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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)

**2023 ANNUAL RESULTS ANNOUNCEMENT
AND
DECLARATION OF 2024 FIRST INTERIM DIVIDEND**

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 2023 as follows:

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2023, the operating results of the Group were as follows:

- Turnover amounted to RMB4,516,538,000, an increase of 14.3% as compared to last year;
- Gross profit margin was 75.1% as compared to 74.4% of last year;
- Profit for the year amounted to RMB969,510,000, an increase of 34.1% as compared to last year;
- Earnings per share amounted to RMB128 cents;
- Declared 2024 first interim dividend of RMB43 cents per share;
- Net assets per share amounted to RMB8.51 (equivalent to HK\$9.36); and
- Net cash per share amounted to RMB6.76 (equivalent to HK\$7.43).

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2023, following the normalization of centralized procurement and the commencement of industry remediation, the pharmaceutical industry faced a new wave of challenges and opportunities. During the year, the Group has seized the opportunity and steadily implemented its strategic deployment, achieved cost reduction and efficiency enhancement, continued to improve its competitive edge and operating efficiency, strengthened its risk prevention ability, and promoted the steady development of its various businesses. Meanwhile, increased efforts in national policy support to traditional Chinese medicine (“TCM”) industry, coupled with favourable policies such as the liberalization of the TCM formula granule, the Group is well positioned for better development opportunities.

In 2023, the Group’ overall sales revenue and profit both reached record highs. Full-year sales exceeded RMB4.5 billion, representing an increase of 14.3% as compared to last year. Among them, sales of our respiratory system medications and exclusive oral products reported continued increases, while sales of the TCM formula granule also attained record high. The Group recorded net profit of RMB969 million for the year, representing an increase of 34.1% as compared to last year.

After considering the free cash flow and dividend policy, the Board of the Company resolved to declare the first interim dividend of 2024 (in lieu of a final dividend) amounting to RMB43 cents per share. Together with the 2023 second interim dividend amounting to RMB11 cents per share paid in September 2023, the total dividend relating to the profit for the financial year 2023 increased to RMB54 cents per shares. Dividend payout ratio for the year was 42.2%.

Currently, the pharmaceutical industry and the formula granules segment have entered a new stage of major reshuffle and consolidation, which also presents an important opportunity for the Group to strengthen innovation and core competitiveness. As one of the leading modern TCM enterprises, the Group is committed to making the TCM industry bigger and stronger and continuously steps into the forefront of innovative TCM technology. The Group also continues to build TCM innovation platforms, develop innovative TCMS with clinical advantages and characteristics in the advantageous fields of TCM, working for the health and well-being of the general public.

A number of research and clinical projects of the Group are progressing smoothly. Yiguan Jian Granule, a Class 3.1 innovative TCM and an ancient classical prescription, for which the Group was fully responsible for technical research, has been approved for product launch. In addition, phase III clinical trials of the exclusive innovative drugs of the Group, “Sailuotong Capsule” and “JC Soft Capsule” will soon be completed. “Yi Gong San Granules”, a Class 1.1 innovative TCM independently developed by the Group, was also approved to carry out clinical trials during the year. “Yi Gong San Granules” originates from the classical prescription of the Song Dynasty and has been in clinical application for more than 900 years to treat anemia of chronic diseases. At present, there is no specific Chinese patent medicine for treating anemia of chronic disease on the market. “Yi Gong San Granules” will fill the market gap in the treatment of anemia of chronic disease after it is launched, which has great social value.

The year 2023 was the first year of economic recovery in the post epidemic era and a leap forward for the Group in achieving its “14th Five-Year Plan” strategic development. During the year, the Group held a kick-off meeting for the construction of the Smart Factory and established seven specialised project groups to promote the construction of various projects of the Group’s modern Chinese medicine

industrial park with the objectives of “automation, informatisation, digitisation and intelligence” under the guidance of the development strategy for the next ten years, with a view to developing the Group into the most cutting-edge intelligent factory within the nation and an internationally leading lighthouse factory, and to actively embark on the construction of smart supply chain projects. In particular, the Group focuses on the expansion of Shineway’s modern TCM innovative technology industrialisation and the Smart Manufacturing Demonstration Plant project. Such projects focus on the concept of smart manufacturing and utilise advanced technological tools such as the industrial internet, the internet of things, big data analytics, artificial intelligence and cloud computing. By applying these advanced technologies, the Group is able to embark on a new chapter in the Group’s third venture development with high quality.

China continued to ramp up its support and promotion for the development of TCM during the 14th Five-Year Plan period. During the year, the State Council issued the “Implementation Plan of Major Projects for the Revitalization and Development of Traditional Chinese Medicine”, which proposed the implementation of eight major projects and twenty-six construction projects, and established objectives to, inter alia, facilitate the development of TCM to become an important support for the construction of a healthy China by 2025. Among which, it stipulated the establishment of 130 key hospitals featuring TCM, layout of 35 national TCM bases for the prevention and control of epidemic, and construction of 64 county-level medical centers of TCM in “Three Regions and Three Autonomous Prefecture (三區三州)” and 50 “flagship” hospitals for the synergy of TCM and Western medicine. In addition, the State Administration of Traditional Chinese Medicine, the National Development and Reform Commission, and the National Health Commission have jointly issued the “Notice on Comprehensively Strengthening the Construction of County-Level Traditional Chinese Medicine Hospitals and Basically Achieving Full Coverage of County-Level Traditional Chinese Medicine Institutions”, which aims to basically achieve full coverage of county-level TCM institutions and consolidate the main battlefield of grass-root TCM services. The number of TCM institutions will increase significantly in an orderly manner.

At present, Chinese medicine is at its best strategic opportunity for development in recent years, and the Chinese medicine industry has broad prospects. The Group will continue to promote the marketing strategy of multi-products, multi-channels and multi-models in our core business to drive performance growth, and will continue to expand its dominant regional and national competitive advantages in formula granule. Moreover, the Group will actively press ahead with its digital transformation and smart manufacturing strategic planning, so as to build the Group into a business group capable of digital operation and management and digital marketing, with an aim to contribute to the high-quality development of Chinese medicine for the betterment of the people.

