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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: 2877)

2020 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 2020 as follows:

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2020, the operating results of the Group were as follows:

- Turnover amounted to RMB2,655,701,000, a decrease of 1.9% as compared to last year;
- Gross profit margin was 74.9% as compared to 73.2% of last year;
- Profit for the year amounted to RMB295,033,000, a decrease of 41.4% as compared to last year;
- Profit for the year (without taking into the account of the one-time non-recurring impairment charge of RMB229,601,000) only decreased by 0.7% as compared to last year;
- Earnings per share amounted to RMB39 cents;
- Earnings per share (without taking into the account of the one-time non-recurring impairment charge of RMB229,601,000) was RMB66 cents, an increase of 3.1% as compared to last year;
- Recommended final dividend of RMB21 cents per share;
- Net assets per share amounted to RMB7.0 (equivalent to HK\$8.3); and
- Net cash per share amounted to RMB4.7 (equivalent to HK\$5.6).

CHAIRMAN'S STATEMENT

Dear Shareholders,

2020 was an extraordinary year full of unprecedented challenges. Since the beginning of coronavirus outbreak, the Group has been continually producing medications to supply healthcare frontlines for fighting against the epidemic and for assuring public health. We overcame impacts of significant slowdown of the industry due to the pandemic, and achieved overall sales of RMB2.66 billion, representing a slight decrease of only 1.9% as compared to last year. However, due to an one-time non-recurring impairment charge on the intangible assets, goodwill, and fixed assets of a wholly-owned subsidiary of the Group for an aggregate amount of approximately RMB229 million, the Group's reported net profit for 2020 had decreased by 41.4% as compared to last year. Without taking into the account of such impairment charge, the Group's net profit for 2020 would only decrease by 0.7%.

Looking back at our track records for the past decade, the Group's turnover and net profit had experienced negative growth for years, which was caused by various internal and external reasons. For that, we had undergone years of reformation with endeavour. In view of the current external business environment as well as the results of our reform, the Group believes that in 2021 we will be able to shake off the predicament of not achieving sustainable sales growth in the past and restore growth momentum.

First, the Chinese government has now placed Chinese medicine in a more prominent spot. With the continued promulgation of favourable policies to Chinese Medicine, the reformation and development of Chinese medicine are fostered with unprecedented efforts to guide the industry in making historical achievement. In recent months, after our government published the "the Opinions on Implementing the Promotion of the Inheritance and Innovative Development of Chinese Medicine" and "Several Policies for Accelerating the Characteristic Development of Chinese Medicine", it also issued the "Announcements on the Ending of Pilot Trial on TCM Formula Granules" immediately afterwards. The "Outline of the 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives through the Year 2035" recently voted and passed by the National People's Congress also stipulated to attach equal importance to Chinese and western medicine and their complimentary advantages, to vigorously develop TCM industry, to strengthen the integration of Chinese and western medicine, and to promote Chinese medicine to the world. The Chinese medicine industry is currently ushering in the historic period of the right time, the right place, and with the people's consonance.

Over all these years, the Group has brought together plenty of superb product clusters. The Group now owns production licences of over 400 medications consisted of more than 30 exclusive products with proprietary intellectual property, spanning across 17 major product series in various therapeutic areas, including cardio-cerebrovascular, antiviral, orthopedics, pediatrics, gynecology, neurology, gastroenterology, ophthalmology, oncology and immunology medicine, and more than 600 TCM formula granule varieties. The Group has become one of the modern Chinese medicine enterprises with the most comprehensive genre of pharmaceutical products.

Riding on the advantages from our unique product lines and exclusive products, our strategies are to emphasize on the continuous enhancement of empirical research and clinical value of our products, as well as strengthening our product pipeline's growth and development. As we fortify our products and market specialization, we are also embracing for new trends including "Internet+", hierarchical diagnosis, and prescription outsourcing, and determined to further strengthen our ties with high-end hospitals, grass-root medical institutions, retail terminals as well as our online presence. At the same time, the Group will utilise innovative sales model to enhance effectiveness on our terminal coverage and capability on the administration and control of terminals. To seize the opportunity from rolling amendments of the National Drugs Reimbursement List/Essential Drugs List, the Group will make every effort to push forward our star product strategy which involves in-depth product re-development and undergo extensive evidence-based medical research on exclusive products so as to broaden their life cycles and expand their market opportunity.

The Group has been actively establishing our position in the TCM formula granule industry since a decade ago. As the very first company running TCM formula granules pilot trial in Hebei Province and Yunnan Province and the sixth-ranked formula granule manufacturer in the nation, and along with the opening up of the nationwide market, the Group strives to continuously solidify our leading position in the market of Hebei Province, swiftly exploit and turn Yunnan Province into a mature market and complete the strategic enhancement of formula granule production capacity in full speed. Through establishing a solid ground and riding on the opportunity from the nationwide market opening, the Group will expedite the enrollment of our TCM formula granules into other provinces and accelerate the formation of our national network. We strive to rank among the top three of TCM formula granule industry of the nation after three years.

Meanwhile, the Group is also bolstering a digital marketing ecosystem to strengthen the sales and marketing of our entire business segments. Using "Internet+" to achieve the digitalized marketing transformation of our healthcare business, we are keen to strengthen the B2B, B2C, O2O sale models as well as our self-operated online flagship store. We will continue to apply innovative pharmaceutical marketing model and modern management. Our goal is to turn online sales to become one of the Group's main sales forces by 2023.

In terms of mid to long term development strategy, the Group will continuously strengthen research and development of strategic products. We will adhere to our focus on developing innovative medications, classic TCM prescriptions and health foods with leading national standard. The focal point will be on those that are highly recognized by the modern medical system, and those offering clinical advantages and unique characteristics in fields where Chinese medicine are superior, namely cardio-cerebrovascular diseases, pediatric diseases, oncology, orthopedic diseases, gynecological diseases and geriatric diseases. We are also keen to accelerate the pace of phase III clinical trials of Sailuotong Capsule, an innovative compound TCM, and the market launch of other new products.

