三生制药
3SBIO INC.

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1530
Convertible Bonds Code: 5241

Honoring commitments and delivering hope

25 years

ANNUAL REPORT
2017

*Honoring **commitments** and delivering **hope**.*

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Contents

Company Profile

3SBio Inc. (the "**Company**" or "**3SBio**", with its subsidiaries collectively, the "**Group**") is a leading biotechnology company in the People's Republic of China (the "**PRC**" or "**China**"). As a pioneer in the Chinese biotechnology industry, the Group has extensive expertise in researching and developing, manufacturing and marketing biopharmaceuticals. The core products of the Group include TPIAO (特比澳), Yisaipu (益賽普), recombinant human erythropoietin ("**rhEPO**") products EPIAO (益比奥) and SEPO (賽博爾), all four products being market leaders in China. TPIAO is the only commercialized recombinant human thrombopoietin ("**rhTPO**") product in the world. According to the data of IMS Health Inc. ("**IMS**"), the China market share of TPIAO increased to 51.0% for the treatment of thrombocytopenia in 2017. Yisaipu is a Tumour Necrosis Factor ("**TNF**") α inhibitor product with a dominant market share in China of 60.4% in 2017, according to the IMS data. According to the IMS data, with its two rhEPO products, namely, EPIAO and SEPO, the Group has been the dominant market leader in the China rhEPO market for more than a decade, with a total market share of 41.6% in 2017. The Group has established presence in the diabetes treatment area through the collaboration with AstraZeneca PLC ("**AstraZeneca**") and Lilly China; and the Group started to consolidate Byetta and Humulin (優泌林) ("**Humulin**"), two products licensed from the collaboration partners, in its accounts from 11 October 2016 and 1 July 2017, respectively.

As at 31 December 2017, amongst the 31 product candidates within the Group's active pipeline, 16 were being developed as National Class I New Drugs (國家一類新藥) in China. The Group has seven product candidates in oncology; 11 product candidates that target auto-immune diseases including rheumatoid arthritis ("**RA**"), and other diseases such as refractory gout and age-related macular degeneration ("**AMD**"); six product candidates in nephrology; three product candidates in the metabolic area that target type-2 diabetes; and four product candidates in dermatology.

The Group operates in a highly attractive industry. Biotechnology has revolutionized the pharmaceutical industry by addressing unmet medical needs and offering innovative treatments for a wide array of human diseases. In China, the biotechnology industry enjoys strong government support and has been selected by the State Council of China as a key strategic industry. Strong government support along with increasing physician adoption of biopharmaceuticals has driven strong industry growth in China.

The Group is well positioned for global expansion. In September 2017, the Group, with a view to entering into the North America biopharmaceutical sector, in partnership with CPE Funds (as defined below), entered into an agreement to acquire a contract development and manufacturing ("**CDMO**") business in Canada (pending completion, please refer to "Report of Directors — CDMO Acquisition" for further details). Yisaipu has been approved in 11 countries and is in the process of registration in 19 countries. The Group is conducting multi-center biosimilar clinical trials for EPIAO in Russia and Thailand. In the long term, the Group aims to market its products in developed countries. Furthermore, the Group is collaborating with international partners to develop and market the Group's product candidates, such as pegsiticase and several monoclonal antibody ("**mAb**") therapeutics. The Group aims to focus its efforts on research and development ("**R&D**") by providing innovative therapeutics for patients in China and globally.

As at 31 December 2017, the Group had operation facilities in Shenyang, Shanghai, Hangzhou and Shenzhen, all in China, as well as in Como, Italy, with over 4,000 employees. The Group's pharmaceutical products are marketed and sold in all provinces, autonomous regions and special municipalities (except Hong Kong and Macau) in China, as well as a number of foreign countries and regions. During the year ended 31 December 2017 (the "**Reporting Period**"), the Group's nationwide sales and distribution network enabled it to sell its products to approximately 14,000 hospitals and medical institutions in China.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. LOU Jing (*Chairman & Chief Executive Officer*)
Mr. TAN Bo
Ms. SU Dongmei
Mr. HUANG Bin

Non-executive Directors

Mr. LIU Dong
Mr. LV Dong (retired on 30 June 2017)
Mr. WANG Steven Dasong (appointed on 30 June 2017)

Independent Non-executive Directors

Mr. PU Tianruo
Mr. David Ross PARKINSON
Mr. MA Jun

JOINT COMPANY SECRETARIES

Ms. LIU Yanli
Ms. LAI Siu Kuen

AUTHORIZED REPRESENTATIVES

Mr. TAN Bo
Ms. LIU Yanli

AUDIT COMMITTEE

Mr. PU Tianruo (*Chairman*)
Mr. LV Dong (retired on 30 June 2017)
Mr. WANG Steven Dasong (appointed on 30 June 2017)
Mr. MA Jun

REMUNERATION COMMITTEE

Mr. MA Jun (*Chairman*)
Mr. LIU Dong
Mr. PU Tianruo

NOMINATION COMMITTEE

Dr. LOU Jing (*Chairman*)
Mr. PU Tianruo
Mr. MA Jun

REGISTERED OFFICE (IN THE CAYMAN ISLANDS)

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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1 Matheson Street
Causeway Bay
Hong Kong

HEADQUARTER

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Shenyang Economy and Technology Development Zone
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PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
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Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Corporate Information

PRINCIPAL BANK

Industrial Bank Co., Ltd, Shenyang Branch
No. 36 Shiyiwei Road
Heping District
Shenyang
PRC

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

LEGAL ADVISERS

As to Hong Kong law and United States law:
Baker & McKenzie
14th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

As to PRC law:
Jingtian & Gongcheng
34th Floor, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing
PRC

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

STOCK CODE

Shares Listing
Ordinary Shares
The Stock Exchange of Hong Kong Limited
(Stock Code: 1530)

Convertible Bonds Listing
€300,000,000 Zero-Coupon
Convertible Bonds due 2022
The Stock Exchange of Hong Kong Limited
(Convertible Bonds Code: 5241)

COMPANY'S WEBSITE

www.3sbio.com

Financial Highlights

	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
Revenue	875,396	1,130,854	1,673,126	2,797,289	**3,734,334**
Gross Profit	792,217	1,043,373	1,431,215	2,395,021	**3,058,099**
EBITDA	231,663	399,528	660,705	1,144,383	**1,476,817**
Normalized EBITDA	410,457	518,791	734,136	1,151,789	**1,445,451**
Net Profit	96,056	291,728	526,230	714,254	**924,404**
Normalized Net Profit	274,853	410,991	599,661	721,660	**893,038**
Profit attributable to owners of the parent	95,892	291,728	526,280	712,564	**935,389**
Total Assets	1,268,326	2,306,441	6,630,432	11,038,802	**13,752,971**
Total Liabilities	186,523	1,362,849	994,967	4,272,460	**6,123,325**
Total Equity	1,081,803	943,592	5,635,465	6,766,342	**7,629,646**

Chairman's Statement

Dear Shareholders:

On behalf of the board of directors (the "**Directors**") of the Company (the "**Board**"), I am pleased to present the annual results of the Company for the financial year ended 31 December 2017.

2017 was an important and exciting year for the Company as we made meaningful progress across all aspects of our business. The Company has developed to become a leading biological medicine company in China with an innovative R&D platform, dominant commercial position and international standard manufacturing capabilities.

The China Food and Drug Administration ("**CFDA**") approved 3SBio's Investigational New Drug ("**IND**") applications for Pegsiticase, a pegylated recombinant uricase, and 601a, a vascular endothelial growth factor ("**VEGF**") monoclonal antibody for the treatment of neovascular AMD. The Group also received approvals to conduct clinical trials for additional indications of TPIAO for the treatment of surgery patients with hepatic dysfunction at the risk of thrombocytopenia as well as a pediatric immune thrombocytopenia indication.

Our domestic commercial position was bolstered by the addition of Yisaipu, TPIAO and Qiming Keli to the 2017 National Reimbursement Drug List ("**NRDL**"), accelerating sales to lower-tier cities and hospitals and providing affordable and high-quality medicines to a wider patient base.

3SBio entered into a strategic cooperation agreement to promote Eli Lilly and Company's Humulin, an insulin product, and both parties have been cooperating closely with a smooth transition. Astra Zeneca's Bydureon, China's first Glucagon- like peptide-1 (the "**GLP-1**") receptor agonist weekly was approved by the CFDA to treat type-2 diabetes and we expect the commercial launch in the second quarter of 2018. 3SBio's strategy to partner with multinational corporations gained further momentum with the successful licensing of Toray Industries, Inc. ("**Toray**")'s TRK-820, an antipruritic drug marketed in Japan as REMITCH for the treatment of pruritis, a common side-effect of dialysis treatment.

3SBio's export development efforts continued to progress with a marketing authorization for EPIAO in Ukraine, a member of the Pharmaceutical Inspection Co-operation Scheme (the "**PIC/S**"). The Shanghai manufacturing facility also received a Qualified Person's Declaration Equivalence to the EU Guidelines for Good Manufacturing Practice ("**EU GMP**") for Yisaipu, confirming the high quality of Yisaipu and adherence to EU manufacturing standards.

Overall, 3SBio is well positioned to thrive in today's competitive environment and our strategic focus on innovative, safe, effective and affordable biologic medicines to treat chronic diseases is aligned with key government objectives.

Finally, on behalf of 3SBio, I give my sincerest thanks to our shareholders for supporting our efforts as we continue to expand our capabilities and contribute to improved healthcare both in China and internationally.

Dr. LOU Jing
Chairman & Chief Executive Officer
26 March 2018

Management Discussion and Analysis

BUSINESS REVIEW

Key Events

On 5 January 2017, 3SBio announced that Pegsiticase, a pegylated recombinant uricase (聚乙二醇化重組尿酸氧化酶) and one of the Group's product candidates, had received the approval of the IND application for clinical trials from the CFDA. Pegsiticase is a pegylated recombinant uricase derived from Candida utilis, modified by the attachment of multiple 20 kilodalton molecules of polyethylene glycol (PEG). The Group owns its global intellectual property and has licensed out the rights in the United States to Selecta Biosciences, Inc. (NASDAQ: SELB) ("**Selecta**").

The Ministry of Human Resources and Social Security of the PRC released the 2017 NRDL on 23 February 2017. Three of the Group's products, namely Yisaipu, TPIAO and Qiming Keli (芪明顆粒), were added in the 2017 NRDL. The Group is of the view that this development will enhance its penetration into the hospitals in its coverage and allow its further expansion to lower-tier cities and hospitals, which will in turn enable the Group to satisfy treatment needs by providing affordable and high quality medicines to a wider patient base.

On 21 March 2017, Dr. LOU Jing, the Chairman of the Board, entered into a share purchase agreement (the "**SPA**") with CS Sunshine Investment Limited (the "**CITIC Fund**"), an existing shareholder of the Company. Pursuant to the SPA, Dr. LOU Jing agreed to purchase, and the CITIC Fund agreed to sell, 41,746,000 ordinary shares of the Company, representing approximately 1.65% of the total issued share capital of the Company as at 21 March 2017, at 9.50 Hong Kong Dollars ("**HKD**") per share. The transaction was completed on 28 April 2017.

On 16 May 2017, 3SBio announced that its subsidiaries had entered into a strategic cooperation agreement with two subsidiaries of Eli Lilly and Company (NYSE: LLY) ("**Lilly**"), namely, Lilly China and its affiliate, pursuant to which, the Group has been granted the exclusive right of distribution and promotion of Humulin, an insulin product of Lilly, in China from 1 July 2017 onwards. Pursuant to the agreement, leveraging on its nationwide sales network and its existing metabolic disease related resources, the Group has established a marketing and promotion team which will cover a wide array of diabetes products (including Humulin). Lilly China will be responsible for the production and supply of the Humulin products produced in accordance with its global quality standards. Both parties have been cooperating closely with a smooth transition.

The Group received an approval from the CFDA to conduct a clinical trial for additional indication of TPIAO for the treatment of surgery patients with hepatic dysfunction at the risk of thrombocytopenia on 24 May 2017. In addition, as announced on 22 February 2018, the Group had received an approval from the CFDA to conduct clinical trials for the pediatric immune thrombocytopenia (immune thrombocytopenia, "**ITP**") indication.

As announced on 9 June 2017, the Group had received the marketing authorization for EPIAO (authorization no. UA/15976/01/03) from the Ministry of Health of Ukraine. The authorization is valid for the entire territory of Ukraine until 13 May 2022. Ukraine is a member of the PIC/S. PIC/S is a non-binding and informal co-operative arrangement between

regulatory authorities in the field of Good Manufacturing Practices of medicinal products for human or veterinary use. PIC/S presently comprises 52 participating authorities from Europe, Africa, America, Asia and Australia. The marketing authorization received from a PIC/S member will facilitate the review process by other PIC/S members and benefit the Group's products registration in PIC/S countries and its further expansion into the highly regulated markets.

The Group, through Strategic International Group Limited, a direct wholly-owned subsidiary of the Company, conducted an international offering of the Euro-denominated zero-coupon convertible bonds (the "**Bonds**") in an aggregate principal amount of €300,000,000 due 2022, which is unconditionally and irrevocably guaranteed by the Company. The issue of the Bonds was completed on 21 July 2017. The listing of and permission to deal in the Bonds became effective on 24 July 2017. The successful issue of the Bonds represents an opportunity for 3SBio to improve the liquidity position of the Group, to reduce the financing costs of the Group and to raise further working capital of the Group. Further information regarding the Bonds is provided in 3SBio's announcements made on 12 July 2017, 13 July 2017 and 21 July 2017, respectively.

On 1 September 2017, the Group entered into a shareholders agreement with certain funds (including, CPEChina Fund II, L.P., CPEChina Fund IIA, L.P., and CT Biomanufacturing Limited, collectively as "**CPE Funds**") associated with CITIC Fund, a substantial shareholder of the Company, pursuant to which, a joint venture (the "**CDMO JV**") was established. The Group and CPE Funds seek to position the CDMO JV as a global, comprehensive and biologics-focused CDMO platform. On the same date, the CDMO JV entered into an asset purchase agreement with a Canada-based biologics manufacturer, Therapure Biopharma Inc., to acquire its CDMO business ("**CDMO Acquisition**"), Therapure Biomanufacturing, for 290 million United States Dollars ("**USD**"). The shareholders of the Company have approved the transactions contemplated under the two agreements. The closing of the CDMO Acquisition is currently pending, subject to the fulfillment of certain conditions by no later than 30 April 2018.

Through this CDMO Acquisition, the Group intends to enter the North America biopharmaceutical sector, an important milestone towards the Group's strategy of building a leading global biologics business. The CDMO acquisition will enable the Group to significantly enhance its connections with global biotechnology and pharmaceutical companies, and potentially explore diverse strategic partnerships and license innovative products across the world. At the same time, the expansion of the Group's CDMO business is expected to optimize the utilization of its manufacturing assets, enhance its own technical capabilities and improve its financial profile. The closing of the CDMO Acquisition is still pending, subject to the fulfillment of certain conditions, and the long stop date for the completion of the transaction is 30 April 2018. Accordingly, the transaction contemplated under the asset purchase agreement may or may not proceed. For further information in respect of the CDMO Acquisition and the related matters, please refer to the circular of the Company dated 25 October 2017 and the announcements of the Company dated 3 September 2017 and 27 December 2017. Please also refer to any further announcements by the Company in respect of the CDMO Acquisition for latest developments.

As announced on 11 October 2017, the CFDA approved the Group's IND application to initiate a clinical trial for one of the Group's product candidates, a recombinant humanized anti-VEGF mAb for injection (重組人源化抗血管內皮細胞生長因子單克隆抗體注射液, coded as 601a by the Group). The Group intends to develop 601a for the treatment of neovascular AMD, and is currently actively preparing for the clinical trials.

On 7 November 2017, the Shanghai manufacturing facility of the Group received a Qualified Person's Declaration Equivalence to EU GMP for Investigation Medicinal Products Manufactured in Third Countries with respect to Yisaipu. The Qualified Person's declaration is an important component of the EU GMP regulatory regime. This declaration attests to the high quality of Yisaipu as assessed under the EU standards and the good adherence of the Yisaipu manufacturing facility to the EU standards.

Key Events after the Reporting Period

As announced on 4 January 2018, one of the Group’s in-licensed products, China’s first GLP-1 receptor agonist weekly preparation Bydureon (generic name Exenatide Microsphere for injection) had been approved by the CFDA as a new treatment option to improve glycemic control for patients with type-2 diabetes. As the first and currently the only GLP-1 medicine in China administered once-weekly, Exenatide Microsphere can reduce the frequency of dosing, reduce gastrointestinal adverse effects, increase drug stability and improve patient compliance by continuing to provide steady-state levels of Exenatide with sustained release microsphere technology. This product was licensed to the Group by AstraZeneca in October 2016. The Group is actively preparing for the product launch, which is expected to be in the second quarter of 2018.

As announced on 15 January 2018, 3SBio’s wholly-owned subsidiary, Hongkong Sansheng Medical Limited (“**Hongkong Sansheng**”) and Toray entered into an exclusive licensing agreement (the “**Toray Agreement**”) on certain oral disintegration tablet formulation of antipruritic drug TRK-820 (as under Toray development code, which generic name is nalfurafine hydrochloride, also known as “REMITCH” as approved in Japan) that is developed and manufactured by Toray. Pursuant to the Toray Agreement, Toray agreed to grant Hongkong Sansheng the exclusive right to develop and commercialize this product in the PRC except for Hong Kong and Macau. Hongkong Sansheng agreed to pay initial payment and milestone payments to Toray.

Key Products

TPIAO is the Group's self-developed proprietary product, and has been the only commercialized rhTPO product in the world since its launch in 2006. TPIAO has been approved by the CFDA for two indications: the treatment of chemotherapy-induced thrombocytopenia ("**CIT**") and ITP. TPIAO has the advantages of higher efficacy, faster platelet recovery and fewer side effects as compared to alternative treatments for CIT and ITP. In "The Consensus of China Experts on Diagnosis and Treatment of Adult Primary Immune Thrombocytopenia" (2016 Version), rhTPO products are included as the first choice recommendation for the second line treatments list, and are recommended among the medicines to boost platelet production in certain emergencies cases. TPIAO is included in the 2017 NRDL as a Class B Drug (No. 214) for the treatment of severe CIT in patients with solid tumors or ITP. TPIAO has experienced significant sales growth due to increasing physician awareness of its safety and efficacy as a treatment for CIT and ITP and its quick adoption in China. The inclusion in the 2017 NRDL also led to accelerated growth for TPIAO in the fourth quarter of 2017, as the 2017 NRDL was implemented from September 2017 onwards. The Group believes that TPIAO is still at an early stage of its product life cycle. The Group estimates that the penetration rates for both CIT and ITP indications in China may be approximately 14.4% to 17.4%. Currently, the majority of the Group's sales of TPIAO is generated from approximately 10% of the hospitals covered by the Group's sales team. On 24 May 2017, the Group received an approval from the CFDA to conduct clinical trials for TPIAO for the treatment of surgery patients with hepatic dysfunction at the risk of thrombocytopenia. In addition, TPIAO has received an approval from the CFDA to conduct clinical trials for pediatric ITP indication in February 2018. TPIAO received marketing authorization from the Ministry of Public Health of Ukraine, a PIC/S member, for the treatment of CIT in patients with solid tumors on 24 June 2016.

Yisaipu, generically known as Etanercept, is a TNF α inhibitor product. It was first launched in 2005 in China for RA. Its indications were expanded to ankylosing spondylitis ("**AS**") and psoriasis in 2007. The Group actively participated and helped to develop an experts consensus titled "The Experts Consensus on the Treatment of Childhood Idiopathic Arthritis", published on the Journal of Clinical Pediatrics (2011, 29(6), pages 587–591); in addition, the Group actively participated in the works related to "The Rheumatoid Arthritis Treatment Guidance" and "The Ankylosing Spondylitis Treatment Guidance", both authoritative documents issued by the China Medical Association, and Yisaipu is adopted in the two guidances under 'Etanercept' as one of the RA and AS treatment options. Yisaipu is included in the 2017 NRDL as a Class B Drug (No. 846) for the treatment of patients with confirmed diagnosis of RA, and for the treatment of patients with confirmed diagnosis of AS (not including pre-radiographic axial spondyloarthritis), each subject to certain medical prerequisites. Yisaipu has experienced significant growth as the first-to-market Etanercept product in China, with a dominant market share in China of 60.4% by sales in 2017, according to IMS. The sales coverage of Yisaipu extends to more than 2,500 hospitals in China, including over 1,000 Grade III hospitals. The inclusion in the 2017 NRDL also led to accelerated growth of Yisaipu in the fourth quarter of 2017, as the 2017 NRDL was implemented from September 2017 onwards. The Group believes that Yisaipu is still at an early stage of its product life cycle. The Group estimates that the penetration rates for RA and AS in China are each less than 5%. Currently, the majority of the Group's sales of Yisaipu is generated from approximately 8% of the hospitals covered by the Group's sales team. The prefilled syringe of Yisaipu in the Group's pipeline is the only product of its kind in China, of which the Group has completed the Phase III trial and is expecting to apply for manufacturing approval in the second quarter of 2018. The Group is of the view that the prefilled syringe of Yisaipu will improve patients convenience and contribute to further growth of Yisaipu.

Yisaipu has been approved in 11 countries and is in the process of being registered in 19 countries. On 7 November 2017, the Group's manufacturing facility for Yisaipu received a Qualified Person's Declaration Equivalence to EU GMP for Investigation Medicinal Products manufactured in Third Countries. This declaration attests to the high quality of Yisaipu as assessed under the EU standards and the good adherence of the Yisaipu manufacturing facility to the EU standards.

EPIAO is still the only rhEPO product approved by the CFDA for three indications: the treatment of anemia associated with chronic kidney disease ("**CKD**"), the treatment of chemotherapy-induced anemia ("**CIA**") and the reduction of allogeneic blood transfusion in surgery patients. EPIAO is included in the NRDL as a category B drug in China since 2000. EPIAO has consistently been the dominant market leader in China rhEPO market since 2002 in terms of both volume and value. EPIAO is the only rhEPO product in China available at 36,000 IU (international unit per vial) dosage, and together with SEPO, claims the majority of the China rhEPO market share at 10,000 IU dosage. Future growth for EPIAO may be driven by: (1) the increase of the dialysis penetration rate among stages IV and V CKD patients, which the Group believes is substantially lower in China as compared with other countries; and (2) the increase in the applications of EPIAO in reducing allogeneic blood transfusion and in CIA oncology indication in China, which the Group believes is at a very early stage of growth. With contribution from the second brand of the Group's rhEPO products, SEPO, market coverage of the Group's rhEPO products has expanded in Grade II and Grade I hospitals, where sales of its rhEPO products have been experiencing significant growth. The Group expects that SEPO will continue to gain market share in the rhEPO market. As announced on 9 June 2017, the Group received the marketing authorization for EPIAO in Ukraine, a PIC/S member country. The multi-center biosimilar clinical trials for EPIAO in Russia and Thailand have made good progress, with patients recruitment for the maintenance period to be completed by the end of 2018. The trials are expected to be completed by 2019. The Group plans to include Ukraine in the multi-center clinical trials in 2018 to expedite patient enrollment.

Humulin was the first bio-synthetic human insulin product in the world and was also the first medical product for human therapeutic use produced by recombinant DNA technology. Humulin is licensed from Lilly, and the Group has started to consolidate Humulin revenues from July 2017. Diabetes is a major chronic disease in China, and China has the largest diabetes patient population in the world. The Group is of the view that Human insulin being included in the 2017 NRDL as a Class A Drug and the establishment and implementation of the tiered medical service system will lead to the further growth of human insulin in lower tier market in China.

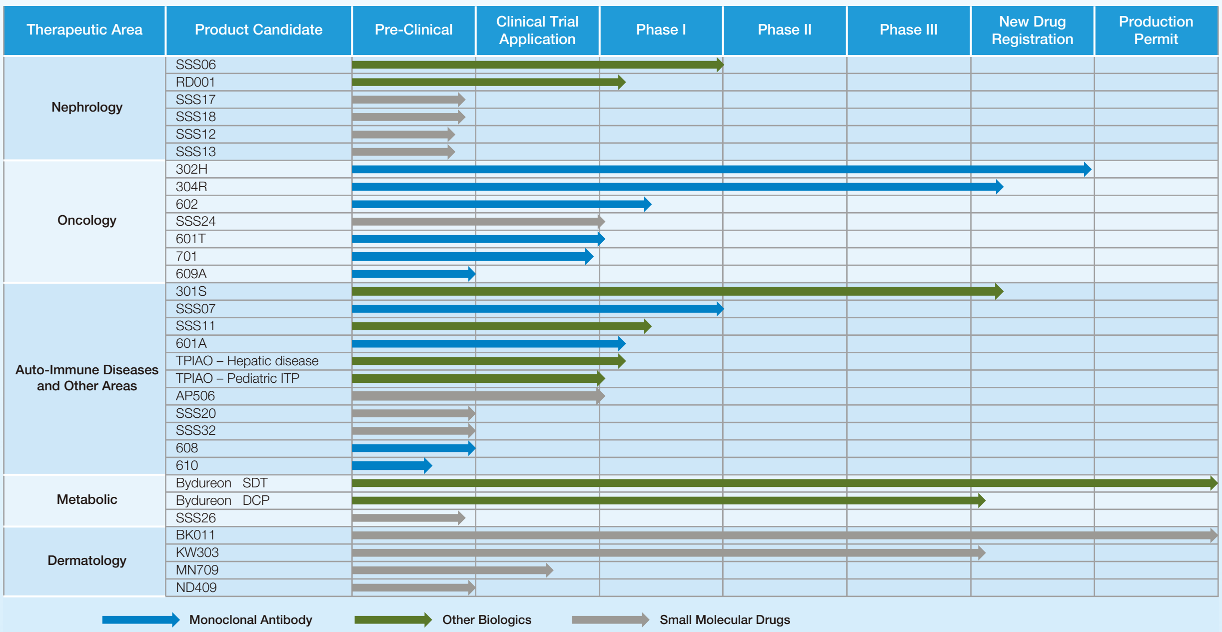
Byetta, generically known as "Exenatide injection", is an injectable GLP-1 receptor agonist, administered twice daily as an adjunct to diet and exercise to improve glycemic control in adults with type-2 diabetes mellitus, which is indicated for treatment of patients who have not achieved adequate glycaemic control on metformin, sulphonylureas, or metformin plus sulphonylureas. Byetta is licensed from AstraZeneca, and the Group has started to record the revenue of Byetta since October 2016. Bydureon, the weekly administered GLP-1 product, received the CFDA approval in December 2017. The Group is actively preparing for the product launch, which is expected in the second quarter of 2018.

Qiming Keli, Man Di (蔓迪), Di Su (迪蘇) and Lai Duo Fei (萊多菲) are a group of dermatology and ophthalmology drugs, indicated to treat diabetic retinopathy, alopecia areata, chronic bronchitis and chronic idiopathic urticaria, respectively. Qiming Keli is included in the 2017 NRDL as a Class B Traditional Chinese Medicine (No. 1004) for the treatment of non-proliferative retinopathy caused by type-2 diabetes.

Product Pipeline

As at 31 December 2017, amongst the 31 product candidates within the Group's active pipeline, 16 were being developed as National Class I New Drugs (國家一類新藥) in China. The Group has seven product candidates in oncology; 11 product candidates that target auto-immune diseases including RA, and other diseases such as refractory gout and AMD; six product candidates in nephrology; three product candidates in the metabolic area that target type-2 diabetes; and four product candidates in dermatology.