2024 marks the 40th anniversary of Shineway Pharmaceutical’s reform and development, and the 20th anniversary of the Company’s listing on The Stock Exchange of Hong Kong Limited. On behalf of the Board, I would like to express my heartfelt appreciation again to the shareholders, customers and strategic partners for their continued trust and unremitting support, as well as the management team and all staff personnel for their hard work amid the extremely challenging environment last year. Let us continue to work hard together to create sustainable growth of Shineway Pharmaceutical.

Li Zhenjiang

Chairman of the Board

Hong Kong, 28 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

Results Highlights

In 2023, the TCM industry continued to enjoy opportunities for high-quality development as China devoted greater effort to propel TCM's revitalization and development. In the second half of the year, the launch of the remediation work in the pharmaceutical industry has built a clean and positive industry environment, which also underpinned the high-quality development of the medical and healthcare industry. However, the process inevitably brought about impacts on the industry. Facing TCM's development opportunities and the difficulties and challenges faced by the industry, the Group continued to work hard to strengthen its core marketing on terminal construction, academy and evidence-based medical research during the year. By doing so, the Group made remarkable results with both the overall sales revenue and profit setting a record high. Among them, the sales volume of TCM formula granules reached a new high, and sales of respiratory system medications and exclusive oral products reported continuous increase. The sales recorded throughout 2023 was RMB4,516,538,000, representing an increase of 14.3% as compared to last year. Net profit was RMB969,510,000, representing an increase of 34.1% as compared to last year.

The Group further enhanced quality and efficiency in 2023. The gross profit margin increased by 0.7 percentage point to 75.1% as compared to last year. Net profit margin increased from 18.3% last year to 21.5%, and earnings per share increased by 33.3% to RMB128 cents as compared to last year.

During the year, the Group generated net cash from operating activities of RMB932,635,000. Capital expenditures including those for construction of factories and production lines as well as purchasing equipment totalled approximately RMB144,325,000. As such, the Group's free cash flow for the year of 2023 amounted to approximately RMB788,310,000, which was equivalent to RMB0.95 per share (as calculated based on the total issued shares of 827,000,000).

After considering the free cash flow and dividend policy, the Board has decided to declare the first interim dividend for 2024 amounting to RMB43 cents per share (in lieu of a final dividend). Together with the 2023 second interim dividend amounting to RMB11 cents per share paid in September 2023, the total dividend relating to the profit for the financial year 2023 increased to RMB54 cents per share, representing a dividend payout ratio of 42.2%.

As of 31 December 2023, the Group's total bank balances and cash amounted to RMB5,888,776,000, and total bank borrowings amounted to RMB300,000,000. As calculated based on the total issued shares of 827,000,000, net cash per share of the Company amounted to HK\$7.43, and net assets per share amounted to HK\$9.36.

Record High Sales Revenue

In 2023, the Group continued to focus on key products and comprehensively strengthened its terminal coverage and investments, with overall sales reaching a record high. Driven by the influenza drug Qing Kai Ling Injection, the overall sales of injection products recorded impressive growth, and the Group's exclusive products such as Huamoyan Granule and Qi Huang Tong Mi Soft Capsule also continued to grow during the year, with the exception of TCM formula granules the sales of which declined in the second half of the year, but continued to grow throughout the year. The table below shows the sales and growth rates of each dosage form in 2023 as compared to last year:

	Year-on-year growth rate in 2023			RMB'000	
	First half	Second half	Full year	Full year sales	Percentage of sales
Injections	<u>37.3%</u>	<u>14.1%</u>	<u>25.5%</u>	<u>1,785,836</u>	<u>39.5%</u>
Soft capsules	19.0%	-25.2%	-3.6%	582,143	12.9%
Granules	28.5%	-2.7%	10.1%	693,589	15.4%
TCM formula granules	34.0%	-9.6%	8.9%	1,201,664	26.6%
Other dosage forms	<u>36.3%</u>	<u>29.7%</u>	<u>33.0%</u>	<u>253,306</u>	<u>5.6%</u>
Oral products	<u>28.9%</u>	<u>-8.5%</u>	<u>8.0%</u>	<u>2,730,702</u>	<u>60.5%</u>
Total	<u>32.1%</u>	<u>-0.8%</u>	<u>14.3%</u>	<u>4,516,538</u>	<u>100.0%</u>

Sales of injections products increased by 25.5% during the year. Amongst which sales of Qing Kai Ling Injection reached a record high since 2013, with a 75.1% increase to RMB850,751,000, as the incidence of influenza continued to increase. TCM injections for cardio-cerebrovascular diseases also achieved steady growth during the year. Sales of Shen Mai Injection increased by 0.6% to RMB187,883,000 during the year, while sales of Shu Xie Ning Injection and Guan Xin Ning Injection decreased by 11.0% and 3.5% to RMB184,385,000 and RMB292,790,000 respectively.

In 2023, the Group continued to focus on the development of the oral products market, with sales of oral products in the first half of the year up 28.9%. However, due to the impact of remediation work in the pharmaceutical industry and the centralised procurement of formulated granules in the second half of the year, overall sales of oral products slowed down in the second half of the year, but still recorded a sale growth of 8.0% for the full year. In 2023, sales of oral products accounted for 60.5% of the Group's overall sales.

Sales of soft capsule products reported a positive growth in the first half of the year but declined in the second half of the year, resulting in an overall negative sales growth of 3.6% for the year, which was mainly attributable to the drop in sales of Wu Fu Xin Nao Qing Soft Capsule by 24.5% to RMB135,154,000 during the year. As for Qing Kai Ling Soft Capsule, the Group's exclusive respiratory system oral medication which has been included in the national "Diagnosis and Treatment Program for Influenza" for several times, its sales dropped by 7.6% to RMB87,623,000 for the year as compared with last year because there was a high base due to medication requirements as a result of the COVID-19 pandemic, while the sales of Huo Xiang Zheng Qi Soft Capsule recorded a 23.3% sales growth to RMB187,249,000 during the year.

For granule products, as driven by the Group's exclusive oral products such as Huamoyan Granule, Qi Huang Tong Mi Granule and Shu Jin Tong Luo Granule, the overall sales of granules increased by 10.1%.