The Chinese government is now pressing on the equal importance of both Chinese and Western medical treatments and the joint use of Chinese and Western medicines. The government approval of TCM injections to treat Covid-19 has fostered the prospect of future development in TCM injections products. The Group will put in our full effort to uphold the leading position of our TCM injection products by continuously investing in TCM injections clinical research, launching efficacy evaluation on TCM injections as well as boosting their clinical value. By leveraging the success in our safety re-evaluation on Shu Xie Ning Injection, Qing Kai Ling Injection and Shen Mai Injection and closely following the relevant country's policies, we are keen to collaborate with relevant authority in launching the "Proper Usage of TCM Injections Project" to promote the appropriate prescriptions of doctors at the grass-root level and orderly conduct efficacy research to broaden the market potential of our TCM injections.

Looking back at the past year, many outstanding employees of the Group had emerged with touching deeds. They overcame the pandemic and worked diligently and tirelessly to protect the supply of our products. They fully performed their duties, and endured difficulties to ensure quality and safety of our products as a mean to support front line healthcare personnel. Especially during the sudden outbreak this year, our management personnel and staff returned to their posts immediately. While following pandemic prevention and control guidelines, they worked overtime to manufacture medications required by the market. They had proactively shouldered their social responsibility by safeguarding medication supplies for the protection of our society. This kind of generous affection and commitment of Shineway's employees is worthy of our continued inheritance and upholding. Such achievements could only be obtained with the whole-hearted contributions by all our staff who were willing to ride out the difficult times together. Here, I would like to express my heartfelt gratitude and appreciation to all Shineway employees. Thank you all!

In 2021, using our "14th Five-Year" strategy as a guide, let's achieve outstanding results with resolute actions and begin the Group's new journey of great performance!

Li Zhenjiang

Chairman of the Board

Hong Kong, 30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Annual results highlights

In 2020, the Group's turnover slightly decreased by 1.9% to RMB2,655,701,000 as compared with last year. This was mainly due to the drastic drop of inpatient and outpatient visits in the first six months of the year caused by the COVID-19 pandemic, resulting in a decrease in overall medical consumption. With the country's domestic pandemic prevention and control proven to be effective and everyday's life was getting back to normal, turnover in the third and fourth quarters of 2020 had gone up by 1.1% and 18.4% respectively as compared to the same period of last year.

The Group's gross profit margin for the year was 74.9%, representing a slight increase compared to 73.2% of last year. This was mainly attributable to the continuous increase of the proportion of profit contribution from products with higher gross profit margin.

Due to an one-time non-recurring impairment charge related to the intangible assets, goodwill, and property, plant and equipment of a wholly-owned subsidiary of the Group with an aggregate amount of RMB229,601,000 ("the Impairment Charge"), the Group's net profit for 2020 had decreased by 41.4% as compared to last year. Without taking into the account of the Impairment Charge, the Group's net profit for 2020 only decreased by 0.7%, calculated as follows:

	2019 RMB'000	2020 RMB'000	Year-on-year growth rate
Net profit	503,150	295,033	-41.4%
The Impairment Charge	—	229,601	—
Deferred tax reversal related to the Impairment Charge	—	(25,226)	—
Net profit (before the Impairment Charge)	503,150	499,408	-0.7%
Net profit margin (before the Impairment Charge)	18.6%	18.8%	-0.2pp
Earnings per share (before the Impairment Charge)	<u>RMB64 cents</u>	<u>RMB66 cents</u>	<u>3.1%</u>

The Group's net profit margin before the Impairment Charge was 18.8%, which was roughly the same as that of 18.6% of last year. Without taking into the account of the Impairment Charge, the Group's earnings per share for the year would be RMB66 cents, representing an increase of 3.1% as compared to last year.

As a result of the Impairment Charge, the Group expects that the amortization expense (net of deferred tax) starting from 2021 to 2024 will reduce by approximately RMB30,000,000 annually, leading to improvements of the Group's net profit margin and return on equity in these years.

As of 31 December 2020, as calculated based on total issued shares of the Company of 827,000,000 shares and after deducting bank loans of RMB370 million, net cash per share of the Group amounted to HK\$5.6, and net assets per share amounted to HK\$8.3.

The Group has proposed to pay final dividend amounted to RMB21 cents per share. Together with interim dividend of RMB11 cents per share, the total payout amounted to RMB32 cents and the Group's payout ratio for the year is 52.9% before the Impairment Charge.

Resumption of growth in the fourth quarter

The Group's sales during the peak of the pandemic in the first quarter of 2020 was notably lower than that of the same period of last year. With the country's domestic pandemic prevention and control becoming effective, the impact of the pandemic on domestic medical consumption had gradually lessened. All dosage forms of the Group's products had resumed their growth in the fourth quarter of 2020. The table below shows the quarterly and annual growth rates for each product dosage form in 2020:

	Year-on-year growth rate in 2020					Full year	Percentage of total turnover
	First quarter	Second quarter	Third quarter	Fourth quarter	Full year	Turnover RMB'000	
Injection Products	-21.3%	-27.8%	-1.2%	15.6%	-10.1%	1,102,444	41.5%
Soft Capsule products	-4.1%	13.2%	-10.4%	20.1%	4.5%	462,090	17.4%
Granule products	-3.9%	-14.9%	-4.3%	27.8%	4.4%	405,960	15.3%
TCM Formula Granules	-12.6%	10.7%	25.4%	17.2%	10.8%	556,327	20.9%
Others dosage products	-25.7%	-11.1%	-20.4%	6.1%	-12.6%	128,880	4.9%
Oral products	-9.0%	4.1%	2.9%	20.4%	4.9%	1,553,257	58.5%
Total	-14.6%	-11.7%	1.1%	18.4%	-1.9%	2,655,701	100.0%

Affected by sharp decline in both inpatients and outpatients during the pandemic, sales of Shu Xie Ning Injection and Shen Mai Injection, which were mainly being used in hospitals, as well as sales of Qing Kai Ling Injection which was mostly used in grass-root medical institutions, recorded a decline in the first and second quarters. Although sales of these products rebounded drastically in the fourth quarter, overall sales of injection products for the year had decreased by 10.1%.