Robust and Innovative Product Pipeline Supported by Integrated Research and Development Platform and Collaboration with Industry Leaders and International Partners



Research and Development

The Group's integrated R&D platform covers a broad range of technical expertise in the discovery and development of various innovative bio-pharmaceutical products, including molecular cloning, antibody/protein engineering, gene expression, cell line construction, manufacturing process development, large scale manufacturing, quality control and assurance, design and management of pre-clinical and clinical trials, and regulatory filing and registration. The Group is experienced in R&D of mammalian cell-expressed, bacterial cell-expressed and chemically-synthesized pharmaceuticals.

The Group focuses its R&D efforts on researching and developing innovative biologics products. Currently, the Group has a panel of leading biologics products in various stages of clinical development, including NuPIAO (the second-generation rhEPO to treat anemia), SSS07 (the anti-TNFa antibody to treat RA), Pegsiticase (a modified pegylated recombinant uricase from candida utilis to treat refractory gout), 602 (an anti-epidermal growth factor receptor antibody to treat cancer), 601 (an anti-VEGF antibody to treat AMD), and prefilled syringe dosage form of Yisaipu.

The Group has completed the Phase III trial of the prefilled syringe dosage form of Yisaipu and is preparing to apply for manufacturing approval from the CFDA in the second quarter of 2018.

The Group has completed the Phase III trials of Clindamycin Phosphate and Tretinoin Gel for topical treatment of acne vulgaris in patients of 12 years and older, and expects to file for manufacturing approval in the second quarter of 2018.

The Group has completed multiple Phase I trials of NuPIAO in anemic patients, and has filed an application for Phase II and Phase III clinical trials to the CFDA in November 2017.

The Group has completed the Phase Ia clinical trial for SSS07 in healthy volunteers, and has initiated the Phase Ib trial in patients with RA in the second quarter of 2017.

As announced on 5 January 2017, the Group has received an IND approval for clinical trials for Pegsiticase from the CFDA. Clinical trial for Pegsiticase has been initiated in the second half of 2017. The Group's business partner, Selecta is conducting Phase II trials for SEL-212 (consisting of Pegsiticase, co-administered with SVP-Rapamycin to prevent anti-drug antibodies) in the United States. Their study has shown positive results in reducing uric acid levels while having significantly fewer patients experiencing gout flares during treatment. Selecta expects to initiate its Phase III trial in 2018.

On 24 May 2017, the Group received an IND approval for clinical trials from the CFDA for TPIAO in surgery patients with hepatic dysfunction at the risk of thrombocytopenia. Patient enrollment will begin in the second quarter of 2018. In addition, as announced on 22 February 2018, the Group has received an IND approval from the CFDA for clinical trials of TPIAO in pediatric ITP indication.

As announced on 11 October 2017, an anti-VEGF antibody had been granted an approval by the CFDA for clinical trials in patients with neovascular AMD. Patient enrollment is expected to be initiated in the second quarter of 2018. In addition, on 3 January 2018, the Group received clinical trial approvals from the CFDA for this product candidate in patients with non-small cell lung cancer and cervical carcinoma.

The Group has filed four new IND applications in 2017. Three separate IND applications were filed for an anti-VEGF antibody for the treatment of various ophthalmic diseases in November 2017, including macular edema following retinal vein occlusion (RVO), myopic choroidal neovascularization (mCNV), and diabetic retinopathy with macular edema (DME). Another new IND application was filed for NuPIAO Phase II/III trials in anemic patients in November 2017.

As announced on 4 January 2018, one of the Group's in-licensed products, a GLP-1 receptor agonist weekly preparation, Bydureon (generic name: Exenatide Microsphere for injection), was approved by the CFDA as a new treatment option to improve glycemic control for patients with type-2 diabetes. The Group is preparing to launch the product, the first long-acting weekly-dosing GLP-1 receptor agonist product on China market, during the second quarter of 2018.

Fluticasone Propionate Cream, a product with broad applications in the treatment of a variety of dermatological disorders, was granted a marketing approval from the CFDA on 26 July 2017. The Group has launched the product in March 2018.

On 1 February 2018, the Group received a supplemental marketing approval from the CFDA of Tacrolimus Ointment (0.03%) for pediatric indications in children aged between 2-15 years old with moderate to severe atopic dermatitis.

During the period from 2009 to 2013, the Group conducted an open label, multi-center, perspective Phase III trial in China with a humanized anti-HER2 antibody, the Group's product candidate 302H (賽普汀), in patients with HER2 over-expressing metastatic breast cancer. A total of 26 hospitals and clinical centers participated in the study. A group of 341 eligible patients were randomized into two groups, one receiving the product candidate 302H plus vinorelbine (長春瑞濱), while the other group receiving vinorelbine until either intolerance due to toxicity or disease progression, followed by switching to the product candidate 302H as a single agent therapy. The final results showed that there was a significant prolongation in progression-free survival (PFS) and greater reduction in the risk of disease progression in patients who received the product candidate 302H plus vinorelbine in combination, as compared to those receiving chemotherapy alone or chemotherapy followed by the product candidate 302H. The overall objective response rate (ORR) was also significantly higher in the patient group which received the product candidate 302H plus vinorelbine in combination. There was no significant difference in the occurrence of systemic toxicities and serious adverse events between the two treatment groups. The Group has recently completed a thorough inspection and audit of all the clinical sites and the associated clinical data, with the assistance of a retained third-party clinical study audit firm. The Group is finalizing the clinical study report, and plans to re-submit a new drug application to the CFDA in the near future, with the aim to register the product in China as a safe and efficacious therapeutic biologics medicine for the treatment of HER2 over-expression metastatic breast cancer.

The Group's R&D team of experienced researchers and scientists under the leadership of Dr. ZHU Zhenping, the chief scientific officer of the Company, is working diligently to research and discover new medicines, to accelerate the progress of clinical development, and to bring breakthrough therapies to fulfill the unmet medical needs of patients.

Sales, Marketing and Distribution

The Group's sales and marketing efforts are characterized by a strong emphasis on academic promotion. The Group aims to promote and strengthen the Group's academic recognition and the brand awareness of its products among medical experts. The Group markets and promotes its key products mainly through its in-house sales and marketing team. The Group sells these products to distributors who are responsible for delivering products to hospitals and other medical institutions. The Group relies on third-party promoters to market certain products.

As at 31 December 2017, the Group's extensive sales and distribution network in China was supported by approximately 2,446 sales and marketing employees, 272 distributors and 1,845 third-party promoters. As at 31 December 2017, the Group's sales team covered over 2,000 Grade III hospitals and over 12,000 Grade II or lower hospitals and medical institutions, reaching all provinces, autonomous regions and special municipalities in China. In addition, TPIAO, Yisaipu, EPIAO, SEPO and some of the Group's other products are exported to a number of countries through international promoters.

After the acquisition of Shanghai CP Guojian Pharmaceutical Co., Ltd. (now known as Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. (三生國健藥業（上海）股份有限公司), "**Sunshine Guojian**") and with the in-license of the AstraZeneca diabetes products (including Byetta and Bydureon), Sunshine Guojian's sales team and Byetta's sales team were integrated into the Group's commercialization platform as two new business units. With the in-license of Humulin from Lilly China, the Group expanded diabetes sales team to promote Humulin in China in 2017.

Outlook

The Group intends to reinforce its position as a leading biopharmaceutical company in China by leveraging its integrated R&D, commercial and manufacturing platforms.

The Group plans to increase sales of its marketed products by further penetration into the hospitals currently covered by the Group's sales and marketing team and new hospitals to be reached and brought under coverage, through continuous education within the medical profession. The current market penetration rates of the Group's three core products are still relatively low, which indicates significant growth potential. With the three products (including two core products) admitted in the NRDL in 2017, the Group is of the view that the NRDL inclusion will benefit these products' penetration in the hospitals under its coverage and allows further expansion of these products in lower-tier cities and hospitals, which also can stimulate market share growth.

The Group focuses on developing leading biologics products, including NuPIAO, SSS07, Pegsiticase, product candidate 602, product candidate 601, prefilled syringe of Yisaipu and other mAb products. A fully integrated R&D platform accelerates the development of biologics products and enables the Group to provide a variety of treatment options for patients. The Group's core therapeutic areas include oncology, immunology, nephrology, metabolic diseases and dermatology. The Group expects to receive one new Class 1 drug and/or new indication approval and two to three IND approvals on an annual basis. The Group will continue to build up its in-house clinical development capacity and capability through human capital and financial resource invested on a high priority basis.

With the Group's approximately 38,000-liter capacity mAb facility, as well as mammalian cell-based, bacteria cell-based and small molecule manufacturing facilities and over 25 years of experience in the biologics medicine manufacturing field, the Group is able to manufacture high quality pharmaceutical products with scalable manufacturing capacity at competitive cost. The manufacturing capability of the Group well positions it for its strategic objective of creating a profitable CDMO business, leveraging on its existing CDMO assets.

The Group continues to seek selective merger and acquisition and collaboration opportunities to enrich its existing product portfolio and pipeline so as to provide a growth engine for the long term. The strategic collaborations with AstraZeneca and Lilly China help the Group to expand its product portfolio into the field of diabetes, a major chronic disease, which are affirmations of the Group being the partner of choice to leading pharmaceutical companies around the world, and lay an important step stone for the Group to seek and effect new strategic collaborations. The collaboration with Toray in the nephrology treatment area will enable the Group to more effectively leverage its existing nephrology commercial team. The Group is growing its international sales through the registration of existing products in new countries and the registration of new products through either innovative or biosimilar pathways in highly regulated markets.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, the Group's revenue amounted to approximately RMB3,734.3 million, as compared to approximately RMB2,797.3 million for the year ended 31 December 2016, representing an increase of approximately RMB937.0 million, or approximately 33.5%. The increase was mainly attributable to the sales growth of the Group's key products and the consolidation of the revenues of Yisaipu, Byetta and Humulin into the Group's consolidated financial statements since 1 April 2016, 11 October 2016 and 1 July 2017, respectively.

For the year ended 31 December 2017, the Group's sales of TPIAO increased to approximately RMB974.8 million, as compared to approximately RMB765.0 million for the year ended 31 December 2016, representing an increase of approximately RMB209.8 million, or approximately 27.4%. The increase was primarily attributable to an increase in sales volume, which in turn was primarily driven by the increase in recognition of TPIAO within the medical profession and the accelerated growth due to the implementation of NRDL beginning from September 2017. For the year ended 31 December 2017, sales of TPIAO accounted for approximately 26.0% of the Group's total sales of goods.

For the year ended 31 December 2017, the Group's sales of Yisaipu increased to approximately RMB1,012.9 million, as compared to approximately RMB786.2 million for the year ended 31 December 2016, representing an increase of approximately RMB226.7 million, or approximately 28.8%. The increase was mainly due to the consolidation of the financial data of Yisaipu into the Group's consolidated financial statements since 1 April 2016. As compared to the sales of Yisaipu from 1 January to 31 December 2016, the Group's sales of Yisaipu for the year ended 31 December 2017 increased from approximately RMB925.2 million to approximately RMB1,012.9 million, representing an increase of approximately RMB87.7 million, or approximately 9.5%. The increase was primarily attributable to an increase in sales volume, which in turn was driven by the accelerated growth due to the implementation of NRDL beginning from September 2017. For the year ended 31 December 2017, the sales of Yisaipu accounted for approximately 27.0% of the Group's total sales of goods.

For the year ended 31 December 2017, the Group's sales of EPIAO and SEPO increased to approximately RMB855.3 million, as compared to approximately RMB772.8 million for the year ended 31 December 2016, representing an increase of approximately RMB82.5 million, or approximately 10.7%. The increase was primarily attributable to an increase in sales volume, which in turn was primarily driven by the surging demand for rhEPO products in China. For the year ended 31 December 2017, the Group's sales of SEPO increased to approximately RMB150.7 million, as compared to approximately RMB95.6 million for the year ended 31 December 2016, representing a significant increase of approximately RMB55.1 million, or approximately 57.7%. For the year ended 31 December 2017, the Group's sales of EPIAO increased to approximately RMB704.6 million, as compared to approximately RMB677.2 million for the year ended 31 December 2016, representing an increase of approximately RMB27.4 million, or approximately 4.0%. The increase was primarily attributable to an increase in sales volume. The second brand of the Group's rhEPO product, SEPO, performed strongly and expanded the market coverage. For the year ended 31 December 2017, the sales of EPIAO and SEPO accounted for a total of approximately 22.8% of the Group's total sales of goods.

For the year ended 31 December 2017, the Group's sales of Humulin were approximately RMB129.0 million and service income associated with the promotion of Humulin was approximately RMB68.3 million, which were consolidated into the Group's consolidated financial statements since 1 July 2017.

For the year ended 31 December 2017, the Group's sales of Byetta were approximately RMB130.9 million, which were consolidated into the Group's consolidated financial statements since 11 October 2016.

For the year ended 31 December 2017, the Group's sales derived from Zhejiang Wansheng Pharmaceutical Co., Ltd. ("**Zhejiang Wansheng**") increased to approximately RMB271.7 million, as compared to approximately RMB223.2 million for the year ended 31 December 2016, representing an increase of approximately RMB48.5 million, or approximately 21.7%. The Group's dermatology products performed strongly for the year ended 31 December 2017.

For the year ended 31 December 2017, the Group's export sales increased to approximately RMB64.5 million, as compared to approximately RMB50.0 million for the year ended 31 December 2016, representing an increase of approximately RMB14.5 million, or approximately 28.9%. The increase was primarily attributable to an increase in export sales of Yisaipu and EPIAO.

For the year ended 31 December 2017, the Group's sales of other products primarily consisted of the contract manufacturing income derived from Sirton Pharmaceuticals S.p.A. ("**Sirton**") as well as the sales of IV Iron Sucrose and Sparin.

Cost of Sales

The Group's cost of sales increased from approximately RMB402.3 million for the year ended 31 December 2016 to approximately RMB676.2 million for the year ended 31 December 2017, which accounted for approximately 18.1% of the Group's total revenue for the same period. The primary reasons for the increase in the Group's cost of sales were due to the increased sales volume for the year ended 31 December 2017, as compared to the corresponding period in 2016, and the consolidation of the costs of sales of Yisaipu, Byetta and Humulin into the Group's consolidated financial statements since 1 April 2016, 11 October 2016 and 1 July 2017, respectively.

Gross Profit

For the year ended 31 December 2017, the Group's gross profit increased to approximately RMB3,058.1 million, as compared to approximately RMB2,395.0 million for the year ended 31 December 2016, representing an increase of approximately RMB663.1 million, or approximately 27.7%. The increase in the Group's gross profit was broadly in line with its revenue growth during the period. The Group's gross profit margin decreased to approximately 81.9% for the year ended 31 December 2017 from approximately 85.6% for the corresponding period in 2016. The decrease was mainly attributable to the Group's consolidation of Byetta since 11 October 2016 and Humulin since 1 July 2017, which had a lower gross profit margin than the Group's other businesses.

Other Income and Gains

The Group's other income and gains mainly comprised income associated with the disposal of the investment in an associate, government grants, interest income and other miscellaneous income. For the year ended 31 December 2017, the Group's other income and gains decreased to approximately RMB195.8 million, as compared to approximately RMB215.6 million for the year ended 31 December 2016, representing a decrease of approximately RMB19.8 million, or approximately 9.2%. The decrease was mainly attributable to the decrease of government grants received by the Group. Generally, government grants would be received once the relevant projects reach certain milestones. We expect to continue to receive government grants with the progress of the Group's R&D projects.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consisted of marketing and promotion expenses, staff costs, transportation expenses, consulting fees and other miscellaneous selling and distribution expenses. For the year ended 31 December 2017, the Group's selling and distribution expenses amounted to approximately RMB1,332.7 million, as compared to approximately RMB1,017.2 million for the year ended 31 December 2016, representing an increase of approximately RMB315.5 million, or approximately 31.0%. The increase was mainly attributable to the increased promotional activities for the Group's products and the consolidation of the selling and distribution expenses of Yisaipu, Byetta and Humulin into the Group's consolidated financial statements since 1 April 2016, 11 October 2016 and 1 July 2017, respectively. In terms of the percentage of revenue, the Group's selling and distribution expenses was 35.7% for the year ended 31 December 2017 as compared to approximately 36.4% for the year ended 31 December 2016.

Administrative Expenses

The Group's administrative expenses consisted of staff costs, professional fees, depreciation and amortization, property expenses, share-based compensation, and other miscellaneous administrative expenses. For the year ended 31 December 2017, the Group's administrative expenses amounted to approximately RMB315.1 million, as compared to approximately RMB301.2 million for the year ended 31 December 2016, representing an increase of approximately RMB13.9 million, or approximately 4.6%. The increase was mainly due to the consolidation of Sunshine Guojian's administrative expenses for a full year in 2017, as the consolidation of Sunshine Guojian's administrative expenses began from the second quarter of 2016, and the increase in personnel costs due to the expansion of business of the Group, which was partially offset by the decrease in one-off expenses. The one-off items include: (a) the expenses incurred in relation to the issuance of the Bonds; (b) the option expenses associated with the options granted on 2 February 2017; (c) the expenses incurred in relation to the acquisitions of the CDMO business and Sunshine Guojian and the exclusive license agreement with AstraZeneca. Had the effects of the one-off items been excluded, the administrative expenses for the year ended 31 December 2017 would have been approximately RMB274.5 million. The administrative expenses (excluding the aforementioned one-off items) as a percentage of revenue was approximately 7.4% for the year ended 31 December 2017, as compared to approximately 7.9% for the corresponding period in 2016.

Other Expenses and Losses

The Group's other expenses and losses primarily consisted of its R&D costs. For the year ended 31 December 2017, the Group's other expenses and losses amounted to approximately RMB348.3 million, as compared to approximately RMB282.2 million for the year ended 31 December 2016, representing an increase of approximately RMB66.1 million, or approximately 23.4%. The increase was mainly due to the increase in R&D expenses and the increase in prescription assistance program (PAP) benefits for Byetta and Yisaipu to provide affordable and high quality medicines to patients with economic hardship.

Finance Costs

For the year ended 31 December 2017, the Group's finance costs amounted to approximately RMB141.4 million, as compared to approximately RMB147.7 million for the year ended 31 December 2016, representing a decrease of approximately RMB6.4 million, or approximately 4.3%. The decrease was mainly due to the decrease in interest expenses with the repayment of bank borrowings, which was partially offset by the increase in non-cash interest expenses of the Bonds. Excluding the non-cash interest expenses of the Bonds, the finance cost for the year ended 31 December 2017 would have been approximately RMB110.0 million.

Income Tax Expense

For the year ended 31 December 2017, the Group's income tax expense amounted to approximately RMB177.6 million, as compared to approximately RMB135.8 million for the year ended 31 December 2016, representing an increase of approximately RMB41.8 million, or approximately 30.8%. The increase was mainly due to the increase of taxable income during the year ended 31 December 2017, as compared to the corresponding period in 2016. The effective tax rates for the year ended 31 December 2017 and the corresponding period in 2016 were 16.1% and 16.0% respectively.

EBITDA and Net Profit attributable to owners of the parent

The EBITDA for the year ended 31 December 2017 increased by approximately RMB332.4 million or approximately 29.0% to approximately RMB1,476.8 million, as compared to approximately RMB1,144.4 million for the year ended 31 December 2016. The normalized EBITDA is defined as the EBITDA for the period excluding, as applicable: (a) the expenses incurred in relation to the issuance of the Bonds; (b) the option expenses associated with the options granted on 2 February 2017; (c) the expenses incurred in relation to the acquisition of the CDMO business; (d) the income associated with the disposal of the equity shares in Ascentage Jiangsu Pharmaceutical Group Co., Ltd. ("**Ascentage Jiangsu**") and Hong Kong Ascentage Pharma Group Co., Ltd. (together with Ascentage Jiansu, "**Ascentage Group**"); (e) the expenses incurred in relation to the acquisition of Sunshine Guojian and the exclusive license agreement with certain subsidiary of AstraZeneca; (f) the warrant expenses associated with Sunshine Guojian Warrants granted on 1 January 2015; (g) the income associated with the fair value gain of the approximately 28.8% equity interests in Sunshine Guojian previously acquired by the Group in 2014 and 2015; and (h) the income associated with the gain on deemed disposal of investments in an associate (namely Ascentage Jiangsu). The Group's normalized EBITDA for the year ended 31 December 2017 increased by approximately RMB293.7 million or approximately 25.5% to approximately RMB1,445.5 million, as compared to approximately RMB1,151.8 million for the year ended 31 December 2016.

The net profit attributable to owners of the parent for the year ended 31 December 2017 was approximately RMB935.4 million, as compared to approximately RMB712.6 million for the year ended 31 December 2016, representing an increase of approximately RMB222.8 million, or approximately 31.3%. The normalized net profit attributable to owners of the parent is defined as the profit attributable to owners of the parent for the period excluding, as applicable: (a) the expenses incurred in relation to the issuance of the Bonds; (b) the option expenses associated with options granted on 2 February 2017; (c) the expenses incurred in relation to the acquisition of the CDMO business; (d) the income associated with the disposal of the equity shares in Ascentage Group; (e) the expenses incurred in relation to the acquisition of Sunshine Guojian and the exclusive license agreement with certain subsidiary of AstraZeneca; (f) the warrant expenses associated with Sunshine Guojian Warrants granted on 1 January 2015; and (g) the income associated with the fair value gain of the approximately 28.8% equity interests in Sunshine Guojian previously acquired by the Group in 2014 and 2015; and (h) the income associated with the gain on deemed disposal of investments in an associate (namely Ascentage Jiangsu). The Group's normalized net profit attributable to owners of the parent for the year ended 31 December 2017 was approximately RMB904.0 million, as compared to approximately RMB720.0 million for the year ended 31 December 2016, representing an increase of approximately RMB184.1 million, or approximately 25.6%. The normalized net profit attributable to owners of the parent grew slower than the revenue growth primarily due to the consolidation of Byetta and Humulin, which had a lower net profit margin as compared to the Group's other businesses.

Long Term Receivables

As at 31 December 2017, long term receivables represented the loan provided to Zhejiang Sunshine Pharmaceutical Company Limited ("**Zhejiang Sunshine**") in a principal amount of RMB25.0 million with an accumulated interest amount of RMB10.4 million due at loan maturity.

Available-for-sale Investments

As at 31 December 2017, available-for-sale investments primarily comprised the investments in treasury or cash management products issued by certain banks and the investments in a listed company and a private equity fund which is focusing on investment in the healthcare industry.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group's liquidity remained strong. For the year ended 31 December 2017, the Group's operating activities generated a net cash inflow of approximately RMB1,074.1 million. As at 31 December 2017, the Group's cash and cash equivalents and time deposits (including pledged time deposits) were approximately RMB2,410.5 million.

Net Current Assets

As at 31 December 2017, the Group had net current assets of approximately RMB3,080.4 million, as compared to net current assets of approximately RMB1,097.1 million as at 31 December 2016. The current ratio of the Group increased from approximately 2.0 as at 31 December 2016 to approximately 2.4 as at 31 December 2017. The increase in net current assets was mainly due to the proceeds received from the issuance of the Bonds.

Funding and Treasury Policies, Borrowing and Pledge of Assets

The Group's finance department is responsible for the funding and treasury policies with regard to the overall business operation of the Group. The Company expects to fund its working capital and other capital requirements from a combination of various sources, including but not limited to internal financing and external financing at reasonable market rates. The Group continues to seek improving the return of the equity and assets while maintaining a prudent funding and treasury policy.

As at 31 December 2017, the Group had an aggregate interest-bearing bank borrowings of approximately RMB2,134.3 million, as compared to approximately RMB3,059.1 million as at 31 December 2016. The decrease in bank borrowings primarily reflected the repayment of loans of RMB1,132.9 million, which was partially offset by the additional short-term bank loans of RMB300.0 million obtained in 2017. The short-term bank borrowings were obtained to replace long-term bank borrowings so as to lower interest expenses. Among the short-term deposits, none was pledged to secure bank loans as at 31 December 2017, as compared to RMB5.9 million pledged deposits as at 31 December 2016.

As at 31 December 2017, the Group had convertible bonds outstanding of approximately RMB2,271.9 million.

Gearing Ratio

The gearing ratio of the Group, which was calculated by dividing the total borrowings (excluding the Bonds) by the total equity, decreased to approximately 28.0% as at 31 December 2017 from approximately 45.2% as at 31 December 2016. The decrease was primarily due to repayment of loans.

Contingent Liabilities

As at 31 December 2017, the Group had no significant contingent liabilities.

Contractual Obligations

The Group's capital commitment amounted to approximately RMB93.5 million as at 31 December 2017, as compared to approximately RMB180.3 million as at 31 December 2016.

Foreign Exchange and Exchange Rate Risk

The Group mainly operates in China, with all material aspects of its regular business conducted in Renminbi other than: (1) the operations of Sirton; and (2) the Group's exports, which amounted to approximately RMB64.5 million, or approximately 1.7% of the Group's revenue, for the year ended 31 December 2017. Except for the operations of Sirton, the Group's exports, potential international deal-making expenditures (such as related to international licensing and acquisitions), foreign currency denominated bank deposits and the Euro-denominated Bonds, the Group believes that it does not have any other material direct exposure to foreign exchange fluctuations. As at 31 December 2017, the Group's foreign currency denominated bank deposits primarily comprised: (1) approximately USD143.4 million (equivalent to approximately RMB936.7 million) denominated in USD; (2) approximately HKD5.5 million (equivalent to approximately RMB4.6 million) denominated in Hong Kong Dollars; and (3) approximately Euro146.0 million (equivalent to approximately RMB1,139.5 million) denominated in Euro. The Group expects that the fluctuation of the Renminbi exchange rate will not have a material adverse effect on the operations of the Group in the foreseeable future.

Significant Investments Held

During the year ended 31 December 2017, the Group did not have any significant investments.

Future Plans for Material Investments or Capital Assets

The Group estimates that the capital expenditure will be in the range of RMB300 million to RMB400 million per year for the Group for the next three years. These expected capital expenditures will primarily be incurred for the maintenance of the Group's existing facilities and the expansion of the Group's production capabilities. The Group expects to finance its capital expenditures through a combination of internally generated funds and bank borrowings.

EMPLOYEES AND EMOLUMENTS POLICY

As at 31 December 2017, the Group employed a total of 4,051 employees, as compared to a total of 3,465 employees as at 31 December 2016. The staff costs, including Directors' emoluments but excluding any contributions to pension scheme, were approximately RMB781.0 million for the year ended 31 December 2017, as compared to approximately RMB498.0 million for the corresponding period in 2016. The Group generally formulated its employees' remuneration package to include salary, bonus and allowance elements. The compensation programs were designed to remunerate the employees based on their performance, measured against specified objective criteria. The Group also provided the employees with welfare benefits in accordance with applicable regulations and the Group's internal policies. The Company has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group operates in a highly competitive environment, and it may not be able to compete effectively against current and future competitors.

The Group operates in a highly competitive environment. The Group may not be able to compete effectively against current and future competitors. The Group's products compete with other products or treatments for diseases for which the Group's products may be indicated. The biotechnology and pharmaceutical industries are characterized by rapid changes in technology, constant enhancement of industrial know-how and frequent emergence of new products. Many of the Group's competitors, including foreign pharmaceutical companies and large state-owned pharmaceutical companies, may have substantially greater clinical, research, regulatory, manufacturing, marketing, financial and human resources than that of the Group.