Essential Drugs Sales Increased by 32.8%

The Group regularly manufactured a total of 18 medications which are listed on the National Essential Drug List, including Qing Kai Ling Injection, Shen Mai Injection, Qing Kai Ling Soft Capsule, Huamoyan Granule, Huo Xiang Zheng Qi Soft Capsule, Compound Licorice Tablet and so on.

During the year, the overall sales of the Group's regularly-manufactured medications listed on the National Essential Drug List increased by 32.8% to RMB1,743,820,000, accounting for 38.6% of the Group's overall sales.

According to national policies, the essential drugs shall be prioritized for treatments in medical institutions at all levels and the proportion of use of essential drugs shall be increased. In particular, the proportion of essential drugs by number of types in primary public medical and healthcare institutions, second-tier public hospitals and third-tier public hospitals, should be no less than 90%, 80% and 60% respectively in principle, and medical institutions at all levels are required to follow the "1+X" protocol with essential drugs as the lead.

The government's promotion of the widespread use of essential drugs will drive the sustained growth of the Group's medications which are included in the National Essential Drug List.

Growth Overview

In 2023, the sales of the Group’s prescription and over-the-counter medications (“OTC medications”) accounted for approximately 87.1% and 12.9% of the Group’s total sales respectively. During the year, the overall sales of prescription medications increased by 14.6% as compared to the same period last year while the OTC medications recorded a 12.6% growth. The table below summarizes the growth of the Group by medicine category:

<i>RMB'000</i>	2022 Sales	2023 Sales	Percentage of sales	2023 Sales growth
Respiratory system prescription medications	678,646	1,102,257	24.4%	62.4%
TCM formula granules	1,102,958	1,201,664	26.6%	8.9%
Cardio-cerebrovascular injection prescription medications	839,629	822,845	18.2%	-2.0%
Exclusive oral prescription medications	415,870	445,150	9.9%	7.0%
Other prescription medications	395,628	361,405	8.0%	-8.7%
	<u>3,432,731</u>	<u>3,933,321</u>	87.1%	14.6%
OTC medications	517,905	583,217	12.9%	12.6%
	<u>3,950,636</u>	<u>4,516,538</u>	100.0%	14.3%

Anti-Influenza Medications Serving as the Growth Engine of Revenue

The Group’s respiratory system prescription medications which are used for treating influenza served as the growth engine during the year, recording a total sales revenue of RMB1,102,257,000, representing a growth of 62.4% and accounting for 24.4% of the Group’s overall sales revenue. Among them, sales of Qing Kai Ling Injection reached RMB850,751,000 during the year, up by 75.1%, accounting for 18.8% of the Group’s total sales revenue. Other anti-influenza medications such as Compound Licorice Tablet also showed significant growth.

The Group’s Qing Kai Ling medication mainly treats high fever, viral cold, and respiratory tract infections. Qing Kai Ling Injection has been listed on the National Essential Drug List and the National Reimbursement Drug List. It is an “Essential Drug for the Emergency Department of TCM Hospital” recognized by the National Administration of Traditional Chinese Medicine, and is also listed on the “Type A H1N1 Influenza Diagnosis and Treatment Program” by the state. During the COVID-19 pandemic, several provinces included Qing Kai Ling injection in the recommended medicine catalogue of their treatment programs. As an anti-influenza drug recommended by national institutions, there is a vast demand for Qing Kai Ling Injection. In 2023, there was a high incidence of influenza in China, during which the demand for Qing Kai Ling Injection was far exceeding its supply.

Qing Kai Ling Injection of the Group is mainly sold in basic medical institutions such as clinics and township health centers, but currently, a considerable proportion of Qing Kai Ling Injection of the Group is already being used in tertiary hospitals, highlighting the trend of the popularization of using TCM injections to treat influenza.

TCM Formula Granules Won All the Bids Included in Centralized Procurement by Inter-Provincial Alliance

The sales performance of the Group's TCM formula granules continued to grow, with sales revenue increasing significantly by 34.0% in the first half of 2023. However, due to the impact of remediation work in the pharmaceutical industry and the centralized procurement of TCM formula granules by an inter-provincial alliance consisting of fifteen provincial units, the graded hospitals had slowed down their procurement in the second half of the year, and the basic medical institutions even showed negative growth of procurement. Nevertheless, the sales revenue still recorded an increase of 8.9% to RMB1,201,664,000 for the year.

The Group's TCM formula granules accounted for 26.6% of the total sales revenue of the Group in 2023. In terms of sales revenue, the Group ranks among the top five listed companies nationwide for TCM formula granules.

During the year, the Group's TCM formula granules team continued to step up its efforts in the market development and personnel deployments of graded medical institutions and grass-root markets in Hebei, Yunnan and other provinces. Currently, tertiary hospitals in Hebei and Yunnan Provinces still contributed to the majority of the sales of TCM formula granules of the Group, accounting for 84.7% of the total sales of TCM formula granules, and tertiary hospitals in other provinces accounted for 1.9%. During the year, the Group's sales in grass-root medical institutions in provinces including Hebei, Yunnan and other provinces across the country accounted for 13.4% of the total sales of TCM formula granules.

In August 2023, a total of 15 provincial units including Shandong and Shanxi formed a inter-provincial alliance to commence the centralized procurement of 200 varieties that comply with national drug standards of TCM formula granules. The Group won all the bids for TCM formula granules, bringing a catalyst opportunity for the Group to accelerate the development of TCM formula granule market in the allied provinces.

In 2024, the Group's TCM formula granules business unit will continue to give priority to accelerating the development work in graded medical institutions in Beijing, Tianjin, Shandong and Anhui and the grass-root market across the country, and will carry out the work of the formula granule market in the 15 provinces of the inter-provincial alliance in an orderly manner.

The Group's production capacity of TCM formula granules has reached an annual production value of RMB5 billion. In the future, the Group will continue to implement its production capacity expansion plan based on market development.