While sales of the Group's soft capsule products declined during the first quarter due to the pandemic, growth were recorded in the second and fourth quarters. Overall sales of soft capsule products for the full year increased by 4.5% as compared to last year.

After the pandemic became under control, outpatient visits had shown a significant rebound. The only exception was the pediatric outpatient clinics. As youngster patients had been staying home due to school suspension, there was a wide reduction of pediatric respiratory infection due to children's reduced contact with the public, resulting in a corresponding decrease in the demand for the Group's pediatric granule products. Meanwhile, Huamoyan Granule, the Group's key exclusive product, recorded a 64.7% growth in sales during the year, which drove the full year overall sales of granule products to increase by 4.4%.

Oral products contributed to 71.9% of gross profit

As estimated with internal data, oral products accounted for 71.9% of the Group's gross profit for 2020 after adjusting for "Two-Invoices System" effect. The proportion of profit contribution from oral products was much higher than that of injection products. The following shows the estimated percentages of gross profit contribution after adjusting for "Two-Invoices System" effect:

	Percentage of gross profit contribution	
	2019	2020
Injection products	31.2%	28.1%
Oral products	<u>68.8%</u>	<u>71.9%</u>
Total sales	<u>100.0%</u>	<u>100.0%</u>

In 2020, sales of injection products as a percentage to total turnover of the Group dropped from 31.2% of last year to 28.1%. The percentage of profit contribution from injection products continued to decline. At the same time, sales of oral products as a percentage to total turnover for the year rose from 68.8% of last year to 71.9%.

Since our oral products had a higher overall gross profit margin than injection products upon adjusting for "Two-Invoice System" effect, an increase in the proportion of sales of oral products would also increase the Group's profitability. The Group will continuously and proactively cultivate new growth areas of oral products while enhancing their growth momentum as a means to continuously lessen concentration of profit contribution from injection products in the coming years.

TCM formula granules nationwide market opens for interprovincial sales

During 2020, sales of the TCM formula granules increased by 10.8% as compared to last year, constituting for about 20.9% of total turnover of the Group. Apart from the impact of the pandemic, the main reason why their sales did not achieve a higher growth in 2020 was due to the reduction in ex-factory prices of TCM formula granules upon negotiations between the Group and medical insurance regulators at the end of 2019. The adjusted ex-factory prices of the Group's TCM formula granules then became a lot closer to those of Chinese medicine decoctions sold at hospitals. Patients have then become more incline to take TCM formula granules, resulting in greater demand and boosting market competitiveness. The sales of TCM formula granules for the first two months of 2021 had increased by 46.0% as compared to the same period of last year.

In February 2021, four ministries including the National Medical Product Administration jointly issued the “Announcements on Ending the Pilot Trial on TCM Formula Granules” to regulate the production of TCM formula granules and to guide the healthy development of the industry for better fulfillment of clinical needs. This new policy has brought about the opening of the nationwide TCM formula granule market by officially allowing manufacturers to sell TCM formula granules across provinces after filing with the respective local provincial drug regulatory authorities upon the effective date of 1 November 2021. This policy has served to affirm the direction and opportunity of development for TCM formula granules.

Based on currently available data, the Group's domestic sales of TCM formula granules ranks the sixth nationwide at present. With the opportunity brought by the opening of nationwide market, TCM formula granules of the Group will develop rapidly toward the target of forming a nationwide network. The Group is now expediting the strategic positioning of nationwide market, accelerating the registration of our TCM formula granules with targeted provinces while formulating a nationwide grass-root market development blueprint. The Group is also accelerating our market development in Yunnan and further expanding the production capacity of TCM formula granules with an expected annual production value to reach RMB4 billion upon completion, adding stronger momentum to the strategic positioning of the Group's TCM formula granules.

New National Drugs Reimbursement List products provide growth momentum in the coming years

As at the end of 2020, the Group possessed over 400 production permits on medications which consisted of more than 100 products regularly manufactured by the Group, covering 17 therapeutic areas. Among them were 19 exclusive products of the Group and 18 products admitted in the National Essential Drugs List. In addition, 23 products included in the National Low-Priced Medicine Catalogue, whereas 16 products included in the Provincial Low-Priced Medicine Catalogue; and 3 products included in the Catalogue of Emergency Use Drugs. Sales of the Group's key products in 2020 are set out as follows:

			2019	2020	Year-on-year growth rate	2020 Percentage of total sales
			RMB'000	RMB'000		
TCM formula granules	2 PDRL	–	501,906	556,327	10.8%	20.9%
Qing Kai Ling Injection	NDRL	Essential Drug	360,762	282,065	-21.8%	10.6%
Shu Xie Ning Injection	NDRL	–	394,343	273,947	-30.5%	10.3%
Wu Fu Xin Nao Qing Soft Capsule	5 PDRL	–	200,133	202,129	1.0%	7.6%
Shen Mai Injection	NDRL	Essential Drug	192,032	182,700	-4.9%	6.9%
Guan Xin Ning Injection	NDRL	–	68,546	172,497	151.7%	6.5%
Huamoyan Granule [^]	* NDRL	Essential Drug	73,699	121,346	64.7%	4.6%
Huo Xiang Zheng Qi Soft Capsule	NDRL	Essential Drug	116,046	113,710	-2.0%	4.3%
Pseudomonas Aeruginosa Injection [^]	9 PDRL	–	82,395	74,430	-9.7%	2.8%
Pediatric Qingfei Huatan Granule	3 PDRL	–	102,329	70,076	-31.5%	2.6%
Qing Kai Ling Soft Capsule [^]	NDRL	Essential Drug	45,799	52,705	15.1%	2.0%
Xiesaitong Dripping Pill	* NDRL	–	30,122	26,499	-12.0%	1.0%
Compound Liquorice Tablet	NDRL	Essential Drug	45,876	25,520	-44.4%	1.0%
Qi Huang Tong Mi Soft Capsule [^]	* NDRL	–	138	22,586	16266.7%	0.9%
Jiang Zhi Tong Luo Soft Capsule [^]	# NDRL	–	9,172	10,385	13.2%	0.4%
Dan Deng Tong Nao Capsule [^]	# NDRL	–	17,311	16,710	-3.5%	0.6%
Others			<u>465,387</u>	<u>452,069</u>	<u>-2.9%</u>	<u>17.0%</u>
Total sales			<u>2,705,996</u>	<u>2,655,701</u>	<u>-1.9%</u>	<u>100.0%</u>