If the Group's products are excluded or removed from the national medical insurance catalogue or provincial medical insurance catalogues, the Group's sales, profitability and business prospects could be adversely affected.

As at the date of this annual report, the Group's core products, TPIAO, Yisaipu, EPIAO and SEPO, as well as other products including Humulin and Qiming Keli, are listed in the 2017 NRDL.

The selection of pharmaceutical products for listing in the national medical insurance catalogue or provincial medical insurance catalogues is based on a variety of factors, including clinical needs, use frequency, efficacy and price, many of which are outside of the Group's control. Moreover, the relevant PRC government authorities may also, from time to time, review and revise the scope of reimbursement for the products that are already listed in the national medical insurance catalogue or provincial medical insurance catalogues. There can be no assurance that any of the Group's products currently listed in the national medical insurance catalogue or provincial medical insurance catalogues will remain listed, or that changes in the scope of reimbursement will not negatively affect the Group's products. If any of the Group's products are removed from the national medical insurance catalogue or provincial medical insurance catalogues, or if the scope of reimbursement is reduced, demand for the Group's products may decrease and the Group's revenue and profitability could be adversely affected. Furthermore, if the Group is unable to list new products in the national medical insurance catalogue or provincial medical insurance catalogues, or add new indications to the Group's currently listed products, the Group's business prospects could be adversely affected.

If the Group is unable to win bids to sell the Group's products to PRC hospitals in the provincial tendering process, it may lose market share and the Group's revenue and profitability could be adversely affected.

In each province where the Group markets its products, it is required to participate in a government-sponsored competitive bidding process every year or every few years. During the provincial tendering process, the Group and its competitors submit pricing and other product information to local pricing bureaus for selection, which is based on the bid price, clinical effectiveness and quality of each product and the reputation of the bidder. For each product category, a local pricing bureau will permit a limited number of products for sale in the relevant province or local district.

The Group may fail to win bids in a provincial tendering process due to various factors, including reduced demand for the relevant product, uncompetitive bidding price or local protectionism. The Group may also win bids at low prices that will limit the Group's profit margins. There can be no assurance that the Group's bids will enable it to win the tendering process and maintain the Group's market share without compromising the Group's profitability. In addition, the Group may lose in the tendering process because the relevant product is perceived to be less clinically effective than competing products or the Group's services or other aspects of the Group's operations are perceived to be less competitive.

If the Group's employees, distributors or third-party promoters engage in corrupt practices or inappropriate promotion of the Group's products, the Group's reputation could be harmed and the Group could be exposed to regulatory investigations, cost and liabilities.

The Group does not fully control the interactions between its employees, distributors and third-party promoters with hospitals, medical institutions and doctors, and they may try to increase sales volumes of the Group's products through means that constitute violations of the PRC anti-corruption, anti-bribery and other related laws. If the Group's employees, distributors or third-party promoters engage in corruption or other improper conduct that results in violation of applicable anti-corruption, anti-bribery laws in the PRC or other jurisdictions, the Group's reputation could be harmed and the Group could be exposed to regulatory investigations and penalties, including being excluded from procurement by public hospitals and other public medical institutions in the PRC.

If the Group fails to develop and commercialize new pharmaceutical products, its business prospects could be adversely affected.

The Group's long-term competitiveness depends on its ability to enhance its existing products and to develop and commercialize new biotechnology and other pharmaceutical products through its research and development activities. The development process of pharmaceutical products in general, and biopharmaceuticals in particular, is time-consuming and costly, and there can be no assurance that the Group's research and development activities will enable it to successfully develop new pharmaceutical products. Since relatively few research and development programs in the pharmaceutical industry produce a commercially viable product, a product candidate that appears promising in the early phases of development may fail to reach the market for a number of reasons, such as:

- the failure to demonstrate safety and efficacy in preclinical and clinical trials;
- the failure to obtain approvals for its intended indications from relevant regulatory bodies, such as the CFDA;
- the Group's inability to manufacture and commercialize sufficient quantities of the product economically; and
- proprietary rights, such as patent rights, held by others related to the Group's product candidate and their refusal to sell or license such rights to the Group on reasonable terms, or at all.

New pharmaceutical products must be approved by the CFDA before they can be marketed and sold in China. The CFDA requires successful completion of clinical trials and demonstration of manufacturing capability before granting approval. Clinical trials are expensive and their results are uncertain. It often takes multiple years before a medicine can be ultimately approved by the CFDA. In addition, the CFDA and other regulatory authorities may apply new standards for safety, manufacturing, packaging, and distribution of future product candidates. Complying with such standards may be time-consuming and expensive and could result in delays in obtaining CFDA approval for the Group's product candidates, or possibly preclude the Group from obtaining CFDA approval. Furthermore, the Group's future products may not be effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude the Group from obtaining regulatory approval or prevent or limit their commercial use. Even if the Group do obtain regulatory approvals, the process may take longer than expected or desired, or such approvals may be subject to limitations on the indicated uses for which the Group may market the relevant product, therefore restricting its market size.

The Group has formed collaborative relationships with certain research institutes and companies to benefit from their expertise and resources in developing new and competitive products. However, there can be no assurance that the Group will be able to maintain such relationship or enter into new relationships. Any deterioration in the Group's existing relationships or failure to enter into new relationships with suitable research partners on commercially acceptable terms may have an adverse impact on the Group's ability to successfully develop new products, which in turn could adversely affect the Group's business, its results of operations and growth prospects.

The Group may pursue acquisitions, collaborations, licensing arrangements, joint ventures, strategic alliances, partnerships or other strategic investments or arrangements, which may fail to produce anticipated benefits and adversely affect the Group's business.

The Group continually pursues opportunities for acquisitions of products, assets or technologies, collaboration, licensing, joint ventures, strategic alliances, or partnerships that the Group believes would be complementary to or promote its existing business. Proposing, negotiating, implementing and executing on these opportunities may be a lengthy and complex process. Other companies, including those with substantially greater financial, marketing, sales, technology, or other business resources, may compete with the Group for these opportunities or arrangements. The Group may not be able to identify, secure, or complete any such transactions or arrangements in a timely manner, on a cost-effective basis, on acceptable terms, or at all.

The Group has limited experience with respect to these business development activities. Management and integration of acquisition, licensing arrangement, collaboration, joint venture or other strategic arrangement may disrupt the Group's current operations, decrease the Group's profitability, result in significant expenses, or divert management resources that otherwise would be available for the Group's existing business. The Group may not realize the anticipated benefits of any such transaction or arrangement.

Furthermore, partners, collaborators or other parties to such transactions or arrangements may fail to fully perform their obligations or meet the Group's expectations or cooperate with the Group satisfactorily for various reasons, including those due to risks or uncertainties related to their business and operations. There may be conflicts or other collaboration failures and inefficiencies between the Group and the other parties.

Such transactions or arrangements may also require actions, consents, approvals, waivers, participation or involvement of various degrees from third parties, such as regulators, government authorities, creditors, licensors or licensees, related individuals, suppliers, distributors, shareholders or other stakeholders or interested parties. The Group may not obtain such required or desired actions, consent, approval, waiver, participation or involvement on a timely basis, on acceptable terms, or at all.

Directors and Senior Management

DIRECTORS

Executive Directors

Dr. LOU Jing, aged 55, was appointed as a Director on 5 September 2006 and was redesignated as an executive Director on 27 November 2014. He was appointed as the chairman of the Board on 1 April 2012. Dr. Lou is also the chief executive officer and president of the Company. He is responsible for the strategic development and planning, overall operational management and major decision making of the Group. He joined Shenyang Sunshine Pharmaceutical Company Limited ("**Shenyang Sunshine**") as a director of research and development in September 1995.

Dr. Lou also holds the following positions with other members of the Group:

1) director and chairman of the board of Collected Mind Limited (集思有限公司, "**Collected Mind**");

2) director of Hongkong Sansheng;

3) director of Excel Partner Holdings Limited (特隆控股有限公司, "**Excel Partner**");

4) director of Ample Harvest Investments Limited (溢豐投資有限公司, "**Ample Harvest**");

5) director, chief executive officer and president of Shenyang Sunshine and chairman of the board of Shenyang Sunshine;

6) director and general manager of Liaoning Sunshine Bio-Pharmaceutical Company Limited (遼寧三生醫藥有限公司, "**Liaoning Sunshine**");

7) director and chairman of the board of Taizhou Huan Sheng Investment Management Company Limited (泰州環晟投資管理有限公司, "**Taizhou Huan Sheng Investment**");

8) executive director of Shenzhen Baishitong Technology Development Company Limited (深圳市百士通科技開發有限公司, "**Shenzhen Baishitong**");

9) executive director of Shanghai Aoxi Technology Information Consulting Co., Ltd. (上海澳曦科技信息諮詢有限公司);

10) chairman of the board of Shenzhen Sciprogen Bio-pharmaceutical Co., Ltd. ("**Sciprogen**");

11) chairman of the board of Guangdong Sciprogen Bio-pharmaceutical Technology Co., Ltd. (廣東賽保爾生物醫藥技術有限公司, "**Guangdong Sciprogen**");

12) director of Gains Prestige Limited (澤威有限公司, "**Gains Prestige**");

13) director of Strategic International Group Limited;

14) director and chairman of the board of Sunshine Guojian;

15) director and chairman of the board of Shanghai Xingsheng Pharmaceutical Company Limited ("**Xing Sheng**");

16） director of Thunderpure International Limited;

17） director of ThunderPharma International Limited;

18) director of Wellesley Hill Capital Limited; and

19) director of ThunderPharma International (HK) Limited.

Dr. Lou has been highly active in pharmaceutical research and has made substantial contribution to the Group's R&D of pharmaceutical products. Dr. Lou was the leading scientist and principal investigator in the Group's successful development of EPIAO and TPIAO. He co-invented a "preparation process for recombinant human thrombopoietin" and a "method for improving the stability of polypeptides in human bodies and its application" in 2000 and 2001, respectively. He has published in a number of academic journals on microbiology and medicinal biotechnology. His research has been recognized with various awards. In 2006, he was awarded the "Shenyang Science and Technology Progress Award" (瀋陽市科學技術進步一等獎) for his research on recombinant human thrombopoietin. In 2007, he was awarded the "Liaoning Province Scientific and Technological Achievements Prize" (遼寧省科技成果轉化三等獎) for his contribution to the industrialization of production of recombinant human thrombopoietin. Dr. Lou was selected as a member of the prestigious national program "the Recruitment Program of Global Experts", which is also known as the "Thousand Talents Program", in March 2013. In 2017, he was awarded "Liaoning Province Outstanding Entrepreneur" and "Friendship Award of Liaoning Province". Dr. Lou obtained a Medical Doctor degree (M.D.) in clinical medicine from Shanghai Second Military Medical University in July 1985. He conducted post-doctoral research at the National Institutes of Health of the United States after obtaining a Ph.D. degree in molecular and cell biology from Fordham University in the United States in February 1994. He also obtained an Executive Master of Business Administration from China Europe International Business School (中歐國際工商學院) in September 2008.

Mr. TAN Bo, aged 45, was appointed as a Director on 29 May 2013 and was redesignated as an executive Director on 27 November 2014. Mr. Tan is also the chief financial officer and the executive vice president of the Company. He is responsible for overseeing the financial activities and the daily operation of the business development of the Group. Mr. Tan joined Shenyang Sunshine as the chief financial officer and vice president in February 2009. He also served as a director of Hongkong Sansheng from November 2009 to November 2014.

Mr. Tan also holds the following positions with other members of the Group:

1) director of Collected Mind;

2) director of Excel Partner;

3) director of Ample Harvest;

4) director of Taizhou Huan Sheng Investment;

5) director of Sciprogen;

6) director of Guangdong Sciprogen;

7) director of Grand Path Holdings Limited;

8) director of Gains Prestige;

9) director of Strategic International Group Limited;

10) director of Sunshine Guojian;

11) director of Xing Sheng; and

12) director of ThunderPharma International Limited.

Mr. Tan has extensive experience within the financial and pharmaceutical industries, and has worked in private equity, equity research and commercial sectors. Mr. Tan has served as an independent non-executive director of Globe Metals & Mining Limited (a company listed on the Australian Securities Exchange with security code GBE) since 9 October 2013. Mr. Tan served as an independent director and the chairman of the audit, compensation and nominating committee of Tianyin Pharmaceutical Co., Inc. (a company listed on the NYSE MKT LLC with symbol TPI) from 4 June 2012 to 23 January 2015. He served as executive director and a member of the investment committee of Bohai Industrial Investment Fund Management Company (渤海產業投資基金管理公司), a private equity fund in China, from April 2007 to September 2008. Before that, he served as a vice president in the equity research division of Lehman Brothers Asia Limited from March 2006 to March 2007. He worked as a senior analyst at Macquarie Securities Asia in Hong Kong from October 2004 to February 2006. Mr. Tan obtained a Bachelor's degree in Economics from Renmin University of China (中國人民大學) in July 1994, a Master's degree in Economics from the University of Connecticut in December 1996 and a Master of International Management from Thunderbird School of Global Management in August 1998.

Ms. SU Dongmei, aged 47, was appointed as a Director on 11 June 2012 and was redesignated as an executive Director on 27 November 2014. Ms. Su is also the Company's senior vice president and the general manager of Shenyang Sunshine. She is responsible for strategic direction of the Group. Ms. Su joined Shenyang Sunshine as a scientist of the research and development department in January 1993, and served as a director of the R&D department from 1997 to 2006. She subsequently served as the chief technology officer responsible for R&D and manufacturing process engineering of Shenyang Sunshine from 2006 to 2008. Ms. Su was promoted to vice president of Shenyang Sunshine in April 2008. Ms. Su served as a director of Shenyang Sunshine from August 2007 to June 2013, and was re-appointed on 18 July 2016. She also served as a director of Hongkong Sansheng from November 2009 to November 2014.

Ms. Su also holds the following positions with other members of the Group:

(i) senior vice president and general manager of Shenyang Sunshine;

(ii) supervisor of Liaoning Sunshine.

Ms. Su obtained a Bachelor's degree in Biochemistry from Jilin University (吉林大學) in July 1992 and a Master's and a Doctorate degree in Microbiology and Pharmacology from Shenyang Pharmaceutical University (瀋陽藥科大學) in June 2001 and July 2010, respectively. She has published in a number of academic journals on microbiology and medicinal biotechnology.

Mr. HUANG Bin, aged 57, was first appointed as a Director on 5 September 2006 and ceased to be a Director on 29 May 2013. Mr. Huang was re-appointed as an executive Director on 27 November 2014. Mr. Huang is also a vice president of the Company. He is in charge of the administrative management of the Group and the operations management of the Group's subsidiaries and joint ventures. Mr. Huang joined Shenyang Sunshine in 1993 as a manager of the human resources department.

Mr. Huang also holds the following positions with other members of the Group:

(i) director of Collected Mind;

(ii) director and vice president of Shenyang Sunshine;

(iii) director and general manager of Taizhou Huan Sheng Investment; and

(iv) director of Sunshine Guojian.

Mr. Huang received a diploma in Engineering from Northeast University (東北大學) in July 1987. He attended a one-year training program in business management in Tsinghua University (清華大學) from April 2000 to April 2001.

Non-executive Directors

Mr. LIU Dong, aged 45, was appointed as a non-executive Director on 27 November 2014. He is responsible for participating in the formulation of the Company's corporate and business strategies. Mr. Liu had served as a director of Shenyang Sunshine from 28 May 2013 to 18 July 2016.

Mr. Liu joined CITIC Private Equity Funds Management Co., Ltd. (中信產業基金, "**CITIC PE**") in January 2009. He is a managing director of CITIC PE in charge of investment in the healthcare sector. Mr. Liu currently serves as a director of Biosensors International Group, Ltd. (a company listed on the SGX-ST with symbol B20) since January 2014. The aforesaid listed company does not, nor is it likely to, compete with the Group. Mr. Liu served as a director of Zhejiang Beingmate Technology Industry & Trade Co. Ltd. from January 2010 to July 2014 (a company listed on the Shenzhen Stock Exchange with stock code 002570). Mr. Liu served as a non-executive director of Luye Pharma Group Ltd. (a company listed on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with stock code 2186) from March 2014 to June 2016. Mr. Liu received a joint Bachelor's degree in Physics and Finance from Nankai University (南開大學) in June 1995 and an Executive Master of Business Administration from China Europe International Business School (中歐國際工商學院) in October 2011.

Mr. WANG Steven Dasong, aged 49, was appointed as a non-executive Director at the 2017 annual general meeting on 30 June 2017. He is a managing director and team leader of the Pharmaceutical Sector at CITIC PE. He has over 17 years of experience of working in top global investment banks and direct investment firms. Before joining CITIC PE, Mr. WANG was a managing director and head of APAC Healthcare Investment Banking at Credit Suisse. He previously held various senior positions at the investment banking department of UBS AG and Morgan Stanley in Hong Kong. He led a number of Asia healthcare and related deals including the initial public offerings of Sinopharm Corporation Group Co., Ltd. (國藥控股股份有限公司), Luye Pharma Group Ltd. (綠葉製藥集團有限公司) and Rici Healthcare Holdings Ltd. (瑞慈醫療服務控股有限公司), the privatization of WuXi AppTec Co., Ltd. (藥明康德新藥開發有限公司) and Simcere Pharmaceutical Group (先聲藥業集團), as well as Luye Pharma Group Ltd.'s acquisition of Acino. Before returning to China in 2007, Mr. WANG worked seven years in New York for multinational investment banks and multi-strategy hedge funds. Before his career in finance, Mr. WANG Steven Dasong was a senior research scientist in the R&D department of Schering-Plough Corporation (now acquired by Merck & Co., Inc.), focusing on allergy and immunology with multiple published paper and patents. Mr. WANG holds a Ph.D. in Medicinal Chemistry from the Johns Hopkins University, and a MBA in Finance (with distinction) from New York University. He is a Chartered Financial Analyst.

Independent Non-executive Directors

Mr. PU Tianruo, aged 49, was appointed as an independent non-executive Director on 23 May 2015, with such appointment taking effect on 1 June 2015. He is responsible for participating in decision-making and advising on issues relating to the Company's significant events and corporate governance. Previously, he served as an independent Director and the audit committee chair of the Company from 1 September 2012 to 29 May 2013.

Mr. Pu has substantial experience in accounting and finance. He has served as an independent non-executive director of several companies, including JMU Limited (a company listed on the NASDAQ with symbol JMU) since April 2015, Autohome Inc. (a company listed on the NYSE with symbol ATHM) since December 2016, and Renren Inc. (a company listed on the NYSE with symbol RENN) since December 2016. Mr. Pu obtained a Bachelor's degree in English from China Foreign Affairs University (外交學院) in July 1991, a Master's degree in Accounting from the University of Illinois, College of Business Administration in May 1996 and a Master of Business Administration degree from Northwestern University Kellogg School of Management in June 2000.

Mr. David Ross PARKINSON, aged 68, was appointed as an independent non-executive Director on 23 May 2015, with such appointment taking effect on 1 June 2015. He is responsible for participating in decision-making and advising on issues relating to the Company's significant events and corporate governance.

Mr. Parkinson has served as a director of ESSA Pharma Inc. (a company listed on the NASDAQ with symbol EPIX) since June 2015, and as its president and chief executive officer since January 2016. He also serves as a director of Tocagen, Inc. and a director of CTI BioPharma, Inc. He served as a director of Cerulean Pharma, Inc. (a company listed on the NASDAQ with symbol CERU) from October 2014 to July 2017, and of Threshold Pharmaceuticals, Inc. (a company listed on the NASDAQ with symbol THLD) from May 2010 to July 2017. He served as a venture advisor at New Enterprise Associates, a venture capital firm from 2007 to 2012. Mr. Parkinson served as the president and chief executive officer at Nodality, Inc., a biotechnology company focused on personalized medicine. Previously, he served as senior vice president and head of Oncology R&D at Biogen Idec, as vice president and head of the Oncology Therapeutic Area at Amgen Inc. (a company listed on the NASDAQ with symbol AMGN), and as vice president and head of global clinical oncology development at Novartis. Mr. Parkinson has led teams successfully developing a number of cancer drugs, including Gleevec, Femara, Zometa, and Vectibix. He served as a director of the American Association for Cancer Research (AACR) from 2006 to 2009, and Chairman of AACR's Finance Committee from 2001 to 2016. He also served on the National Cancer Policy Forum of the Institute of Medicine from 2005 to 2011. Mr. Parkinson has received multiple awards and honors, including the top innovator award from the Multiple Myeloma Research Foundation in 2012 and the Wiley Medal from the United States Food and Drug Administration in 1997. He delivered the 12th Andrew H. Weinberg Memorial Lecture at the Harvard University School of Medicine in 2008. Mr. Parkinson obtained a Doctor of Medicine degree (M.D.) at the University of Toronto Faculty of Medicine in 1974.

Mr. MA Jun, aged 55, was appointed as an independent non-executive Director on 23 May 2015, with such appointment taking effect on 1 June 2015. He is responsible for participating in decision-making and advising on issues relating to the Company's significant events and corporate governance. Mr. Ma has served as the chief executive officer of Rong & De (Tianjin) Investment Partnership (Limited Partnership) (熔安德(天律)投資合夥企業(有限合夥)) since April 2011 in charge of fund raising and management. Mr. Ma was an attorney of Commerce & Finance Law Offices from January 2006 to April 2007.

Mr. Ma obtained a Bachelor of Laws degree (L.L.B.) from Peking University (北京大學) in July 1985. He obtained a Juris Doctor degree (J.D.) from Cornell Law School in May 1996 and was subsequently admitted to the New York bar.

Senior Management

The Company senior management comprises the Executive Directors and the following persons:

Dr. ZHU Zhenping (朱禎平), aged 53, is the president of R&D and chief scientific officer of the Company. Prior to joining the Company in January 2017, he served as the executive vice president of Global Biopharmaceuticals at Kadmon Corporation, and the president of Kadmon China from 2010 to 2016. Prior to joining Kadmon, Dr. Zhu was the vice president and the global head, Protein Sciences and Design, at Novartis, and was responsible for the discovery, design and selection of novel biologics medicines that address various human diseases from 2009 to 2010. Prior to Novartis, Dr. Zhu worked for over 12 years at ImClone Systems as Vice President of Antibody Technology and Immunology, and had led multiple teams responsible for the successful discovery and early development of several United States Food and Drug Administration-approved novel antibodies for various oncology indications, including cetuximab (Erbitux®), ramucirumab (Cyramza®), necitumumab (Portrazza®), and olaratumab (Latruvo®). Dr. Zhu is the inventor of both ramucirumab and necitumumab, and one of the major contributors to cetuximab and olaratumab. He earned his medical degree from Jiangxi Medical College in 1985. He received his Master of Science in Pharmacology from the Institute of Hematology, Chinese Academy of Medical Sciences (CAMS) and Peking Union Medical College (PUMC) in 1988, and his Ph.D. in Immunology and Pathology from Dalhousie University in 1993. Dr. Zhu performed his postdoctoral work in antibody and protein engineering at Genentech Inc. from 1993 to 1996. From 1996 to 2006, Dr. Zhu held an adjunct professorship at the Institute of Hematology, CAMS & PUMC. Dr. Zhu has published over 190 peer-reviewed scientific papers, and is listed as the inventor or co-inventor of more than 50 U.S. and international patents and patent applications.

Mr. XIAO Weihong (肖衛紅), aged 49, is the chief operating officer of the Company. Prior to joining the Company in March 2016, Mr. Xiao served as the chief executive officer of Hisun-Pfizer Pharmaceutical Co. Ltd. (海正輝瑞製藥有限公司), from 2012 to 2015, where he oversaw the strategy and operations. From 2007 to 2012, Mr. Xiao served as a general manager of commercial and diversified business unit of Pfizer China. Mr. Xiao worked in Pfizer China's human resources department from 1999 to 2007 and served as the human resources director of Pfizer China from 2004 to 2007. Mr. Xiao graduated from the University of International Business & Economics with a Bachelor of Economics degree in 1991. He is currently a vice president of the Chinese Pharmaceutical Enterprises Association.

Mr. MA Xin (馬新), aged 52, is a vice president of the human resources department of the Company and Shenyang Sunshine. He is responsible for overseeing the human resources administration of the Group. Mr. Ma also currently serves as a director of Xing Sheng, as well as a director of Sunshine Guojian. Before joining the Company in 2016, Mr. Ma worked in Hisun-Pfizer Pharmaceuticals Co., Ltd. (海正輝瑞製藥有限公司) from November 2012 to December 2015, first as a senior director of the human resources department, and then as the vice president of the human resources department. From June 2007 to October 2009, he worked as a national training and sales effectiveness manager in Pfizer Investment Co., Ltd. (輝瑞投資有限公司), and served as an associated director of training from October 2009 to October 2012. From 2005 to 2007, Mr. Ma served as a national sales training manager (Oncology business unit) of Beijing Novartis Pharma Co., Ltd. (北京諾華製藥有限公司). Mr. Ma worked in GlaxoSmithKline (China) Investment Co., Ltd. (葛蘭素史克投資有限公司) as a sales training manager (Pharma, North China) from December 2001 to July 2005. Mr. Ma obtained a Bachelor of Science in Pharmacy from Tianjin Second Medical College (天津第二醫學院) in 1989.

Mr. LIU Kevin (劉建榮), aged 48, is a vice president of the Company, in charge of finance, IT and purchase. Before joining the Company in 2016, from September 2011 to February 2016, Mr. Liu served as the chief financial officer in Fresenius-Kabi China, a leading international health care company focusing on products for the therapy and care of critically chronical disease patients, overseeing various departments including finance, IT, business development, supplies, legal affairs and sales performance. From January 2007 to September 2011, he worked in General Electric Renewable Energy as the chief financial officer for the Asia region. From March 2005 to January 2007, he worked in ITT Canon (Xiamen) Electronics Co., Ltd as the financial controller. Mr. Liu obtained a Bachelor degree in accounting from Jimei University (集美大學) in July 1991 and a MBA degree from Xiamen University (廈門大學) in July 2001.

Mr. CHEN Yongfu (陳永富), aged 61, is a vice president of the Company, in charge of administration, compliance and internal control. Mr. Chen has also served as a director of Hongkong Sansheng since November 2014. Mr. Chen served as a financial manager of Shenyang Sunshine from March 2003 to November 2010. Mr. Chen obtained a Bachelor's degree in Engineering and Accounting from Liaoning University (遼寧大學) in July 1983.

Ms. LIU Yanli (劉彥麗), aged 36, is the joint company secretary. She is responsible for overseeing the governance, legal and public relation matters of the Group. Ms. Liu has served as a director of Hongkong Sansheng since November 2014 and a director of Sirton since January 2015. She has also served as the supervisor of Shenzhen Baishitong since December 2014, and the supervisor of Sciprogen and Guangdong Sciprogen since December 2014. Ms. Liu joined Shenyang Sunshine as an international sales representative in January 2007. Ms. Liu served as an assistant to the chief executive officer and project manager of foreign drug registration of Shenyang Sunshine from 2008 to 2011. Ms. Liu obtained a Bachelor's degree in Biochemistry and Master's degree in Chemistry with Entrepreneurship from the University of Nottingham in July 2004 and December 2006, respectively.