Recovery in the Demands for Chinese Medicine Injections Prescription Medicine for Cardiovascular and Cerebrovascular Diseases

During the year, the Group recorded a 2.0% slight decrease in sales of a series of cardiovascular and cerebrovascular TCM injection prescription medicine to RMB822,845,000. In particular, sales of Shen Mai Injection, Huang Qi Injection and Xiang Dan Injection increased by 0.6%, 54.6% and 29.8% to RMB187,883,000, RMB34,501,000 and RMB48,705,000 respectively. Sales of Shu Xue Ning Injection, Guan Xin Ning Injection and Dan Shen Injection declined by 11.0%, 3.5% and 9.5% to RMB184,385,000, RMB292,790,000 and RMB74,580,000 respectively during the year.

Various positive factors have led to a recovery in the demands for Chinese medicine injection these years. Chinese medicine injections of the Group have regained growth momentum since 2021. In recent years, a number of Chinese medicine injections have been included in the scope of centralized procurement for use in public medical institutions at all levels across the country and many provinces. During the pandemic, several Chinese medicine injections varieties were selected into the diagnosis and treatment plan for Novel Coronavirus Pneumonia recommended by the government institutions, with its clinical value being further verified. The National Healthcare Security Administration has further lifted the reimbursement restrictions on Chinese medicine injections in the year. With the acceleration of population aging, the demand for Chinese medicine injections for cardio-cerebrovascular diseases will become more prominent.

In December 2023, the National Medical Products Administration convened a meeting for establishing an expert group dedicated to the research and evaluation of post-market Chinese medicine injections to accelerate revaluation work for Chinese medicine injections, in order to distinguish the good from the bad and provide an objective evaluation of Chinese Medicine injections.

Sustained Growth Momentum of Exclusive Oral Prescription Products

The Group's exclusive products maintained its growth momentum in sales in 2023, and recorded an increase of 7.0% to RMB445,150,000 for the year. Among them, sales of Huamoyan Granule, Qi Huang Tong Mi Soft Capsule, Jiang Zhi Tong Luo Soft Capsule, and Shu Jin Tong Luo Granule for the year increased by 5.2%, 7.7%, 16.1% and 40.8% to RMB242,974,000, RMB73,653,000, RMB41,677,000 and RMB22,689,000 respectively as compared to the same period of last year.

Huamoyan Granule is the only innovative Chinese Medicine for treating knee joint synovitis approved by the National Medical Products Administration. It has filled the gap in both Western medicines and TCM in the treatment of synovitis in China.

Qi Huang Tong Mi Soft Capsule is the only next-generation modern Chinese medicine on the market for treating functional constipation in the elderly that is laxative without causing diarrhea, while also being sustainable and effective.

Jiang Zhi Tong Luo Soft Capsule is the only lipid-regulating medication with a hepato-protective effect and can effectively treat hyperlipidemia with good safety.

The Group will continue to actively strengthen evidence-based medical research, and through boosting terminal investments and academic promotion, to expand the sales of the Group's exclusive oral prescription products.

Accelerate the development of OTC medications through the strategic cooperation with JD Group

The Group has a number of well-received OTC medications with sustained growth potential, which are available at more than 300,000 retail pharmacies nationwide and key internet pharmacy platforms.

In 2023, the sales of OTC medications of the Group increased by 12.6% to RMB583,217,000, of which sales of Huo Xiang Zheng Qi Soft Capsule increased by 23.3% to RMB187,249,000, but the Group's series of OTC granules for treating respiratory diseases in children recorded a negative growth of 1.0% during the year.

During the year, the Group entered into a strategic cooperation agreement with JD Group ("JD"), pursuant to which, both parties will comprehensively cooperate in digital marketing and the establishment of an intelligent supply chain system. The Group's strategic cooperation with JD focuses on digital marketing. Through the online and offline self-operated pharmacies of JD, Yaojingcai Pharmacy Alliance (藥京采聯盟藥房), chain pharmacies of Shineway and other channels, the Group rapidly completed the online and offline layout of its products and enhanced its service capabilities across the country. In the meantime, by sharing the resources of internet hospital and carrying out digital marketing and cooperated promotion across channels, the Group expanded the coverage and improved the overall competitiveness of its products through various means, such as academic marketing and patient management.

The Group will continue to strengthen marketing efforts to drive continued growth of its OTC medications.

Continuously increase investment in scientific research resources

By continuously increasing its investment in scientific research resources, the Group initiated projects precisely to develop new modern Chinese medicines with unique curative effects, focusing on the research and development of oral preparations and the treatments of chronic diseases. Particularly, the fields where no cures can be provided by Western medicines are the Group's spotlight. In addition, the Group is well placed to take advantage of its knowhow on modernizing Chinese medicines. Extensive effort will also be put into accelerating the commercialization of the Group's research findings and ensuring that clinical and production approvals for new products must be obtained each year. The Group will publish seminal academic articles to form the evidence-based medical proof for academic promotion of the Group's products, and eventually lead products into the recommended clinical practices and guidelines. The end results are to render academic support for the market development and sales of the Group's key products, as well as providing the Group with innovative products for its sustainable development.

Clinical Trials of New Drugs

Currently, the Group has a number of research projects which are progressively being put on pharmaceutical and clinical trials, among which 3 exclusive innovative medications, namely Sailuotong Capsule, Q-B-Q-F Condensed Pill and JC Soft Capsule, are still undergoing Phase III clinical trials.

Sailuotong Capsule, an innovative "Compound Chinese Medicine" developed with modern innovative technology for treatment of vascular dementia, is now under Phase III clinical trials. Vascular dementia is the second most common cause of dementia following Alzheimer's disease. At present, there are no effective therapeutic drugs for vascular dementia, and the drugs commonly used in clinical application can only delay the course of the disease and slow down the functional degeneration. Upon success of its research and development, Sailuotong Capsule will bring innovative clinical breakthroughs for vascular dementia patients.

Q-B-Q-F Condensed Pill, for curing mycoplasma pneumonia in children, is currently at its Phase III clinical trial through the green channel. At present, macrolides (including azithromycin), are generally mainly used in clinical treatment for mycoplasma pneumonia in children. Due to repeated clinical uses, resistance of these medications has increased significantly. The entering of Q-B-Q-F Condensed Pill into the market will ease the clinical dilemma where drug-resistant mycoplasma pneumoniae infection turns incurable.

