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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)

2018 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of China Shineway Pharmaceutical Group Limited (the "Company" 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 2018 as follows:

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2018, the operating results of the Group were as follows:

- Turnover amounted to RMB2,570,196,000, an increase of 33.9% as compared to last year;
- Gross profit margin was 73.0% as compared to 66.0% of last year;
- Profit for the year amounted to RMB505,876,000, an increase of 12.0% as compared to last year;
- Earnings per share amounted to RMB62 cents;
- Net cash generated from operating activities per share amounted to RMB65 cents;
- Recommended final dividend of RMB12 cents per share and special dividend of RMB9 cents per share;
- Net assets per share amounted to RMB7.06 (equivalent to HK$8.07); and
- Net cash per share amounted to RMB4.42 (equivalent to HK$5.05).

CHAIRMAN'S STATEMENT

Dear Shareholders,

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

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Turnover and profit both resumed growth momentum in 2018

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

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

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

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

	2017 *RMB'000*	**2018** ***RMB'000***	Growth rate
Core products			
Qing Kai Ling Injection	316,188	**458,374**	45.0%
Shu Xie Ning Injection	297,012	**436,259**	46.9%
Shen Mai Injection	189,731	**216,594**	14.2%
Wu Fu Xin Nao Qing Soft Capsule	178,090	**206,659**	16.0%
Products with high growth potential			
TCM Formula Granules	132,109	**313,733**	137.5%
Huo Xiang Zheng Qi Soft Capsule	85,455	**98,436**	15.2%
Pediatric Qingfei Huatan Granule	83,357	**95,387**	14.4%
Pseudomonas Aeruginosa Injection	51,998	**66,380**	27.7%
Compound Liquorice Tablet	42,648	**59,730**	40.1%
Huamoyan Granule	60,211	**56,946**	–5.4%
Qing Kai Ling Soft Capsule	26,389	**39,084**	48.1%
Xiesaitong Dripping Pill	22,597	**23,177**	2.6%
Dan Deng Tong Nao Capsule	16,219	**16,274**	0.3%
Others	417,604	**483,163**	15.7%
Total	1,919,608	**2,570,196**	33.9%

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

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

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

Profit contribution from orally taken products had been increasing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL ANALYSIS

Turnover

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

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

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

Cost of Sales

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

Gross Margin

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

Other Income

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

Investment Income

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

Distribution Costs

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

Administrative Expenses and Research and Development Costs

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

Income Tax Rates

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

A subsidiary which is operating in Western China has been granted tax concession by the local tax bureau and was entitled to PRC EIT at concessionary rate of 15% (2017: 9%). Certain subsidiaries which were recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for 2017 and 2018. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

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

Profit for the year

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

Liquidity and Financial Resources

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

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

Intangible Assets

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

FINAL DIVIDEND AND SPECIAL DIVIDEND

In respect of the year ended 31 December 2018, the Directors proposed that a final dividend of RMB12 cents (2017: RMB12 cents) per share and a special dividend of RMB9 cents (2017: RMB9 cents) per share will be paid on 18 June 2019, to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 11 June 2019. 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 2019 (RMB1=HK$1.166). Accordingly, the amount payable on 18 June 2019 will be:

Proposed Final Dividend — HK$0.1399 per share
Proposed Special Dividend — HK$0.1049 per share

RESULTS

The Company is pleased to present the audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2018 with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018** **RMB'000**	2017 *RMB'000*
Turnover	*3*	**2,570,196**	1,919,608
Cost of sales		**(694,149)**	(652,524)
Gross profit		**1,876,047**	1,267,084
Other income		**38,772**	79,181
Investment income	*4*	**133,446**	101,553
Net exchange gain (loss)		**2,616**	(980)
Selling and distribution costs		**(997,351)**	(515,216)
Administrative expenses		**(256,274)**	(247,289)
Research and development costs		**(128,126)**	(96,511)
Profit before taxation	*5*	**669,130**	587,822
Taxation	*6*	**(163,254)**	(136,269)
Profit and total comprehensive income for the year		**505,876**	451,553
Earnings per share	*8*		
— Basic (RMB)		**62 cents**	55 cents
— Diluted (RMB)		**62 cents**	55 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	**2018** **RMB'000**	2017 *RMB'000*
Non-current assets			
Property, plant and equipment		**1,403,661**	1,401,824
Prepaid lease payments		**163,778**	156,073
Intangible assets		**287,920**	307,962
Goodwill		**159,291**	159,291
Deposits for intangible assets		**36,000**	58,000
Deferred tax assets		**28,196**	21,670
		2,078,846	2,104,820
Current assets			
Inventories		**405,498**	280,209
Trade receivables	*9*	**174,034**	71,822
Trade receivables backed by bank bills	*9*	**357,471**	459,506
Prepayments, deposits and other receivables		**87,457**	171,514
Tax recoverable		**307**	1,456
Pledged bank deposits		**16,693**	43,401
Bank balances and cash		**3,611,485**	3,532,385
		4,652,945	4,560,293
Current liabilities			
Trade payables	*10*	**196,414**	176,368
Trade payables backed by bank bills	*10*	**16,693**	54,389
Other payables, accrued expenses and contract liabilities		**464,350**	426,358
Amounts due to related companies		**15,935**	15,935
Deferred income		**41,452**	19,389
Tax payable		**45,429**	16,854
		780,273	709,293
Net current assets		**3,872,672**	3,851,000
Total assets less current liabilities		**5,951,518**	5,955,820

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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. Its ultimate controlling party is Mr. Li Zhenjiang, who is also the Chairman of the Group.