Ms. YOU Fei (由飛), aged 39, is a director of the finance department of the Company. She is responsible for overseeing the accounting, financial reporting, financial analysis and capital market matters of the Group. Ms. You has also served as a director of Sciprogen and Guangdong Sciprogen since December 2014. Before joining the Group, Ms. You served as a manager at KPMG Huazhen LLP from August 2003 to January 2009 and a group accounting manager at Perlos (Beijing) Electronic and Telecommunication Component Co., Ltd. from February 2009 to February 2011. Ms. You has been a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since 2010. Ms. You obtained Bachelor's and Master's degrees in Economics from Renmin University of China (中國人民大學) in July 2000 and July 2003, respectively.

Dr. ZHANG James Ji (張繼), aged 57, is the general manager of Sunshine Guojian. Prior to joining Sunshine Guojian in November 2016, Dr. Zhang worked in various senior leadership roles with China Yuanda Group (中國遠大集團, "**Yuanda**") from 2008 to 2016, including as a vice president of Yuanda, the head of Yuanda Wuhan Pharmaceutical Research Institute, the chief science officer and an executive director on the board of directors of Huadong Pharmaceutical Company Limited (華東醫藥股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 000963), and an executive director on the board of directors of China Grand Pharmaceutical and Healthcare Holdings Limited (a company listed on the Stock Exchange with stock code 00512). From 1993 to 2008, Dr. Zhang worked in Schering-Plough Pharmaceutical Research Institute (which is now part of Merck) as a senior scientist in the inflammation, infectious disease, and allergy and immunology areas. Dr. Zhang was selected as a member of the "Thousand Talents Program." He published many articles in leading scientific journals and is the co-inventor of a U.S. patent. Dr. Zhang received a Bachelor's degree in Microbiology in 1982, and a Master's degree in Virology in 1985, both from Wuhan University (武漢大學); and received a Ph.D. in Pharmacology and Molecular Biology from Chicago Medical School in 1992.

Mr. XU Yong (徐勇), aged 53, was appointed as a general manager and director of Sciprogen in 2015. From March 2006 to December 2012, he served as a deputy general manager of Liaoning Nuokang Pharmaceutical Limited (遼寧諾康醫藥股份有限公司). Before that, Mr. Xu served as the deputy general manager of Beijing Zhongguan Venture Science and Technology Co., Ltd. (北京中關創業科技發展有限公司) from January 2002 to March 2006. From June 1995 to December 2001, he worked first as a deputy director and then as a director in the second general department of Hebei Provincial Government General Office. (河北省政府辦公廳綜合二處). Mr. Xu obtained a Bachelor's degree in Precision Machinery from Zhejiang University (浙江大學) in August 1988.

Report of Directors

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 9 August 2006 as an exempted company with limited liability under the laws of the Cayman Islands. The Company's ordinary shares, par value of USD0.00001 each (the "**Shares**") were listed on the Main Board of the Stock Exchange on 11 June 2015 ("**Listing Date**").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the development, production, marketing and sale of pharmaceutical products in PRC. Analysis of the principal activities of the Group during the year ended 31 December 2017 is set out in the note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 81 of this annual report.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HKD6.85 cents per ordinary share for the year ended 31 December 2017 (2016: Nil). The final dividend, if approved, will be payable on or around 30 July 2018 and is subject to the approval of the shareholders of the Company at the annual general meeting to be held on 20 June 2018.

BUSINESS REVIEW

A review of the business of the Group, a discussion on the Group's future prospects and the principal risks and uncertainties and an analysis of the Group's performance during the year ended 31 December 2017 using financial key performance indicators are provided in the section headed "Management Discussion and Analysis" on pages 7 to 26. In addition, discussions on the Group's relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are located respectively in the paragraph headed "Relationship with Stakeholders" and the paragraph headed "Compliance with Laws and Regulations" on pages 53 to 54 of this annual report.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, are set out on page 5 of this annual report. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended 31 December 2017, the Group's sales to its five largest customers accounted for 20.0% (2016: 24.1%) of the Group's total revenue and the Group's single largest customer accounted for 8.2% (2016: 9.6%) of the Group's total revenue.

Major Suppliers

For the year ended 31 December 2017, the Group's five largest suppliers accounted for 57.9% (2016: 20.0%) of the Group's total purchases and the Group's single largest supplier accounted for 37.8% (2016: 6.2%) of the Group's total purchases.

During the year ended 31 December 2017, none of the Directors or their close associates or the shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 December 2017 are set out in note 14 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2017 are set out in note 33 to the consolidated financial statements in this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "**Articles of Association**") and there are no statutory pre-emptive rights under the laws of the Cayman Islands, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

EQUITY-LINKED AGREEMENTS

Details of the share option scheme adopted by the Company in 2015 are set out in the section headed "POST-IPO SHARE OPTION SCHEME" in this Directors' Report.

On 1 January 2015, the Company issued the Guojian Warrant to Shanghai Junling Investment Partnership (Limited Partnership) (上海峻嶺投資合夥企業(有限合夥)) (the "**Holder**") which was beneficially owned by certain management members of Sunshine Guojian. The warrant entitles the Holders to purchase 1,128.82033 ordinary shares of the Company at an exercise price of USD1.00 for each share. Pursuant to the subdivision of each of the Company's shares of par value of USD1.00 each into 100,000 shares of par value of USD0.00001 each on 4 February 2015, the number of shares to be issued pursuant to the full exercise of the warrant became 112,882,033 Shares of the Company and the exercise price became USD0.00001 per Share. The warrant vests and becomes exercisable upon meeting certain vesting conditions. The details of the warrant has been disclosed in the Company's prospectus dated 1 June 2015 in the paragraph headed — "CP Guojian Warrant" under the HISTORY, REORGANIZATION AND CORPORATE STRUCTURE section.

As at 31 December 2017, 50% of the Guojian Warrant had satisfied the relevant vesting conditions. Such 50% vested portion of the Guojian Warrant would entitle the Holder to 56,441,017 Shares of the Company upon the full exercise thereof. On 29 June 2016, 17,000,000 Shares of the Company were issued upon the partial exercise of the Guojiian Warrant by the Holder. On 18 July 2017, 6,483,320 Shares of the Company were issued upon partial exercise of the Guojiian Warrant by the Holder.

On 4 March 2016, the Company, CITIC Hong Kong (Holdings) Limited (中信 (香港集團) 有限公司, "**CITIC Holdings**") and CITIC Pacific Limited (中信泰富有限公司, "**CITIC Pacific**") entered into an option deed (the "**Option Deed**"), pursuant to which, the Company agreed to issue to CITIC Pacific options carrying rights to subscribe for up to a total of 125,765,500 Shares of the Company at an exercise price of HKD9.10 per ordinary share, subject to certain exercise conditions (the "**CITIC Options**"). For details of the CITIC Options, please refer to the announcement of the Company dated 4 March 2016 and the circular of the Company dated 25 April 2016.

As at 31 December 2017, no CITIC Options had been exercised pursuant to the Option Deed.

Except as disclosed above, the Company has not entered into any equity-linked agreements in 2017, nor did there subsist any equity-linked agreement entered into by the Company at 31 December 2017.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2017 are set out on page 85 in the consolidated statement of changes in equity in this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Laws of Cayman Islands, amounted to approximately RMB4,559.6 million (as at 31 December 2016: RMB4,833.8 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2017 are set out in note 30 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2017 and up to the date of this annual report are:

Executive Director:

Dr. LOU Jing (*Chairman & Chief Executive Officer*)	(appointed on 5 September 2006)
Mr. TAN Bo	(appointed on 29 May 2013)
Ms. SU Dongmei	(appointed on 11 June 2012)
Mr. HUANG Bin	(appointed on 27 November 2014)

Non-executive Directors:

Mr. LIU Dong	(appointed on 27 November 2014)
Mr. LV Dong	(appointed on 27 November 2014, and retired on 30 June 2017)
Mr. WANG Steven Dasong	(appointed on 30 June 2017)

Independent non-executive Directors:

Mr. PU Tianruo	(appointed on 23 May 2015, effective on 1 June 2015)
Mr. David Ross PARKINSON	(appointed on 23 May 2015, effective on 1 June 2015)
Mr. MA Jun	(appointed on 23 May 2015, effective on 1 June 2015)

In accordance with article 84(1) of the Articles of Association, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) will retire from office by rotation and will be eligible for re-election and re-appointment at every annual general meeting, provided that every Director shall be subject to retirement by rotation at least once every three years. Details of the Directors to be re-elected and elected at the AGM will be set out in the circular to the shareholders of the Company prior to its upcoming annual general meeting.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 27 to 35 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Dr. LOU Jing, being one of the executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from the date of his appointment and continue for a period of three years after or until the third annual general meeting of the Company since the Listing Date (whichever is earlier), which shall be automatically renewed for successive periods of three years (subject to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other prior notice in writing.

Each of the other executive Directors (i.e. Mr. TAN Bo, Ms. SU Dongmei and Mr. HUANG Bin) has entered into a service contract with the Company for an initial term of three years commencing from the date of his/her appointment and continue for a period of three years after or until the third annual general meeting of the Company since the Listing Date, whichever is earlier, subject to re-election as and when required under the Articles of Association, until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other prior notice in writing.

Of the two non-executive Directors, Mr. WANG Steven Dasong entered into an appointment letter with the Company on 30 June 2017, and his term of office commenced from the approval date of his appointment by the shareholders (being 30 June 2017) and continued until the next annual general meeting of the Company, subject to re-election and retirement as and when required by the Articles of Association; Mr. LIU Dong entered into an appointment letter with the Company on 21 May 2015, and his term of office commenced from the date of his appointment (being 27 November 2014), which was subsequently extended to the date of the next general meeting of the Company, subject to re-election and retirement as and when required by the Articles of Association.

Each of the independent non-executive Directors entered into an appointment letter with the Company on 25 April 2016. The term of office of each of the independent non-executive Directors has commenced from the date of his appointment letter (being 25 April 2016) until 28 June 2019, subject to re-election and retirement as and when required by the Articles of Association.

Save as disclosed above, none of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company's Directors' service contracts and appointment letters may be renewed from time to time, and their terms of appointment are subject to re-election and retirement as and when required by the Articles of Association.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Other than those transactions disclosed in note 42 to the consolidated financial statements and in the section "Connected Transactions" below, no Director had a material interest, either directly or indirectly, in any transactions, arrangements and contracts of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2017.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report, at no time during the year had the Company or any of its subsidiaries entered into any contract of significance with the controlling shareholder (as defined in the Listing Rules) or any of its subsidiaries, nor had any contract of significance been entered into for the services provided by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

EMOLUMENT POLICY

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance of the directors and senior management and comparable market practices.

Details of the emoluments of the Directors and five highest paid individuals for the year ended 31 December 2017 are set out in notes 8 and 9 to the consolidated financial statements.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 10 and note 32 to the consolidated financial statements.

CHANGE TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules for the year ended 31 December 2017.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

Interest in the Company

Name and Position	Nature of Interest	Number of Shares held	Approximate percentage of all Shares in Issue[1]
LOU Jing[2]	Beneficial owner	660,000[L]	0.03%
Executive Director	Interest of spouse	599,367,030[L]	23.61%
	Beneficiary of a trust	41,746,000[L]	1.64%
		Total: 641,773,030[L]	25.28%
TAN Bo[3]	Beneficial owner	660,000[L]	0.03%
Executive Director	Interest in a controlled corporation	116,849,920[L]	4.60%
		Total: 117,509,920[L]	4.63%
SU Dongmei[4]	Beneficial owner	660,000[L]	0.03%
Executive Director	Interest in a controlled corporation	24,925,630[L]	0.98%
	Founder of a discretionary trust	19,340,000[L]	0.76%
		Total: 44,925,630[L]	1.77%
HUANG Bin[5]	Beneficial owner	660,000[L]	0.03%
Executive Director	Interest in a controlled corporation	32,197,350[L]	1.27%
		Total: 32,857,350[L]	1.29%

Notes:

(L): denotes long position

(1) The calculation is based on the total number of 2,538,796,890 Shares in issue as at the 31 December 2017.

(2) LOU Jing was granted 660,000 share options by the Company on 2 February 2017, representing 660,000 Shares upon full exercise. LOU Jing's spouse, XING Lily, was interested in 599,367,030 Shares and therefore LOU Jing is deemed to be interested in the same number of the Shares. LOU Jing was the beneficiary with respect to an unnamed trust, which was interested in 41,746,000 Shares and therefore LOU Jing is deemed to be interested in all such Shares.

(3) TAN Bo was granted 660,000 share options by the Company on 2 February 2017, representing 660,000 Shares upon full exercise. TAN Bo directly held the entire issued share capital of Triple Talent Enterprises Limited ("**TTE**") and therefore is deemed to be interested in the same number of the Shares in which TTE is interested (i.e. 116,849,920 Shares).

(4) SU Dongmei was granted 660,000 share options by the Company on 2 February 2017, representing 660,000 Shares upon full exercise. SU Dongmei directly held the entire issued share capital of Joint Palace Group Limited ("**JPG**") and therefore is deemed to be interested in the same number of the Shares in which JPG is interested (i.e. 24,925,630 Shares); in addition, SU Dongmei served as the sole member of the advisory committee of The Empire Trust, and is thus deemed to be interested in 19,340,000 share options (each entitling the holder to subscribe for one Share) held by The Empire Trust. The Empire Trust is an employee's benefit trust established by the Company.

(5) HUANG Bin was granted 660,000 share options by the Company on 2 February 2017, representing 660,000 Shares upon full exercise. HUANG Bin directly held the entire issued share capital of Known Virtue International Limited ("**KVI**") and therefore is deemed to be interested in the same number of the Shares in which KVI is interested (i.e. 32,197,350 Shares).

Save as disclosed above, as at 31 December 2017, none of the Directors or the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate during the year ended 31 December 2017.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, to the best knowledge of the Directors, the following persons (not being a Director or chief executives of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature of Interest	Number of Shares held	Approximate percentage of all Shares in Issue[1]
Decade Sunshine Limited ("**DSL**")	Beneficial owner	599,367,030[L]	23.61%
Century Sunshine Limited ("**CSL**")[2]	Interest in a controlled corporation	599,367,030[L]	23.61%
XING Lily	Interest in a controlled corporation[2]	599,367,030[L]	23.61%
	Interest of spouse[3]	42,406,000[L]	1.67%
		Total: 641,773,030[L]	25.28%
Lambda International Limited[2]	Interest in a controlled corporation	599,367,030[L]	23.61%
LOU Dan[4]	Founder of a discretionary trust	599,367,030[L]	23.61%
	Interest in a controlled corporation	6,200,010[L]	0.24%
		Total: 605,567,040[L]	23.85%
TMF (Cayman) Ltd.[5]	Trustee	660,149,510[L]	26.00%
CS Sunshine Investment Limited[6]	Beneficial owner	621,512,360[L]	24.48%
CPEChina Fund, L.P.[6]	Interest in a controlled corporation	621,512,360[L]	24.48%
CITIC PE Associates, L.P.[6]	Interest in a controlled corporation	621,512,360[L]	24.48%
CITIC PE Funds Limited[6]	Interest in a controlled corporation	621,512,360[L]	24.48%
CITICPE Holdings Limited[6]	Interest in a controlled corporation	621,512,360[L]	24.48%
CLSA Global Investment Management Limited[6]	Interest in a controlled corporation	621,512,360[L]	24.48%
CITIC Securities International Company Limited[6]	Interest in a controlled corporation	621,512,360[L]	24.48%
CITIC Securities Company Limited[6]	Interest in a controlled corporation	621,512,360[L]	24.48%
JPMorgan Chase & Co.	Beneficial owner	70,259,757[L]	2.77%
	Investment manager	20,133,660[L]	0.79%
	Approved lending agent	114,307,267[L]	4.50%
		Total: 204,700,684[L]	8.06%
	Beneficial owner	26,710,145[S]	1.05%

Notes:

(L): denotes long position
(S): denotes short position

(1) The calculation is based on the total number of 2,538,796,890 Shares in issue as at 31 December 2017.

(2) DSL was wholly-owned by CSL and therefore CSL is deemed to be interested in 599,367,030 Shares held by DSL; further, 42.60% and 35.65% of CSL were respectively controlled by XING Lily and Lambda International Limited, who are therefore deemed to be interested in such 599,367,030 Shares.

(3) XING Lily's spouse, LOU Jing, was interested in 42,406,000 Shares and therefore XING Lily is deemed to be interested in the same number of Shares.

(4) LOU Dan was the founder of a discretionary trust and is therefore deemed to be interested in the 599,367,030 Shares in which the trust was interested; further, LOU Dan exercised 100% control over Hero Grand Management Limited, and therefore is deemed to be interested in the 6,200,010 Shares in which Hero Grand Management Limited was interested.

(5) TMF (Cayman) Ltd. was the trustee with respect to three unnamed trusts, which respectively were interested in 599,367,030, 40,782,480 and 20,000,000 Shares, and therefore TMF (Cayman) Ltd. is deemed to be interested in all such Shares.

(6) CS Sunshine Investment Limited was wholly-owned by CPE China Fund, L.P. The general partner of CPEChina Fund, L.P. was CITIC PE Associates, L.P., an exempted limited partnership registered under the laws of the Cayman Islands whose general partner was CITIC PE Funds Limited, an exempted company incorporated in the Cayman Islands with limited liability. CITICPE Holdings Limited exercised 100% control over CITIC PE Funds Limited. 35% of CITICPE Holdings Limited was controlled by CLSA Global Investment Management Limited, which therefore is deemed to be interested in the Shares in which CITICPE Holdings Limited was interested. CITIC Securities International Company Limited exercised 100% control over CLSA Global Investment Management Limited. CITIC Securities Company Limited exercised 100% control over CITIC Securities International Company Limited.

Save as disclosed above, as at 31 December 2017, the Directors were not aware of any persons (who were not Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

POST-IPO SHARE OPTION SCHEME

Pursuant to a written resolution passed by the then sole shareholder of the Company on 23 May 2015, the Company adopted a share option scheme pursuant to Chapter 17 of the Listing Rules (the "**Scheme**"). The details of the Scheme has been disclosed in the Company's prospectus dated 1 June 2015 in the section headed "Statutory and General Information — 5. Post-IPO Share Option Scheme" in Appendix IV. Under the Scheme, the Company is authorised to issue up to 242,439,857 ordinary shares (subject to possible adjustments), which represents approximately 9.55% of the issued shares as at 31 December 2017. The Scheme will continue to be in effect for a term of ten years unless terminated sooner, and has a remaining term of approximately 7 years as at the date of this report. On 28 June 2016, the Company amended the Scheme to include nominees and/or trustees of employee benefit trusts set up for the employees of the members of the Group as participants eligible to participate in the Scheme.

The following share options were outstanding under the Scheme as of 31 December 2017:

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS						DATE OF GRANT OF SHARE OPTIONS	EXERCISE PERIOD OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS *(HKD PER SHARE)*	PRICE OF THE COMPANY'S SHARES IMMEDIATELY BEFORE THE GRANT DATE OF OPTIONS *(HKD PER SHARE)*	WEIGHTED AVERAGE PRICE OF THE COMPANY'S SHARES	
	AS AT 1 JANUARY 2017	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	EXPIRED DURING THE PERIOD	AS AT 31 DECEMBER 2017					IMMEDIATELY BEFORE THE EXERCISE DATE *(HKD PER SHARE)*	AT EXERCISE DATE OF THE OPTIONS *(HKD PER SHARE)*
The Empire Trust*	20,000,000	20,000,000	0	20,000,000	–	20,000,000	2 February 2017	From 2 August 2018 to 2 February 2027**	7.62	7.37	–	–
	20,000,000	20,000,000	0	20,000,000	–	20,000,000						

* The Empire Trust is a trust established by the Company for beneficiaries who are employees of the Company and its subsidiaries and affiliates, and any other persons as nominated from time to time by the advisory committee of The Empire Trust that is established with the authority of the Board.

** Share options granted are subject to vesting conditions.

In respect of the options granted to the Grantee during the Reporting Period, their fair value is estimated to be approximately RMB57,431,000. Please refer to the Note 34 to the consolidated financial statements for the accounting policy adopted for share options.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Other than the offering of the Bonds as noted in “Management Discussion and Analysis — Business Review — Key Events” and as applicable and discussed under “Report of Directors — POST-IPO SHARE OPTION SCHEME” above, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2017.

DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

On 22 February 2016, Hongkong Sansheng, a wholly owned subsidiary of the Company, entered into a Hong Kong dollar equivalent RMB2,200,000,000 term loan facility (the "**Loan Facility**") with Ping An Bank Company Limited (平安銀行股份有限公司). The funds from the Loan Facility were used for the purposes of acquiring further equity interests in Sunshine Guojian.

The Loan Facility is to be repaid in five installments with the last instalment due on the date falling 36 months after the first utilization date. As at 31 December 2017, the outstanding amount owing by the Hongkong Sansheng under the Loan Facility was RMB1,284.3 million.

The details of the Loan Facility are set out in the announcement of the Company dated 22 February 2016.

Pursuant to the terms of the Loan Facility, Hongkong Sansheng shall procure that Dr. LOU Jing, a controlling shareholder of the Company (as defined in the Listing Rules), will remain a controlling shareholder of the Company for as long as any amount is outstanding under the Loan Facility. As at 31 December 2017, the controlling shareholders of the Company (including DSL and Dr. LOU Jing through his associates and close relative) collectively control 862,068,420 Shares of the Company (representing approximately 33.96% of the issued share capital of the Company).

Save as disclosed above, the Directors are not aware of any other circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rules 13.18 and 13.21 of the Listing Rules as at 31 December 2017.

CONVERTIBLE BONDS

On 12 July 2017, the Group, through Strategic International Group Limited, a direct wholly-owned subsidiary of the Company, conducted an international offering of Euro-denominated zero-coupon convertible bonds, or the Bonds (as previously defined), in an aggregate principal amount of €300,000,000 due 2022, which is unconditionally and irrevocably guaranteed by the Company. The issue of the Bonds was completed on 21 July 2017. The listing of and permission to deal in the Bonds became effective on 24 July 2017. The information regarding the Bonds are summarized in note 31 to the consolidated financial statements and the Company's announcements dated 12 July 2017, 13 July 2017 and 21 July 2017.

The successful issue of the Bonds represents an opportunity for 3SBio to improve the liquidity position of the Group, to reduce the financing costs of the Group and to raise further working capital of the Group.

Use of proceeds of the Bonds

The net proceeds from the Bonds are proposed to be used for repaying the loans of the Group, future merger and acquisitions, R&D, purchase of operation facilities and other general corporate purposes. As of 31 December 2017, the net proceeds of approximately €295,898,164 from the issue of the Bonds had not yet been allocated or applied specifically to any use.

Conversion price and shares to be issued upon full conversion

The initial conversion price of the Bonds was HKD14.28 per Share. Assuming full conversion of the Bonds, the total number of shares issued by the Company would be 2,727,160,335 Shares as at 31 December 2017. The following table summaries the potential effects on the shareholding structure of the Company as a result of the full conversion of the Bonds:

	As at 31 December 2017		Assuming the Bonds are fully converted at the initial Conversion Price	
Name of Shareholders	Number of Shares	Approximate % of total issued Shares	Number of Shares	Approximate % of the enlarged issued Shares
Decade Sunshine Limited	599,367,030	23.61%	599,367,030	21.98%
CS Sunshine Investment Limited	621,512,360	24.48%	621,512,360	22.79%
Hero Grand Management Limited(1)	47,946,010	1.89%	47,946,010	1.76%
Directors and Chief Executive(2)	173,972,900	6.85%	173,972,900	6.38%
Other public shareholders	1,095,998,590	43.17%	1,095,998,590	40.19%
Bondholders	—	—	188,363,445	6.91%
Total	**2,538,796,890**	**100.00%**	**2,727,160,335**	**100.00%**

Note:

(1) Hero Grand Management Limited ("Hero Grand") was owned as to 100% by Mr. LOU Dan, the father of Dr. LOU Jing (Chairman of the Company). As at 31 December 2017, Hero Grand held (a) 1.65% of the total share capital of the Company on behalf of Dr. LOU Jing; and (b) 0.24% of the total share capital of the Company for itself. As from 24 January 2018, Hero Grand became 100% owned by Dr. LOU Jing after the completion of certain shareholding restructuring for estate planning purposes.

(2) The Directors and chief executive (other than Dr. LOU Jing) held 6.85% of the total share capital of the Company in aggregate as at 31 December 2017.

(3) The percentages are subject to rounding difference, and figures shown as totals may not be an arithmetic aggregation of the figures preceding them if any.

CONNECTED TRANSACTIONS

Connected transaction and major transaction in relation to formation of joint venture and grant of put option

On 1 September 2017 (after trading hours), the Company and Thunderpure International Limited, a wholly-owned subsidiary of the Company (collectively, the "**3SBio Parties**") entered into a shareholders agreement (the "**Shareholders Agreement**") with CPE Funds, pursuant to which, the 3SBio Parties and CPE Funds conditionally agreed to establish a joint venture, CDMO JV, as defined in "BUSINESS REVIEW — Key Events", which was to be owned as to 51% by 3SBio Parties and as to 49% by CPE Funds. After the completion of the Shareholders Agreement, the CDMO JV became the sole shareholder of 10363782 Canada Inc. (the "**Buyer**"), which is a corporation incorporated under the laws of Canada and was owned as to 51% by the 3SBio Parties and as to 49% by CPE Funds. On the same day, the Buyer acquired the assets and associated business relating to the outsourced pharmaceutical development and manufacturing services carried on by Therapure Biopharma Inc. (the "**Seller**") under the mark Therapure Biomanufacturing from the Seller under an asset purchase agreement (the "**Asset Purchase Agreement**"). The Buyer also proposed to enter into a construction agreement with the Seller (the "**Construction Agreement**") relating to, among others, the construction of the commercial facility for the purpose of the commercial manufacture of plasma-related therapeutic products by the Buyer for the Seller's proprietary product development business carried on under the marks Therapure Biologics and Therapure Innovations.

The Company sought to establish the CDMO JV as a development and manufacturing platform operating a comprehensive and profitable biological CDMO business in North America, expanding the Group's biopharmaceutical business into North America, favourably positioning the Group to access global biopharma companies through the CDMO services in North America for the opportunities of licensing innovative products and exploring different strategic collaborations in the future, and creating potential synergies with the development and manufacturing capacity of the Group. Under the Shareholders Agreement, 3SBio Parties granted a put option to CPE Funds (the "**Put Option**"), pursuant to which, the CPE Funds were entitled to sell all or part of their shareholdings in the CDMO JV to the 3SBio Parties from the fourth anniversary of the closing date (as defined in the Shareholders Agreement), subject to the terms and conditions under the Shareholders Agreement.

The CPE Funds are associates of CITIC Fund and are therefore connected persons of the Company. Accordingly, the formation of the CDMO JV and the grant of the Put Option under the Shareholders Agreement constituted connected transactions of the Company under Chapter 14A of the Listing Rules. In addition, both the CDMO JV and the Buyer became connected subsidiaries of the Company upon completion of the connected transactions. Accordingly, the proposed provision of the full guarantee by 3SBio Parties of the obligations under a commercial loan to be obtained by the Buyer and the proposed provision of a loan by the Group to the Buyer for the payment of any applicable taxes arising from the CDMO Acquisition, each considered as financial assistance to the Buyer, also constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

For details of the connected transactions, please refer to the announcements of the Company dated 3 September 2017, 13 October 2017 and the circular of the Company dated 25 October 2017.