JC Soft Capsule, a TCM compound developed under the guidelines based on the traditional medicine theory, is now under Phase III clinical trials. It is a new medication of compounded Chinese medicines using exterior pathogen as the principle for treatment of common cold. It is used for treating upper respiratory 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 Chinese patent medicines in the market for treating common cold are heat-clearing detoxifying types and exterior-releasing formula, but none of those available in the market are formulated based on exterior pathogen.

Please refer to the interim reports and annual reports announced in previous years for the detailed descriptions and market potential of Sailuotong Capsule and the other two medications.

Clinical Approval of New Drugs

During the year, the Group received approval from the National Medical Products Administration to carry out the clinical trial of Yi Gong San Granules (異功散顆粒), a new drug under Class 1.1 of TCM developed by the Group. Yi Gong San Granule comes from the classical prescription of the Song Dynasty. It has been in clinical application for more than nine hundred years to treat anemia of chronic disease. At present, there is no specific Chinese patent medicine for treating anemia of chronic disease in the market. Previous studies have demonstrated the clinical efficacy of Yi Gong San Granules in the treatment of anemia of chronic disease, especially in cases where EPO therapy with erythropoietin is ineffective. Yi Gong San Granules will fill the market gap in the treatment of anemia of chronic disease with Chinese patent medicine when it is launched.

Launch of New Drugs From Classical Prescriptions

On 26 December 2023, Yiguan Jian Granule (一貫煎顆粒), a new drug under Class 3.1 of TCM coming from ancient classical prescriptions, and for which the technical research was wholly responsible by the Group, was approved for launch. Yiguan Jian Granule is used for the treatment of chronic hepatitis, chronic gastritis, gastric and duodenal ulcers, intercostal neuralgia and other diseases. The Group was the first to obtain a marketing licence for this kind of medicine.

Ancient classical prescriptions refer to the prescriptions recorded in ancient Chinese medicine books, which are still broadly used nowadays with clear efficacy and have obvious characteristics and advantages, and are the classic carrier of TCM culture. At present, the state is vigorously supporting the development of innovative TCM based on ancient classical prescriptions, experienced prescriptions of famous and veteran Chinese medicine practitioners, Chinese medicine preparations of medical institutions which have rich experience in the clinical practice of Chinese medicine practitioners. Guided by the latest national policies, the Group is accelerating the registration and launching of several new drugs developed from ancient classical prescriptions of Chinese medicine under Class 3.1 of TCM. During the year, the Group also submitted the new drug listing application for another classical prescription, Shaoyao Gancao Decoction Granule (芍藥甘草湯顆粒) under Class 3.1 of TCM. Shaoyao Gancao Decoction Granule is based on an ancient classical prescription for relieving spasm and pain in various diseases characterized by muscle spasms and pain. Currently, the Group has a total of nearly 100 research and development projects of new TCM based on ancient classical prescriptions.

Financial Analysis

Turnover

In 2023, the Group recorded an increase in turnover of 14.3% from last year. Sales of injection products reached approximately RMB1,785,836,000, up approximately 25.5% as compared with 2022. Sales of injection products accounted for approximately 39.5% of the Group's turnover. Sales of soft capsule products were approximately RMB582,143,000, down approximately 3.6% from last year. Soft capsule products accounted for approximately 12.9% of the Group's turnover. Sales of granule products amounted to approximately RMB693,589,000, up approximately 10.1% from last year. Granule products accounted for 15.4% of the Group's turnover. Sales of TCM formula granules were approximately RMB1,201,664,000, representing an increase of 8.9% from last year and accounting for 26.6% of the Group's turnover. Sales of the Group's products in other dosage forms were approximately RMB253,306,000 which accounted for approximately 5.6% of the Group's turnover.

The aggregate sales attributable to the largest customer and ten largest customers accounted for 5.8% and 18.8% respectively of the Group's turnover.

Cost of Sales

Cost of sales in 2023 was approximately RMB1,122,419,000 representing approximately 24.9% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 66.1% (2022: 59.9%), 14.9% (2022: 16.4%) and 19.0% (2022: 23.7%) of total cost of sales respectively.

Gross Margin

In 2023, average gross margins of injection products, soft capsule products, granule products and TCM formula granule products were approximately 76.7% (2022: 74.2%), 77.5% (2022: 73.7%), 77.5% (2022: 77.3%) and 74.0% (2022: 74.8%) respectively. Overall gross margin of the Group was 75.1% (2022: 74.4%).

Other Income

Other income mainly included government subsidies of RMB143,257,000 (2022: RMB106,379,000). 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 included interest income from bank deposits, interest income from structured deposits and investments in financial products of RMB94,833,000 (2022: RMB92,357,000), RMB374,000 (2022: RMB74,000) and RMB10,306,000 (2022: RMB6,668,000) respectively.

Other Gains and Losses

In 2023, other gains and losses mainly comprised net exchange gains arose from the change in exchange rate between Renminbi and Hong Kong dollars/Australian dollars of approximately RMB6,605,000 (2022: net exchange losses of RMB8,515,000).

Impairment Losses on Financial Assets

In 2023, respective impairment of RMB3,954,000 (2022: RMB10,432,000) and RMB1,486,000 (2022: reversal of impairment of RMB1,604,000) 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.

Selling and Distribution Costs

Selling and distribution costs comprised advertising expenses, distribution and promotion expenses, wages of salespersons and other market promotion and development expenses. Although the overall distribution costs increased by approximately 9.0% in 2023, the selling and distribution costs to turnover ratio decreased by approximately 2.1 percentage points, as compared with that of last year and accounted for approximately 43.9% of the Group's turnover in 2023 (2022: 46.0%). The increase in distribution costs was mainly due to the increase in market promotion expenses of 12.5% as compared to last year. Market promotion expenses accounted for approximately 36.0% (2022: 36.6%) of the Group's turnover.

Administrative Expenses and Research and Development Costs

In 2023, administrative expenses increased by 16.7% as compared to last year, representing approximately 7.2% (2022: 7.1%) of the Group's turnover. The increase in administrative expenses was mainly attributable to the rise in salaries of administrative staff in a range of 7% to 9% and the distribution of performance related bonuses during the year. Administrative expenses mainly comprised (i) salaries of administrative staff and (ii) depreciation expenses of non-productive fixed assets and amortization expenses of intangible assets which accounted for 2.6% and 1.2% of the Group's total turnover in 2023 respectively. Research and development expenses decreased by approximately 6.0% from last year, accounted for approximately 2.4% (2022: 3.0%) of the Group's turnover in 2023.

