information

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

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

Information about major customers

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

4. INVESTMENT INCOME

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

5. FINANCE COSTS

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

6. PROFIT BEFORE TAXATION

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

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

7. TAXATION

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

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

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

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

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

8. DIVIDENDS

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

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

9. EARNINGS PER SHARE

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

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

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

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

10. DEFERRED TAXATION

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

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

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

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

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

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

11. TRADE AND BILLS RECEIVABLES

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

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

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

12. TRADE AND BILLS PAYABLES

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

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

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

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

13. DEFERRED INCOME

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

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

Injection Products

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

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

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

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

Soft Capsule Products

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

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

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

Granule Products

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

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

Other Products

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

Key Products

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

Research and Development

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

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

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

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

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

PATENT APPLICATIONS

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

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

STATE PROTECTED CHINESE MEDICINES

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

FUTURE DEVELOPMENT

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

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

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

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

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

(2) Supply-side reform of the medical industry

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

(i) "Supply-side reform" on medicines

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

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

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

(ii) "Supply-side reform" on circulation

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

(3) Structural optimisation of hospital terminals

Structural optimisation ideas are reflected in two areas:

1. To solve the mismatch of medical resources

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

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

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

(4) Reformation of client payment portal

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

LOANS AND BANK BORROWINGS

As at 31 December 2016, the Group had bills payables amounted to RMB54,506,000 (2015: RMB43,247,000). These liabilities are repayable within one year. Bank deposits of RMB54,506,000 (2015: RMB43,247,000) were pledged to banks to secure the bills payables. Except the bills payables, the Group had no other loans and bank borrowings as at 31 December 2016.

DISPOSAL OF A SUBSIDIARY

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

INTANGIBLE ASSETS

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

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "Annual General Meeting") will be held on Wednesday, 31 May 2017 and the Notice of Annual General Meeting will be published and despatched in the manner as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

FINAL DIVIDEND AND SPECIAL DIVIDEND

In respect of the year ended 31 December 2016, the Directors proposed that a final dividend of RMB12 cents (2015: RMB12 cents) per share and a special dividend of RMB9 cents (2015: RMB9 cents) per share will be paid out of the share premium account of the Company on 16 June 2017, to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 9 June 2017. These dividends are subject to approval by the Shareholders at the forthcoming Annual General Meeting.

Dividends payable in cash in Hong Kong dollars will be converted from RMB at the telegraphic transfer exchange rates quoted by the bank at 10:00 a.m. on 30 March 2017 (RMB1=HK1.127). Accordingly, the amount payable on 16 June 2017 will be:

Proposed Final Dividend – HK$0.1352 per share
Proposed Special Dividend – HK$0.1014 per share

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 25 May 2017 to Wednesday, 31 May 2017, both days inclusive, for the purpose of determining Shareholders' eligibility to attend, act and vote at the Annual General Meeting, during which period no transfer of shares will be registered. In order to determine the entitlement to attend, act and vote at the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 24 May 2017.

The register of members will also be closed from Wednesday, 7 June 2017 to Friday, 9 June 2017, both days inclusive, for the purpose of determining Shareholders' entitlement to the proposed final dividend and special dividend, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and special dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with Computershare Hong Kong Investor Services Limited at the above address, for registration no later than 4:30 p.m. on Tuesday, 6 June 2017.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CORPORATE GOVERNANCE CODE

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

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

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

COMPLIANCE WITH MODEL CODE

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (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. Having made specific enquiry, all Directors confirmed that they had complied with the required standard set out in the Model Code regarding Director's securities transactions during the financial year.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2016.

PUBLICATION OF FURTHER INFORMATION

The annual report of the Company inclusive of the Directors' Report and Audited Consolidated Financial Statements for the year ended 31 December 2016 and Corporate Governance Report will be published on the Company's website (www.shineway.com.hk) and the website of the Stock Exchange (www.hkex.com.hk) on or before 28 April 2017.

APPRECIATION

The Company accomplishments are inseparable from the hard working of our staff. On behalf of the Board, I would like to extend my sincere greetings and high respect to our diligent staff for their dedication and effort.

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

Hong Kong, 30 March 2017

As at the date of this announcement, the executive Directors are Mr. Li Zhenjiang, Ms. Xin Yunxia, Mr. Li Huimin, Ms. Lee Ching Ton Brandelyn and Mr. Chen Zhong; and the independent non-executive Directors are Mr. Hung Randy King Kuen, Ms. Cheng Li and Mr. Sun Liutai.