The closing of the CDMO Acquisition is still pending, subject to the fulfillment of certain conditions, and the long stop date for the completion of the transaction is 30 April 2018. Closing of the CDMO Acquisition is conditional upon the satisfaction or, if applicable, waiver of the conditions precedent set out in the Asset Purchase Agreement. Accordingly, the transactions contemplated under the Asset Purchase Agreement may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

Please also refer to any futher announcements by the Company in respect of the CDMO Acquisiton for latest developments.

Note 42 to the Consolidated Financial Statements

In respect of the Company's related party transactions disclosed in note 42 to the consolidated financial statements prepared in accordance with International Financial Reporting Standards, to the extent that they constitute connected transactions of the Company for the purpose of the Listing Rules that apply to it, the Company confirms that it has complied with the relevant requirements under the Listing Rules (if applicable).

Save as disclosed above, the related party transactions of the Company set out in note 42 to the consolidated financial statements prepared in accordance with International Financial Reporting Standards do not constitute connected transactions of the Company under the Listing Rules.

CDMO ACQUISITION

As disclosed in the section headed "Connected Transactions", on 1 September 2017, the Group entered into a shareholders agreement with CPE Funds associated with CITIC Fund, a substantial shareholder of the Company, pursuant to which, the CDMO JV was established. The Group and CPE Funds seek to position the CDMO JV as a global, comprehensive and biologics-focused CDMO platform. On the same date, the CDMO JV entered into the Asset Purchase Agreement with a Canada-based biologics manufacturer, Therapure Biopharma Inc., to acquire its CDMO business, Therapure Biomanufacturing, for USD290 million. The shareholders of the Company have approved the transactions contemplated under the two agreements. The closing of the CDMO Acquisition is still pending, subject to the fulfillment of certain conditions, and the long stop date for the completion of the transaction is 30 April 2018. For further information in respect of the CDMO Acquisition and the related matters, please refer to the circular of the Company dated 25 October 2017 and the announcements of the Company dated 3 September 2017 and 27 December 2017.

Closing of the CDMO Acquisition is conditional upon the satisfaction or, if applicable, waiver of the conditions precedent set out in the Asset Purchase Agreement. Accordingly, the transactions contemplated under the Asset Purchase Agreement may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

Please also refer to any further announcements by the Company in respect of the CDMO Acquisition for latest developments.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2017, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DONATIONS

The Group leads and supports various medical charity projects. Please see Section 6.1 "Participating in Charitable Activities" in "2017 Environmental, Social and Governance Report of 3SBio Inc."

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2017, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

ENVIRONMENTAL PROTECTION

The Group is subject to national and local environmental laws and regulations of the PRC. The Group has established detailed internal rules regarding environmental protection. The Group tests effluent water to ensure compliance with national emission standards. Solid waste is sorted for proper disposal. Hazardous waste is sent to qualified third parties for treatment. When a new construction project is proposed, the Group conducts comprehensive analysis and testing on the environmental issues involved in the manufacturing processes. The Group's production team and in-house legal department are primarily responsible for ensuring compliance with applicable environmental rules and regulations. All of the Group's properties, plants and equipment meet the standards required for compliance with applicable environmental rules and regulations, and the Group believes it has maintained a good relationship with the communities surrounding the Group's production facilities.

To the best knowledge of the Group, during the year ended 31 December 2017, there were no material breaches of national and local environmental laws and regulations of the PRC.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that various stakeholders including employees, medical experts, distributors, and other business associates are key to Group's success. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationship with them.

The Group believes that it is vital to attract, recruit and retain quality employees. To maintain the quality, knowledge and skill levels of Group's workforce, the Group provide the employees with periodic training, including introductory training for new employees, technical training, professional and management training and health and safety training. The Group believes that it maintains a good relationship with its employees and the Group did not experience any significant labor disputes or any difficulty in recruiting staff for its operations.

The Group conducts academic marketing activities to establish and maintain relationships with key opinion leaders in the national medical system, as well as the department heads and senior physicians in Group's target hospitals, particularly Grade III hospitals. The Group provides these experts with detailed information on its products and helps them make independent comparisons among competing products in the market. The Group also maintains long-term cooperative relationships with national academic associations, such as the Chinese Society of Nephrology (中華腎臟病學會) and the Chinese Society of Clinical Oncology (中國臨床腫瘤學會). The Group believes that its relationships with medical experts help to raise Group's profile, enhance awareness of Group's products in the medical community and among patients, and provide it with valuable clinical data to improve Group's products, all of which help the Group more effectively market and sell its products.

A significant amount of Group's sales is attributable to a limited number of distributors. The Group selects the distributors based on their qualifications, reputation, market coverage and sales experience. The Group generally has long time business relationship with its large distributors.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with laws and regulatory requirements. The Group has been allocating corporate and staff resources to ensure ongoing compliance with rules and regulations, including retaining external counsels and advisors. During the year ended 31 December 2017, the Group has complied, to the best of its knowledge, with all relevant rules and regulations that have a significant impact on it.

To the best knowledge of the Group, during the year ended 31 December 2017, there were no material breaches of the Group's internal rules or PRC laws and regulations relating to the promotion and distribution of the Group's pharmaceutical products by its employees, distributors, sub-distributors or third-party promoters.

PERMITTED INDEMINTY PROVISION

The Articles of Association provides that every Director of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur as a result of any act or failure to act in the execution of their duty, or supposed duty, and in their respective offices or trusts provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty.

The Company has arranged appropriate insurance coverage in respect of potential legal actions against its Directors and senior management.

POST BALANCE SHEET EVENTS

The Group has no material post balance sheet events.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has, together with the management and external auditor of the Company (the "**Auditor**"), reviewed the accounting principles and policies adopted by the Group and the consolidated financial statements for the year ended 31 December 2017. The Audit Committee has also reviewed the effectiveness of the risk management and internal control systems of the Company and considers them to be effective and adequate.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 58 to 72 of this annual report.

CLOSURE OF REGISTER OF SHAREHOLDERS

The annual general meeting of the Company is scheduled to be held on 20 June 2018. For determining the entitlement to attend and vote at the annual general meeting, the register of shareholders of the Company will be closed from 14 June 2018 to 20 June 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 13 June 2018.

For determining the entitlement to the proposed final dividend, the register of shareholders of the Company will be closed from 4 July 2018 to 6 July 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 3 July 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times during the year ended 31 December 2017 and as of the date of this annual report.

AUDITOR

Ernst & Young was appointed as the Auditor for the year ended 31 December 2017.

Ernst & Young shall retire at the forthcoming AGM and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of Ernst & Young as Auditor will be proposed at the AGM.

On behalf of the Board
Dr. LOU Jing
Chairman

Shenyang, 26 March 2018

Corporate Governance Report

The Board is pleased to present the corporate governance report of the Company for the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules as its own code of corporate governance.

Save as disclosed in this annual report, the Company has complied with all applicable code provisions under the CG Code throughout the year ended 31 December 2017. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**") (together, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the shareholders at all times.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

Board Composition

As at the date of this annual report, the Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors as follows:

Executive Directors:
Dr. LOU Jing (*Chairman & Chief Executive Officer*)
Mr. TAN Bo
Ms. SU Dongmei
Mr. HUANG Bin

Non-executive Directors:
Mr. LIU Dong
Mr. WANG Steven Dasong

Independent Non-executive Directors:
Mr. PU Tianruo
Mr. David Ross PARKINSON
Mr. MA Jun

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

During the year ended 31 December 2017 and up to the date of this annual report, the Board has at all times met the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage. Therefore, the Company has adopted a Board diversity policy to set out the approach to diversity on the Board. As provided in the Board diversity policy, the nomination committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy. In relation to reviewing and assessing the Board composition, the nomination committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. The nomination committee will discuss, and where necessary, agree on the measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth. The nomination committee will review this Policy as appropriate and recommend revisions, if any, to the Board for consideration and approval.

As each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules, the Company considers all of them to be independent.

Save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" in this annual report, none of the Directors has any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring Directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as the identity of the public companies or organisations and the time involved to the issuer, Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretaries of the Company have from time to time updated and provided written training materials relating to the roles, functions and duties of a Director.

A summary of training received by the Directors throughout the year ended 31 December 2017 is as follows:

Name of Directors	Nature of Continuous Professional Development Programmes
Executive Directors	
Dr. LOU Jing	A and B
Mr. TAN Bo	B
Ms. SU Dongmei	B
Mr. HUANG Bin	B
Non-Executive Directors	
Mr. LIU Dong	B
Mr. LV Dong (retired on 30 June 2017)	B
Mr. WANG Steven Dasong (appointed on 30 June 2017)	B
Independent Non-Executive Directors	
Mr. PU Tianruo	B
Mr. David Ross PARKINSON	B
Mr. MA Jun	B

Notes:

A: Attending seminars and/or meetings and/or forums and/or briefings

B: Reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

Dr. LOU Jing, the chairman of the Company, was also appointed as the Chief Executive Officer of the Company. The Board believes that vesting both the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will from time to time review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company at an appropriate time, taking into account the circumstances of the Group as a whole.

Appointment and Re-election of Directors

The executive Directors have entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date, which may be renewed subject to both parties' agreement.

Of the two non-executive Directors, Mr. WANG Steven Dasong entered into an appointment letter with the Company for the term commencing from the approval date of his appointment by the shareholders (being 30 June 2017) and continued until the next annual general meeting of the Company, subject to re-election and retirement as and when required by the Articles of Association; Mr. LIU Dong entered into an appointment letter with the Company for the term commencing from the date of his appointment (being 27 November 2014), which was subsequently extended to the date of the next general meeting of the Company, subject to re-election and retirement as and when required by the Articles of Association.

Each of the independent non-executive Directors entered into an appointment letter with the Company for the term commencing from the date of his appointment letter (being 25 April 2016) until 28 June 2019, subject to re-election and retirement as and when required by the Articles of Association.

Save as disclosed above, none of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself for re-election by the shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself for re-election by the shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days have been given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. In 2017, one scheduled and duly noticed regular board meeting was cancelled due to special business circumstances, and only three regular board meetings were held.

For other Board and Board Committee meetings, reasonable notices have been generally given. The agenda and accompanying board papers have been dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the Company with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

During the year ended 31 December 2017, three board meetings and two general meetings were held and the attendance of each Director at these meetings is set out in the table below:

Directors	Attended/Eligible to attend the Board meetings	Attended/Eligible to attend the general meetings
Executive Directors		
Dr. LOU Jing	3/3	2/2
Mr. TAN Bo	3/3	2/2
Ms. SU Dongmei	3/3	2/2
Mr. HUANG Bin	3/3	2/2
Non-Executive Directors		
Mr. LIU Dong	3/3	0/2
Mr. LV Dong (retired on 30 June 2017)	2/2	0/2
Mr. Wang Steven Dasong (appointed on 30 June 2017)	1/1	0/2
Independent Non-Executive Directors		
Mr. PU Tianruo	3/3	2/2
Mr. David Ross PARKINSON	3/3	2/2
Mr. MA Jun	3/3	2/2

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry with the Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2017, except that when the Company granted share options to The Empire Trust for the benefit of a list of its employees and other eligible beneficiaries under the Scheme on 2 February 2017 (the "**Grant**"), the beneficiaries list contained certain Directors as disclosed in the Company's announcement dated 3 February 2017. The Grant was made in full compliance with the requirements (including the dealing restriction requirements) under Chapter 17 of the Listing Rules governing share option schemes, but fell into the black-out period for Directors' dealings in the shares of the Company under the Model Code, which deems the Grant to a Director as a dealing by the Director. Each of the relevant Directors has confirmed that save for the above deeming provision, he or she had not dealt in the shares of the Company during the blackout period and had acted in full compliance with the Model Code. The Grant is subject to vesting conditions and the share options are not yet vested. The Company has paid due regard to the above and has taken immediate steps to remind the Directors and the management of the deeming provisions relating to grant of share options under the Model Code so as to prevent the occurrence of similar incidents.

Code provision A.6.4 of the CG Code stipulates that the Company must establish guidelines no less exacting than the Model Code for relevant employees in respect of their dealings in the Company's securities. To comply with the CG Code, the Company has adopted a set of guidelines no less exacting than the Model Code for relevant employees in respect of their dealings in the Company's securities prior to the Listing Date.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

(a) developing and reviewing the Company's policies and practices on corporate governance;

(b) reviewing and monitoring the training and continuous professional development of Directors and senior management of the Company;

(c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Long Term Corporate Performance and Strategy

The Company makes long term financial performance as a corporate governance objective. The mission of the Company is to provide better care for patients through innovation and excellence in its core and related therapeutic areas. The Company aims to strengthen its leadership position in the PRC biotechnology industry and to expand its international business in the next few years.

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises three members, including a non-executive director namely Mr. WANG Steven Dasong, and two independent non-executive Directors namely Mr. PU Tianruo (Chairman) and Mr. MA Jun.

The principal duties of the Audit Committee include the following:

1. reviewing the relationship with the Auditors by reference to the work performed by the Auditors, their fees and terms of engagement, and making recommendations to the Board on the appointment, re-appointment and removal of the Auditors;

2. reviewing the financial statements and reports and considering any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function or the Auditor before submission to the Board; and

3. reviewing the adequacy and effectiveness of the Company's financial reporting system, internal control and risk management systems and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2017, three meetings of the Audit Committee were held to discuss and consider the following matters:

- final results of the Company and its subsidiaries for the fiscal year as well as the audit report prepared by the Auditor relating to accounting issues and major findings in course of audit;
- interim results of the Company and its subsidiaries for the six-month period ended 30 June 2017; and
- the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function) and risk management systems and processes, and the re-appointment of the Auditor, with respect to which the Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of the Auditor.

Attendance of each Audit Committee member is set out in the table below:

Directors	Attended/Eligible to attend
Mr. PU Tianruo *(Chairman)*	3/3
Mr. LV Dong (retired on 30 June 2017)	1/1
Mr. WANG Steven Dasong (appointed on 30 June 2017)	2/2
Mr. MA Jun	3/3

Nomination Committee

The Nomination Committee currently comprises three members, including an executive Director namely Dr. LOU Jing (chairman) and two independent non-executive Directors namely Mr. PU Tianruo and Mr. MA Jun.

The principal duties of the Nomination Committee include the following:

1. reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
2. developing the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship;
3. identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships;

4. assessing the independence of independent non-executive Directors;

5. making recommendations to the Board on the appointment or re-appointment of Directors and the succession planning for Directors, in particular the chairman and the chief executive officer; and

6. developing a policy concerning diversity of Board members, and disclosing the policy or a summary of the policy in the corporate governance report.

The Nomination Committee assesses the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2017, one meeting of the Nomination Committee was held. All three members of the Nomination Committee attended the meeting.

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Mr. MA Jun (chairman) and Mr. PU Tianruo and a non-executive Director namely Mr. LIU Dong.

The principal duties of the Remuneration Committee include the following:

1. making recommendations to the Board on the Company's policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies;

2. reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board;

3. making recommendations to the Board on the remuneration packages of executive directors and senior management;

4. making recommendations to the Board on the remuneration of non-executive Directors;

5. considering factors such as the level of remuneration paid by comparable companies, the time commitment and responsibilities of directors and senior management, and the employment conditions of the Company and its subsidiaries and consolidated affiliated entities;

6. ensuring that no Director or any of his/her associates is involved in deciding his or her own remuneration; and

7. reviewing and approving compensation payments and arrangements to directors and senior management for loss or termination of their office or appointment, or dismissal or removal for misconduct and assessing whether the proposed payments or arrangements are fair, reasonable, consistent with the relevant contractual terms, or otherwise appropriate.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2017, one meeting of the Remuneration Committee was held. All three members of the Committee attended the meeting.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 27 to 35 of this annual report, for the year ended 31 December 2017 are set out below:

Remuneration band	Number of individuals
Nil to RMB1,000,000	6
RMB1,000,001 to RMB1,500,000	1
RMB1,500,001 to RMB2,000,000	3
RMB2,000,001 to RMB2,500,000	4
RMB3,500,001 to RMB4,000,000	1
RMB4,500,001 to RMB5,000,000	3
Above RMB5,000,000	1

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2017 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with quarterly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the Auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 78 to 80 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the Company's risk management and internal control systems and reviewing their effectiveness. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's risk management and internal control systems provide a comprehensive and organized structure with clearly defined scopes of responsibilities, authorities and procedures. The Group has a designated risk management and internal control team which is responsible for identifying and monitoring the Group's risks and internal control issues and reports directly to the Board of any findings and follow-up actions. Each department of the Group is also required to adhere strictly to the Group's internal control procedures and report to the risk management and internal control team of any risks or internal control issues.

The Group would conduct self-assessment each year to confirm that all departments and the Group have properly complied with the risk management and internal control policy.

The internal audit department is responsible for independent review of the adequacy and effectiveness of risk management and internal control systems. During the year under review, the internal audit department reviewed important issues such as the relevant strategic management, major operational and financial reporting procedure adequacy of resources, staff qualifications and experiences, regulatory compliance, and provided its findings and recommendations to the Audit Committee for improvement.

Any internal control defects identified by the internal audit department will be communicated to the department in question with advice for correction and remediation. Before the end of year, the status will be reviewed. The compliance department will also assist in the correction and remediation. Any unresolved control defects at the end of the year will be informed to the management. For the year ended 31 December 2017, no material internal control defect was detected.

The audit committee of the Board reviews the Company's material controls, including financial, operational and compliance controls, and risk management and internal control systems at least annually. During the year ended 31 December 2017, the audit committee conducted a review of the effectiveness of the risk management and internal control systems of the Group, including the above-mentioned material controls. The review has covered various aspects of the Group's risk management and internal control systems. In the review, the audit committee reviewed the report from the management and the findings and recommendations from the internal audit department. The review results were reported to the Board. The Board is satisfied that such systems are effective and adequate.

The Group has also adopted an information disclosure policy which has set out comprehensive guidelines in respect of handling and dissemination of inside information. The Board is entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy. Release of inside information shall be led by the Board. Unless duly authorized, all staff members of the Company shall not disseminate inside information relating to the Group to any external parties and shall not respond to media report or market speculation which may materially affect the trading price or volume of the Shares.

AUDITOR'S REMUNERATION

Ernst & Young was appointed as the Auditor for the annual audit and other audit services for the year ended 31 December 2017.

The remuneration for the services provided by Ernst & Young to the Group for the year ended 31 December 2017 was as follows:

Type of Services	Amount (RMB'000)
Audit and audit-related services	5,338
Review services	1,959
Non-audit services	
— Services in relation to the Bond offering	473
— Services in relation to the CDMO acquisition	406
— Tax services	99
— Others	285
Total	8,560

JOINT COMPANY SECRETARIES

Ms. LIU Yanli ("**Ms. LIU**"), the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. LAI Siu Kuen ("**Ms. LAI**"), an associate director of TMF Hong Kong Limited (a company secretarial service provider), as the other joint company secretary to assist Ms. LIU to discharge her duties as company secretary of the Company. The primary corporate contact person at the Company is Ms. LIU.

For the year ended 31 December 2017, Ms. LIU and Ms. LAI have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company provides opportunity for the shareholders to communicate directly with the Directors. The chairman of the Company and the chairmen of the Board Committees of the Company will attend the annual general meeting to answer shareholders' questions. The Auditor will also attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the Auditors' report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the shareholders and maintains at the websites of the Stock Exchange at www.hkexnews.hk and of the Company at www.3sbio.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Convening of extraordinary general meeting and putting forward proposals

Shareholders do not generally have a right to propose new resolutions at general meetings. Shareholders who wish to propose a resolution may request the Company to convene an extraordinary general meeting following the procedures as set out below.

Any one or more members holding as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the principal place of business in Hong Kong of the Company at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong (email address: ir@3sbio.com).

CHANGE IN CONSTITUTIONAL DOCUMENTS

There was no change in the Memorandum and Articles of Association of the Company for the year ended 31 December 2017.

Independent Auditor's Report

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

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香港中環添美道1號
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To the shareholders of 3SBio Inc.
(Incorporated in the Cayman Islands as an exempted company with limited liability)

Opinion

We have audited the consolidated financial statements of 3SBio Inc. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 81 to 193, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**") issued by the International Auditing and Assurance Standards Board ("**IAASB**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the shareholders of 3SBio Inc.
(Incorporated in the Cayman Islands as an exempted company with limited liability)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

To the shareholders of 3SBio Inc.

(Incorporated in the Cayman Islands as an exempted company with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of other intangible assets with indefinite life	
As at 31 December 2017, other intangible assets with indefinite life amounted to RMB124,636,000. In accordance with IAS 36 *Impairment of Assets*, intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. The impairment reviews performed by the Group contained a number of significant judgements and estimates including growth rate, royalty rate and discount rates. Changes in these assumptions might lead to a change in the carrying value of intangible assets. The Group's disclosures on other intangible assets with indefinite life are included in note 17 to the financial statements.	Our audit procedures included, among others, a review of the models and the assumptions applied by management in assessing the forecasted revenue growth and profit margins. We evaluated management's sensitivity analyses to ascertain the impact of reasonably possible changes to key assumptions on the available headroom. We also reviewed the Group's disclosures of the assumptions applied in assessing the impairment of those intangible assets. We involved internal valuation experts to assess key assumptions in valuation models including growth rate, royalty rate and discount rates.

To the shareholders of 3SBio Inc.
(Incorporated in the Cayman Islands as an exempted company with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
As at 31 December 2017, the carrying amount of goodwill was RMB3,923,598,000. In accordance with IAS 36 *Impairment of Assets*, the Group is required to test goodwill for impairment annually. Management performs the impairment assessment using a value in use calculation based on the discounted cash flow method. This assessment is complex and judgemental and is based on assumptions, such as forecasted revenue growth, profit margins and the discount rates, which are affected by expected future market or economic conditions, particularly in Mainland China. The Group's disclosures of goodwill are included in note 16 to the financial statements.	Our audit procedures included, among others, a review of the assumptions with actual results of prior periods applied by management in assessing the forecasted revenue growth, profit margins and discount rates. We evaluated the assumptions and methodologies used by the Group. We also reviewed the Group's disclosures of those assumptions to which the outcome of the impairment test is most sensitive and which have the most significant effect on the determination of the recoverable amount of goodwill. We involved internal valuation experts in benchmarking key assumptions in valuation models including expected perpetual rates and discount rates.

To the shareholders of 3SBio Inc.
(Incorporated in the Cayman Islands as an exempted company with limited liability)

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

EY 安永

To the shareholders of 3SBio Inc.

(Incorporated in the Cayman Islands as an exempted company with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

To the shareholders of 3SBio Inc.

(Incorporated in the Cayman Islands as an exempted company with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

To the shareholders of 3SBio Inc.
(Incorporated in the Cayman Islands as an exempted company with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tong Ka Yan, Augustine.

Ernst & Young
Certified Public Accountants
Hong Kong
26 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	**3,734,334**	2,797,289
Cost of sales	6	**(676,235)**	(402,268)
Gross profit		**3,058,099**	2,395,021
Other income and gains	5	**195,793**	215,594
Selling and distribution expenses		**(1,332,703)**	(1,017,196)
Administrative expenses		**(315,105)**	(301,236)
Other expenses	6	**(348,275)**	(282,223)
Finance costs	7	**(141,350)**	(147,710)
Share of profits and losses of associates	19	**(14,442)**	(12,182)
PROFIT BEFORE TAX		**1,102,017**	850,068
Income tax expense	11	**(177,613)**	(135,814)
PROFIT FOR THE YEAR		**924,404**	714,254
Attributable to:			
Owners of the parent		**935,389**	712,564
Non-controlling interests		**(10,985)**	1,690
		924,404	714,254
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic (RMB)	13	**0.37**	0.28
— Diluted (RMB)	13	**0.36**	0.28

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR	**924,404**	714,254
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value, net of tax	**(4,450)**	19,858
Reclassification adjustments for gains included in the consolidated statement of profit or loss — gain on disposal, net of tax	**—**	(21,504)
Exchange differences:		
Exchange differences on translation of foreign operations	**(124,896)**	192,597
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**(129,346)**	190,951
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(129,346)**	190,951
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**795,058**	905,205
Attributable to:		
Owners of the parent	**806,043**	903,515
Non-controlling interests	**(10,985)**	1,690
	795,058	905,205

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,759,669	1,762,813
Prepaid land lease payments	15	306,557	298,632
Goodwill	16	3,923,598	4,126,180
Other intangible assets	17	2,253,516	2,288,500
Investment in a joint venture	18	—	134
Investments in associates	19	33,510	85,575
Available-for-sale investments	20	48,333	50,000
Long-term receivables	21	35,372	79,517
Prepaid expenses and other receivables	25	39,837	40,926
Deferred tax assets	22	76,363	65,794
Total non-current assets		8,476,755	8,798,071
CURRENT ASSETS			
Inventories	23	376,529	262,438
Trade and notes receivables	24	1,324,084	785,543
Prepaid expenses and other receivables	25	459,251	140,981
Available-for-sale investments	20	704,564	362,172
Derivative financial instrument		1,322	2,613
Cash and cash equivalents	26	2,398,621	677,598
Pledged deposits	26	11,845	9,386
Total current assets		5,276,216	2,240,731
CURRENT LIABILITIES			
Trade and bills payables	27	274,568	58,792
Other payables and accruals	28	695,898	502,070
Deferred income	29	26,671	25,020
Interest-bearing bank and other borrowings	30	1,087,466	518,461
Tax payable		111,206	39,276
Total current liabilities		2,195,809	1,143,619
NET CURRENT ASSETS		3,080,407	1,097,112
TOTAL ASSETS LESS CURRENT LIABILITIES		11,557,162	9,895,183

Consolidated Statement of Financial Position (continued)

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,557,162**	9,895,183
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	**1,046,791**	2,540,682
Convertible bonds	31	**2,271,874**	—
Deferred income	29	**310,410**	269,980
Deferred tax liabilities	22	**280,268**	294,396
Other non-current liabilities		**18,173**	23,783
Total non-current liabilities		**3,927,516**	3,128,841
Net assets		**7,629,646**	6,766,342
EQUITY			
Equity attributable to owners of the parent			
Share capital	33	**156**	155
Share premium	33	**4,372,460**	4,367,719
Other reserves		**3,024,172**	2,154,625
		7,396,788	6,522,499
Non-controlling interests		**232,858**	243,843
Total equity		**7,629,646**	6,766,342

