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: 2877)

2019 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 2019 as follows:

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2019, the operating results of the Group were as follows:

- Turnover amounted to RMB2,705,996,000, an increase of 5.3% as compared to last year;
- Gross profit margin was 73.2% as compared to 73.0% of last year;
- Profit for the year amounted to RMB503,150,000, a decrease of 0.5% as compared to last year;
- Earnings per share amounted to RMB64 cents;
- Recommended final dividend of RMB12 cents per share and special dividend of RMB9 cents per share;
- Net assets per share amounted to RMB6.99 (equivalent to HK$7.80); and
- Net cash per share amounted to RMB4.43 (equivalent to HK$4.95).

CHAIRMAN'S STATEMENT

Dear Shareholders,

Business environment in 2019 was extremely challenging. Intensive promulgation of healthcare regulatory policies made development of Chinese medicine industry difficult during the year. Yet, toward the end of the year the national government clearly expressed its strong support for the development and inheritance of Chinese medicine, followed by issuing a number of favorable national policies that benefit the Chinese medicine industry, and these have created an important turning point for Chinese medicine in the forthcoming years.

In 2019, the Group continued to focus on nurturing the market for oral products. Sales of oral products increased by 20.8% as compared to last year. Nonetheless, healthcare policies continued to impact injection products, and attributing to the relatively high comparison base of certain injection products, the Group's overall sales of injection products had declined by 8.8% as compared to last year, resulting only a 5.3% growth of the overall business. Also, due to the impairment charge of deposit for intangible assets for terminating a patent development project and provisions for bank deposits and trade receivables based on credit risk assessments required by the International Accounting Standards, net profit for the year was 0.5% lower than that of 2018. Earnings per share had increased by 3.2% as compared to last year. Without the above impairment expenses and provisions, net profit for the year should have risen by 8.3% over the last year.

After four years of effort spent on cultivating the market, the traditional Chinese medicine ("TCM") formula granule business of the Group has become the main driving force of our strategic business, maintaining a high growth rate with sales exceeding RMB500 million in 2019. The Group's quality control and standard research and industrialization project of TCM formula granules also won the Hebei Province Technology Advancement First Grade Award, further highlighting the quality and technological advantages of the Group's TCM formula granules. In October 2019, approval process for the Group's TCM formula granules production facilities in Yunnan Province was completed. The Group was the first TCM formula granule enterprise to obtain such approval in Yunnan Province. TCM formula granules produced by the Group are also now included in the drugs reimbursement list of Yunnan Province, setting a solid foundation for the Group to penetrate the market in the southwest region of the country. The Group is actively positioning our entrance into the markets of TCM formula granules of other provinces. We are currently preparing to establish production facilities in a coastal province in Northern China, and the expected completion date is in mid-2021.

During the year, the Group continued to gradually migrate our core sales and marketing directives toward establishing terminal customers, academic-led marketing and evidence-based medical researches. In 2019, coverage of medical terminals had increased noticeably, resulting in growth of the grass-root terminal academic products. The Group continuously implemented win-win value strategy with retail drugstores operated by national and regional renowned chains to expand coverage of our key products. Retail medications' sales volume increased as compared to last year. As for refining evidence-based medical researches on TCM injections, Shen Mai Injection and Shu Xie Ning Injection are now listed in the National Guideline for Chinese Medicine Diagnosis and Treatment in Viral Myocarditis. Also, Qing Kai Ling Injection and Shu Xie Ning Injection are now listed and ranked among the top ten in Chinese Medicine Clinical Evidence Evaluation Index, demonstrating the clinical value of the Group's TCM injections.

The country's pharmaceutical policy is now in the direction of favoring the Chinese medicine industry, prompting medical reimbursements to cover more Chinese medications. The Group's two exclusive products, Shujin Tongluo Granule and Huamoyan Capsule, along with our key strategic product Xiesaitong Dripping Pill were admitted in the new edition of national drugs reimbursement list during the year. Another exclusive product, Qihuang Tongmi Soft Capsule, also entered into the national drugs reimbursement list through drug reimbursement negotiations. The admissions to the national drugs reimbursement list have solidified these medications' market potential in the next few years.

The year of 2019 marks the Group's first year of digitalization strategy reform. Our goal is to advance as an enterprise fully digitalized in sales and marketing and operation management. During the year, an internet digital marketing business department was formed to establish strategic cooperative relationship with the country's mainstream e-commerce platforms and had already commenced online sales.

At the time of writing, the outbreak of coronavirus continues. Various provinces and cities across the country have issued a number of diagnostic and treatment plans. A total of eight medications of the Group have been included in the recommended medicine lists of the "Coronavirus Infected Pneumonia Diagnosis and Treatment Scheme" issued by various provinces and cities. The treatment scheme issued by the National Health Commission also has included two medications of the Group as Chinese medicine therapy for medical observation period and immunosuppression. In addition, the Hebei Provincial Drug Administration also issued a notice agreeing that two of the three traditional Chinese medicine decoction formulas used by the Shijiazhuang TCM Hospital for the treatment of coronavirus pneumonia in Hebei Province are to be formulated by the Group. Two wholly-owned subsidiaries of the Group have also been named by the Ministry of Industry and Information Technology in its Lists of Key Manufacturers for the Prevention and Control of Novel Coronavirus Infected Pneumonia Epidemic of Hebei and Yunnan Province. We are keen to work with the community to fight against the epidemic.

Since the outbreak of the epidemic, the Group has worked overtime to ensure adequate drug supply, and also shouldered social responsibilities and obligations by continuously donating medications to many areas across the country for preventing and treating the epidemic disease. In addition, to ease the public inconvenience in seeking medical consultation during the epidemic, with strong support of the government, the Group together with the Shijiazhuang TCM Hospital and other institutions, jointly developed the nation's first "Shijiazhuang TCM Health Service Mobile Cabin Vehicle". This mobile cabin vehicle uses a 5G network and is equipped with provincial and municipal medical insurance reimbursement platforms. It integrates clinical consultation, health inspection, and medication dispensing to provide mobile medical services to the public. At the same time, the Group has joined hands with chunyuyisheng.com, health.jd.com, wy.guahao.com, miaoshou.net and other medical internet portals to create a free online volunteer consultation platform for fighting against the coronavirus pneumonia. The public can utilize various medical consultation platforms through the Group's official WeChat subscription account and receive online medical consultation without leaving home.