[^] The Group's exclusive product

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

Newly included into the 2020 edition of National Drugs Reimbursement List

Affected by the sharp decline in both inpatients and outpatients during the pandemic as well as the decreasing patients for respiratory diseases, influenza and pediatric illness, demand of Qing Kai Ling Injection, Shu Xie Ning Injection, and also oral products for pediatrics and respiratory diseases such as Pediatric Qingfei Huatan Granule and Compound Liquorice Tablet was affected immensely. On the other hand, the Group's exclusive products with unique therapeutic effects such as Huamoyan Granule, and Wu Fu Xin Nao Qing Soft Capsule for chronic diseases (such as cardio-cerebrovascular diseases) were comparatively less affected by the pandemic and had a better performance as these products have been benefiting from their long term consumptions.

Shineway's exclusive product, Qi Huang Tong Mi Soft Capsule, which has been included in the National Drugs Reimbursement List at the end of 2019, showed an outstanding performance during the year. Qi Huang Tong Mi Soft Capsule is an innovative Chinese medication developed by the Group for treating functional constipation and has been listed as a state protected Chinese medicine. The Group believes that this product will have an even stronger performance in 2021.

In February 2021, two of the Group's exclusive products, namely Jiang Zhi Tong Luo Soft Capsule and Dan Deng Tong Nao Capsule were included in the National Drugs Reimbursement List. Jiang Zhi Tong Luo Soft Capsule possesses various invention patents and has been listed as a state protected Chinese medicine. Clinical researches had proven that it is effective and safe in the treatment of hyperlipidemia. Dan Deng Tong Nao Capsule is an exclusive innovative ethnic medicine with national patents. It has been included in the Chinese Pharmacopoeia. Clinical researches show that Dan Deng Tong Nao Capsule can be used for the treatment of patients with stroke, transient ischemic attacks, migraine and other clinical diseases, as well as treating acute cerebral infarction effectively and safely. The inclusion in the National Drugs Reimbursement List will add growth momentum to these two exclusive medications in the coming years.

Developing exclusive and innovative medications to expand core product pipelines

The Group is determined to increase our resources on drugs with proprietary intellectual property rights, unique therapeutic effect and high growth potential. We are inclined to develop innovative medications with leading standard, specially for those which are highly recognized by the modern medical system, and those with clinical treatments where Chinese medicine are superior and with distinctive features, namely cardio-cerebrovascular diseases, pediatric diseases, orthopedic diseases, gynecological diseases and geriatric diseases, etc. The Group currently has a total of 7 research projects in various stages of clinical trials. Among them are three groundbreaking exclusive medications 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 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 addresses the treatment of vascular dementia. Due to the impact of the COVID-19 pandemic, the clinical trials in China and Australia are currently estimated to be completed in 2023 and 2024 respectively.

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

Q-B-Q-F Condensed Pill focuses on the treatment of mycoplasma pneumonia in children. It is currently in the stage of phase III clinical trial. As impacted by the COVID-19 pandemic, it is now conservatively estimated that the clinical trial will be completed in 2025.

3. *JC Soft Capsule*

JC Soft Capsule is a compound TCM developed under the guidelines from the traditional medicine theory. It is a new medication of compound Chinese medicine using "detoxification from the interior to exterior" as the principle for treatment of common cold. It is used for treating upper respiratory tract infection with symptoms such as fever and aversion to cold, dry and sore throat, nasal congestion and runny nose, headache and cough, etc. At present, most traditional Chinese medicine in the market for common cold are heat-clearing detoxifying types or antiseptics, but none of those available in the market are for "detoxification from the interior to exterior". JC Soft Capsule is now conservatively estimated to complete phase III clinical trial in 2024.

The Group is active in the development and registration of classic TCM prescriptions in accordance with the national policies. The target is to complete the registration application for the first batch of classic TCM prescriptions by the end of 2021.

Deploy "Internet+" sales digital transformation swiftly

Although online launching of certain products for sales was affected by the pandemic in the first half of 2020, the Group's internet digital marketing business recorded online sales of RMB83.5 million in 2020, representing an 182.0% increase as compared to last year.

In 2020, the Group's flagship medicine store on Tmall was officially launched. At the same time, the Group had strengthened its strategic corroborations with the country's mainstream B2B and B2C medical e-commerce platforms such as Jingdong, Tmall, Ping An Good Doctor, 111, Inc. and Yao Shi Bang to develop digital sales ecosystem and to drive the scale of sales. During the year, the Group had also formed a community operation team to explore a new online growth model through community marketing. The Group's aim is not only to empowering our entire business segments through the "Internet+" digital transformation but also making it as one of the primary forces of the Group's sales and marketing.

Strengthen academic promotion and evidence-based medical research

The Group strives to contribute to people's health with its range of products which are of superior efficacy and quality. The breakdown of the Group's sales by efficacy of medication in 2020 is as follows.