Jing Lou
Director

Bo Tan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the parent										
	Share capital RMB'000 (note 33)	Share premium RMB'000 (note 33)	Contributed surplus* RMB'000 (note 34)	Equity component of convertible bonds* RMB'000 (note 31)	Statutory surplus reserves* RMB'000 (note 35)	Retained earnings* RMB'000	Available-for-sale investment revaluation reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	154	4,355,287	197,156	–	125,378	978,388	1,703	(33,776)	5,624,290	11,175	5,635,465
Profit for the year	–	–	–	–	–	712,564	–	–	712,564	1,690	714,254
Other comprehensive income for the year:											
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	(1,646)	–	(1,646)	–	(1,646)
Exchange differences related to foreign operations	–	–	–	–	–	–	–	192,597	192,597	–	192,597
Total comprehensive income for the year	–	–	–	–	–	712,564	(1,646)	192,597	903,515	1,690	905,205
Transfer to statutory reserves	–	–	–	–	81,469	(81,469)	–	–	–	–	–
Equity-settled warrants (note 34)	–	–	(5,307)	–	–	–	–	–	(5,307)	–	(5,307)
Acquisition of subsidiaries (note 37)	–	–	–	–	–	–	–	–	–	230,978	230,978
Shares issued upon exercise of warrants	1	12,432	(12,432)	–	–	–	–	–	1	–	1
At 31 December 2016	155	4,367,719	179,417	–	206,847	1,609,483	57	158,821	6,522,499	243,843	6,766,342
At 1 January 2017	155	4,367,719	179,417	–	206,847	1,609,483	57	158,821	6,522,499	243,843	6,766,342
Profit for the year	–	–	–	–	–	935,389	–	–	935,389	(10,985)	924,404
Other comprehensive income for the year:											
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	(4,450)	–	(4,450)	–	(4,450)
Exchange differences related to foreign operations	–	–	–	–	–	–	–	(124,896)	(124,896)	–	(124,896)
Total comprehensive income for the year	–	–	–	–	–	935,389	(4,450)	(124,896)	806,043	(10,985)	795,058
Transfer to statutory reserves	–	–	–	–	100,947	(100,947)	–	–	–	–	–
Issue of convertible bonds (note 31)	–	–	–	47,133	–	–	–	–	47,133	–	47,133
Equity-settled share option scheme (note 34)	–	–	21,112	–	–	–	–	–	21,112	–	21,112
Shares issued upon exercise of warrants	1	4,741	(4,741)	–	–	–	–	–	1	–	1
At 31 December 2017	156	4,372,460	195,788	47,133	307,794	2,443,925	(4,393)	33,925	7,396,788	232,858	7,629,646

* These reserve accounts comprised the consolidated other reserves of approximately RMB3,024,172,000 (2016: RMB2,154,625,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,102,017**	850,068
Adjustments for:			
Share of profits and losses of associates	19	**14,442**	12,182
Fair value gain on revaluation of investments in associates	5	**—**	(6,117)
Fair value loss on derivative financial instrument	6	**1,177**	2,935
Gain on deemed disposal of an investment in an associate	5	**—**	(66,871)
Interest income	5	**(21,769)**	(23,957)
Finance costs	7	**141,350**	147,710
Foreign exchange differences	6	**22,166**	23,091
Charge of/(reversal of) share-based compensation costs	34	**21,112**	(5,307)
Depreciation	14	**128,453**	102,338
Amortisation of other intangible assets	6	**115,242**	58,662
Recognition of prepaid land lease payments	15	**7,901**	6,503
Amortisation of long-term deferred expenditures	6	**3,622**	3,059
Recognition of deferred income	29	**(30,395)**	(35,247)
Provision/(reversal of provision) for impairment of trade receivables	6, 24	**15,386**	(3,022)
Provision/(reversal of provision) for impairment of other receivables	6, 25	**(485)**	(869)
Provision/(reversal of provision) for impairment of inventories	23	**(382)**	692
Loss on disposal of items of property, plant and equipment	6	**14,257**	1,273
Gain on disposal of investments in an associate	5	**(103,382)**	—
Loss on disposal of an investment in a joint venture	6	**134**	—
Provision for impairment of investments in associates	6	**—**	1,355
Distribution received from an associate	5	**—**	(2,192)
Gain on disposal of available-for-sale investments	5	**—**	(21,504)
Payment of service fee in relation to non-operation activities		**19,513**	78,275
		1,450,359	1,123,057
(Increase)/decrease in inventories		**(108,344)**	15,460
Decrease in pledged deposits		**3,235**	824
Increase in trade and notes receivables		**(553,122)**	(125,715)
Increase in prepaid expenses and other receivables		**(17,124)**	(48,221)
Increase in trade and bills payables		**215,246**	11,152
Increase in other payables and accruals		**214,134**	150,011
Cash generated from operations		**1,204,384**	1,126,568
Income tax paid		**(130,286)**	(122,244)
Net cash flows from operating activities		**1,074,098**	1,004,324

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		13,685	19,485
Purchases of items of property, plant and equipment		(138,462)	(116,439)
Purchase of available-for-sale investments		(1,746,921)	(806,752)
Proceeds from disposal of available-for-sale investments		1,401,234	574,093
Addition to land lease prepayment	15	(16,148)	—
Purchase of a derivative financial instrument		—	(5,362)
Purchase of a related party's convertible loan	21	—	(75,000)
Proceeds from disposal of deposits		—	519,488
Distribution received from an associate	5	—	2,192
Payment for service fees in relation to acquisition of subsidiaries		—	(78,275)
Loans to related parties		(40,000)	(30,000)
Loans to a third party		(263,772)	—
Repayment of loans by related parties	21	50,000	3,500
Acquisition of subsidiaries	37	—	(4,138,200)
Disposal of a subsidiary		—	100,000
Proceed from disposal of investments in associates		136,885	—
Payment for investments in associates		—	(1,385)
Addition to other intangible assets		(104,627)	(349,596)
Proceeds from disposal of items of property, plant and equipment		12,991	1,242
Received fund from government grant		51,920	—
Net cash flows used in investing activities		(643,215)	(4,381,009)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible bonds		2,319,915	—
(Decrease)/increase in pledged deposits for bank borrowings		(5,694)	24,448
Proceeds from bank borrowings		300,000	3,985,116
Loan from an associate		—	300,000
Repayments of bank borrowings		(1,132,923)	(1,467,552)
Repayment to a related party		(37,825)	—
Interest paid		(125,741)	(131,805)
Net cash flows from financing activities		1,317,732	2,710,207
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,748,615	(666,478)
Cash and cash equivalents at beginning of the year		677,598	1,299,398
Effect of foreign exchange rate changes on cash, net		(27,592)	44,678
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		2,398,621	677,598
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	2,396,410	674,380
Restricted cash	26	2,211	3,218
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		2,398,621	677,598

1. Corporate and group information

3SBio Inc. (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Laws on 9 August 2006. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 June 2015.

The Company is an investment holding company. During the year, the subsidiaries of the Company were principally engaged in the development, production, marketing and sale of pharmaceutical products in the People's Republic of China (the "**PRC**") except for Hong Kong and Macau ("**Mainland China**").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Collected Mind Limited ("**Collected Mind**") (集思有限公司)	British Virgin Islands* 3 May 2006	United States Dollar ("**USD**") 1	100%	—	Investment holding
Hongkong Sansheng Medical Limited ("**Hongkong Sansheng**") (香港三生醫藥有限公司)	Hong Kong 3 November 2009	Hong Kong Dollar ("**HKD**") 2	—	100%	Trading and investment holding
Shenyang Sunshine Pharmaceutical Co., Ltd. ("**Shenyang Sunshine**") (瀋陽三生製藥有限責任公司)	PRC/Mainland China* 3 January 1993	Renminbi ("**RMB**") 2,500,000,000	—	100%	Manufacture and sale of biopharmaceutical drugs and research and development
Liaoning Sunshine Bio-Pharmaceutical Company Ltd. ("**Liaoning Sunshine**") (遼寧三生醫藥有限公司)	PRC/Mainland China* 1 February 2000	RMB15,000,000	—	100%	Distribution and sale of pharmaceutical drugs

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Taizhou Huan Sheng Investment Management Company Co., Ltd. (泰州環晟投資管理有限公司)	PRC/Mainland China* 29 December 2010	RMB1,000,000	–	100%	Project management and consultation
Taizhou Huan Sheng Healthcare Industry Investment Centre LLP ("**Taizhou Centre**") (泰州環晟健康產業投資中心)	PRC/Mainland China* 30 May 2011	RMB250,000,000	–	80%	Investment holding
Excel Partner Holdings Limited ("**Excel Partner**") (特隆控股有限公司)	Hong Kong* 8 July 2010	HKD1	–	100%	Investment holding
Sirton Pharmaceuticals S.p.A. ("**Sirton**")	Italy 22 November 2010	Euro ("**EUR**") 300,000	–	100%	Manufacture and sale of pharmaceutical drugs and research and development
Ample Harvest Investments Limited ("**Ample Harvest**") (溢豐投資有限公司)	British Virgin Islands* 2 January 2003	USD10	–	100%	Investment holding

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen Baishitong Technology Development Limited Company ("**Shenzhen Baishitong**") (深圳市百士通科技開發有限公司)	PRC/Mainland China* 8 March 2002	RMB500,000	—	100%	Investment holding
Shenzhen Sciprogen Bio-pharmaceutical Co., Ltd. ("**Sciprogen**") (深圳賽保爾生物藥業有限公司)	PRC/Mainland China* 22 March 1999	RMB160,000,000	—	100%	Manufacture and sale of pharmaceutical drugs and research and development
Guangdong Sciprogen Bio-pharmaceutical Technology Co., Ltd. ("**Guangdong Sciprogen**") (廣東賽保爾生物醫藥技術有限公司)	PRC/Mainland China* 30 June 2011	RMB10,000,000	—	100%	Manufacture and sale of pharmaceutical drugs and research and development
Zhejiang Wansheng Pharmaceutical Co., Ltd. ("**Zhejiang Wansheng**") (浙江萬晟藥業有限公司)	PRC/Mainland China* 27 October 1997	RMB56,500,000	—	100%	Manufacture and sale of pharmaceutical drugs and research and development
Gains Prestige Limited ("**Gains Prestige**") (澤威有限公司)	British Virgin Islands* 2 September 2014	HKD8	100%	—	Investment holding

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Full Gain Limited ("**Full Gain**") (富健藥業有限公司)	Hong Kong* 6 October 2014	HKD1	–	100%	Investment holding
Shanghai Aoxi Technology Information Consulting Co., Ltd. ("**Shanghai Aoxi**") (上海澳曦科技信息諮詢有限公司)	PRC/Mainland China* 18 December 2014	RMB100,000	–	100%	Project management and consultation
Shanghai Xingsheng Pharmaceutical Company Limited ("**Xing Sheng**") (上海興生藥業有限公司)	PRC/Mainland China* 23 December 1998	RMB410,000,000	–	96.25%	Investment holding
Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. ("**Sunshine Guojian**") (三生國健藥業(上海)股份有限公司)	PRC/Mainland China 25 January 2002	RMB510,223,050	–	96.22%	Manufacture and sale of biopharmaceutical drugs and research and development
National Engineering Research Center of Antibody Medicine ("**NERC**") (上海抗體藥物國家工程研究中心有限公司)	PRC/Mainland China 15 January 2009	RMB260,000,000	–	61.54%	Manufacture and sale of biopharmaceutical drugs and research and development
Cn-Gen Mab Co., Ltd. ("**Cn-Gen Mab**") (中健抗體有限公司)	Hong Kong 19 September 2012	HKD1,000,000	–	100%	Distribution and sale of pharmaceutical drugs

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sunshine Guojian Pharmaceutical (Suzhou) Co., Ltd. (三生國健藥業(蘇州)有限公司)	PRC/Mainland China* 25 November 2013	RMB150,000,000	–	100%	Manufacture and sale of biopharmaceutical drugs and research and development
Shanghai Shengguo Pharmaceutical Development Co., Ltd. (上海晟國醫藥發展有限公司)	PRC/Mainland China* 29 January 2014	RMB100,000,000	–	100%	Technology services
Shanghai Hongshang Investment Co., Ltd. ("**Shanghai Hongshang**") (上海翃熵投資諮詢有限公司)	PRC/Mainland China* 5 November 2015	RMB1,034,100,000	–	100%	Investment holding
Guangdong Sunshine Pharmaceutical Co., Ltd ("**Guangdong Sunshine**") (廣東三生製藥有限公司)	PRC/Mainland China* 7 December 2016	RMB40,000,000	–	100%	Manufacture and sale of biopharmaceutical drugs and research and development
Strategic International Group Limited ("**Strategic**") (a)	British Virgin Islands* 14 June 2017	EUR50,000	100%	–	Investment holding

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(a) Strategic was newly established on 14 June 2017 as a wholly-owned subsidiary of the Company.

1. Corporate and group information (continued)

The English names of these companies registered in the PRC represent the best effort made by management of the Company to directly translate their Chinese names as these companies do not register any official English names.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Company and its subsidiaries (together, the "**Group**"). To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instrument, available-for-sale investments and certain financial assets which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in accounting polices and disclosures

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Disclosure of the changes in liabilities arising from financing activities is provided in note 36 to the financial statements.

(b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied the amendments retrospectively. However, the amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

2.2 Changes in accounting polices and disclosures (continued)

(c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The Group applied the amendments retrospectively. However, the amendments have had no impact on the Group's financial statements as the Group had no interests in other entities that are in the scope of the amendments.

2.3 Issued but not yet effective international financial reporting standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[3]
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 No mandatory effective date yet determined but available for adoption

2.3 Issued but not yet effective international financial reporting standards (continued)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. By the end of 31 December 2017, the Group has performed an assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

2.3 Issued but not yet effective international financial reporting standards (continued)

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2014 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued an amendment to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt IFRS 15 from 1 January 2018. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15.

2.3 Issued but not yet effective international financial reporting standards (continued)

The Group's principal activities consist of the manufacture and sale of biomedical products. The expected impacts arising from the adoption of IFRS 15 on the Group are summarised as follows:

(a) Variable consideration on the sale of biomedical products

The Group provides a right of return, trade discounts or volume rebates for some of the sales contracts of biomedical products with customers. Currently, the Group recognises revenue from the sale of goods measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, revenue recognition is deferred until the uncertainty is resolved. Under IFRS 15, a transaction price is considered variable if a customer is provided with a right of return, trade discounts or volume rebates. The Group is required to estimate the amount of consideration to which it will be entitled in the sales of its biomedical products and the estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The amendments are not expected to have any significant impact on the Group's financial statements.

(b) Presentation and disclosure

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18 The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that these requirements are not expected to have any significant impact on the Group's financial statements.

IFRS 16 replaces IAS 17 *Leases*, IFRIC4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted.

2.3 Issued but not yet effective international financial reporting standards (continued)

As disclosed in note 40 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB 15,296,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC-Int 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 Summary of significant accounting policies

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associates or joint ventures, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its equity investments and derivative financial instrument at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

2.4 Summary of significant accounting policies (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies: (continued)

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	10–45 years
Plant and machinery	5–12 years
Furniture and fixtures	2.5–12 years
Motor vehicles	4–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

Exclusive distribution right	5–25 years
Intellectual Property ("**IP**") rights	14–25 years
Patents and technology know-how	5–20 years
Others	1–10 years
In Progress Research and Development ("**IPR&D**")	Indefinite useful life

Research and development costs

All research costs are charged to the consolidated statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

2.4 Summary of significant accounting policies (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms of 30 to 50 years. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments, debt securities and bank financial products. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

2.4 Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instrument entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

2.4 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Loans and borrowings (continued)

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instrument. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the statement of profit or loss.

2.4 Summary of significant accounting policies (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 Summary of significant accounting policies (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 Summary of significant accounting policies (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for “Contracts for services” below;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders’ right to receive payment has been established.

2.4 Summary of significant accounting policies (continued)

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 Summary of significant accounting policies (continued)

Share-based payments (continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in the statement of profit or loss.

2.4 Summary of significant accounting policies (continued)

Other employee benefits

Defined benefit plan

The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under “cost of sales” and “administrative expenses” in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Pension scheme

The Group’s subsidiaries operating in Mainland China participate in a central defined contribution retirement benefit plan managed by the local municipal government in the locations in which they operate. Contributions are made based on a percentage of the companies’ payroll costs and are charged to the statement of profit or loss as they become payable in accordance with the rules of the central defined contribution retirement benefit plan.

2.4 Summary of significant accounting policies (continued)

Other employee benefits (continued)

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

2.4 Summary of significant accounting policies (continued)

Foreign currencies (continued)

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Tax provisions

Determining tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions, and tax provisions are set up accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislation and practices.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was approximately RMB3,923,598,000 (2016: RMB4,126,180,000). Further details are given in note 16 to the financial statements.

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment of all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and all unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, which affects the probability of utilisation and the tax rate to be used in the calculations. Details of deferred tax assets are contained in note 22 to the financial statements.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of available-for-sale investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost.

Impairment of trade and other receivables

The Group determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Management reassesses the provisions at the end of each reporting period.

Estimation of inventory provision

The Group recognises a provision for inventories when the cost of inventories exceeds the net realisable value. The assessment of inventory provision requires management estimates on the future selling price and future cost to be incurred of the inventories. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying value of inventories and provision charge/write-back of provision. The Group also reviews the condition of the inventories of the Group and makes provision for obsolete inventory items identified that were no longer suitable for sale.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. Details of share-based payments are contained in note 34 to the financial statements.

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Useful lives, residual values and depreciation of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different to those previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expenses in the future periods.

Fair value of investments in unlisted equity instruments

The fair value of the equity investment in Chongqing Qidi Yueyao Equity Investment Fund Centre LLP ("**Qiyue Fund**") was based on the market approach, with reference to the market multiples from comparable companies with consideration of nature of business, sales products, size, profitability and development stage of the industry and those comparable companies. This valuation requires the Group to make estimates about adjusted market multiple, volatility, dividend yield and discount for lack of marketability, and hence they are subject to uncertainty. The fair value of the Group's equity interest in Qiyue Fund approximates to the acquisition cost. Further details are included in note 20 to the financial statements.

4. Operating segment information

The Group has only one operating segment, which is the development, production, marketing and sale of biopharmaceutical products.

Geographical information

(a) Revenue from external customers

	2017 RMB'000	2016 RMB'000
Mainland China	3,597,340	2,684,323
Others	136,994	112,966
	3,734,334	2,797,289

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2017 RMB'000	2016 RMB'000
Mainland China	6,513,978	6,543,900
Others	1,802,709	2,058,260
	8,316,687	8,602,160

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

The Group's customer base is diversified and no revenue from transaction with a significant customer amounted to 10% or more of the Group's total revenue during the year.

5. Revenue, other income and gains

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	2017 RMB'000	2016 RMB'000
Revenue		
Sale of goods	3,749,485	2,810,622
Less: Tax and government surcharges	(15,151)	(13,333)
	3,734,334	2,797,289
Other income		
Government grants related to		
— Assets (a)	24,744	18,897
— Income (b)	27,346	53,052
Interest income	21,769	23,957
Technical service income	9,121	6,233
Licensing income	—	13,285
Distribution received from an associate	—	2,192
Others	9,431	3,486
	92,411	121,102
Gains		
Gain on disposal of investments in an associate	103,382	—
Gain on deemed disposal of an investment in an associate	—	66,871
Gain on disposal of available-for-sale investments	—	21,504
Fair value gain on revaluation of investments in an associate	—	6,117
	103,382	94,492
	195,793	215,594

5. Revenue, other income and gains (continued)

Notes:

(a) The Group has received certain government grants to purchase items of property, plant and equipment. The grants are initially recorded as deferred income and are amortised against the depreciation charge of the underlying property, plant and equipment in accordance with the assets' estimated useful lives (note 29).

(b) The government grants have been received for the Group's contribution to the development of the local pharmaceutical industry. There are no unfulfilled conditions or contingencies attaching to these grants.

6. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		**676,235**	402,268
Depreciation of items of property, plant and equipment	14	**128,453**	102,338
Amortisation of other intangible assets		**115,242**	58,662
Recognition of prepaid land lease payments	15	**7,901**	6,503
Amortisation of long-term deferred expenditures		**3,622**	3,059
Operating lease expenses		**11,014**	9,586
Auditor's remuneration		**8,560**	9,130
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
Wages, salaries and staff welfare		**681,563**	439,712
Equity-settled compensation expenses		**18,324**	(5,307)
Pension scheme contributions		**52,284**	40,017
Social welfare and other costs		**68,050**	53,831
		820,221	528,253
Other expenses and losses:			
Research and development costs		**257,310**	243,006
Donation		**23,385**	8,738
Foreign exchange differences		**22,166**	23,091
Provision for impairment of investments in associates	19	**—**	1,355
Loss on disposal of items of property, plant and equipment		**14,257**	1,273
Addition/(reversal) of provision for impairment of trade receivables	24	**15,386**	(3,022)
Reversal of provision for impairment of other receivables	25	**(485)**	(869)
Technical service costs		**8,486**	1,058
Fair value loss on derivative financial instrument		**1,177**	2,935
Loss on disposal of an investment in a joint venture		**134**	—
Others		**6,459**	4,658
		348,275	282,223

7. Finance costs

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interests on bank borrowings	109,959	147,710
Interests on convertible bonds	31,391	—
	141,350	147,710

8. Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 RMB'000	2016 RMB'000
Fees	8,159	7,645
Other emoluments:		
Salaries, allowances, bonuses and other benefits	2,105	2,098
Pension scheme contributions	642	582
Equity-settled compensation expenses	2,788	—
	13,694	10,325

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

8. Directors' and chief executive's remuneration (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2017 RMB'000	2016 RMB'000
2017		
Mr. David Ross Parkinson	260	257
Mr. Jun Ma	260	257
Mr. Tianruo Pu	260	257
	780	771

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil.).

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances, bonuses and other benefits RMB'000	Pension scheme contributions RMB'000	Equity-settled compensation expenses RMB'000	Total RMB'000
2017					
Executive directors					
Mr. Bo Tan	2,147	481	186	697	3,511
Dr. Dongmei Su	506	712	93	697	2,008
Mr. Bin Huang	675	480	90	697	1,942
Non-executive directors					
Mr. Dong Liu	–	–	–	–	–
Mr. Dong Lv**	–	–	–	–	–
Mr. Dasong Wang**	–	–	–	–	–
Chief executive					
Dr. Jing Lou*	4,051	432	273	697	5,453
	7,379	2,105	642	2,788	12,914

8. Directors' and chief executive's remuneration (continued)

(b) Executive directors, non-executive directors and the chief executive (continued)

	Fees RMB'000	Salaries, allowances, bonuses and other benefits RMB'000	Pension scheme contributions RMB'000	Equity-settled compensation expenses RMB'000	Total RMB'000
2016					
Executive directors					
Mr. Bo Tan	2,424	518	169	—	3,111
Dr. Dongmei Su	498	668	82	—	1,248
Mr. Bin Huang	664	480	82	—	1,226
Non-executive directors					
Mr. Dong Liu	—	—	—	—	—
Mr. Dong Lv**	—	—	—	—	—
Chief executive					
Dr. Jing Lou*	3,288	432	249	—	3,969
	6,874	2,098	582	—	9,554

* Dr. Jing Lou who acts as the chief executive and the president of the Company is also an executive director of the Company.

** Mr. Dong Lv retired on 30 June 2017. Mr. Dasong Wang was appointed on 30 June 2017.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. Five highest paid employees

The five highest paid employees during the year included one director and the chief executive (2016: one director and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2016: three) highest paid employees who are neither directors nor chief executives of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances, bonuses and other benefits	8,938	6,251
Pension scheme contributions	345	240
Equity-settled compensation expenses	4,645	—
	13,928	6,491

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2017	 2016
HKD1,500,001 to HKD2,000,000	—	1
HKD2,000,001 to HKD2,500,000	—	—
HKD2,500,001 to HKD3,000,000	—	1
HKD3,000,001 to HKD3,500,000	—	1
HKD3,500,001 to HKD4,000,000	—	—
HKD4,000,001 to HKD4,500,000	—	—
HKD4,500,001 to HKD5,000,000	—	—
HKD5,000,001 to HKD5,500,000	3	—
	3	3

During the year, share options were granted to three non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 34 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. Pension schemes

The Company's subsidiaries registered in the PRC and Italy are required to participate in the retirement benefit schemes operated by the relevant local government authorities in Mainland China and Italy. The relevant local government authorities in Mainland China and Italy are responsible for the pension liabilities payable to retired employees. The Group is required to make contributions for those employees who are registered as permanent residents in Mainland China and Italy are within the scope of the relevant PRC and Italy regulations at 20% and 30% of the employees' salaries for the year, respectively.

The Group's contributions to the retirement benefit schemes for the year ended 31 December 2017 amounted to approximately RMB52,926,000 (2016: RMB40,599,000).

11. Income tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the relevant rules and regulations of the Cayman Islands and the British Virgin Islands ("**BVI**"), the Company and the subsidiaries of the Group incorporated therein are not subject to any income tax in the Cayman Islands and the BVI.

No provision for Hong Kong profits tax has been made during the year as the Group had no assessable profits arising in Hong Kong.

Under the relevant PRC income tax law, except for Shenyang Sunshine, Sciprogen, Zhejiang Wansheng, NERC and Sunshine Guojian which enjoy certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% on their respective taxable income.

Shenyang Sunshine, Sciprogen, Zhejiang Wansheng, NERC and Sunshine Guojian are qualified as High and New Technology Enterprises and are entitled to a preferential income tax rate of 15%.

In accordance with relevant Italian tax regulations, Sirton is subject to income tax at a rate of 27.9% (2016: 31.4%).

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors.

11. Income tax (continued)

An analysis of the provision for tax in the financial statements is as follows:

	2017 RMB'000	2016 RMB'000
Current	202,143	145,674
Deferred (note 22)	(24,530)	(9,860)
Total tax charge for the year	177,613	135,814

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for Mainland China to the tax expense at the effective tax rate is as follows:

	2017 RMB'000	2016 RMB'000
Profit before tax	1,102,017	850,068
At the PRC's statutory income tax rate of 25%	275,504	212,517
Preferential income tax rates applicable to subsidiaries	(90,808)	(92,611)
Additional deductible allowance for research and development expenses	(18,768)	(28,446)
Income not subject to tax	(32,580)	(31,473)
Effect of non-deductible expenses	14,691	57,746
Tax losses utilised from previous periods	(126)	(29)
Tax losses not recognised	29,735	18,100
Others	(35)	10
Tax charge at the Group's effective rate	177,613	135,814

The effective tax rate of the Group for the year ended 31 December 2017 was 16.1% (2016: 16.0%).

12. Dividends

	2017 RMB'000	2016 RMB'000
Proposed and declared dividend	**140,308**	—

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the annual general meeting to be held on 20 June 2018.

13. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 2,535,303,101 (2016: 2,524,049,681) in issue during the year, as adjusted to reflect the issue of ordinary shares during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2017 RMB'000	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**935,389**	712,564
Interest on convertible bonds	**31,391**	—
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**966,780**	712,564

13. Earnings per share attributable to ordinary equity holders of the parent (continued)

	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year	**2,535,303,101**	2,524,049,681
Effect of dilution — weighted average number of ordinary shares:		
Warrants	**32,957,466**	39,440,661
Convertible bonds	**85,286,782**	—
	2,653,547,349	2,563,490,342

14. Property, plant and equipment

2017

	Land and buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017:						
Cost	790,386	674,686	105,203	14,761	766,863	2,351,899
Accumulated depreciation	(192,333)	(324,797)	(61,691)	(10,265)	–	(589,086)
Net carrying amount	598,053	349,889	43,512	4,496	766,863	1,762,813
At 1 January 2017, net of accumulated depreciation	598,053	349,889	43,512	4,496	766,863	1,762,813
Additions	2,259	16,960	18,271	936	111,587	150,013
Disposals	–	(26,978)	(153)	(117)	–	(27,248)
Depreciation provided during the year	(40,577)	(57,537)	(28,727)	(1,612)	–	(128,453)
Transfers	3,442	143,366	1,187	–	(147,995)	–
Exchange realignment	1,198	1,214	34	6	92	2,544
At 31 December 2017, net of accumulated depreciation	564,375	426,914	34,124	3,709	730,547	1,759,669
At 31 December 2017:						
Cost	712,401	796,402	123,013	13,268	730,547	2,375,631
Accumulated depreciation	(148,026)	(369,488)	(88,889)	(9,559)	–	(615,962)
Net carrying amount	564,375	426,914	34,124	3,709	730,547	1,759,669

A freehold land with a carrying amount of approximately RMB3,973,000 as at 31 December 2017 (2016: RMB3,721,000) is situated in Italy.