At present, the pharmaceutical industry has entered into a new stage of vast reshuffling and integration. Facing with new way of doing business, new kinds of standards and new challenges, the year of 2020 is an important juncture for the Group to increase its innovation and to strengthen its core competitiveness. The Group will continue to advance our core business through strategic implementation of multi-products, multi-channels and multi-business models to drive business growth. We will continue to expand the advantageous regions of our TCM formula granules business as well as its competitive advantages nationwide. We will actively pursue digital transformation and advance our strategic plan on intelligent manufacturing to foster the Group as an enterprise with digitalized operation management and digitalized sales and marketing.

The year of 2019 was the 35th anniversary of the reform and development of Shineway Pharmaceutical. On behalf of the Board, I would like to once again convey my heartfelt thanks to shareholders, customers and strategic partners for their continuous support and trust to the Group, and our management team and entire staff for their hard work in the challenging business environment over the last year. Let's join hands and make concerted effort towards the essential goal of Shineway's sustainable development.

Li Zhenjiang
Chairman of the Board
Hong Kong, 31 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2019, the Group's turnover went up by 5.3% compared with 2018. The growth was mainly from TCM formula granules, soft capsules and other oral products. Gross profit margin increased from 73.0% in 2018 to 73.2% in 2019. Due to an one-time impairment charge in a total of RMB36 million arising from terminating a patent development project and provisions made against bank deposits and trade receivables in a total of approximately RMB8.6 million based on risk assessments as required by the International Accounting Standards, net profit of the year slightly declined by 0.5%. Net profit margin was down from 19.7% to 18.6%, but earnings per share as compared to last year increased by 3.2% to RMB64 cents. Without taking into account the above impairment expenses and provisions, net profit for the year should have risen by 8.3% over last year.

As calculated based on total issued shares of the Company of 827,000,000 (the "Shares"), net cash per share as of 31 December 2019 amounted to HKD4.95, and net assets per share amounted to HKD7.80. Proposed final dividend and special dividend amounted to RMB21 cents per share. Together with interim dividend of RMB11 cents per share, payout ratio for the year is 50.0%.

Since the coronavirus outbreak, the Group has not stopped producing and supplying medications to healthcare frontlines for fighting against the epidemic and for assuring public health. The Group's total sales for the first two months of 2020 increased by 8.7% as compared to the same period last year.

Proportion of profit contribution from oral products increased

In 2019, sales of injection products as a percentage to total turnover of the Group dropped from 52.3% of last year to 45.3%. At the same time, sales of oral products as a percentage to total turnover for the year rose from 47.7% of last year to 54.7%. The table below shows a comparison of the turnover of each dosage form:

	Turnover 2018 *RMB'000*	**Turnover 2019** ***RMB'000***	Year-on-year growth rate	Percentage of total turnover 2019
Injections	1,344,395	**1,225,807**	-8.8%	45.3%
Soft capsules	388,218	**442,031**	13.9%	16.3%
Granules	379,378	**388,752**	2.5%	14.4%
TCM formula granules	313,734	**501,906**	60.0%	18.5%
Other product formats	144,471	**147,500**	2.1%	5.5%
Oral products	1,225,801	**1,480,189**	20.8%	54.7%
Total turnover	2,570,196	**2,705,996**	5.3%	100.0%

In 2019, TCM injections were impacted by the country's medical insurance related control policies such as claim restrictions imposed by drug reimbursement lists, the intensified supervision on adjuvant medications, while the national standards for re-evaluation of TCM injections are yet to be announced. These resulted in a continuous decline in sales of injection products mostly used by large hospitals (mainly Shu Xie Ning Injection and Shen Mai Injection). In addition, the outbreak of flu in the beginning of 2018 pushed up the comparative base sales figure of Qing Kai Ling Injection, which is mostly used in grass-root medical institutions. As a result, the overall sales of injection products was lowered by 8.8%.

The Group has been actively cultivating new growth areas of oral products and enhancing their sales momentum to lessen concentration of profit contribution from injection products during the year. Overall sales of oral products for 2019 increased by 20.8%, and their sales proportion surpassed that of injection products. During 2019, sales of soft capsules, granules and TCM formula granules increased by 13.9%, 2.5% and 60.0% respectively.

As estimated by sales data, the proportion of profit contributed from oral products outweighed that of injection products in 2019. The following shows the estimated percentages of gross profit contribution after adjusting for "Two-Invoices System" effect:

	2018 Percentage of gross profit	**2019 Percentage of gross profit**
Injection products	38.0%	**31.2%**
Oral products	62.0%	**68.8%**
Total	100.0%	**100.0%**

TCM formula granules maintained rapid growth and positioning to enter into other provinces continued

Sales of the Group's TCM formula granules increased by 60.0% during the year. Accounting for 18.5% of total turnover of the Group, TCM formula granules have become the product with the highest contribution to sales of the Group. Based on currently available data, domestic sales of TCM formula granules of the Group currently rank sixth nationwide.

In 2019, our TCM formula granules sales team continued to expand coverage of tier-two or above hospitals in Hebei Province and at the same time further penetrate into grass-root medical institutions. During the year, 129 hospitals and grass-root medical institutions in Hebei Province were added to our customer base, laying a solid foundation for a continuous growth of the sales of TCM formula products of the Group. In October 2019, Yunnan Shineway Spirin Pharmaceutical, a wholly-owned subsidiary of the Group, was approved by the Yunnan Medical Products Administration for the production and clinical use of TCM formula granules, and the Group was the first one to obtain such approval in Yunnan Province. Currently, production of our TCM formula granules for clinical use by medical institutions in Yunnan has commenced while our TCM formula granules have already been included in the drugs reimbursement list of Yunnan Province.

The key tasks of the Group's TCM formula granules in 2020 are to accelerate the market development in Yunnan Province and continue to speed up our entrance into the markets of other provinces. Meanwhile, we are currently preparing to establish production facilities in a coastal province in northern China, and the expected completion date is in mid-2021. The Group is also exploring opportunities for entering into other provinces, and is examining a cooperative model to accelerate the entry into certain provinces.