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

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

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

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

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

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

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

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

Summary of effects arising from initial application of IFRS 15

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

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

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

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

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

Impact on the consolidated statement of financial position

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

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

IFRS 9 "Financial Instruments"

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

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

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

Classification and measurement of financial assets

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

Impairment under ECL model

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

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

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

Except for the above, the IASB has issued a number of new and amendments to IFRS Standards which are not yet 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. Therefore, the operation of the Group constitutes one single reportable segment.

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

The CODM reviews the results of the Group as a whole to make decisions. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment.

Revenue from major products

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

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

The Group sells pharmaceutical products to the wholesale market and directly to customers.

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 except deferred tax assets and financial instruments are located in the PRC including Hong Kong.

Information about major customers

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

4. INVESTMENT INCOME

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

Note: The financial products and short-term financial products are measured at fair value through profit or loss for both years. The return of such products is related to debt and equity instruments and foreign currencies. The investment income represents the difference between initial investment amounts and redemptions amounts. In the opinion of the directors of the Company, the short-term financial products are large in amounts, with quick turnover and short maturities ranging from one to three months. Accordingly, the cash receipts and payments for these short-term financial products are presented on a net basis in the consolidated statement of cash flows.

5. PROFIT BEFORE TAXATION

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

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

6. TAXATION

	2018 *RMB'000*	2017 *RMB'000*
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**130,441**	107,969
Underprovision in prior years	**12,653**	3,870
Withholding tax on distributed profits	**27,000**	20,000
	170,094	131,839
Deferred tax:		
Current year	**(13,000)**	(6,570)
Withholding tax on undistributed profits	**6,160**	11,000
	(6,840)	4,430
	163,254	136,269

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

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

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

Under the applicable corporate tax law in Australia, income tax is charged at 27.5% (2017: 27.5%) of the estimated assessable profits. No provision for Australian income tax has been made in the consolidated financial statements as the subsidiary operating in Australia has no assessable profits for both years.

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

7. DIVIDENDS

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

	2018	2017
	RMB'000	*RMB'000*
Dividends proposed:		
Proposed final dividend of RMB12 cents (2017: RMB12 cents) per share	**95,656**	99,240
Proposed special dividend of RMB9 cents (2017: RMB9 cents) per share	**71,742**	74,430
	167,398	173,670

The final dividend of RMB12 cents per share and special dividend of RMB9 cents per share, totalling RMB21 cents per share, in an aggregate amount of RMB167,398,000, have been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the annual general meeting. The aggregate amount of RMB167,398,000 has been calculated on the basis of 827,000,000 shares in issue less 29,867,000 shares held for share award scheme as at 31 December 2018.

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:

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

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

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

9. TRADE AND OTHER RECEIVABLES

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

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

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

As at 31 December 2018, total bills received amounting to RMB357,471,000 (2017: RMB459,506,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

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

10. TRADE AND OTHER PAYABLES

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

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

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

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

OTHER INFORMATION

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "Annual General Meeting") will be held on Friday, 31 May 2019 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 27 May 2019 to Friday, 31 May 2019, 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 Friday, 24 May 2019.

The register of members will also be closed from Thursday, 6 June 2019 to Tuesday, 11 June 2019, 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 Wednesday, 5 June 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2018, the Company or its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2018, 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. Mr. Li Zhenjiang has been both the Chairman and President before 1 December 2018. His responsibilities are clearly set out in writing and approved by the Board. After the appointment of Mr. Xu Sheng as an executive director and chief executive officer of the Company on 1 December 2018, the Company fully complies with the requirements of code provision A.2.1.

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 of the Company has reviewed the audited financial results of the Group for the year ended 31 December 2018.

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 2018 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 2018 and Corporate Governance Report will be published on the Company's website (www.shineway.com.hk) and the website of the Stock Exchange (www.hkexnews.hk) on or before 30 April 2019.

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 2019

As at the date of this announcement, the executive Directors are Mr. Li Zhenjiang, Ms. Xin Yunxia, Mr. Li Huimin, Mr. Chen Zhong and Mr. Xu Sheng; and the independent non-executive Directors are Ms. Cheng Li, Prof. Luo Guoan and Mr. Cheung Chun Yue Anthony.