The Group is in the process of applying for the title certificates of certain of its buildings with an aggregate book value of approximately RMB8,199,000 as at 31 December 2017 (2016: RMB8,738,000). The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter does not have any significant impact on the Group's financial position as at 31 December 2017.

The Group had no property, plant and equipment pledged as at 31 December 2017 (2016: RMB39,552,000) (note 30).

14. Property, plant and equipment (continued)

2016

	Land and buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016:						
Cost	342,678	222,327	65,344	8,333	33,290	671,972
Accumulated depreciation	(85,902)	(89,517)	(40,259)	(6,040)	–	(221,718)
Net carrying amount	256,776	132,810	25,085	2,293	33,290	450,254
At 1 January 2016, net of accumulated depreciation	256,776	132,810	25,085	2,293	33,290	450,254
Additions	230	11,016	16,102	1,781	90,792	119,921
Acquisition of subsidiaries	376,998	256,842	11,945	1,849	648,721	1,296,355
Disposals	(245)	(1,958)	(306)	(6)	–	(2,515)
Depreciation provided during the year	(36,261)	(53,291)	(11,361)	(1,425)	–	(102,338)
Transfers	–	3,913	2,033	–	(5,946)	–
Exchange realignment	555	557	14	4	6	1,136
At 31 December 2016, net of accumulated depreciation	598,053	349,889	43,512	4,496	766,863	1,762,813
At 31 December 2016:						
Cost	790,386	674,686	105,203	14,761	766,863	2,351,899
Accumulated depreciation	(192,333)	(324,797)	(61,691)	(10,265)	–	(589,086)
Net carrying amount	598,053	349,889	43,512	4,496	766,863	1,762,813

15. Prepaid land lease payments

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**306,479**	94,382
Acquisition of subsidiaries	**—**	218,600
Additions	**16,148**	—
Recognised during the year	**(7,901)**	(6,503)
Carrying amount at 31 December	**314,726**	306,479
Current portion included in prepaid expenses and other receivables (note 25)	**(8,169)**	(7,847)
Non-current portion	**306,557**	298,632

The balance represented the amount paid to the PRC government authorities for the land use rights of land situated in Mainland China which are amortised on the straight-line basis over the lease periods of 30 years to 50 years.

As at 31 December 2017, the Group had no prepaid land lease payments pledged (2016: RMB6,442,000) (note 30).

16. Goodwill

	RMB'000
Cost at 1 January 2016	560,883
Acquisition of a subsidiary (note 37)	3,327,399
Exchange realignment	237,898
Cost and net carrying amount at 31 December 2016	4,126,180
Cost at 1 January 2017	**4,126,180**
Exchange realignment	**(202,582)**
Cost and net carrying amount at 31 December 2017	**3,923,598**
At 31 December 2017:	
Cost	**3,923,598**
Accumulated impairment	**—**
Net carrying amount	**3,923,598**

16. Goodwill (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the group of pharmaceutical products cash-generating units ("**CGUs**"), which is the sole group of CGUs of the Group.

The recoverable amount of the group of CGUs has been determined based on a value in use calculation using cash flow projections which is based on financial forecast approved by the Company's directors covering a period of five years (the "**Forecast Period**"). The discount rate applied to the cash flow projections is 16.0%, which is determined by reference to the average rate for similar industries and the business risk of the relevant business units. The growth rate used to extrapolate the cash flows beyond the Forecast Period is 3%.

In the opinion of the Company's directors, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the group of CGUs to exceed the recoverable amount.

Assumptions were used in the value in use calculation of the group of CGUs as at 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Gross margins — Gross margins are based on the average gross margins achieved in the year immediately before the forecast year and are increased over the Forecast Period for anticipated efficiency improvements and expected market development.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant group of CGUs.

Growth rate — The growth rate is based on historical sales over the last three years and expected growth rates of the pharmaceutical market according to published industry research.

The values assigned to the key assumptions are consistent with external information sources.

17. Other intangible assets

2017

	Exclusive distribution right RMB'000	IP rights RMB'000	Patents and technology know-how RMB'000	IPR&Ds RMB'000	Others RMB'000	Total RMB'000
Cost at 1 January 2017, net of accumulated amortisation	343,382	1,416,746	362,917	117,795	47,660	2,288,500
Additions	96,461	–	–	6,841	1,325	104,627
Amortisation provided during the year	(18,322)	(69,864)	(21,227)	–	(10,716)	(120,129)
Exchange realignment	(19,508)	–	–	–	26	(19,482)
At 31 December 2017	402,013	1,346,882	341,690	124,636	38,295	2,253,516
At 31 December 2017:						
Cost	428,671	1,714,403	422,897	124,636	66,560	2,757,167
Accumulated amortisation	(26,658)	(367,521)	(81,207)	–	(28,265)	(503,651)
Net carrying amount	402,013	1,346,882	341,690	124,636	38,295	2,253,516

17. Other intangible assets (continued)

2016

	Exclusive distribution right RMB'000	IP rights RMB'000	Patents and technology know-how RMB'000	IPR&Ds RMB'000	Others RMB'000	Total RMB'000
Cost at 1 January 2016, net of accumulated amortisation	–	39,510	384,144	35,229	38,870	497,753
Additions	335,490	–	–	12,791	1,316	349,597
Acquisition of subsidiaries (note 37)	–	1,430,641	–	69,775	17,300	1,517,716
Amortisation provided during the year	(3,321)	(53,405)	(21,227)	–	(9,813)	(87,766)
Exchange realignment	11,213	–	–	–	(13)	11,200
At 31 December 2016	343,382	1,416,746	362,917	117,795	47,660	2,288,500
At 31 December 2016:						
Cost	352,203	1,714,403	422,897	117,795	65,178	2,672,476
Accumulated amortisation	(8,821)	(297,657)	(59,980)	–	(17,518)	(383,976)
Net carrying amount	343,382	1,416,746	362,917	117,795	47,660	2,288,500

Impairment testing of IPR&Ds

IPR&Ds were either acquired from a third party or capitalised in accordance with the accounting policies for the research and development costs in note 2.4 to the financial statements. The useful life of IPR&Ds is considered indefinite until the completion or abandonment of the related research and development efforts. IPR&Ds are not amortised but tested individually for impairment annually. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable.

The recoverable amounts of IPR&Ds have been determined based on a value in use calculation using cash flow projections which is based on financial forecast approved by the Company's directors. The discount rates applied to the cash flow projections are 26.0%, 18.0% and 19.0%, which are determined by reference to the average rates for in progress research and development projects with similar business risk and after taking into account the risk premium in connection with the related research and development efforts.

17. Other intangible assets (continued)

Impairment testing of IPR&Ds (continued)

In the opinion of the Company's directors, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amounts of IPR&Ds to exceed its recoverable amount.

Assumptions were used in the value in use calculation of IPR&Ds as at 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of IPR&Ds:

Discount rates — The discount rates used are before tax and reflect specific risks in respect of the related research and development efforts.

Royalty rate — The royalty rate is based on similar royalty rates charged by third parties in the pharmaceutical and biotech industry.

Growth rate — The growth rates used to extrapolate the cash flows beyond the four-year period are based on the estimated growth rate of the Group taking into account the industry growth rate, past experience and the medium-term or long-term growth target of the Group.

The values assigned to the key assumptions are consistent with external information sources.

18. Investment in a joint venture

	2017 RMB'000	2016 RMB'000
Unlisted shares, at cost	—	130
At 1 January	134	130
Disposals	(134)	—
Exchange realignment	—	4
At 31 December	—	134

The following table illustrates the financial information of the Group's joint venture:

	2017 RMB'000	2016 RMB'000
Aggregate carrying amount of the Group's investment in the joint venture	—	134

19. Investments in associates

	2017 RMB'000	2016 RMB'000
Share of net assets	**33,510**	85,575

Particulars of the Group's associates are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group %	Principal activities
Ascentage Pharma Group International (b) ("**Ascentage International**")	Preferred shares	Cayman Islands	47.17	Investment holding
Ascentage Jiangsu Pharmaceutical Group Co., Ltd. (a) (c) ("**Ascentage Jiangsu**")	Ordinary shares	PRC/ Mainland China	7.25	Research and development

Notes:

(a) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(b) On 17 November 2017, Ascentage International was set up by Collected Mind and other shareholders of Ascentage Pharma Group Co., Ltd. ("**Ascentage Pharma**"). On 24 November 2017, Collected Mind entered into an agreement with Ascentage International to transfer the 27.04% equity of Ascentage Pharma to Ascentage International at a consideration of HKD4,506. As of 31 December 2017, Collected Mind owned 10,140,375 preferred shares which equals to approximately 47.17% equity of Ascentage International; and

(c) On 27 October 2017, the Group entered into an agreement with Grand Virtue Investment Management Company Limited ("**Grand Virtue**") to transfer a 7.25% equity interest in Ascentage Jiangsu to Grand Virtue at a consideration of USD20,950,000 and recognised a gain on disposal of RMB103,382,000. As at 31 December 2017, the Group retained one seat in the board and can exercise significant influence over Ascentage Jiangsu.

19. Investments in associates (continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 RMB'000	2016 RMB'000
Share of the associates' results:		
Net losses	**(14,442)**	(12,182)
Total comprehensive losses	**(14,442)**	(12,182)

	2017 RMB'000	2016 RMB'000
Aggregate carrying amounts of the Group's investments in the associates	**33,510**	85,575

20. Available-for-sale investments

An analysis of the balances of available-for-sale investments is as follows:

	2017 RMB'000	2016 RMB'000
Current		
Investments in bank financial products (i)	671,754	361,517
Listed equity investments, at fair value (ii)	32,810	655
	704,564	362,172
Non-current		
Unlisted equity investments, at fair value (iii)	48,333	50,000

(i) The investments in bank financial products relate to short-term financial products issued by major banks in Mainland China. Such investment products are unsecured with no guaranteed return on investments and with original maturity of less than one year. The fair value of the bank financial products approximate to their acquisition costs.

(ii) The listed equity securities are designated as available-for-sale financial assets and have no fixed maturity date or coupon rate. The fair values of the listed equity investments are derived from quoted prices in an active market.

(iii) Pursuant to an investment agreement entered into among Taizhou Centre and third-party investors dated 9 April 2016, the Group acquired 23.81% of the equity interests in Qiyue Fund at a cash consideration of RMB50,000,000. As a limited partner in Qiyue Fund, the Group had no control or significant influence over Qiyue Fund.

21. Long-term receivables

	2017 RMB'000	2016 RMB'000
Long-term receivables due from a related party (a)	**35,372**	79,517
Long-term receivables (b)	**1,845**	1,845
	37,217	81,362
Provision for impairment of long-term receivables	**(1,845)**	(1,845)
	35,372	79,517

(a) On 29 March 2016, Shenyang Sunshine lent to Zhejiang Sunshine Pharmaceutical Co., Ltd. ("**Zhejiang Sunshine**"), a related party in which an approximate 52.1% equity interest was then owned by one of the controlling shareholders of the Company, a convertible loan with a principal amount of RMB75,000,000 at an annual interest rate of 8%. The convertible loan can be converted into equity interests in Zhejiang Sunshine at the discretion of Shenyang Sunshine. In 2017, Zhejiang Sunshine has repaid the principal amount of RMB50,000,000. The accrued interest for the year ended 31 December 2017 was RMB5,855,000 (2016: RMB4,517,000).

(b) Included in long-term receivables of RMB1,845,000 are amounts due from third-party customers and the Group has made full provision for the long-term receivables. The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group does not obtain collateral from customers. Long-term receivables are unsecured and non-interest-bearing.

The movements in provision for impairment of long-term receivables are as follows:

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	**1,845**	1,845
Balance at end of the year	**1,845**	1,845

The individually impaired long-term receivables relate to customers that were in financial difficulties or were in default and only a portion of the receivables is expected to be recovered.

22. Deferred tax

The movements in deferred tax assets during the year are as follows:

	Accruals RMB'000	Provision for inventories trade and other receivables RMB'000	Decelerated depreciation for tax purposes RMB'000	Government grant RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2016	9,866	2,382	(28)	1,520	1,671	15,411
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 11)	3,885	(71)	527	918	(5,661)	(402)
Acquisition of subsidiaries (note 37)	14,083	301	—	19,462	16,887	50,733
Exchange realignment	—	—	—	—	52	52
Gross deferred tax assets at 31 December 2016	27,834	2,612	499	21,900	12,949	65,794
Gross deferred tax assets at 1 January 2017	27,834	2,612	499	21,900	12,949	65,794
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 11)	3,332	2,356	459	6,549	(2,294)	10,402
Exchange realignment	—	—	—	—	167	167
Gross deferred tax assets at 31 December 2017	31,166	4,968	958	28,449	10,822	76,363

22. Deferred tax (continued)

Deferred tax assets have not been recognised in respect of the following items:

	2017 RMB'000	2016 RMB'000
Tax losses arising in Mainland China (a)	89,846	77,697
Tax losses arising in Hong Kong and other countries (b)	86,960	65,013
	176,806	142,710

Notes:

(a) The tax losses arising in Mainland China are available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose.

(b) The tax losses arising in Hongkong Sansheng and tax exempted entities in other countries could not be utilised to offset against future profits.

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that tax profits will be available against which the above items can be utilised.

22. Deferred tax (continued)

The movements in deferred tax liabilities during the year are as follows:

	Fair value adjustment arising from acquisition of subsidiaries RMB'000
Gross deferred tax liabilities at 1 January 2016	81,790
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	(10,262)
Acquisition of a subsidiary (note 37)	222,868
Gross deferred tax liabilities at 31 December 2016 and 1 January 2017	**294,396**
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	**(14,128)**
Gross deferred tax liabilities at 31 December 2017	**280,268**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2017, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China (2016: Nil).

22. Deferred tax (continued)

In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB2,757,951,000 (2016: RMB2,136,319,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

23. Inventories

	2017 RMB'000	2016 RMB'000
Raw materials	54,942	50,479
Work in progress	180,972	160,001
Finished goods	121,996	43,199
Consumables and packaging materials	19,912	10,434
	377,822	264,113
Provision for impairment of inventories	(1,293)	(1,675)
	376,529	262,438

24. Trade and notes receivables

	2017 RMB'000	2016 RMB'000
Trade receivables	1,212,782	688,396
Notes receivable	138,309	108,767
	1,351,091	797,163
Provision for impairment of trade receivables	(27,007)	(11,620)
	1,324,084	785,543

24. Trade and notes receivables (continued)

The Group's trading terms with its customers are mainly on credit. The credit period is generally two months, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 month	662,643	286,241
1 to 3 months	436,021	356,288
4 to 6 months	25,366	20,392
6 months to 1 year	61,745	13,855
1 to 2 years	18,525	4,547
Over 2 years	8,482	7,073
	1,212,782	688,396

The movements in provision for impairment of trade receivables are as follows:

	2017 RMB'000	2016 RMB'000
Balances at beginning of the year	11,620	14,631
Charge for the year	16,029	653
Reversal	(643)	(3,675)
Exchange realignment	1	11
Balances at end of the year	27,007	11,620

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default interest or principal payment or both and only a portion of the receivables is expected to be recovered.

24. Trade and notes receivables (continued)

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**1,098,664**	642,529
Less than 3 months past due	**25,366**	20,392
Over 3 months past due	**61,745**	13,855
	1,185,775	676,776

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

25. Prepaid expenses and other receivables

	2017 RMB'000	2016 RMB'000
Prepaid expenses and other receivables — current portion:		
Interest receivables	585	114
Prepayments	20,801	14,456
Prepaid land lease payments — current portion	8,169	7,847
Other deposits and other receivables	46,557	54,658
Deductible input VAT	39,423	26,651
Due from related parties — current portion (note 42(b))	79,094	38,396
Due from Wealth Honest (a)	265,278	—
	459,907	142,122
Provision for impairment of other receivables	(656)	(1,141)
	459,251	140,981
Prepaid expenses and other receivables — non-current portion:		
Advance payments for property, plant and equipment	32,137	37,971
Other non-current assets	7,700	2,955
	39,837	40,926

Note:

(a) On 27 December 2017, the Group entered into an agreement with Wealth Honest Limited ("**Wealth Honest**"), Zhongjing Xinhua Property Management (Hong Kong) Co., Limited ("**Zhongjing Xinhua**") and Gao Yang, the sole director of Wealth Honest and Zhongjing Xinhua, to lend Wealth Honest EUR34,000,000 at an annual interest rate of 9%. The loan is pledged with the 100% equity of Wealth Honest Cayman Holdings Company Limited ("**Wealth Honest Cayman**") which is held by Wealth Honest, the 100% equity of Wealth Honest Fund LP which is held by Wealth Honest Cayman and a guarantee provided by Zhongjing Xinhua and Gao Yang.

25. Prepaid expenses and other receivables (continued)

The movements in provision for impairment of other receivables are as follows:

	2017 RMB'000	2016 RMB'000
Balances at beginning of the year	**(1,141)**	—
Charge for the year	**(695)**	(1,141)
Reversal	**—**	2,010
Write-off	**1,180**	—
Acquisition of subsidiaries	**—**	(2,010)
Balances at end of the year	**(656)**	(1,141)

The individually impaired other receivables relate to balances due from certain parties that were not expected to be recovered due to changes in business developments.

26. Cash and cash equivalents and pledged deposits

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**2,396,410**	674,380
Restricted cash	**2,211**	3,218
Pledged Deposits	**11,845**	9,386
	2,410,466	686,984
Less:		
Pledged deposits for letters of credit	**(263)**	(3,499)
Pledged deposits for short-term bank borrowings (note 30)	**—**	(5,887)
Pledged deposits for bank acceptance bills	**(11,582)**	—
Cash and cash equivalents	**2,398,621**	677,598

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

26. Cash and cash equivalents and pledged deposits (continued)

The Group's cash and cash equivalents and deposits as at 31 December 2017 are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
Denominated in:		
— RMB	329,729	276,303
— HKD	4,558	38,567
— USD	936,699	362,863
— EUR	1,139,478	9,249
— Great Britain Pound ("**GBP**")	2	2
	2,410,466	686,984

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximated to their fair values as at the end of the reporting period. Deposits of approximately RMB11,845,000 (2016: RMB9,386,000) have been pledged to secure letters of credit, short-term bank borrowings and bank acceptance bills as at 31 December 2017 (note 30).

27. Trade and bills payables

An ageing analysis of the trade and bills payables as at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	88,458	44,154
3 to 6 months	179,505	6,833
Over 6 months	6,605	7,805
	274,568	58,792

The trade and bills payables are non-interest-bearing and repayable within the normal operating cycle or on demand.

28. Other payables and accruals

	2017 RMB'000	2016 RMB'000
Accrued selling and marketing expenses	**240,548**	144,056
Accrued salaries, bonuses and welfare expenses	**151,079**	141,177
Receipts in advance from customers	**76,854**	6,330
Due to related parties (note 42 (b))	**76,114**	118,946
Taxes payable (other than income tax)	**38,875**	31,245
Interest payables	**28,557**	18,420
Payable to vendors of property, plant and equipment	**10,601**	3,927
Payable to vendors of technology know-how	**2,689**	2,709
Others	**70,581**	35,260
	695,898	502,070

Other payables are non-interest-bearing.

29. Deferred income

	2017 RMB'000	2016 RMB'000
At beginning of the year	**295,000**	135,526
Received during the year		
— Government grants (a)	**72,476**	26,053
Acquisition of subsidiaries	**—**	170,878
Reclassified to other payables and accruals	**—**	(2,210)
Less: Recognition during the year		
— Government grants (a)	**(30,395)**	(35,247)
	337,081	295,000
Less: Deferred income — current portion		
— Government grants (a)	**(26,671)**	(25,020)
	310,410	269,980

Note:

(a) The grants relate to the subsidies received from the government for compensation for expenses arising from research and the improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and the final assessment of the relevant government authorities, the grants related to the expense items will be recognised as other income directly in the consolidated statement of profit or loss when such expense items have been incurred by the Group and the grants related to an asset will be released to the consolidated statement of profit or loss over the expected useful life of the relevant asset.

30. Interest-bearing bank and other borrowings

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	4.13	2018	100,000	–	–	–
Bank loans — secured	4.13	2018	200,000	2.5–4.35	2017	218,461
Current portion of long term bank loans — secured	4.2	2018	787,466	2.5	2017	300,000
			1,087,466			518,461
Non–current						
Other secured bank loans	4.2–4.65	2019–2021	1,046,791	2.5–6.72	2019–2021	2,540,682
			1,046,791			2,540,682
Convertible bonds (note 31)	2.5	2017–2022	2,271,874	–	–	–
			2,271,874			–
			4,406,131			3,059,143

30. Interest-bearing bank and other borrowings (continued)

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**1,087,466**	518,461
In the second year	**496,791**	845,709
In the third to fifth years, inclusive	**550,000**	1,694,973
	2,134,257	3,059,143

Notes:

(a) The bank borrowings bear interest at fixed interest rates ranging from 4.13% to 4.65% per annum.

(b) (i) As at 31 December 2017, the Group has no prepaid land lease payment, property, plant and equipment pledged (2016: RMB45,994,000);

(ii) As at 31 December 2017, the Group has no pledge of deposits for the bank borrowings (2016: RMB5,887,000);

(iii) As at 31 December 2017, the Group has no pledge of notes receivable (2016: RMB30,940,000); and

(iv) The bank borrowings are secured by 31.76% of the equity interests in Sunshine Guojian held by Xing Sheng, 100% of the equity interests in Shenyang Sunshine held by Hongkong Sansheng and 43.42% of the equity interests in Sunshine Guojian held by Full Gain.

(c) As at 31 December 2017, except for a secured bank borrowing of RMB1,284,257,000 (2016: RMB1,867,143,000) which was denominated in HKD, all the bank borrowings were denominated in RMB.

(d) The carrying amounts of the bank borrowings approximate to their fair values.

31. Convertible bonds

On 21 July 2017, Strategic, a direct wholly-owned subsidiary of the Company, issued Euro-denominated zero-coupon convertible bonds with a nominal value of EUR300,000,000. There was no repayment in the number of these convertible bonds during the year. The bonds are guaranteed by the Company and convertible at the option of the bondholders into ordinary shares with the initial conversion price of HKD14.28 per share at any time on and after 31 August 2017 and up to the close of business on the date falling seven days prior to 21 July 2022. The bonds are redeemable at the option of the bondholders at a 2.5% gross yield upon early redemption.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during the year have been split into the liability and equity components as follows:

	2017 RMB'000
Nominal value of convertible bonds issued during the year	2,351,970
Equity component	(47,133)
Direct transaction costs attributable to the liability component	(28,224)
Liability component at the issuance date	2,276,613
Interest accrual	5,472
Exchange realignment	(10,211)
Liability component at 31 December	2,271,874

32. Retirement benefit obligations

The Italian subsidiary of the Group operates an unfunded defined benefit plan, namely the Italian staff leaving indemnity (the "**TFR**"). The TFR is classified as a defined benefit pension plan, which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

In 2007, with the Italian labour law reform, it was decided that the TFR accrued each month starting from January 2008 would be paid monthly to a private external fund or social institution, transforming the contribution to the pension plan into a defined contribution plan. It was also decided that the remaining TFR balances by the end of 2007 would be recorded as non-current liabilities to be paid to employees upon retirement. Such TFR balances are subject to actuarial valuation in accordance with IAS 19.

The TFR benefit liability represents the present value of the defined benefit obligations at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligations are calculated annually by an independent actuary using the project unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows. Actuarial gains and losses arising from the changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past service costs are recognised immediately in profit or loss.

The plan is exposed to inflation risk and the risk of changes in the life expectancy of the plan members.

The principal actuarial assumptions used at the end of the reporting period are as follows:

	2017
Discount rate (%)	**1.4**
Expected rate of future pension cost increases (%) — 2018	**2.2**
Expected rate of future pension cost increases (%) — 2019	**2.6**
Expected rate of future pension cost increases (%) — 2020	**2.7**
Expected rate of future pension cost increases (%) — from 2021	**3.0**

	2016
Discount rate (%)	1.2
Expected rate of future pension cost increases (%)	2.2

32. Retirement benefit obligations (continued)

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Increase in rate %	Net decrease in defined benefit obligations RMB'000	Decrease in rate %	Net increase in defined benefit obligations RMB'000
2017				
Discount rate	0.5	232	0.5	252
2016				
Discount rate	0.5	231	0.5	251

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis above is based on a change in an assumption while holding all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2017 RMB'000	2016 RMB'000
Current service cost	—	—
Interest cost	72	103
Net benefit expenses	72	103
Recognised in finance costs	72	103

32. Retirement benefit obligations (continued)

The movements in the present value of the defined benefit obligations are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	5,672	5,727
Current service cost	—	—
Interest cost	72	103
Benefit paid	(431)	(457)
Actuarial loss	131	127
Exchange realignment	379	172
At 31 December	5,823	5,672

The plan has no defined benefit plan assets.

The Group does not expect to make further contributions to the defined benefit plan in future years.

The average duration of the defined benefit obligations at the end of the reporting period was 15 years (2016: 15 years).

33. Share capital

Shares

	2017 RMB'000	2016 RMB'000
Issued and fully paid:		
2,538,796,890 (2016: 2,532,313,570) ordinary shares	156	155

	Number of shares in issue	Share capital RMB'000	Share premium RMB'000	Total RMB'000
Ordinary shares of USD0.00001 each at 31 December 2016 and 1 January 2017	2,532,313,570	155	4,367,719	4,367,874
Shares issued upon exercise of warrants	6,483,320	1	4,741	4,742
Ordinary shares of USD0.00001 each at 31 December 2017	2,538,796,890	156	4,372,460	4,372,616

34. Share incentive scheme

Share option scheme adopted by the Company

On 26 September 2016, a total of 20,000,000 share options, each entitles the holders to subscribe for one ordinary share of the Company at an exercise price of HKD9.10, under the post-IPO share option scheme of the Company adopted on 23 May 2015 and 28 June 2016 (the "**Share Option Scheme**"), were granted to TMF (Cayman) Ltd. ("**TMF**"), as the trustee of The Empire Trust (the "**Grantee**"), a trust established by the Company for the beneficiaries who are executive directors and employees of the Group and its holding companies, and any other persons as nominated from time to time by the advisory committee of the Grantee that is established with the authority of the board of the directors of the Company. The share options will vest and become exercisable upon meeting certain vesting conditions. If the vesting conditions are not met, the share options will lapse.

On 2 February 2017, the Company and the Grantee had agreed that the grant of 20,000,000 share options which was approved by the board of directors of the Company on 22 September 2016 was cancelled at nil consideration. By the date of cancellation, no beneficiary had been nominated by the advisory committee of the Grantee and no options had been designated to any beneficiary, and thus the Group did not recognise any share-based payment expenses in relation to the cancelled 20,000,000 share options. On the same date, a total 20,000,000 of share options, each entitles the holders to subscribe for one ordinary share of the Company at an exercise price of HKD7.62 (which is the highest of the closing price of HKD7.30 per share and the average closing price of HKD7.62 per share) were granted to TMF, as the trustee of the Grantee under the Share Option Scheme for the benefits of the designated beneficiaries. The share options will vest and become exercisable upon meeting certain vesting conditions. If the vesting conditions are not met, the share options will lapse.