However, since the Hebei Medical Insurance Bureau has lowered the reimbursement amounts of TCM formula granules and the sales team for Yunnan Province is still in the process of being formed, the Group expects that the growth of TCM formula granules in 2020 will slow down as compared to the year of 2019.

Key oral products maintained their growth momentum

As at the end of 2019, there were a total of more than 110 products regularly manufactured by the Group, including 19 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 2019 are set out as follows:

			2018 *RMB'000*	**2019** ***RMB'000***	**Year-on-year growth rate**	**2019 Percentage of total sales**
TCM formula granules	2 PDRL	–	313,734	**501,906**	60.0%	18.5%
Shu Xie Ning Injection	NDRL	–	436,259	**394,343**	-9.6%	14.6%
Qing Kai Ling Injection	NDRL	Essential Drug	458,374	**360,762**	-21.3%	13.3%
Wu Fu Xin Nao Qing Soft Capsule	5 PDRL	–	206,659	**200,133**	-3.2%	7.4%
Shen Mai Injection	NDRL	Essential Drug	216,594	**192,032**	-11.3%	7.1%
Huo Xiang Zheng Qi Soft Capsule	NDRL	Essential Drug	98,436	**116,046**	17.9%	4.3%
Pediatric Qingfei Huatan Granule	3 PDRL	–	95,387	**102,329**	7.3%	3.8%
Pseudomonas Aeruginosa Injection	9 PDRL	–	66,380	**82,395**	24.1%	3.0%
Huamoyan Granule	* NDRL	Essential Drug	56,946	**73,699**	29.4%	2.7%
Compound Liquorice Tablet	NDRL	Essential Drug	59,730	**45,876**	-23.2%	1.7%
Qing Kai Ling Soft Capsule	NDRL	Essential Drug	39,084	**45,799**	17.2%	1.7%
Xiesaitong Dripping Pill	* NDRL	–	23,177	**30,122**	30.0%	1.1%
Dan Deng Tong Nao Capsule	5 PDRL	–	16,274	**17,311**	6.4%	0.6%
Qi Huang Tong Mi Soft Capsule	* NDRL	–	132	**138**	4.5%	0.0%
Others			483,030	**543,105**	12.4%	20.2%
Total sales			2,570,196	**2,705,996**	5.3%	100.0%

* Newly included into the 2019 edition of National Drugs Reimbursement List

During the year, the Group comprehensively strengthened market coverage of targeted terminal-customers. Our work to establish points of terminal sales in hospitals, grass-root medical institutions and retail pharmacies has been steadily progressing, while also aiming to attain full scale of academic-led marketing. During 2019, the Group's had been covering a total of 6,414 tier-two or above hospitals, 330,151 of grass-root medical institutions, and 169,806 of retail pharmacies. Except for Qing Kai Ling Injection, Shu Xie Ning Injection, Shen Mai Injection, Wu Fu Xin Nao Qing Soft Capsule and Compound Liquorice Tablet, sales of all key products showed growth in sales. This was attributable to the strategic transformation of our sales team, from one which relied on traditional distribution to a precise distribution model focusing on building direct relationship with targeted terminal-customers, and gradually transformed from channel marketing to terminal services focused and academic-led promotion.

Although overall sales growth was much lower than the Group's target due to the decline in sales of injection products, the Group's terminal sales team achieved considerably good results from marketing products through academic-led promotion. Among them, the Group's exclusive innovative Chinese medicine, Huamoyan Granule, turned from sales decline during the interim period to overall sales growth for the full year. The Group's sales of chronic disease treatment product series, led by the key product Xiesaitong Dripping Pill, also achieved a year-on-year sales growth in 2019.

As the Group began to adjust the product management and the sales policies for retail pharmacy products in the first quarter of 2019, certain products sold to retail pharmacy chain stores were switching to new packagings, and at the same time waited for pharmacy stores to sell off their inventory with old packagings. This process led to a negative growth of retail pharmacy store products in the first half of the year. The above matters had been basically completed in the second half of the year, and retail pharmacy products returned to normal growth track. Retail pharmacy products, such as Huo Xiang Zheng Qi Soft Capsule, achieved a higher volume growth in the second half of the year. Pediatric Qingfei Huatan Granule and Qing Kai Ling Soft Capsule also resumed sales growth. In 2020, the Group will continue to optimize the coverage of pharmacy chain store and in-depth win-win cooperation. We will also strengthen our resources on both traditional and new media to solidify the brand value of Shineway.

National policies are promoting the development of Chinese medicine

In October 2019, leader of the country made an important pronouncement on the work of Chinese medicine. The pronouncement emphasized the need of accelerating the modernization and industrialization of Chinese medicine, adhering that both Chinese and Western clinical treatment should be equally weighted and promoting the complementary and coordinated development of Chinese medicine and Western medicine, so as to give full play to the unique advantages and functions of Chinese medicine in disease prevention and treatment. In the same month, the State Council issued the Opinions on Promoting the Preservation, Innovation and Development of Chinese Medicine, which put forward suggestions on improving the servicing system of Chinese medicine, giving full play to the unique function of Chinese medicine in maintaining and promoting people's health. Since the outbreak of coronavirus pneumonia, the country has repeatedly emphasized the need to adhere to the co-treatment with Chinese and Western medicine. Various regions and places have also been promoting the timely and comprehensive involvement of Chinese medicine for diagnosis and treatments. The Chinese medicine market is ushering in a new turning point.

Broadening the use of essential drugs is becoming a growth catalyst

In October 2019, the State Council issued the Opinions on Further Enhancing the Supply and Stabilization of Shortage of Medications, putting forward the priority as well as the proportion of the use of essential drugs, and the need to gradually attain the proportions of various essential drugs stocked by the government-run grassroot medical institutions, tier-two public hospitals and tier-three public hospitals, in principle, to not less than 90%, 80% and 60%, respectively. It also promotes the use of "1 + X" model using essential drugs as the primary driver in medical institutions at all levels. A total of 18 medications of the Group, including key products such as Qing Kai Ling Soft Capsule, Huamoyan Granule, Huo Xiang Zheng Qi Soft Capsule, Compound Liquorice Tablet, Qing Kai Ling Injection, and Shen Mai Injection, have been included in the National Essential Drugs List and should benefit from the new policy.