	2019		2020	
	<i>RMB'000</i>	Proportion of sales	<i>RMB'000</i>	Proportion of sales
Cardiovascular medicines	1,064,938	39.4%	1,069,838	40.3%
Respiratory system medicines	587,532	21.7%	516,027	19.4%
Digestive system medicines	173,363	6.4%	139,102	5.2%
Pediatric medicines	156,471	5.8%	117,322	4.4%
Orthopedic medicines	87,052	3.2%	135,103	5.1%
Reinforcing and tonic medicines	9,201	0.3%	14,142	0.6%
Nervous system medicines	5,944	0.2%	7,910	0.3%
Gynecological medicines	1,674	0.1%	5,622	0.2%
	2,086,175	77.1%	2,005,066	75.5%
TCM formula granules	501,906	18.5%	556,327	20.9%
Other thereapeutic areas	117,915	4.4%	94,308	3.6%
Total turnover	<u>2,705,996</u>	<u>100.0%</u>	<u>2,655,701</u>	<u>100.0%</u>

The Group will continue with its academic promotions in the above eight major areas, by focusing on exclusive products with proprietary intellectual property rights, increasing efforts in evidence-based medical research, and focusing on the cultivation of orally consumed products, and accelerating development of the Group's exclusive orally consumed products. The Group is determined to seize the opportunity of the country's favorable policy, and carry out nationwide development and positioning of TCM formula granules, with the goal of becoming one of the country's market leaders in the TCM formula granules industry.

Intelligent manufacturing attains digitalization of product quality

During the year, the Group's "New Model of Intelligent Manufacturing and Digitalization of Modern Chinese Medicine Manufacturing Facility Project" passed site inspection and highly appraised by the National Intelligent Manufacturing Project Acceptance Team, who unanimously opined that the project had reached the standard of intelligent factory. In recent years, the Group has fully adopted information technology such as industrial internet, Internet of Things, big data and cloud computing. Through constantly making use of the technological advancement, we had successfully digitalized our modern Chinese medicine production facilities by integrating ERP (Enterprise Resource Planning system), MES (Manufacturing Execution System), LIMS (Laboratory Information Management System), SCADA (Supervisory Control And Data Acquisition system) and DCS (Distributed Control System). The result is an one-stop data management platform with digital technology which has energized our whole production process by collecting more than 4,000 data points and tens of thousands of process, equipment and environmental parameters and allows digitalization and real time two-way product quality tracing of modern Chinese medicine, laying a solid foundation for strengthening core competitiveness, reducing costs, increasing efficiency and the compliance of national and provincial quality standards of TCM formula granules .

Free cash flow remains strong

Despite the decline in net profit as determined under the International Financial Reporting Standards, cash flow of the Group remained strong. In 2020, net cash from operating activities had increased by 73.5%, from RMB367,996,000 to RMB638,566,000. Meanwhile, payment of capital expenditure decreased from RMB88,402,000 to RMB66,027,000. On the other hand, the Group consistently received more interest income than interest expense payments. All outstanding bank loans will also be repaid with our pledged bank deposits and bank balance before mid-2021, and the Group does not intend to incur any bank loan thereafter. Upon such financial arrangements, free cash flow of the Group in 2020 was estimated to reach RMB572,539,000 (equivalent to HK\$680,176,000 or HK\$0.82 per share as calculated based on 827,000,000 of total issued shares). The strong free cash flow strengthened the Group's ability to enhance return to shareholders.

Leading in Bloomberg's ESG Disclosure Score

The Group's Board of Directors strongly believes in the importance of environmental protection, corporate social responsibility and sustainable development to the Group's long-term development, and has therefore incorporated these beliefs into the Group's development strategy and adopted corresponding measures in its daily operation and governance. Back in 2017, the Group was included as one of the first batch of manufacturers in the Green Manufacturing Demonstration List by the Ministry of Industry and Information Technology of the People's Republic of China (the "PRC"). In parallel with the development of the Group's business, the Group also pays close attention to sustainability issues such as climate change and the United Nations Sustainable Development Goals, which are of great concerns to the international community. These issues are taken into account in the formulation of the Group's policies. The Group also established a Corporate Social Responsibility and Sustainability Committee in 2018, chaired by an independent non-executive director who is a board member of Friends of the Earth (HK), with overall responsibility to oversee the Group's environmental, corporate social responsibility and sustainable development. The Group has kept active communication channels with different key stakeholders, including employees, investors and shareholders, customers, suppliers, government and regulatory bodies, the community, non-governmental organisations and the media, through various channels and actively responded to their views and requests.

According to the recent information from Bloomberg, the Bloomberg ESG Disclosure Score for the Group currently ranks as the second highest among Hong Kong listed companies in the healthcare sector, and the thirty-seventh highest among all companies listed on the Hong Kong Stock Exchange. The group also received excellent ratings in the ESG scores of other rating agencies.

FINANCIAL ANALYSIS

Turnover

In 2020, the Group recorded a decrease in turnover of 1.9% from last year. Sales of injection products reached approximately RMB1,102,444,000, down approximately 10.1% as compared with 2019. Sales of injection products accounted for approximately 41.5% of the Group's turnover. Sales of soft capsule products were approximately RMB462,090,000, up approximately 4.5% from last year. Soft capsule products accounted for approximately 17.4% of the Group's turnover. Sales of granule products amounted to approximately RMB405,960,000, up approximately 4.4% from last year. Granule products accounted for 15.3% of the Group's turnover. Sales of TCM formula Granules were approximately RMB556,327,000, representing an increase of 10.8% from last year and accounting for 20.9% of the Group's turnover. Sales of the Group's products in other formats were approximately RMB128,880,000 which accounted for approximately 4.9% of the Group's turnover.

The aggregate sales attributable to the largest customer and ten largest customers combined of the Group were 5.8% and 26.8% respectively of the Group's turnover for the year.

Cost of Sales

Cost of sales in 2020 was approximately RMB667,855,000 representing approximately 25.1% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 55.9% (2019: 58.7%), 12.3% (2019: 12.5%) and 31.8% (2019: 28.8%) of total cost of sales respectively.

Gross Margin

In 2020, average gross margins of injection products, soft capsule products, granule products and TCM formula granule products were approximately 77.5% (2019: 75.3%), 78.0% (2019: 73.2%), 76.5% (2019: 70.1%) and 68.1% (2019: 75.6%) respectively. Overall gross margin was 74.9% (2019: 73.2%).