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%.

Certain subsidiaries which are operating in Western China have been granted tax concession by the local tax bureau and enjoyed a PRC EIT concessionary rate of 15.0% (2022: 15.0%). Certain subsidiaries which were recognised as High and New-tech Enterprises have been granted tax concessions by the local tax bureau and enjoyed a PRC EIT concessionary rate of 15.0% for 2022 and 2023. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

In 2023, the effective tax rate of the Group was 21.8% (2022: 21.2%).

Profit for the Year

The Group's profit attributable to shareholders of the Company for 2023 was RMB969,510,000, representing an increase of approximately 34.1% from 2022. The increase in profit was mainly attributable to the increase in overall sales revenue of the Group, enhanced cost control and the overall improvement in the Group's operating results.

Liquidity and Financial Resources

As at 31 December 2023, bank balances and cash and structured deposits of the Group amounted to approximately RMB5,908,776,000 (2022: RMB5,046,495,000), of which approximately RMB5,068,088,000 (2022: RMB4,831,946,000) were denominated in RMB, others being equivalent to approximately RMB23,191,000, RMB813,868,000 and RMB3,629,000 (2022: RMB129,406,000, RMB81,618,000 and RMB3,525,000) 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 of its future development.

Property, Plant and Equipment

As at 31 December 2023, property, plant and equipment amounted to approximately RMB1,205,287,000, decreased by approximately 1.0% as compared to last year. During 2023, the Group commenced various workshop modification projects in Shijiazhuang, which amounted to approximately RMB45,968,000 in total. The Group also had new additions to leasehold land, leased/owned properties, plant and machineries, office equipment and motor vehicles of approximately RMB120,209,000 in total during the year. Besides, following the adoption of IFRS 16, property, plant and equipment had included the leasehold land and leased properties, which had respective net book values of RMB165,207,000 and RMB1,279,000 as at 31 December 2023.

The depreciation expense of property, plant and equipment expenses for the year amounted to RMB162,544,000 (2022: RMB166,784,000).

Intangible Assets

Intangible assets represented patents and production licenses with finite useful lives. During the year, the amortisation expense of intangible assets was approximately RMB14,558,000.

Goodwill

Goodwill is comprised of the Group's acquisition of the remaining 20% 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, the acquisition of 100% equity interest of Yunnan Shineway Spirin Pharmaceutical Company Limited in 2015 and the acquisition of 100% equity interest of Shineway Pharmaceutical (Kunming) Company Limited (formerly known as Yunnan Liangfang Pharmaceutical Co., Ltd.) in 2021.

DIVIDENDS

The Board did not recommend the payment of any final dividend for the year ended 31 December 2023 and resolved to declare the first interim dividend of RMB43 cents per share amounting to RMB324,822,000 in respect of the year ending 31 December 2024 which is calculated on the basis of 827,000,000 shares issued less 71,600,000 shares held for share award scheme as at 31 December 2023, which will be paid on 17 May 2024 to the shareholders whose names appear on the Company's register of members on 3 May 2024.

The above interim dividend will be payable in cash in Hong Kong dollars and will be converted from Renminbi at the telegraphic transfer exchange rates quoted by bank at 10:00 a.m. on 28 March 2024 (RMB1=HK\$1.073). Accordingly, the amount payable on 17 May 2024 will be HK\$0.461 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 2023 with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

		2023	2022
	NOTES	RMB'000	RMB'000
Revenue	3	4,516,538	3,950,636
Cost of sales		<u>(1,122,419)</u>	<u>(1,012,322)</u>
Gross profit		3,394,119	2,938,314
Other income		163,122	113,368
Investment income	4	105,513	99,099
Other gains and losses		4,260	(8,388)
Impairment losses on financial assets under expected credit loss model, net of reversal		(5,440)	(8,828)
Selling and distribution costs		(1,981,623)	(1,818,652)
Administrative expenses		(326,499)	(279,804)
Research and development costs		(110,462)	(117,454)
Finance costs		<u>(2,737)</u>	<u>(630)</u>
Profit before taxation	5	1,240,253	917,025
Taxation	6	<u>(270,743)</u>	<u>(194,252)</u>
Profit and total comprehensive income for the year		<u>969,510</u>	<u>722,773</u>
Earnings per share	8		
– Basic (RMB)		<u>128 cents</u>	<u>96 cents</u>
– Diluted (RMB)		<u>128 cents</u>	<u>96 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	NOTES	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment		1,205,287	1,216,937
Intangible assets		32,790	47,348
Goodwill		165,956	165,956
Deferred tax assets		15,230	19,221
		<u>1,419,263</u>	<u>1,449,462</u>
Current assets			
Inventories		897,709	657,659
Trade receivables	9	758,205	673,380
Trade receivables backed by bank bills	9	502,162	301,682
Prepayments, deposits and other receivables		87,878	103,183
Structured deposits		20,000	20,230
Bank balances and cash		5,888,776	5,026,265
		<u>8,154,730</u>	<u>6,782,399</u>
Current liabilities			
Trade payables	10	484,791	308,540
Trade payables backed by bank bills	10	–	205
Other payables and accrued expenses		1,400,857	1,063,519
Contract liabilities		51,560	153,118
Bank borrowing		300,000	–
Lease liabilities		971	6,530
Amounts due to related companies		13,784	13,784
Deferred income		75,842	12,103
Tax payable		105,913	107,794
		<u>2,433,718</u>	<u>1,665,593</u>
Net current assets		<u>5,721,012</u>	<u>5,116,806</u>
Total assets less current liabilities		<u>7,140,275</u>	<u>6,566,268</u>

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities		
Lease liabilities	355	912
Deferred tax liabilities	16,264	18,844
Deferred income	88,888	163,986
	<u>105,507</u>	<u>183,742</u>
Net assets	<u>7,034,768</u>	<u>6,382,526</u>
Capital and reserves		
Share capital	87,662	87,662
Reserves	6,947,106	6,294,864
Total equity	<u>7,034,768</u>	<u>6,382,526</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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 “Stock Exchange”). The immediate holding and its ultimate holding company is Forway Investment Limited, a company incorporated in the British Virgin Islands (“BVI”) with limited liability. Its ultimate controlling party is Mr. Li Zhenjiang, who is also the Chairman of the Group.