Inclusion in the National Drugs Reimbursement Negotiation List brings market opportunities

In October 2019, Qi Huang Tong Mi Soft Capsule, the Group's exclusive product, successfully entered into the National Drug Reimbursement Negotiation List (2019 edition) governed by the National Health Care Security Administration. Qi Huang Tong Mi Soft Capsule is an innovative Chinese medication developed by the Group. It was awarded the Hebei Province Technological Invention Award and was listed as a state protected Chinese medicine. It is used to treat functional constipation, which is also the only Chinese medication for treating constipation under the new negotiation list. The list of medications under the National Drugs Reimbursement Negotiation Scheme are posted directly on the provincial centralized drug procurement e-platform. These medications are also not subject to the restrictions on drug proportion, reimbursement cap and the ceiling of usage in medical institutions. In the Notice on Implementing National Drug Reimbursement Negotiation List, the National Healthcare Securities Administration and the National Health Commission suggested that drugs under the negotiation scheme that have relatively higher cost-efficiency than those in the original Drug Reimbursement List can completely substitute those in the original list. Policy to motivate such substitution could be utilized. According to data available, it is estimated that approximately 90 million people in China suffer from constipation. With a high prevalence rate and a growing trend, the market potential of Qi Huang Tong Mi Soft Capsule is promising.

Turning point for TCM injections

In recent years, policies such as restricting western medical doctors without corresponding qualifications from prescribing TCM, restrictions on medical insurance reimbursement, close monitoring on adjuvant medications, and the stipulations to modify the directions on user manuals led to overall negative growth of TCM injections. Nonetheless, TCM injections were not included in the 20 closely monitored drugs announced by the National Health Commission in June 2019. All of the Group's TCM injections originally included in the 2017 edition of the National Drugs Reimbursement List were also retained in the 2019 edition. The country's leaders also stressed the importance of equal weighting on both Chinese and Western medicine. With the effectiveness and safety of Chinese medicine in treating the coronavirus pneumonia, and together with the inclusion of various TCM injections in treatment plans of the coronavirus pneumonia (including Shen Mai injections manufactured by the Group), a new turning point for TCM injections is forthcoming.

Commencement of a new digitalized sales and marketing model

The Group established an internet digital marketing business department in 2019 to actively explore models such as business-to-consumer (B2C), internet marketing, online-to-offline (O2O), internet healthcare etc. to enable innovative development of our sales and marketing. Currently, it has established strategic cooperative relationship with a number of mainstream e-commerce platforms, such as Jingdong, Tmall, Ping An Good Doctor, 111.com, Yao Shi Bang. New social media marketing models with offline experience and online sales were launched. The ultimate goal is to advance the Group to become an enterprise of digital operation management as well as digital sales and marketing.

Groundbreaking Chinese medicine under clinical trials

The Group currently has a total of 10 research projects in pharmaceutical and clinical trials, among which the 2 groundbreaking exclusive medications are as follows:

1. *Sailuotong Capsule*

The Group's key research initiative "Sailuotong Capsule", an innovative compound TCM, is now under phase III clinical trials in Australia and China. The trials are expected to be completed in 2021 and 2022 respectively. The phase III clinical trial in Australia focuses on the treatment of vascular dementia and Alzheimer's disease, while the phase III clinical trial in China primarily addresses the treatment of vascular dementia.

In 2019, Sailuotong Capsule was granted an invention patent by IP Australia, and also received a notice of patent family grant from Russia. Since the first overseas patent granted in 2010, Sailuotong has been granted 8 invention patents by countries including USA, Japan, Korea, Germany, Russia, Canada and Australia.

2. *Q-B-Q-F Condensed Pill*

Q-B-Q-F Condensed Pill, which targets to cure mycoplasma pneumonia for children, is currently at its phase III clinical trial through the green channel, and the trial is expected to be accomplished in 2021.

Other details of the above two medications under research were disclosed in the Group's 2019 interim report.

Focusing on eight major therapeutic areas and TCM formula granules

Riding on sounded curative effects and superb quality of product series, the Group endeavors to focus on eight major therapeutic areas and TCM formula granules to contribute to the health of the people. Sales of the Group categorized by curative effects of medications during 2019 are set out as follows:

	2019 *RMB'000*	2019 Percentage of sales
Medications for cardiovascular and cerebrovascular	**1,064,938**	**39.4%**
Medications for respiratory system	**587,532**	**21.7%**
Medications for digestive system	**173,363**	**6.4%**
Pediatric medications	**156,471**	**5.8%**
Orthopedic medications	**87,052**	**3.2%**
Medications for strengthening the body	**9,201**	**0.3%**
Medications for the nervous system	**5,944**	**0.2%**
Gynecological medications	**1,674**	**0.1%**
	2,086,175	**77.1%**
TCM formula granules	**501,906**	**18.5%**
Other therapeutic areas	**117,915**	**4.4%**
Total sales	**2,705,996**	**100.0%**

The Group's key objective for sales restructuring is to transform from one that focused on distribution channels into an academic-led marketing model taking into account the well-being of healthcare practitioners, pharmacy store managers and personnel and the end consumers. The Group is determined to carry out professional academic-led promotion on the eight major therapeutic areas as stated above, which centers our attention to promote our exclusive products with proprietary intellectual property. The Group will continue to strengthen academic-led promotion and evidence-based medicine research, promote the restructuring, adjustment and upgrade of products, strengthen the cultivation and promotion of oral products, and promote the rapid development of the Group's exclusive oral products. The Group is also keen to capitalize the opportunity of the country's forthcoming policies on the comprehensive future development of TCM formula granules and to become one of the leading manufacturers in the market of TCM formula granules.

The national pilot scheme for tendering with minimum procurement quantities in eleven PRC cities

In 2019, a national pilot scheme for pharmaceutical tendering with minimum procurement quantities, which applies to specific medications in eleven selected PRC cities was launched by the government. The new policy stipulates an intended quantity commitment for each specific medication, and public hospitals must prioritise their purchases from the successful bidder until the quantity commitment has been satisfied. None of the Group's products are covered under this new pilot scheme, and accordingly, the pilot scheme does not apply to the Group at this stage and the Group's sales would not be affected by it.

