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 2017

HIGHLIGHTS

- Turnover decreased by 3.7% from last year to RMB1,919,608,000.
- Profit for the year decreased by 23.4% from last year to RMB451,553,000.
- Basic and diluted earnings per share were RMB0.55.
- Recommended final dividend of RMB12 cents per share and special dividend of RMB9 cents per share.
- Net cash per share was RMB4.27 and net assets per share was RMB7.04.

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 2017 with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017**	2016
		RMB'000	*RMB'000*
Turnover	*3*	**1,919,608**	1,993,379
Cost of sales		**(652,524)**	(706,884)
Gross profit		**1,267,084**	1,286,495
Other income		**79,181**	23,692
Investment income	*4*	**101,553**	100,578
Net exchange (loss) gain		**(980)**	6,385
Distribution costs		**(515,216)**	(370,650)
Administrative expenses		**(247,289)**	(277,654)
Research and development costs		**(96,511)**	(73,592)
Profit before taxation	*5*	**587,822**	695,254
Taxation	*6*	**(136,269)**	(106,058)
Profit and total comprehensive income for the year		**451,553**	589,196
Earnings per share	*8*		
– Basic (RMB)		**55 cents**	71 cents
– Diluted (RMB)		**55 cents**	71 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
Non-current assets			
Property, plant and equipment		**1,401,824**	1,466,458
Prepaid lease payments		**156,073**	160,578
Intangible assets		**307,962**	348,353
Goodwill		**159,291**	159,291
Deposits for intangible assets		**58,000**	58,000
Deferred tax assets	*9*	**21,670**	21,586
		2,104,820	2,214,266
Current assets			
Inventories		**280,209**	294,410
Trade receivables	*10*	**71,822**	51,122
Bills receivables	*10*	**459,506**	502,553
Prepayments, deposits and other receivables		**171,514**	128,562
Tax recoverable		**1,456**	1,442
Pledged bank deposits		**43,401**	54,506
Bank balances and cash		**3,532,385**	3,218,401
		4,560,293	4,250,996
Current liabilities			
Trade payables	*11*	**176,368**	164,620
Bills payables	*11*	**54,389**	54,506
Other payables and accrued expenses		**426,358**	396,088
Amounts due to related companies		**15,935**	16,086
Deferred income	*12*	**19,389**	13,554
Tax payable		**16,854**	28,202
		709,293	673,056
Net current assets		**3,851,000**	3,577,940
Total assets less current liabilities		**5,955,820**	5,792,206
Non-current liabilities			
Deferred tax liabilities	*9*	**60,945**	56,431
Deferred income	*12*	**73,920**	109,102
		134,865	165,533
Net assets		**5,820,955**	5,626,673
Capital and reserves			
Share capital		**87,662**	87,662
Reserves		**5,733,293**	5,539,011
Total equity		**5,820,955**	5,626,673

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

Except as described 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 7 "Disclosure initiative"

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

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

Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

Except for the above, the HKICPA has issued a number of new or revised standards, interpretations and amendments to standards which are not effective for the year and have not been early adopted by the Group.

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:

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

Geographical information

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

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

4. INVESTMENT INCOME

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

5. PROFIT BEFORE TAXATION

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

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

6. TAXATION

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

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the year. The Company and its subsidiaries operating in Hong Kong do not have assessable profits, accordingly, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements.

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

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

Under the applicable corporate tax law in Australia, income tax is charged at 27.5% (2016: 30%) of the estimated assessable profits. No provision for Australian income tax has been made in the consolidated financial statements as the subsidiary operating in Australia has no assessable profits for both years.

7. DIVIDENDS

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

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

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

8. EARNINGS PER SHARE

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

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

	Number of ordinary shares	
	2017	2016
Number of ordinary shares for the purpose of basic and diluted earnings per share	**827,000,000**	827,000,000

The computation of diluted earnings per share for the year ended 31 December 2017 and 2016 has not assumed the exercise of the Company's share options because the adjusted exercise prices of the share options (after the adjustment of the fair value of the unvested share options) were higher than the average market prices of those shares for the outstanding period during the year ended 31 December 2017 and 2016.