Other Income

Other income mainly includes government subsidies of RMB74,988,000 (2019: RMB81,629,000). 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 RMB87,826,000 (2019: RMB82,960,000) and RMB44,833,000 (2019: RMB36,511,000) respectively.

Impairment Losses on Financial Assets

In 2020, respective impairment of RMB5,800,000 (2019: RMB4,029,000) and RMB1,115,000 (2019: Nil) for trade receivables and trade receivables backed by bank bills were accounted for after the expected credit risk of financial assets assessment by the Group's management.

Impairment Losses on Property, Plant and Equipment, Intangible Assets and Goodwill

The related product of a wholly-owned subsidiary of the Group (the "Subsidiary") will be removed from various provincial drug reimbursement lists in 2022 or before due to the change in drug reimbursement policy in 2020. The Group's management performed impairment assessment on assets related to the Subsidiary and accounted for a one-time non-recurring impairment loss on property, plant and equipment, intangible assets and goodwill of the Subsidiary of RMB229,601,000 in total to reflect the unfavorable outlook of the related product of the Subsidiary.

Distribution Costs

Distribution costs comprise of advertising expenses, distribution and promotion expenses, wages of sales persons and other market promotion and development expenses. In 2020, the distribution costs have increased by approximately 5.2% and accounted for approximately 44.6% of turnover in 2020 (2019: 41.6%). It was mainly due to the increase in market research and development expenses as compared to last year.

Administrative Expenses and Research and Development Costs

In 2020, administrative expenses are maintained at last year level, representing approximately 10.3% (2019: 10.2%) of the Group's turnover. Administrative expenses mainly comprised of (i) non-productive depreciation expenses of fixed assets and amortization expenses of intangible assets and (ii) salaries of administrative staff which accounted for 2.9% and 2.9% of the Group's total turnover in 2020 respectively. Research and development expenses have decreased by approximately 2.9% from last year, accounted for approximately 3.8% (2019: 3.8%) of the Group's turnover in 2020.

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% (2019: 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 2019 and 2020. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

In 2020, the effective tax rate of the Group was 25.3% (2019: 21.7%). The increase in effective tax rate was mainly due to certain larger asset impairment losses in current year was non-tax deductible item.

Profit for the Year

The Group's profit attributable to shareholders of the Company for 2020 was RMB295,033,000, representing a decrease of 41.4% from 2019. The decrease in profit was mainly attributable to the effect of a one-time non-recurring impairment loss on property, plant and equipment, intangible assets and goodwill of a subsidiary.

Liquidity and Financial Resources

As at 31 December 2020, bank balances and cash of the Group amounted to approximately RMB3,943,010,000 (2019: RMB3,946,006,000), of which approximately RMB3,800,912,000 (2019: RMB3,841,511,000) were denominated in RMB, others being equivalent to approximately RMB92,627,000, RMB46,143,000 and RMB3,328,000 (2019: RMB99,198,000, RMB1,786,000 and RMB3,511,000) 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 2020, property, plant and equipment amounted to approximately RMB1,394,771,000, decreased by approximately 6.6% as compared to last year. The Group’s management accounted for an impairment loss on property, plant and equipment of RMB4,073,000 of a wholly-owned subsidiary of the Group in current year. The new construction works were mainly the workshop projects located in Yunnan and Xizang and various workshops modification projects located in Shijiazhuang, which amounted to approximately RMB14,486,000 in total, and there were also new additions to buildings, plant and machineries, office equipment and motor vehicles of approximately RMB80,412,000 in total during the year. Besides, following the adoption of IFRS 16, property, plant and equipment had included the leasehold lands, leased properties, leased motor vehicles and leased machineries, which had respective net book values of RMB153,712,000, RMB5,624,000, RMB3,559,000 and RMB5,821,000 as at 31 December 2020.

The depreciation of property, plant and equipment expenses for the year amounted to RMB165,838,000 (2019: RMB162,327,000).

Intangible Assets

Intangible assets represent patents and production licenses with finite useful lives. During the year, the amortisation of intangible assets was approximately RMB42,574,000. Besides, the Group’s management accounted for an impairment loss on intangible assets of RMB168,734,000 of a wholly-owned subsidiary of the Group in current year.

Goodwill

Goodwill is comprised of the Group's acquisition of the remaining 20% ownership equity interests of Shineway Pharmaceutical Sales Company Limited in 2005, the acquisition of 100% equity interests of Shineway Pharmaceutical (Zhangjiakou) Co., Ltd and Shineway Pharmaceutical (Sichuan) Company Limited in 2010, the acquisition of 100% equity interest of Shineway Pharmaceutical Group (Shandong) Company Limited in 2014 and the acquisition of 100% equity interest of Yunnan Shineway Spirin Pharmaceutical Company Limited in 2015. During the year, the Group's management accounted for an impairment loss on goodwill of RMB56,794,000 of a wholly-owned subsidiary of the Group.

Loans and Bank Borrowings

As at 31 December 2020, the Group had bank borrowings of RMB369,319,000 which comprised of a bank loan for general operations of RMB70,000,000 (2019: RMB280,000,000) with a fixed interest rate of 2.05% per annum and certain loans associated with the discounted bills of RMB299,319,000 (2019: RMB118,392,000). These borrowings are due within one year. As at 31 December 2020, the Group had certain loans associated with the discounted bills of RMB299,319,000 which were pledged by bank deposits amounting RMB300,000,000. The Group's gearing ratio based on interest bearing debt for the year was 6.4% (2019: 6.9%).