The Novel Coronavirus-Infected Pneumonia Diagnosis and Treatment Schemes

The Novel Coronavirus-Infected Pneumonia Diagnosis and Treatment Schemes (the "Coronavirus Pneumonia Treatment Schemes") issued by the National Health Commission in 2020 have included Huo Xiang Zheng Qi Soft Capsule and Shen Mai Injection as Chinese medicine therapy for medical observation period and immunosuppression respectively. In addition, eight of the Group's medications have been included in the recommended medicine lists of a number of provincial treatment schemes. The details are as follows:

- Qing Kai Ling Soft Capsule has been included in the medicine list of the Coronavirus Pneumonia Treatment Schemes published by the Health Commissions of Hebei, Zhejiang, Liaoning, Guangdong, Beijing and Shanghai, and is a recommended drug to be used during clinical observation or clinical treatment.

- Huo Xiang Zheng Qi Soft Capsule has been included in the medicine list of the Coronavirus Pneumonia Treatment Schemes published by the Health Commissions of Hebei, Henan, Shaanxi, Gansu, Shandong, Jiangsu, Wuhan and Liaoning, and is a recommended drug to be used during clinical observation or clinical treatment.

- Qing Kai Ling Injection has been included in the medicine list of the Coronavirus Pneumonia Treatment Schemes published by the Health Commissions of Hebei, Shaanxi and Liaoning. It has also been included in the Standard Coronavirus Treatment Quick Manual and is a recommended drug to be used during clinical treatment.

- Shen Mai Injection has been included in the medicine list of the Coronavirus Pneumonia Treatment Schemes published by the Health Commissions of Beijing, Shaanxi, Liaoning and Sichuan, and is a recommended drug to be used during recovery phase and acute phase of clinical treatment, as well as a recommended drug to be used during critical phase.

- Huang Qi Injection has been included in the Recommended Usage of TCMs to treat coronavirus published by the Yunnan University of Traditional Chinese Medicine and the Yunnan Chinese Medical College and is a recommended drug to be used during clinical treatment and critical phase.

- Li Yan Jie Du Granule has been included in the medicine list of Coronavirus Pneumonia Treatment Scheme published by the Health Commission of Hebei, and is a recommended drug to be used during clinical treatment

- Ibuprofen Oral Solution has been included in the Coronavirus Infection Prevention Strategy and the medicine list of the Medicine Supply Safeguard Work Notice of the Health Commissions of Shanghai, Wuhan and Henan. Its main function is to treat fever.

- Feng You Jing has been included in the Recommended Chinese Medicine Preventative Household Measures for Coronavirus of Wuhan for aromatherapy as a household disease prevention measure.

In addition, the Hebei Provincial Drug Administration issued a notice agreeing that two of the three TCM decoction formulas to be used by the Shijiazhuang TCM Hospital for the treatment of coronavirus pneumonia in Hebei Province are to be formulated by the Group. Two wholly-owned subsidiaries of the Group have also been named by the Ministry of Industry and Information Technology in the Lists of Key Manufacturers for the Prevention and Control of the Novel Coronavirus Infected Pneumonia Epidemic of Hebei and Yunnan Province.

Impact of coronavirus epidemic on the Group

Since the outbreak of the epidemic, the Group has been constantly donating medications to various places in the country for the prevention and treatment of the epidemic disease and has also been working overtime to ensure adequate supply of medications.

As the Group was designated as a Key Manufacturer for the Prevention and Control of the Novel Coronavirus Infected Pneumonia Epidemic of Hebei and Yunnan provinces, most of the production-related personnel have resumed work since the Chinese New Year Holiday to continue productions to cope with the demand for medications to fight against the epidemic and to protect public health. In early February 2020, due to transportation restrictions, certain raw materials in remote areas could not be shipped to the locations of our production facilities. Nevertheless, the Group, as a Key Manufacturers for the Prevention and Control of Novel Coronavirus Infected Pneumonia Epidemic, obtained thirty-six inspection-free and barrier-free green passes, which could be used nationwide, and resolved the obstacles due to the transportation restrictions. Not only can those raw materials arrive our production locations now, but also finished medications can be smoothly delivered to healthcare frontlines. The Group's total sales in the first two months of 2020 increased by 8.7% as compared to the same period last year.

The Group had taken measures to prevent the spreading of coronavirus by arranging non-production related staff to work at home commencing from the beginning of February 2020, but in March, most of the Group's non-production employees returned to their offices to continue their work.

As at the date of this announcement, the work resumption rate of production-related personnel of the Group is 100% and 100% of non-production-related personnel have resumed work in their offices. According to employee filing records, none of the employees of the Group were infected with the new coronavirus pneumonia.

In view of the inconvenience of seeing a doctor for medical diagnosis during the epidemic, with strong support from the government, the Group jointly developed China's first "Shijiazhuang TCM Health Service Mobile Cabin Vehicle" with Shijiazhuang TCM Hospital and other institutions to deliver Chinese medicine healthcare services to enterprises, communities and villages. This mobile cabin vehicle uses 5G networks and is equipped with provincial and municipal medical insurance platforms. It integrates clinical consultation, health inspection, and medication dispensing to provide mobile medical services to the public.

Furthermore, in order to effectively reduce the risk of cross-infection during medical consultations of patients, to ease work pressure at medical institutions, and to further facilitate the public to receive consultation without going out, the Group joined hands with chunyuyisheng.com, health.jd.com, wy.guahao.com, miaoshou.net, and other healthcare internet portals to create a free online volunteer consultation platform for fighting against the coronavirus pneumonia. The public can enter the various consultation platforms through the Group's official WeChat subscription account for online medical consultation without leaving home .

As at 31 December 2019, the Group had approximately RMB3.95 billion cash in bank, and RMB398 million bank borrowings (of which approximately RMB118 million was from factoring of bills receivable). As derived accordingly, the Group had net cash of approximately RMB3.67 billion, equalling to net cash per share of approximately RMB4.43 (equivalent to approximately HKD4.95 net cash per share). In addition, the Group's current assets and current liabilities were approximately RMB5.20 billion and approximately RMB1.18 billion respectively. Accordingly, the Group believed that it has sufficient working capital to fulfil the continuous needs of operating and financial activities.

The Group would like to caution shareholders and potential investors that the restrictions imposed on travelling and transportations, as well as public places to fight against the coronavirus epidemic are impacting every industry. Sales momentum will accordingly be affected. While these restrictions are easing up gradually as at the date of this announcement, shareholders and potential investors are advised to exercise caution on the development of the epidemic.