9. DEFERRED TAXATION

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

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

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

	Accelerated tax depreciation *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 2016	4,824	16,878	(62,064)	471	(39,891)
(Charge) credit to profit or loss	(146)	(933)	6,466	(341)	5,046
At 31 December 2016	4,678	15,945	(55,598)	130	(34,845)
(Charge) credit to profit or loss	(146)	(170)	6,466	(10,580)	(4,430)
At 31 December 2017	4,532	15,775	(49,132)	(10,450)	(39,275)

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

At the end of the reporting period, the Group has unused tax losses of RMB247,878,000 (2016: RMB207,513,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of RMB139,350,000 (2016: RMB102,138,000) that will expire in 5 years (2016: 5 years). Other losses may be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated undistributed profits of the PRC subsidiaries amounting to RMB4,116,311,000 (2016: RMB3,939,803,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

10. TRADE AND BILLS RECEIVABLES

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

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.

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

11. TRADE AND BILLS PAYABLES

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

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

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

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.

12. DEFERRED INCOME

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

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

Included in the deferred income at 31 December 2017 are government subsidies amounting to RMB33,265,000 (2016: RMB58,878,000) in relation to research and development expenses on certain new products 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 RMB5,975,000 (2016: RMB29,272,000) government subsidies in relation to research and development expenses and recognised RMB19,976,000 (2016: RMB102,000) in profit or loss as the related researches are successfully completed.

Included in the deferred income at 31 December 2017 is a government subsidy amounting to RMB60,044,000 (2016: RMB63,778,000) received in 2011 in relation to a development project, including the construction of production premises and acquisition of plant and machineries, in 邛崍醫藥產業園 (Qionglai Pharmaceutical Area) in Sichuan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for management's intended use. The development project was completed in 2014 and the deferred income has been amortised and recognised as other income in profit or loss over the useful lives of the related assets. Deferred income amounting to RMB3,733,000 (2016: RMB3,733,000) is transferred to profit or loss during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

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

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

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

BUSINESS REVIEW

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

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

INJECTION PRODUCTS

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

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

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

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

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

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

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

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

SOFT CAPSULE AND GRANULE PRODUCTS

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

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

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

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

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

TCM FORMULA GRANULES

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

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

OTHER PRODUCTS

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

KEY PRODUCTS ANALYSIS

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

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

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

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

CORE PRODUCTS

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

Qing Kai Ling Injection is included in the National Drug Reimbursement List and has been designated by the State Administration of Traditional Chinese Medicine as an "Indispensable Chinese Medicine for the Emergency Wards of Chinese Hospitals". It is also included in the recommendation of the PRC government for treatment of Human Transmitted H7N9 Avian Flu Chinese medicine medical treatment expert consensus (2014 version) and the A(H1-N1) Flu.

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

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

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

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

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

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

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

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

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

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

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

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

Shen Mai Injection is included in "National Drug Reimbursement List". It is also a drug recommended by the PRC government for treatment of Human Transmitted H7N9 Avian Flu Chinese medicine medical treatment expert consensus (2014 version) and the A(H1-N1) Flu. Shen Mai Injection can enhance cancer patients' immunity, and be used in conjunction with chemotherapeutics to create synergism. It can also alleviate the toxic side effects of chemotherapeutics. Shen Mai Injection has been awarded the title of National Reassuring Medicine (全國百姓放心藥), and First Price of the Hebei Science and Technology Advancement Award (河北省科技進步一等獎). The Group's Shen Mai Injection is the only Shen Mai injection that has completed a massive safety re-evaluation study covering 30,000 cases, and is also the only Shen Mai injection that has finished material basis study.

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

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

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

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

PRODUCTS WITH STRONG GROWTH POTENTIALS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TCM formula granules

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

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

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

our TCM formula granules can retain the performance of the original Chinese herbal pieces in terms of effective constituents, correlation between properties, tastes and meridian entries, indications and the efficacy, and stay safe, efficacious, stable and under control for every batch of the same kind of TCM formula granules.

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

NEW PRODUCTS – RESEARCH AND DEVELOPMENT

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

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

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

Sailuotong Capsule – expected to be launched to market in 2021

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

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

According to a World Health Organization ("WHO") report published 2012, the global dementia patients totaled around 35.6 million in 2010, and the figure is expected to double once every 20 years, which will bring the total number of patients to 65.7 million in 2030, and to 115 million in 2050. There are nearly 7.7 million new dementia patients every year, that is, one new dementia patient every 4 seconds. Around 46% patients were from Asia, 31% are from Europe, 16% are from America, and 7% are from Africa. Dementia causes earlier death and the median survival of an Alzheimer's disease patient is estimated at 7.1 years, while that of a vascular dementia patient is 3.9 years. As the WHO report estimated, the global cost for dementia diseases in 2010 was as high as USD 604 billion, and 89% was contributed by high-income countries, with the direct medical cost taking 16% (that is, USD 96.6 billion). By frequency, the four most common dementia subtypes are Alzheimer's disease, vascular dementia, dementia with Lewy bodies (DLB) and frontotemporal dementia (FTD). The Alzheimer's disease accounts for 41% and the vascular dementia accounts for 32%, estimated the WHO report on shares of dementia subtypes by referring to the dementia report in Britain.