FINAL DIVIDEND

In respect of the year ended 31 December 2020, the Directors proposed that a final dividend of RMB21 cents (2019: final dividend of RMB12 cents and special dividend of RMB9 cents) per share will be paid on 17 June 2021, to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 10 June 2021. The above final dividend is subject to approval by the Shareholders at the forthcoming annual general meeting of the company (the "Annual General Meeting"). Dividend payable in cash in Hong Kong dollars will be converted from RMB at the telegraphic transfer exchange rates quoted by the bank at 10:00 a.m. on 30 March 2021 (RMB1=HK\$1.183). Accordingly, the amount payable on 17 June 2021 will be:

Proposed Final Dividend – HK\$0.2484 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 2020 with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	3	2,655,701	2,705,996
Cost of sales		<u>(667,855)</u>	<u>(724,431)</u>
Gross profit		1,987,846	1,981,565
Other income		86,056	86,147
Investment income	4	132,659	119,471
Other gains and losses		112	7,979
Impairment losses on financial assets under expected credit loss model, net of reversal		(6,915)	(8,647)
Impairment loss on deposits for intangible assets		–	(36,000)
Impairment loss on property, plant and equipment		(4,073)	–
Impairment loss on intangible assets		(168,734)	–
Impairment loss on goodwill		(56,794)	–
Selling and distribution costs		(1,185,469)	(1,126,707)
Administrative expenses		(273,359)	(275,663)
Research and development costs		(99,705)	(102,715)
Finance costs		<u>(16,600)</u>	<u>(2,658)</u>
Profit before taxation	5	395,024	642,772
Taxation	6	<u>(99,991)</u>	<u>(139,622)</u>
Profit and total comprehensive income for the year		<u>295,033</u>	<u>503,150</u>
Earnings per share	8		
– Basic (RMB)		<u>39 cents</u>	<u>64 cents</u>
– Diluted (RMB)		<u>39 cents</u>	<u>64 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

		2020	2019
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,394,771	1,493,926
Intangible assets		36,959	248,267
Goodwill		102,497	159,291
Deposit for acquisition of a subsidiary		137,140	—
Deferred tax assets		23,104	26,804
		1,694,471	1,928,288
Current assets			
Inventories		442,999	430,803
Trade receivables	9	311,792	260,026
Trade receivables backed by bank bills	9	448,868	414,285
Prepayments, deposits and other receivables		72,320	151,395
Tax recoverable		48	—
Pledged bank deposits		300,000	538
Bank balances and cash		3,943,010	3,946,006
		5,519,037	5,203,053
Current liabilities			
Trade payables	10	164,377	188,907
Trade payables backed by bank bills	10	—	538
Other payables and accrued expenses		501,628	429,208
Bank borrowings		369,319	398,392
Lease liabilities		7,791	4,658
Contract liabilities		67,672	47,271
Amounts due to related companies		14,784	15,935
Deferred income		10,749	53,616
Tax payable		58,372	39,482
		1,194,692	1,178,007
Net current assets		4,324,345	4,025,046
Total assets less current liabilities		6,018,816	5,953,334

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Non-current liabilities		
Lease liabilities	15,028	1,487
Deferred tax liabilities	5,297	46,997
Deferred income	<u>204,309</u>	<u>127,923</u>
	<u>224,634</u>	<u>176,407</u>
Net assets	<u><u>5,794,182</u></u>	<u><u>5,776,927</u></u>
Capital and reserves		
Share capital	87,662	87,662
Reserves	<u>5,706,520</u>	<u>5,689,265</u>
Total equity	<u><u>5,794,182</u></u>	<u><u>5,776,927</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION

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 immediate holding and 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.

Certain comparative figures have been reclassified to conform with the current year’s presentation of the consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS STANDARDS”)

Amendments to IFRS Standards that are mandatorily effective for the current year

In the current year, the Group has applied the “Amendments to References to the Conceptual Framework in IFRS Standards” and the following amendments to IFRS Standards issued by the International Accounting Standards Board (the “IASB”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

Application of Amendments to IAS 1 and IAS 8 “Definition of Material”

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

Except as described above, the application of the “Amendments to References to the Conceptual Framework in IFRS Standards” and the amendments to IFRS Standards in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Operating segments

The Group is engaged in a single segment in 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 purpose of resources allocation and performance assessment. 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:

	2020 <i>RMB’000</i>	2019 <i>RMB’000</i>
Injections	1,102,444	1,225,807
Soft capsules	462,090	442,031
Granules	405,960	388,752
Traditional Chinese medicine formula granules	556,327	501,906
Others	<u>128,880</u>	<u>147,500</u>
	<u><u>2,655,701</u></u>	<u><u>2,705,996</u></u>

The Group sells pharmaceutical products to the wholesale market and directly to customers. Revenue is recognised at a point in time 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 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 are located in the PRC including Hong Kong.

Information about major customers

For each of the year ended 31 December 2020 and 2019, there was no customer with revenue accounted for more than 10% of the Group's total revenue.

4. INVESTMENT INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on bank deposits	87,826	82,960
Investment income from short-term financial products (<i>note</i>)	927	18,582
Investment income from financial products (<i>note</i>)	<u>43,906</u>	<u>17,929</u>
	<u>132,659</u>	<u>119,471</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	9,153	12,262
Other staff costs	284,358	297,305
Other staff's pension costs	32,947	55,006
Share-based payments expense for other staff	131	272
	<u>326,589</u>	<u>364,845</u>
Less: Capitalised in inventories	<u>(108,976)</u>	<u>(132,517)</u>
	<u>217,613</u>	<u>232,328</u>
Depreciation of property, plant and equipment	165,838	162,327
Amortisation of intangible assets	42,574	42,653
	<u>208,412</u>	<u>204,980</u>
Total depreciation and amortisation	<u>(159,252)</u>	<u>(151,630)</u>
Less: Capitalised in inventories	<u>49,160</u>	<u>53,350</u>
	<u>1,751</u>	<u>1,864</u>
Auditor's remuneration	667,855	724,431
Cost of inventories recognised as an expense (included in cost of sales)	(2,062)	143
(Gain) loss on disposal of property, plant and equipment (included in other gains and losses)	1,950	(8,122)
Net exchange loss (gain) (included in other gains and losses)	(74,988)	(81,629)
Government subsidies (included in other income) (note a)	–	36,000
Impairment loss on deposits for intangible assets (note b)	<u>–</u>	<u>36,000</u>

Notes:

- (a) The government subsidies represent the amounts received from the local government by the subsidiaries of the Company. During the year ended 31 December 2020, government subsidies of (a) RMB66,170,000 (2019: RMB69,518,000) 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; (b) RMB8,500,000 (2019: RMB12,111,000) represent recognition of deferred income upon completion of related research activities and development projects; and (c) RMB318,000 (2019: nil) represent Covid-19-related subsidies in relation to Employment Support Scheme provided by the Hong Kong government.