FINANCIAL ANALYSIS

Turnover

In 2019, the Group recorded an increase in turnover of 5.3% from last year. Sales of injection products reached approximately RMB1,225,807,000, down approximately 8.8% as compared with 2018. Sales of injection products accounted for approximately 45.3% of the Group's turnover. Sales of soft capsule products were approximately RMB442,031,000, up approximately 13.9% from last year. Soft capsule products accounted for approximately 16.3% of the Group's turnover. Sales of granule products amounted to approximately RMB388,752,000, up approximately 2.5% from last year. Granule products accounted for 14.4% of the Group's turnover. Sales of TCM formula Granules were approximately RMB501,906,000, representing a remarkable increase of 60.0% from last year and accounting for 18.5% of the Group's turnover. Sales of the Group's products in other formats were approximately RMB147,500,000 which accounted for approximately 5.5% of the Group's turnover.

The aggregate sales attributable to the largest customer and ten largest customers combined of the Group were 4.6% and 24.3% respectively of the Group's turnover for the year.

Cost of Sales

Cost of sales in 2019 was approximately RMB724,431,000 representing approximately 26.8% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 58.7% (2018: 56.9%), 12.5% (2018: 12.6%) and 28.8% (2018: 30.5%) of total cost of sales respectively.

Gross Margin

In 2019, average gross margins of injection products, soft capsule products, granule products and TCM formula granule products were approximately 75.3% (2018: 74.5%), 73.2% (2018: 77.3%), 70.1% (2018: 67.1%) and 75.6% (2018: 74.9%) respectively. Overall gross margin was 73.2% (2018: 73.0%).

Other Income

Other income mainly includes government subsidies of RMB81,629,000 (2018: RMB29,817,000). 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 RMB82,960,000 (2018: RMB78,739,000) and RMB36,511,000 (2018: RMB54,707,000) respectively.

Impairment Losses on Financial Assets

In 2019, due to the increase in expected credit risk of financial assets as compared to last year, respective impairment of RMB4,618,000 and RMB4,029,000 for bank balances and trade receivables were accounted for after the assessment by the Group's management.

Impairment Loss on Deposit for Intangible Assets

As the development of related patent rights has been progressing slowly since 2014, the Group's management consider that the project is no longer suitable for the current overall environment. If the project were to be continued, the Group would have to invest more. However, as the risk of development failure is increased and the expected return is reduced compared with the original development plan, the Group's management decided to terminate the project and impair the related deposit for intangible assets of RMB36,000,000 during the year.

Distribution Costs

Distribution costs comprise of advertising expenses, distribution and promotion expenses, wages of sales persons and other market promotion and development expenses. In 2019, the distribution costs have increased by approximately 13.0% and accounted for approximately 41.6% of turnover in 2019 as compared to 38.8% in last year. It was mainly due to the increase in distribution and promotion expenses, advertising expenses and salaries of sales staff of 12.2%, 57.8% and 37.0% respectively from last year. These expenses in aggregate accounted for 35.3% (2018: 31.9%) of the Group's turnover.

Administrative Expenses and Research and Development Costs

In 2019, administrative expenses have increased by 7.6% from last year, representing approximately 10.2% (2018: 10.0%) of the Group's turnover. Administrative expenses comprised of non-productive depreciation expenses of fixed assets and amortization expenses of intangible assets which accounted for 3.0% (2018: 2.8%) of the Group's total turnover in 2019. The increase in administrative expenses was mainly due to the increase in salaries of administrative staff and non-productive depreciation expenses of 19.1% and 28.3% as compared to last year. Research and development expenses have decreased by approximately 19.8% from last year, accounted for approximately 3.8% of the Group's turnover in 2019 as compared to 5.0% in 2018.

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 15.0% (2018: 15.0%). 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 15.0% for 2018 and 2019. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

In 2019, the effective tax rate of the Group was 21.7% (2018: 24.4%). The decrease in effective tax rate was mainly due to the decreased profit distribution of the PRC subsidiaries which in turn decreased the withholding tax thereof.

Profit for the Year

The Group's profit attributable to shareholders of the Company for 2019 was RMB503,150,000, representing a decrease of 0.5% from 2018. The decrease in profit was mainly attributable to the effect of impairment loss on deposit for intangible assets and financial assets.

Liquidity and Financial Resources

As at 31 December 2019, bank balances and cash of the Group amounted to approximately RMB3,946,006,000 (2018: RMB3,611,485,000), of which approximately RMB3,841,511,000 (2018: RMB3,550,407,000) were denominated in RMB, others being equivalent to approximately RMB99,198,000, RMB1,786,000 and RMB3,511,000 (2018: RMB52,848,000, RMB4,851,000 and RMB3,379,000) 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 2019, property, plant and equipment amounted to approximately RMB1,493,926,000, increased by approximately 6.4% as compared to last year. The new construction works were mainly the Modern TCM Industrial Park located in Yunnan and various workshops modification project located in Shijiazhuang, which amounted to approximately RMB31,096,000 in total, and there were also new additions to buildings, plant and machineries, office equipment and motor vehicles of approximately RMB43,392,000 in total during the year. Besides, following the adoption of IFRS 16, property, plant and equipment included the prepaid lease payments and right-of-use assets relating to operating leases, which had respective net book values of RMB166,154,000 and RMB3,652,000 as at 31 December 2019.

The depreciation of property, plant and equipment expenses for the year amounted to RMB162,327,000 (2018: RMB155,425,000).

Intangible Assets

Intangible assets represent patents and production licenses with finite useful lives. During the year, the amortization of intangible assets expense was approximately RMB42,653,000.

Loans and Bank Borrowings

As at 31 December 2019, the Group had bank borrowings of RMB398,392,000 which comprised of a bank loan for general operations of RMB280,000,000 with a fixed interest rate of 3.7% per annum and a loan associated with the discounted bills of RMB118,392,000. These borrowings are due within one year. Also, as at 31 December 2019, the Group had trade payables backed by bank bills of RMB538,000 (2018: RMB16,693,000) and were pledged by bank deposits amounting RMB538,000 (2018: bank deposits of RMB16,693,000). The Group's gearing ratio based on interest bearing debt for the year was 6.9% (2018: Nil).