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

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

PROSPECT

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

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

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

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

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

STATE PROTECTED CHINESE MEDICINES

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

FINANCIAL ANALYSIS

Turnover

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

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

Cost of Sales

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

Gross Margin

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

Other Income

Other income mainly includes government subsidies of RMB74,433,000 (2016: RMB18,949,000). The government subsidies mainly represented incentives received from government for research and development and investments in relevant regions in PRC by the Group.

Investment Gain

Investment gain mainly includes interest income from bank deposits and investments in short-term financial products of RMB53,578,000 (2016: RMB65,817,000) and RMB47,975,000 (2016: RMB34,761,000) respectively.

Distribution Costs

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

Administrative Expenses and Research and Development Costs

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

Income Tax Rate

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

A subsidiary which is operating in Western China has been granted tax concession by the local tax bureau and was entitled to PRC EIT at concessionary rate of 9% for both 2016 and 2017. The tax concession granted to that subsidiary operating in Western China expired in 2017. Certain subsidiaries which were recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for 2016 and 2017. The tax concessions granted to certain subsidiaries recognised as High and New-tech Enterprise expired at the end of 2017. The related subsidiaries are in the process to apply for extension of the tax concessions. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

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

Profit for the year

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

Liquidity and Financial Resources

As at 31 December 2017, bank deposits of the Group amounted to approximately RMB3,532,385,000 (2016: RMB3,218,401,000), of which approximately RMB3,489,094,000 (2016: RMB3,004,983,000) were denominated in RMB, others being equivalent to approximately RMB34,592,000, RMB5,542,000 and RMB3,157,000 (2016: RMB44,109,000, RMB5,074,000 and RMB164,235,000) were denominated in Hong Kong Dollars, Australian Dollars and United States Dollars respectively.

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

Property, Plant and Equipment

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

Intangible Assets

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

Loans and bank borrowings

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

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "Annual General Meeting") will be held on Thursday, 31 May 2018 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 2017, the Directors proposed that a final dividend of RMB12 cents (2016: RMB12 cents) per share and a special dividend of RMB9 cents (2016: RMB9 cents) per share will be paid out of the share premium account of the Company on 15 June 2018, to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 8 June 2018. 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 29 March 2018 (RMB1=HK$1.245). Accordingly, the amount payable on 15 June 2018 will be:

Proposed Final Dividend – HK$0.1494 per share
Proposed Special Dividend – HK$0.1121 per share

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 25 May 2018 to Thursday, 31 May 2018, 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 Thursday, 24 May 2018.

The register of members will also be closed from Wednesday, 6 June 2018 to Friday, 8 June 2018, 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, 5 June 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2017, the Company or its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2017, 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 provisions A.2.1 and A.5.1 as described below.

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

Code provision A.5.1 stipulates that the nomination committee of the Company (the "Nomination Committee") should comprise a majority of independent non-executive directors. Upon the resignation of Mr. Hung Randy King Kuen as an independent non-executive director (the "INED") and a member of the Nomination Committee on 30 March 2017, the Nomination Committee comprised of Mr. Li Zhenjiang (an executive Director) and Mr. Sun Liutai (an INED). Accordingly, the Company failed to meet code provision A.5.1. After the appointment of Professor Luo Guoan as an INED and a member of the Nomination Committee on 16 June 2017, the Company fully complies with the code provision A.5.1.

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 2017.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the current year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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 2017 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 30 April 2018.

APPRECIATION

The Company's 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, 29 March 2018

As at the date of this announcement, the executive Directors are Mr. Li Zhenjiang, Ms. Xin Yunxia, Mr. Li Huimin and Mr. Chen Zhong; and the independent non-executive Directors are Ms. Cheng Li, Mr. Sun Liutai and Prof. Luo Guoan.