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

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

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

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

In the current year, the Group has applied the following new and amendments to IFRS Standards issued by the International Accounting Standards Board for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	<i>Insurance Contracts</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform-Pillar Two model Rules</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>

Except as described below, the application of the new and amendments to IFRS Standards in the current year has 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.

Impacts on application of Amendments to IAS 8 “Definition of Accounting Estimates”

The Group has applied the amendments for the first time in the current year. The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

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

Impacts on application of Amendments to IAS 1 and IFRS Practice Statement 2 “Disclosure of Accounting Policies”

The Group has applied the amendments for the first time in the current year. IAS 1 “Presentation of Financial Statements” is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 “Making Materiality Judgements” (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group’s financial positions and performance but has affected the disclosure of the Group’s accounting policies set out in the consolidated financial statements.

Amendments to IFRS Standards in issue but not yet effective

The Group has not early applied the following amendments to IFRS Standards that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendment to IFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to IAS 1	Non-current Liabilities with Covenants ²
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements ²
Amendments to IAS 21	Lack of Exchangeability ³

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after 1 January 2024.

³ Effective for annual periods beginning on or after 1 January 2025.

The directors of the Company anticipate that the application of all amendments to IFRS Standards will have no material impact on the consolidated financial statements in the foreseeable future.

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 (the “CODM”), for the purpose of resources allocation and performance assessment. The information reported to the CODM is further categorised into different locations within the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment as they share similar economic characteristics.

Revenue from major products

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

	2023	2022
	<i>RMB’000</i>	<i>RMB’000</i>
Injections	1,785,836	1,423,254
Soft capsules	582,143	603,755
Granules	693,589	630,248
Traditional Chinese medicine formula granules	1,201,664	1,102,958
Others	253,306	190,421
	<u>4,516,538</u>	<u>3,950,636</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.

Contracts with customers with unsatisfied performance obligations have original expected duration of one year or less. As permitted under IFRS 15 “Revenue from Contracts with Customers”, 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 excluding deferred tax assets are located in the PRC including Hong Kong.

Information about major customers

For each of the years ended 31 December 2023 and 2022, there was no customer with revenue accounted for more than 10% of the Group’s total revenue.

4. INVESTMENT INCOME

	2023 <i>RMB’000</i>	2022 <i>RMB’000</i>
Interest on bank deposits	94,833	92,357
Interest on structured deposits (<i>note</i>)	374	74
Investment income from financial products (<i>note</i>)	<u>10,306</u>	<u>6,668</u>
	<u><u>105,513</u></u>	<u><u>99,099</u></u>

Note: The structured deposits and financial products are measured at fair value through profit or loss. The redemption amounts (including the return) of such products are linked to the performance of underlying debt instruments, equity instruments or foreign currencies. The investment income represents the differences between initial investment amounts and redemptions amounts.

5. PROFIT BEFORE TAXATION

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	42,317	11,849
Other staff costs	437,477	371,024
Other staff's pension costs	<u>26,727</u>	<u>39,963</u>
	506,521	422,836
Less: Capitalised in inventories	<u>(173,775)</u>	<u>(134,389)</u>
	<u>332,746</u>	<u>288,447</u>
Depreciation of property, plant and equipment	162,544	166,784
Amortisation of intangible assets	<u>14,558</u>	<u>19,078</u>
Total depreciation and amortisation	177,102	185,862
Less: Capitalised in inventories	<u>(116,869)</u>	<u>(127,176)</u>
	<u>60,233</u>	<u>58,686</u>
Auditor's remuneration	2,400	2,336
Cost of inventories recognised as an expense (included in cost of sales)	1,122,419	1,012,322
Loss (gain) on disposal of property, plant and equipment (included in other gains and losses)	2,388	(127)
Gain on early termination of lease contracts	-	(67)
Net exchange (gains) losses (included in other gains and losses)	(6,605)	8,515
Government subsidies (included in other income) <i>(note)</i>	<u>(143,257)</u>	<u>(106,379)</u>

Note: The government subsidies represent the amounts received from the local government by the subsidiaries of the Company.

During the year ended 31 December 2023, government subsidies of (a) RMB124,468,000 (2022: RMB76,040,000) represent incentives received in relation to engagement of the subsidiaries of the Company in business development, the grants of which were unconditional, approved and received during the year; and (b) RMB18,789,000 (2022: RMB30,339,000) represent recognition of deferred income upon completion of related research activities and development projects.

6. TAXATION

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
The charge comprises:		
PRC Enterprise Income Tax (“EIT”):		
Current tax	226,879	187,123
Overprovision in prior years	(4,624)	(8,121)
Withholding tax on distributed profits	47,077	20,350
	269,332	199,352
Deferred tax	1,411	(5,100)
	270,743	194,252

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.

Certain subsidiaries which are operating in Western China have been granted tax concession by the local tax bureau and are entitled to concessionary rate of 15% for PRC EIT 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 concessionary rate of 15% for PRC EIT 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 the relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 200% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). In March 2023, the State Taxation Administration and the Ministry of Finance announced that the Super Deduction is available to all types of PRC enterprises from 1 January 2023 onwards. The Group made its best estimate for the Super Deduction to be claimed for the Group’s PRC subsidiaries in ascertaining their assessable profits for the years ended 31 December 2023 and 2022.

According to a joint circular of the State Taxation Administration, Cai Shui 2011 No. 1, PRC withholding income tax of 10% shall be levied on the dividend declared by the companies established in the PRC to their foreign investors out of their profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding company of the PRC subsidiaries are incorporated or operated in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong. Those immediate holding company of the Group's PRC subsidiaries were entitled to 5% withholding tax rate during the years ended 31 December 2023 and 2022.