FINAL DIVIDEND AND SPECIAL DIVIDEND

In respect of the year ended 31 December 2019, the Directors proposed that a final dividend of RMB12 cents (2018: RMB12 cents) per share and a special dividend of RMB9 cents (2018: RMB9 cents) per share will be paid on 18 June 2020, to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 11 June 2020. These dividends are subject to approval by the Shareholders at the forthcoming annual general meeting of the company (the "**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 31 March 2020 (RMB1=HK$1.092). Accordingly, the amount payable on 18 June 2020 will be:

Proposed Final Dividend — HK$0.1310 per share
Proposed Special Dividend — HK$0.0983 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 2019 with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
	NOTES	***RMB'000***	*RMB'000*
Turnover	*3*	**2,705,996**	2,570,196
Cost of sales		**(724,431)**	(694,149)
Gross profit		**1,981,565**	1,876,047
Other income		**86,147**	38,772
Investment income	*4*	**119,471**	133,446
Net exchange gain		**8,122**	2,616
Impairment losses on financial assets		**(8,647)**	–
Impairment loss on deposit for intangible assets		**(36,000)**	–
Selling and distribution costs		**(1,126,707)**	(997,351)
Administrative expenses		**(275,806)**	(256,274)
Research and development costs		**(102,715)**	(128,126)
Finance costs		**(2,658)**	–
Profit before taxation	*5*	**642,772**	669,130
Taxation	*6*	**(139,622)**	(163,254)
Profit and total comprehensive income for the year		**503,150**	505,876
Earnings per share	*8*		
– Basic (RMB)		**64 cents**	62 cents
– Diluted (RMB)		**64 cents**	62 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment		**1,493,926**	1,403,661
Prepaid lease payments		**–**	163,778
Intangible assets		**248,267**	287,920
Goodwill		**159,291**	159,291
Deposit for intangible assets		**–**	36,000
Deferred tax assets		**26,804**	28,196
		1,928,288	2,078,846
Current assets			
Inventories		**430,803**	405,498
Trade receivables	9	**260,026**	174,034
Trade receivables backed by bank bills	9	**414,285**	357,471
Prepayments, deposits and other receivables		**151,395**	87,457
Tax recoverable		**–**	307
Pledged bank deposits		**538**	16,693
Bank balances and cash		**3,946,006**	3,611,485
		5,203,053	4,652,945
Current liabilities			
Trade payables	10	**188,907**	196,414
Trade payables backed by bank bills	10	**538**	16,693
Other payables and accrued expenses		**429,208**	381,668
Bank borrowings		**398,392**	–
Lease liabilities		**4,658**	–
Contract liabilities		**47,271**	82,682
Amounts due to related companies		**15,935**	15,935
Deferred income		**53,616**	41,452
Tax payable		**39,482**	45,429
		1,178,007	780,273
Net current assets		**4,025,046**	3,872,672
Total assets less current liabilities		**5,953,334**	5,951,518

	2019	2018
	RMB'000	*RMB'000*
Non-current liabilities		
Lease liabilities	**1,487**	–
Deferred tax liabilities	**46,997**	60,631
Deferred income	**127,923**	125,106
	176,407	185,737
Net assets	**5,776,927**	5,765,781
Capital and reserves		
Share capital	**87,662**	87,662
Reserves	**5,689,265**	5,678,119
Total equity	**5,776,927**	5,765,781

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 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 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2015 – 2017 Cycle

Except as described below, the application of other new and amendments to IFRS Standards and the interpretation 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 16 "Leases"

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 "Leases", and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) relied on the assessment of whether leases are onerous by applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

(ii) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

(iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.75%.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	**9,084**
Less: Recognition exemption – short-term leases	**(1,348)**
	7,736
Lease liabilities discounted at relevant incremental borrowing rate relating to operating leases recognised upon application of IFRS 16 as at 1 January 2019	**7,366**
Analysed as	
Current	**3,596**
Non-current	**3,770**
	7,366

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Right-of-use assets *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	**7,366**
Reclassified from prepaid lease payments *(Note)*	**168,448**
	175,814
By class:	
Leasehold lands	**173,209**
Leased properties	**2,605**
	175,814

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 *RMB'000*	Adjustments *RMB'000*	**Carrying amounts under IFRS 16 at 1 January 2019** ***RMB'000***
Non-current assets			
Property, plant and equipment	–	175,814	**175,814**
Prepaid lease payments *(Note)*	163,778	(163,778)	**–**
Current assets			
Prepaid lease payments *(Note)*	4,670	(4,670)	**–**
Current liabilities			
Lease liabilities	–	(3,596)	**(3,596)**
Non-current liabilities			
Lease liabilities	–	(3,770)	**(3,770)**

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

Note: Upfront payments for leasehold lands in the People's Republic of China ("the PRC") were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB4,670,000 and RMB163,778,000 respectively, were reclassified to right-of-use assets.

Except for the above, the IASB has issued a number 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 segment

The Group is engaged in a single operating segment focusing on research and development, manufacturing and trading of Chinese pharmaceutical products. This operating segment has been identified on the basis of internal management reports that are regularly reviewed by the Chairman of the Board of Directors of the Group, being the chief operating decision maker, for the purposes of resources allocation and performance assessment. Therefore, no other discrete financial information is provided other than the Group's results and financial position as a whole. Accordingly, only entity-wide disclosures are presented.

Revenue from major products

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

	2019 ***RMB'000***	2018 *RMB'000*
Injections	**1,225,807**	1,344,395
Soft capsules	**442,031**	388,218
Granules	**388,752**	379,378
TCM formula granules	**501,906**	313,734
Others	**147,500**	144,471
	2,705,996	2,570,196

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

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

Geographical information

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

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

Information about major customers

For each of the year ended 31 December 2019 and 2018, there was no customer with turnover accounted for more than 10% of the Group's total turnover.