- (b) The patents' development process had taken several years and there was no breakthrough in the project. Management decided to terminate the project during the year ended 31 December 2019. An impairment of RMB36,000,000 had been recognised during the year ended 31 December 2019 accordingly.

6. TAXATION

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
The charge comprises:		
PRC Enterprise Income Tax ("EIT"):		
Current tax	116,297	120,501
(Over)underprovision in prior years	(1,306)	4,101
Withholding tax on distributed profits	<u>23,000</u>	<u>27,262</u>
	137,991	151,864
Deferred tax	<u>(38,000)</u>	<u>(12,242)</u>
	<u>99,991</u>	<u>139,622</u>

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 for both years, 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.

According to a joint circular of the Ministry of Finance and State Administration of Taxation, Cai Shui 2011 No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to the Enterprise Income Tax at 5% or 10% and withheld by the PRC entities, pursuant to Articles 3 and 27 of the New Law and Article 91 of its Detailed Implementation Rules.

Under the applicable corporate tax law in Australia, income tax is charged at 27.5% (2019: 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.

7. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Dividends recognised as distributions during the year:		
Final dividend paid for 2019 of RMB12 cents (2019: paid for 2018 of RMB12 cents) per share	90,552	93,713
Special dividend paid for 2019 of RMB9 cents (2019: paid for 2018 of RMB9 cents) per share	67,914	70,284
Interim dividend paid for 2020 of RMB11 cents (2019: RMB11 cents) per share	<u>83,006</u>	<u>85,075</u>
	<u>241,472</u>	<u>249,072</u>

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Dividends proposed:		
Proposed final dividend of RMB21 cents (2019: RMB12 cents) per share	158,466	91,396
Proposed special dividend of nil (2019: RMB9 cents) per share	<u>—</u>	<u>68,547</u>
	<u>158,466</u>	<u>159,943</u>

The final dividend of RMB21 cents per share, in an aggregate amount of RMB158,466,000, has 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 RMB158,466,000 (2019: RMB159,943,000) has been calculated on the basis of 827,000,000 (2019: 827,000,000) shares in issue less 72,400,000 (2019: 65,368,000) shares held for share award scheme as at 31 December 2020.

8. EARNINGS PER SHARE

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>295,033</u>	<u>503,150</u>
	Number of shares	
	2020	2019
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	756,747,221	780,818,474
Effect of dilutive potential ordinary shares:		
Share options	<u>—</u>	<u>128,513</u>
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	<u>756,747,221</u>	<u>780,946,987</u>

The computation of diluted earnings per share does not assume the exercise of all the Company's options at exercise prices of HK\$8.39 and HK\$7.21 (2019: certain options at exercise prices of HK\$11.84, HK\$9.56 and HK\$8.39) because the exercise prices of those options were higher than the average market price for shares for the year ended 31 December 2020.

9. TRADE AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	321,621	264,055
Less: Allowance for expected credit loss ("ECL")	<u>(9,829)</u>	<u>(4,029)</u>
	<u>311,792</u>	<u>260,026</u>
Trade receivables backed by bank bills	449,983	414,285
Less: Allowance for ECL	<u>(1,115)</u>	<u>—</u>
	<u>448,868</u>	<u>414,285</u>
	<u>760,660</u>	<u>674,311</u>

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 ECL, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2020 RMB'000	2019 RMB'000
Within 6 months	708,332	635,996
Over 6 months but less than 1 year	42,134	32,834
Over 1 year but less than 2 years	9,852	5,481
More than 2 years	342	—
	<u>760,660</u>	<u>674,311</u>

10. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	164,377	188,907
Trade payables backed by bank bills	<u>—</u>	<u>538</u>
	<u>164,377</u>	<u>189,445</u>

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:

	2020 RMB'000	2019 RMB'000
Within 6 months	158,903	173,007
Over 6 months but less than 1 year	1,117	2,899
Over 1 year but less than 2 years	1,607	1,302
Over 2 years but less than 3 years	989	1,264
Over 3 years	<u>1,761</u>	<u>10,973</u>
	<u>164,377</u>	<u>189,445</u>

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, 28 May 2021 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, 24 May 2021 to Friday, 28 May 2021, 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, 21 May 2021.

The register of members will also be closed from Monday, 7 June 2021 to Thursday, 10 June 2021, both days inclusive, for the purpose of determining Shareholders’ entitlement to the proposed final dividend, during which period no transfer of shares will be registered. In order to qualify for the proposed final 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, 4 June 2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2020, 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 2020, 7,032,000 (2019: 35,501,000) shares were purchased by the trustee from the market at an average price of approximately HK\$5.70 (equivalent to RMB4.80) (2019: HK\$7.67 (equivalent to RMB6.87)) per share, with an aggregate amount of HK\$40,081,000 (equivalent to RMB33,738,000) (2019: HK\$272,325,000 (equivalent to RMB244,019,000)). No shares were granted to eligible employees pursuant to the Scheme. At the end of the reporting period, there are 72,400,000 (2019: 65,368,000) shares held by the trustee.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2020, 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.

The code provision A.2.1 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. The Company does not use the title “Chief Executive Officer”. The duty of chief executive officer has been assumed by the president of the Company (the “President”).

Mr. Li Zhenjiang has been both the Chairman and the President. His responsibilities are clearly set out in writing and approved by the Board. Given the Group’s current stage of development, the Board considers that vesting the roles of Chairman and President in the same person facilitates the execution of the Group’s business strategies and 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 2020, 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 2020.

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 2020 as set out in the 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 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 2020 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, 30 March 2021

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