The taxation charge for the year can be reconciled to the profit before taxation as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Profit before taxation	<u>1,240,253</u>	<u>917,025</u>
Tax at the applicable tax rate of 25% (2022: 25%)	310,063	229,256
Tax effect of expenses not deductible for tax purposes	65,896	74,697
Tax effect of income not taxable for tax purposes	(17,928)	(4,979)
Tax effect of tax losses not recognised	8,760	9,948
Utilisation of tax losses previously not recognised	(239)	(2,501)
Income tax on concessionary rates	(143,262)	(120,398)
Withholding tax on distributed profits of subsidiaries operating in the PRC	47,077	20,350
Withholding tax on undistributed profits of subsidiaries operating in the PRC	5,000	(4,000)
Overprovision in prior years	<u>(4,624)</u>	<u>(8,121)</u>
Taxation charge for the year	<u>270,743</u>	<u>194,252</u>

7. DIVIDENDS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Dividends recognised as distributions during the year:		
– 2022 first interim dividend of RMB21 cents per share	–	158,634
– 2022 second interim dividend of RMB11 cents per share	–	83,094
– 2023 first interim dividend of RMB31 cents per share	234,174	–
– 2023 second interim dividend of RMB11 cents per share	83,094	–
	<u>317,268</u>	<u>241,728</u>

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Dividends declared subsequent to the reporting period:		
– 2023 first interim dividend of RMB31 cents per share	–	234,174
– 2024 first interim dividend of RMB43 cents per share	<u>324,822</u>	<u>–</u>
	<u>324,822</u>	<u>234,174</u>

The 2024 first interim dividend of RMB43 cents per share, in the amount of an aggregate of RMB324,822,000, has been declared by the directors of the Company on 28 March 2024 and will be paid out on 17 May 2024, to the shareholders of the Company whose names appear on the register of members of the Company on 3 May 2024. The aggregate amount of RMB324,822,000 (2022: RMB234,174,000) has been calculated on the basis of 827,000,000 (2022: 827,000,000) shares in issue less 71,600,000 (2022: 71,600,000) shares held for share award scheme as at 31 December 2023.

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:

	2023 <i>RMB'000</i>	2022 <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>969,510</u>	<u>722,773</u>
	Number of shares	
	2023	2022
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of basic and diluted earnings per share	<u>755,400,000</u>	<u>755,400,000</u>

During the year ended 31 December 2022, the computation of diluted earnings per share did not assume the exercise of all the Company's options at exercise prices of HK\$8.39 and HK\$7.21 because the exercise prices of those options were higher than the average market price for shares for the year ended 31 December 2022.

9. TRADE RECEIVABLES AND TRADE RECEIVABLE BACKED BY BANK BILLS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	787,844	699,065
Less: Allowance for expected credit loss (“ECL”)	<u>(29,639)</u>	<u>(25,685)</u>
	<u>758,205</u>	<u>673,380</u>
Trade receivables backed by bank bills	504,756	302,790
Less: Allowance for ECL	<u>(2,594)</u>	<u>(1,108)</u>
	<u>502,162</u>	<u>301,682</u>
	<u><u>1,260,367</u></u>	<u><u>975,062</u></u>

The trade receivables and trade receivables backed by bank bills are from contracts with customers.

As at 1 January 2022, trade receivables and trade receivables backed by bank bills from contracts with customers amounted to RMB424,457,000 and RMB400,726,000, respectively.

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.

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 6 months	1,041,352	811,052
Over 6 months but less than 1 year	144,207	117,855
Over 1 year but less than 2 years	65,818	40,546
More than 2 years	<u>8,990</u>	<u>5,609</u>
	<u><u>1,260,367</u></u>	<u><u>975,062</u></u>

10. TRADE PAYABLES AND TRADE PAYABLES BACKED BY BANK BILLS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade payables	484,791	308,540
Trade payables backed by bank bills (<i>Note</i>)	<u>—</u>	<u>205</u>
	<u>484,791</u>	<u>308,745</u>

Note: These relate to trade payables in which the Group has issued bills to the relevant suppliers for future settlement of trade payables. The Group continues to recognise these trade payables as the Group is obliged to make payments on due dates of the bills.

An aged analysis of the Group's trade payables presented based on invoice date at the end of the reporting period is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 6 months	422,734	298,906
Over 6 months but less than 1 year	55,716	3,793
Over 1 year but less than 2 years	1,883	2,363
Over 2 years but less than 3 years	1,053	254
Over 3 years	<u>3,405</u>	<u>3,429</u>
	<u>484,791</u>	<u>308,745</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 31 May 2024 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 SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from Thursday, 2 May 2024 to Friday, 3 May 2024 (both days inclusive) for the purpose of determining Shareholders’ entitlement to the 2024 first interim dividend, during which period no transfer of shares will be registered. In order to qualify for the first interim dividend for the year ending 31 December 2024, 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, not later than 4:30 p.m. on Tuesday, 30 April 2024.

The register of members of the Company will be closed from Friday, 24 May 2024 to Friday, 31 May 2024, both days inclusive, for the purpose of determining Shareholders’ eligibility to attend, act and vote at the Annual General Meeting, during which period no transfer of shares will be registered. In order to determine the entitlement to attend, act and vote at the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 23 May 2024.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2023, the Company and any of its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2023, the Company has applied and complied with the principles in the Corporate Governance Code (the “Code”) set out in Appendix C1 to the Listing Rules, except for code provision C.2.1 as described below.

The code provision C.2.1 stipulates that the roles of chairman of the Board (the “Chairman”) and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing. The Company does not use the title “Chief Executive 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 C3 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 2023, they had complied with the required standard set out in the Model Code and the Company's 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 2023.

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 2023 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 audited consolidated financial statements of the Group for the year as approved by the Board on 28 March 2024. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF FURTHER INFORMATION

The annual report of the Company inclusive of the Directors' Report and Audited Consolidated Financial Statements for the year ended 31 December 2023 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.

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

Hong Kong, 28 March 2024

As at the date of this announcement, the executive Directors are Mr. Li Zhenjiang, Ms. Xin Yunxia and Mr. Li Huimin; the non-executive Director is Mr. Zhou Wencheng and the independent non-executive Directors are Mr. Liu Shun Fai, Mr. Yew Yat On and Ms. Wang Guihua.