4. INVESTMENT INCOME

	2019	2018
	RMB'000	*RMB'000*
Interest on bank deposits	**82,960**	78,739
Investment income from short-term financial products *(Note)*	**18,582**	45,977
Investment income from financial products *(Note)*	**17,929**	8,730
	119,471	133,446

Note: The financial products and short-term financial products are measured at fair value through profit or loss for both years. The redemption amount (including the return) of such products is related to the performance of underlying debt instruments, equity instruments or foreign currencies. The investment income represents the difference between initial investment amounts and 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

	2019	2018
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	**12,262**	11,014
Other staff costs	**297,305**	233,784
Other staff's pension costs	**55,006**	52,056
Share-based payments expense for other staff	**272**	4,046
	364,845	300,900
Less: Capitalised in inventories	**(132,517)**	(116,401)
	232,328	184,499
Depreciation of property, plant and equipment	**162,327**	155,425
Amortisation of prepaid lease payments	**N/A**	4,525
Amortisation of intangible assets	**42,653**	42,042
Total depreciation and amortisation	**204,980**	201,992
Less: Capitalised in inventories	**(151,630)**	(161,117)
	53,350	40,875
Auditor's remuneration	**1,864**	1,751
Cost of inventories recognised as an expense (included in cost of sales)	**724,431**	694,149
Loss on disposal of property, plant and equipment	**143**	1,706
Rental expenses under operating lease in respect of rented premises	**N/A**	4,594
Government subsidies (included in other income) *(Note)*	**(81,629)**	(29,817)

Note: The government subsidies represent the amounts received from the local government by the subsidiaries of the Company. In 2019, government subsidies of (a) RMB69,518,000 (2018: RMB18,316,000) represent incentives received in relation to engagement of the subsidiaries of the Company in high technology business. The grants were unconditional, approved and received during the year of recognition; and (b) RMB12,111,000 (2018: RMB11,501,000) represent recognition of deferred income upon completion of related research activities and development projects.

6. TAXATION

	2019	2018
	RMB'000	*RMB'000*
The charge comprises:		
PRC Enterprise Income Tax ("EIT"):		
Current tax	**120,501**	130,441
Underprovision in prior years	**4,101**	12,653
Withholding tax on distributed profits	**27,262**	27,000
	151,864	170,094
Deferred tax	**(12,242)**	(6,840)
	139,622	163,254

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%. 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% for both years. 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% (2018: 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 (2019: nil).

7. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year:		
Final dividend paid for 2018 of RMB12 cents (2018: paid for 2017 of RMB12 cents) per share	**93,713**	98,045
Special dividend paid for 2018 of RMB9 cents (2018: paid for 2017 of RMB9 cents) per share	**70,284**	73,533
Interim dividend paid for 2019 of RMB11 cents (2018: RMB11 cents) per share	**85,075**	89,607
	249,072	261,185

	2019	2018
	RMB'000	*RMB'000*
Dividends proposed:		
Proposed final dividend of RMB12 cents (2018: RMB12 cents) per share	**91,396**	95,656
Proposed special dividend of RMB9 cents (2018: RMB9 cents) per share	**68,547**	71,742
	159,943	167,398

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 RMB159,943,000, 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 RMB159,943,000 has been calculated on the basis of 827,000,000 shares in issue less 65,368,000 shares held for share award scheme as at 31 December 2019.

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:

	2019	2018
	RMB'000	*RMB'000*
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**503,150**	505,876

	Number of shares	
	2019	2018
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	**780,818,474**	816,386,455
Effect of dilutive potential ordinary shares:		
Share options	**128,513**	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	**780,946,987**	817,861,674

The computation of diluted earnings per share does not assume the exercise of the Company's options at exercise prices of HK$8.39 (2018: HK$9.56) because the exercise price of those options were higher than the average market price for shares for the year ended 31 December 2019.

9. TRADE AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**264,055**	174,034
Trade receivables backed by bank bills	**414,285**	357,471
	678,340	531,505
Less: Allowance for credit losses	**(4,029)**	–
	674,311	531,505

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, net of allowance for credit losses, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2019	2018
	RMB'000	*RMB'000*
Within 6 months	**635,996**	515,697
Over 6 months but less than 1 year	**32,834**	15,808
Over 1 year but less than 2 years	**5,481**	–
	674,311	531,505

10. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**188,907**	196,414
Trade payables backed by bank bills	**538**	16,693
	189,445	213,107

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:

	2019	2018
	RMB'000	*RMB'000*
Within 6 months	**173,007**	195,170
Over 6 months but less than 1 year	**2,899**	4,814
Over 1 year but less than 2 years	**1,302**	1,006
Over 2 years but less than 3 years	**1,264**	9,035
Over 3 years	**10,973**	3,082
	189,445	213,107

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 will be held on Friday, 29 May 2020 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, 25 May 2020 to Friday, 29 May 2020, 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, 22 May 2020.

The register of members will also be closed from Monday, 8 June 2020 to Thursday, 11 June 2020, 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 Friday, 5 June 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2019, the Company or its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

SHARE AWARD SCHEME

On 26 March 2018, the Company adopted the share award scheme (the "Scheme") with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group. During the year ended 31 December 2019, 35,501,000 shares were purchased by the trustee from the market at an average price of approximately HK$7.67 (equivalent to RMB6.87) per share, with an aggregate amount of HK$272,325,000 (equivalent to RMB244,019,000). No shares were granted to eligible employees pursuant to the Scheme during the year ended 31 December 2019. At the end of the reporting period, there are 65,368,000 shares held by the trustee.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2019, the Company has applied and complied with the principles in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules, except for code provision A.2.1 as described below.

Code provision A.2.1 of the Code stipulates that the roles of chairman (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. During the period from 1 January 2019 to 1 July 2019, Mr. Xu Sheng, an executive Director, had been the chief executive officer of the Company, and the Company fully complied with the requirement of code provision A.2.1 of the Code. As Mr. Xu Sheng ceased to act as both executive Director and chief executive officer of the Company on 2 July 2019, Mr. Li Zhenjiang has become both the Chairman and president of the Company (the "President"), who assumed the duty of a chief executive. 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 maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

COMPLIANCE WITH MODEL CODE

The Company has adopted 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. The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are likely to be in possession of inside information of the Group. Having made specific enquiry with the Directors, all Directors confirmed that, in respect of the year ended 31 December 2019, they had complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the audited financial results of the Group for the year ended 31 December 2019.

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 2019 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 this 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 2019 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) in due course.

APPRECIATION

The Company's accomplishments are inseparable from the hard work 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, 31 March 2020

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, Prof. Luo Guoan and Mr. Cheung Chun Yue Anthony.