The following share options were outstanding under the Scheme during the year:

	2017	
	Weighted average exercise price HKD per share	Number of options '000
At 1 January	—	—
Granted during the year	7.62	20,000
At 31 December	7.62	20,000

34. Share incentive scheme (continued)

Share option scheme adopted by the Company (continued)

The fair value of the share options at grant date is estimated using a binomial options pricing model, taking into account the terms and conditions upon which the share options were granted. The contractual life of each option granted is ten years. There is no cash settlement of the share options. The fair value of share options granted on 2 February 2017 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	—
Expected volatility (%)	39.63
Risk-free interest rate (%)	1.91
Expected contractual life of share options (years)	10.00
Underlying share price (RMB)	6.45
Exercise price of each share option (RMB)	6.73

At the date of approval of the consolidated financial statements, the Company had 20,000,000 share options outstanding under the Share Option Scheme, which represented approximately 0.79% of the Company's shares in issue as at that date.

The fair value of the share options granted during the year was HKD66,287,000 (2016: Nil). The Group had recorded share-based payment expenses of RMB21,112,000 in the statement of profit or loss during the year ended 31 December 2017 (2016: Nil).

Warrants granted by the Company

On 1 January 2015, the Company issued warrants to Shanghai Junling Investment Partnership (Limited Partnership), which is beneficially owned by certain management members of Sunshine Guojian (the "**Sunshine Guojian Warrants**"), in which the Group held an approximately 6.96% equity interest. The Sunshine Guojian Warrants entitle the holders to purchase 1,128.82033 ordinary shares of the Company at an exercise price of USD1.00 for each warrant. Pursuant to the subdivision of the par value of the Company's authorised shares from USD1.00 per share to USD0.00001 per share on 4 February 2015, the number of shares has been changed to 112,882,033 ordinary shares of the Company exercisable by the Sunshine Guojian Warrants and the exercise price from USD1.00 per share to USD0.00001 per share.

The Sunshine Guojian Warrants will vest and become exercisable upon meeting certain vesting and non-vesting conditions. If the vesting conditions are not met, the warrants will lapse.

34. Share incentive scheme (continued)

Warrants granted by the Company (continued)

The fair value at grant date is estimated using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the warrants were granted. The contractual life of each option granted is three and a half years. There is no cash settlement of the warrants. The fair value of warrants granted on 1 January 2015 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	—
Expected volatility (%)	37.50
Risk-free interest rate (%)	1.10
Contractual life of warrants (years)	3.50
Underlying share price (RMB)	70.50
Exercise price of each warrant (RMB)	0.00006

On the date of grant, the fair values of each of the Sunshine Guojian Warrants with the probability of meeting the non-vesting conditions of 30% and 50% were RMB19.37 and RMB32.26, respectively.

During the year, there was no expenses recognised in the statement of profit or loss (2016: reversal of expense of RMB5,307,000).

At the end of the reporting period, the Company had warrants exercisable on 32,957,697 ordinary shares outstanding. Under the present capital structure of the Company, the exercise in full of the outstanding warrants would result in the issue of 32,957,697 additional ordinary shares of the Company and additional share capital of RMB2,000 (before issue expenses).

There was no new grant of warrants during the year (2016: Nil).

There was no warrants exercisable vested during the year (2016: warrants exercisable on 11,288,203 ordinary shares). Warrants exercisable on 6,483,320 ordinary shares were exercised at an exercise price of USD0.00001 per share during the year, resulting in the issue of 6,483,320 ordinary shares of the Company and new share capital and share premium of RMB1,000 and RMB4,741,000, respectively (before issue expenses), as further detailed in note 33 to the financial statements (2016: RMB1,000 and RMB12,432,000).

There was no forfeiture or expiry of warrants for the years ended 31 December 2017 and 2016.

The share price at the date of exercise of warrants during the year was HKD9.74 per share (2016: HKD7.77 per share).

35. Reserves

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

Statutory surplus reserves

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations and their respective articles of association, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the dividend distribution to shareholders.

36. Notes to the consolidated statement of cash flows

Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Convertible bonds RMB'000
At 1 January 2017	3,059,143	—
Changes from financing cash flows	(832,923)	2,323,746
Equity component of convertible bonds	—	(47,133)
Interest accrual	—	5,472
Exchange realignment	(91,963)	(10,211)
At 31 December 2017	2,134,257	2,271,874

37. Business combinations

Sunshine Guojian

As at 31 December 2015, the Group held approximately 28.8% of the equity interests in Sunshine Guojian. During the year, the Group further acquired equity interests in Sunshine Guojian through the following transactions. Upon the completion of the acquisitions, the Group held approximately 96.22% of equity interests in Sunshine Guojian.

Pursuant to the sale and purchase agreement between Shanghai Hongshang, Shanghai Lansheng Corporation ("**Lansheng Corporation**") and Shanghai Lansheng (Group) Corporation ("**Lansheng Group**") dated 26 January 2016, Shanghai Hongshang acquired 34.65% and 3.85% of equity interests in Xing Sheng at cash considerations of approximately RMB890,094,000 and RMB98,899,000 from Lansheng Corporation and Lansheng Group, respectively. Xing Sheng became a subsidiary with 96.25 % of its equity interests owned by Shanghai Hongshang and held approximately 41.69% of equity interests in Sunshine Guojian.

Pursuant to the sale and purchase agreement between Shanghai Hongshang and Lansheng Corporation dated 26 January 2016, Shanghai Hongshang acquired 0.73% of the equity interests in Sunshine Guojian at a cash consideration of approximately RMB44,326,000.

Pursuant to the sale and purchase agreement between Shenyang Sunshine and Xizang Hongshang Capital Equity Investment Co., Ltd. dated 3 March 2016, Shenyang Sunshine acquired 30% of equity interests in Shanghai Hongshang at a cash consideration of RMB1,217,994,000. Shanghai Hongshang became a wholly-owned subsidiary of Shenyang Sunshine.

Pursuant to the sale and purchase agreement between the Company and CITIC Hong Kong (Holdings) Limited ("**CITIC Holdings**") dated 3 March 2016, the Company acquired (i) the entire equity interests in Gains Prestige, which indirectly holds approximately 43.42% of equity interests in Sunshine Guojian, from CITIC Holdings, and (ii) the interests of CITIC Holdings in a shareholder's loan of HKD1,085,230,000 owed by Gains Prestige, at an aggregate cash consideration of HKD3,229,501,000 (equivalent to approximately RMB2,713,750,000). In addition, the Company granted options to CITIC Pacific Limited, which entitle the holders to subscribe for up to a total of 125,765,500 ordinary shares of the Company at an exercise price of HKD9.10 per share. The options will vest and become exercisable by the holders upon meeting certain vesting and exercise conditions.

The details of the above transactions are set out in the circular to shareholders of the Company dated 25 April 2016. The acquisitions were considered to be completed by 31 March 2016, when Shanghai Hongshang, Xing Sheng, Gains Prestige and Sunshine Guojian became subsidiaries of the Group.

37. Business combinations (continued)

The fair values of the aggregated identifiable assets and liabilities of Gains Prestige, Shanghai Hongshang, Xing Sheng and Sunshine Guojian (collectively, "**Guojian Group**") as at the date of acquisition were as follows:

Guojian Group

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	1,296,355
Prepaid land lease payments	218,600
Other intangible assets	1,517,716
Deferred tax assets	50,733
Other non-current assets	28,398
Inventories	114,938
Trade and notes receivables	106,925
Prepaid expenses and other receivables	313,885
Available-for-sale investments	77,735
Cash and cash equivalents	320,981
Pledged deposits	3,174
Trade payables	(12,994)
Accrued expenses and other payables	(55,606)
Interest-bearing bank borrowings	(8,900)
Tax payable	(5,551)
Deferred income	(170,878)
Deferred tax liabilities	(222,868)
Total identifiable net assets at fair value	3,572,643
Non-controlling interests	(230,978)
Goodwill on acquisition	3,327,399
	6,669,064
Satisfied by cash	4,459,181
Advance payments made as at 31 December 2015	505,883
Fair value of the 28.8% of equity interests in Guojian Group as at the date of acquisition	1,704,000
	6,669,064

37. Business combinations (continued)

Guojian Group (continued)

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'000
Cash consideration paid	4,459,181
Less: Cash and cash equivalents acquired	(320,981)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	4,138,200

Since the acquisition, the contributions of Guojian Group to the Group's consolidated revenue and consolidated profit for the year ended 31 December 2016 amounted to RMB797,101,000 and RMB270,064,000, respectively.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year ended 31 December 2016 would have been RMB2,936,312,000 and RMB687,592,000, respectively.

38. Contingent liabilities

As at 31 December 2017, neither the Group nor the Company had any significant contingent liabilities (2016: Nil).

39. Pledge of assets

Details of the Group's interest-bearing bank borrowings which are secured by the assets of the Group are included in note 30 to the financial statements.

40. Operating lease arrangements

Operating lease commitments — As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	6,578	4,685
In the second to fifth years, inclusive	8,718	3,533
	15,296	8,218

41. Commitments

In addition to the operating lease commitments detailed in note 40 above, the Group had the following capital commitments as at the end of the year:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Plant and machinery	93,536	110,130
Capital contribution payable to a joint venture	—	69,370
Other intangible assets — online marketing platform	—	800
	93,536	180,300

42. Related party transactions

Details of the Group's principal related parties are as follows:

Company	Relationship
Century Sunshine Limited ("**Century Sunshine**")	Ultimate shareholder of the Company
Injenerics Srl ("**Injenerics**")	Joint venture
Ascentage International	Associate
Ascentage Pharma	Associate
Ascentage Jiangsu	Associate
Beijing Huansheng Medical Investment Co., Ltd. ("**Beijing Huansheng**")	Under significant influence of a director of the Company and owned by certain middle management personnel of the Group
Liaoning Sunshine Technology Development Co., Ltd. ("**Liaoning Sunshine Technology**")	Subsidiary of Beijing Huansheng
Zhejiang Sunshine	Under significant influence of a director and key management personnel of the Company

42. Related party transactions (continued)

(a) The Group had the following transactions with related parties during the year:

	Notes	2017 RMB'000	2016 RMB'000
Service fee paid to Ascentage Jiangsu and Beijing Huansheng	(i)	**48**	1,761
Convertible loan including interest to Zhejiang Sunshine	21(a)	**79,517**	79,517
Loans including interest to Liaoning Sunshine Technology	(ii)	**31,126**	30,000
Loans to Beijing Huansheng	(iii)	**10,260**	—
Loans to Zhejiang Sunshine	(iv)	**30,372**	—
Loan from Century Sunshine	(v)	**109,605**	—
Loan including interest expenses from an associate	(vi)	**—**	300,128
Guarantee provided to Beijing Huansheng	(vii)	**5,000**	5,000

Notes:

(i) The Group engaged Ascentage Jiangsu to perform certain ongoing research and product development. The Group recognised research and development expenses of RMB48,000 for the year ended 31 December 2017 (2016: RMB761,000) according to the progress achieved. In 2016, the Group engaged Beijing Huansheng to provide consulting services and recognised a service fee of RMB1,000,000.

(ii) On 7 December 2016 and 23 December 2016, Sunshine Guojian extended loans, the principal amounts of which are RMB20,000,000 and RMB10,000,000, to Liaoning Sunshine Technology at an annual interest rate of 3.85% with the maturity dates on 7 March 2017 and 23 March 2017, respectively. Pursuant to supplemental agreements dated on 6 March 2017 and 22 March 2017, the maturity dates were extended to 6 March 2018 and 22 March 2018, respectively. The accrued interest for the year ended 31 December 2017 was RMB1,126,000 (2016: Nil).

(iii) On 26 May 2017, Zhejiang Wansheng provided a loan, the principal amount of which is RMB10,000,000, to Beijing Huansheng at an interest rate of 4.35% per annum with the maturity date on 26 May 2018. The accrued interest for the year ended 31 December 2017 was RMB260,000 (2016: Nil).

(iv) On 11 August 2017 and 18 September 2017, Shenyang Sunshine provided entrust loans, the principal amounts of which are RMB20,000,000 and RMB10,000,000, to Zhejiang Sunshine at an annual interest rate of 3.48% with the maturity dates on 11 August 2018 and 18 September 2018, respectively. The accrued interest for the year ended 31 December 2017 was RMB372,000 (2016: Nil).

(v) On 2 March 2017, 5 May 2017 and 30 October 2017, the Group repaid Century Sunshine a loan of USD5,500,000 entirely, which is equivalent to RMB37,135,000 (2016: Nil). As at 31 December 2017, the balance was approximately RMB67,302,000.

(vi) On 28 March 2016, Sunshine Guojian extended a loan, the principal amount of which is RMB300,000,000, to Shenyang Sunshine at an annual interest rate of 3.85% with the maturity date on 27 March 2017.

(vii) On 18 November 2016, the Group provided a financial guarantee to Beijing Huansheng in favour of bank borrowings amounting to RMB5,000,000 on a term of six months. The guarantee expired on 18 May 2017.

42. Related party transactions (continued)

(b) Outstanding balances with related parties:

The Group had the following significant balances with its related parties at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Due from related parties		
Current portion		
Liaoning Sunshine Technology	31,126	30,000
Zhejiang Sunshine	30,372	—
Beijing Huansheng	10,260	—
Directors and senior management	7,336	7,921
Injenerics	—	475
	79,094	38,396
Non-current portion		
Zhejiang Sunshine	35,372	79,517

	2017 RMB'000	2016 RMB'000
Due to related parties		
Current portion		
Ascentage Pharma	8,799	9,341
Century Sunshine	67,302	109,605
Ascentage International	13	—
	76,114	118,946

The financial assets included in the above balances relate to receivables for which there was no recent history of default. The carrying amounts of the balances with related parties approximate to their fair values.

(c) Compensation of key management personnel of the Group:

Key management compensation is detailed in notes 8 and 9 to the financial statements.

43. Financial instruments by category

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:

2017

Financial assets

	Financial assets at fair value through profit or loss (Designated as such upon initial recognition) RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Long-term receivables	—	35,372	—	35,372
Available-for-sale investments	—	—	752,897	752,897
Trade and notes receivables	—	1,324,084	—	1,324,084
Financial assets included in prepaid expenses and other receivables	—	364,971	—	364,971
Derivative financial instrument	1,322	—	—	1,322
Cash and cash equivalents	—	2,398,621	—	2,398,621
Pledged deposits	—	11,845	—	11,845
	1,322	4,134,893	752,897	4,889,112

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	274,568
Convertible bonds	2,271,874
Financial liabilities included in other payables and accruals	188,542
Financial liabilities included in other non-current liabilities	12,350
Interest-bearing bank borrowings	2,134,257
	4,881,591

43. Financial instruments by category (continued)

2016

Financial assets

	Financial assets at fair value through profit or loss (Designated as such upon initial recognition) RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Long-term receivables	—	79,517	—	79,517
Available-for-sale investments — non-current	—	—	50,000	50,000
Financial assets included in other non-current assets	—	600	—	600
Trade and notes receivables	—	785,543	—	785,543
Financial assets included in prepaid expenses and other receivables	—	63,428	—	63,428
Available-for-sale investments — current	—	—	362,172	362,172
Derivative financial instrument	2,613	—	—	2,613
Cash and cash equivalents	—	677,598	—	677,598
Pledged deposits	—	9,386	—	9,386
	2,613	1,616,072	412,172	2,030,857

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	58,792
Financial liabilities included in other payables and accruals	179,262
Financial liabilities included in other liabilities	18,111
Interest-bearing bank borrowings	3,059,143
	3,315,308

44. Transfers of financial assets

As at 31 December 2017, the Group endorsed certain notes receivable (the "**Derecognised Bills**") accepted by major banks in Mainland China (the "**PRC banks**") to certain of its suppliers in order to settle the trade payables due to such suppliers with carrying amounts totalling approximately RMB50,656,000 (2016: RMB67,765,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvements in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2017, the Group had not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsements had been made evenly throughout the year.

45. Fair value and fair value hierarchy of financial instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000
Financial assets				
Available-for-sale investments	752,897	412,172	752,897	412,172
Derivative financial instrument	1,322	2,613	1,322	2,613
Long-term receivables	35,372	79,517	35,372	79,517
	789,591	494,302	789,591	494,302
Financial liabilities				
Interest-bearing bank borrowings	1,046,791	2,540,682	1,063,419	2,617,704
Convertible bonds	2,271,874	—	2,271,874	—
	3,318,665	2,540,682	3,335,293	2,617,704

Management has determined that the fair values of cash and cash equivalents, pledged deposits, deposits, trade and notes receivables, financial assets included in prepaid expenses and other receivables, financial assets included in other non-current assets, trade and bills payables, financial liabilities included in other payables and accruals and financial liabilities are reasonably approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer and then reported to the chief executive officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

45. Fair value and fair value hierarchy of financial instruments (continued)

The following methods and assumptions were used to estimate the fair values:

The fair values of the interest-bearing bank borrowings and convertible bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2017 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of listed equity investments are based on quoted prices in an active market. The fair values of the investments in bank financial products approximate to their acquisition costs plus accrued interests.

The fair value of derivative financial instrument is measured using Black-Scholes option pricing model which incorporates various markets observable inputs including risk-free interest rate, quoted market price of the underlying stock and dividend ratio.

For the fair values of the unlisted available-for-sale equity investments, the potential effect of using reasonably possible alternatives as inputs to the valuation model is quantified to be insignificant to their fair values.

Below is the significant unobservable input to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2017:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted available-for-sale equity investments	Market approach	Discount for lack of marketability	2017: 10%	10% increase (decrease) in discount would result in decrease (increase) in fair value of RMB72,000

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

Fair value hierarchy:

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments.

45. Fair value and fair value hierarchy of financial instruments (continued)

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Listed equity investments	32,810	—	—	32,810
Unlisted equity investments	—	—	48,333	48,333
Bank financial products	—	671,754	—	671,754
Derivative financial instrument	—	1,322	—	1,322
	32,810	673,076	48,333	754,219

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Listed equity investments	655	—	—	655
Unlisted equity investments	—	—	50,000	50,000
Bank financial products	—	361,517	—	361,517
Derivative financial instrument	—	2,613	—	2,613
	655	364,130	50,000	414,785

45. Fair value and fair value hierarchy of financial instruments (continued)

The Group did not have any financial liabilities measured at fair value as at 31 December 2017 and 31 December 2016.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

Assets for which fair values are disclosed:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Long-term receivables	—	35,372	—	35,372

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Long-term receivables	—	79,517	—	79,517

45. Fair value and fair value hierarchy of financial instruments (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	1,063,419	—	1,063,419
Convertible bonds	—	2,271,874	—	2,271,874
	—	3,335,293	—	3,335,293

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	2,617,704	—	2,617,704
	—	2,617,704	—	2,617,704

46. Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits, trade and notes receivables, prepaid expenses and other receivables, interest-bearing bank borrowings and convertible bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors and senior management meet periodically to analyse and formulate measures to manage the Group's exposure to these risks.

Interest rate risk

The Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on cash and cash equivalents, and pledged and non-pledged deposits. Management considers that these bank balances are not sensitive to fluctuations in interest rates.

The Group's interest rate risk relates primarily to bank borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's interest rate profile as monitored by management is set out in note 30 to the financial statements.

Foreign currency risk

The Group's business is mainly located in Mainland China and most transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in USD, HKD, GBP and EUR as disclosed in note 26 and Euro-denominated convertible bonds as disclosed in note 31 to the financial statements.

The Group's assets and liabilities denominated in USD were mainly held by the Company and certain subsidiaries incorporated outside Mainland China which had USD as their functional currency, and the Group did not have material foreign currency transactions during the year except for the issuance of convertible bonds.

46. Financial risk management objectives and policies (continued)

Credit risk

As at 31 December 2017, all pledged deposits, non-pledged deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise amounts due from related parties, prepaid expenses and other receivables, trade and notes receivables and long-term receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds based on the maturity of its financial assets and financial liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and issue of new debts or equity instruments. The directors have reviewed the Group's profitability, working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

46. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2017			
	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Financial liabilities:				
Trade and bills payables	88,458	185,330	780	274,568
Financial liabilities included in other payables and accruals	67,705	45,928	74,909	188,542
Financial liabilities included in other liabilities	—	—	12,350	12,350
Interest-bearing bank borrowings	100,000	987,466	1,046,791	2,134,257
Convertible bonds	—	—	2,271,874	2,271,874
	256,163	1,218,724	3,406,704	4,881,591

	2016			
	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Financial liabilities:				
Trade and bills payables	44,154	14,638	—	58,792
Financial liabilities included in other payables and accruals	23,176	156,086	—	179,262
Financial liabilities included in other liabilities	—	—	18,111	18,111
Interest-bearing bank borrowings	35,000	483,461	2,540,682	3,059,143
	102,330	654,185	2,558,793	3,315,308

46. Financial risk management objectives and policies (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale investments at the end of the reporting period. The Group's major listed equity investment during the year ended 31 December 2017 was listed on the NASDAQ Stock Market ("**NASDAQ**") and was valued at quoted market price at the end of the reporting period.

At 31 December 2017, if the quoted market price of these available-for-sale financial assets held by the Group had increased/decreased by 10%, with all other variables held constant, profit for the year and equity would have been RMB3,243,000 (2016: Nil) and RMB3,243,000 (2016: Nil) higher/lower respectively as a result of the changes in fair value of these financial assets.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares or debt instruments. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2017.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings and convertible bonds divided by the total equity.

The gearing ratio as at the end of the reporting period was as follows:

	2017 RMB'000	2016 RMB'000
Interest-bearing bank borrowings	**2,134,257**	3,059,143
Convertible bonds	**2,271,874**	—
	4,406,131	3,059,143
Total equity	**7,629,646**	6,766,342
Gearing ratio	**57.8%**	45.2%

47. Events after the reporting period

There was no significant events after the reporting period.

48. Statement of financial position of the company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**1,619**	1,619
Investments in subsidiaries	**2,825,473**	2,973,736
Available-for-sale investments	**72,466**	76,934
Total non-current assets	**2,899,558**	3,052,289
CURRENT ASSETS		
Available-for-sale investments	**32,426**	—
Prepaid expenses and other receivables	**4**	13,896
Due from subsidiaries	**1,699,035**	1,681,351
Cash and cash equivalents	**197,874**	110,501
Total current assets	**1,929,339**	1,805,748
CURRENT LIABILITIES		
Trade payables	**7**	—
Other payables and accruals	**256,772**	10,961
Total current liabilities	**256,779**	10,961
NET CURRENT ASSETS	**1,672,560**	1,794,787
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,572,118**	4,847,076
NON-CURRENT LIABILITIES		
Other liabilities	**12,350**	13,111
Total non-current liabilities	**12,350**	13,111
Net assets	**4,559,768**	4,833,965
EQUITY		
Share capital	**156**	155
Share premium (note)	**4,301,172**	4,296,431
Other reserves (note)	**258,440**	537,379
Total equity	**4,559,768**	4,833,965

48. Statement of financial position of the company (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Contributed surplus RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2016	4,283,999	46,581	1,403	35,079	135,797	4,502,859
Total comprehensive income/(loss) for the year	—	—	(1,403)	310,006	27,655	336,258
Equity-settled warrants (note 34)	—	(5,307)	—	—	—	(5,307)
Share issued upon exercise of warrants	12,432	(12,432)	—	—	—	—
At 31 December 2016	4,296,431	28,842	—	345,085	163,452	4,833,810
Total comprehensive loss for the year	—	—	(2,687)	(276,984)	(15,639)	(295,310)
Equity-settled warrants (note 34)	—	21,112	—	—	—	21,112
Share issued upon exercise of warrants (note 34)	4,741	(4,741)	—	—	—	—
At 31 December 2017	4,301,172	45,213	(2,687)	68,101	147,813	4,559,612

49. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2018.

2017 Environmental, Social and Governance Report of 3SBio Inc.

Honoring commitments and delivering hope

1. Corporate Social Responsibility Management

1.1 Social Responsibility Philosophy

As a leading biopharmaceutical company in China, the Group firmly upholds its mission of "improving the qualities of life of patients and bringing health benefits to the human race by developing and manufacturing high quality drugs", and incorporates its social responsibility philosophy of "honoring commitments and delivering hope" as part of the Group's strategy and daily operations. The Group strives to make achievements in the economy, the environment and the society and realize the sustainable development of the Group to create shared value for the society.

There are currently numerous domestic and overseas subsidiaries under the Group, including Shenyang Sunshine Pharmaceutical Company Limited, Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd., Zhejiang Wansheng Pharmaceutical Co., Ltd., Shenzhen Sciprogen Bio-pharmaceutical Co., Ltd. and Sirton Pharmaceuticals S.p.A. (Italy). With respect to social responsibility, by formulating various unified principles and standards at the Group level, the Group has effectively established social responsibility management systems for its subsidiaries in various regions to actively fulfill their social responsibilities according to relevant laws and regulations at their respective operating regions and based on their particular business types.

Mission	Improving the qualities of life of patients by providing high quality drugs and bringing health benefits to the human race
Vision	Becoming a leading global PRC-based biopharmaceutical company
Value	Innovation, excellence, focus, perseverance, coordination and sharing

1.2 Stakeholders' Engagement

The Group regards the participation and support of the stakeholders, such as shareholders, employees, clients and customers (clients include hospitals, other health care institutions, doctors and other related health professionals; consumers refer to patients), suppliers, government and regulatory authorities, as well as the public and the community, as the important guarantee to achieve sustainable development. Therefore, the Group actively sets up a communication platform for stakeholders to understand and respond to their demands and strives to communicate and cooperate with them for building up solid relationship.

Major stakeholders	Issues concerned	Communication and responses
Shareholders	Economic performance, Innovative operations, Quality of the products and services, Compliance operations, Risk control	Disclosure of information by the listed company, Shareholders' meetings, Investors' meetings
Customers and consumers	Responsible marketing, Anti-corruption, Customer information and privacy protection, Customer satisfaction and communication	Quality management system, Standardized training of medication use, Sales Force Effectiveness ("SFE") management system
Government and regulatory authorities	Compliance operations, Industry development, Quality of the products and services, Innovative operations	Compliance system building and management, Participation in the formulation and recommendation of policies, Scientific innovation, Protection of intellectual property rights
Suppliers	Management of supply chain's sustainable development, Innovative operations, Compliance operations, Industry development	Standardized supplier management system, Transparent and fair procurement, Synergetic development
Employees	Interests and benefits of employees, Health and safety of employees, Development and training of employees	Labor union and workers' congress, Environment, Health and Safety ("EHS") management system, Regular training, examination and promotion
Public and the community	Green manufacturing, Emissions management, Energy utilization, Community and public welfare, Anti-corruption	Public welfare projects, Environmental impact analysis and planning control, The right to veto over any non-environmental friendly projects

Analysis of Material Issues

Based on our own business and operational characteristics and with reference to the experience of peers in Mainland China and overseas, the Group will analyze material issues after considering the requirements and concerns of stakeholders. The Group has received feedback from 95 stakeholders in total in the survey. Combined with experts insights, such feedback has enabled us to identify our sustainable development focal points.

Identification of Issues

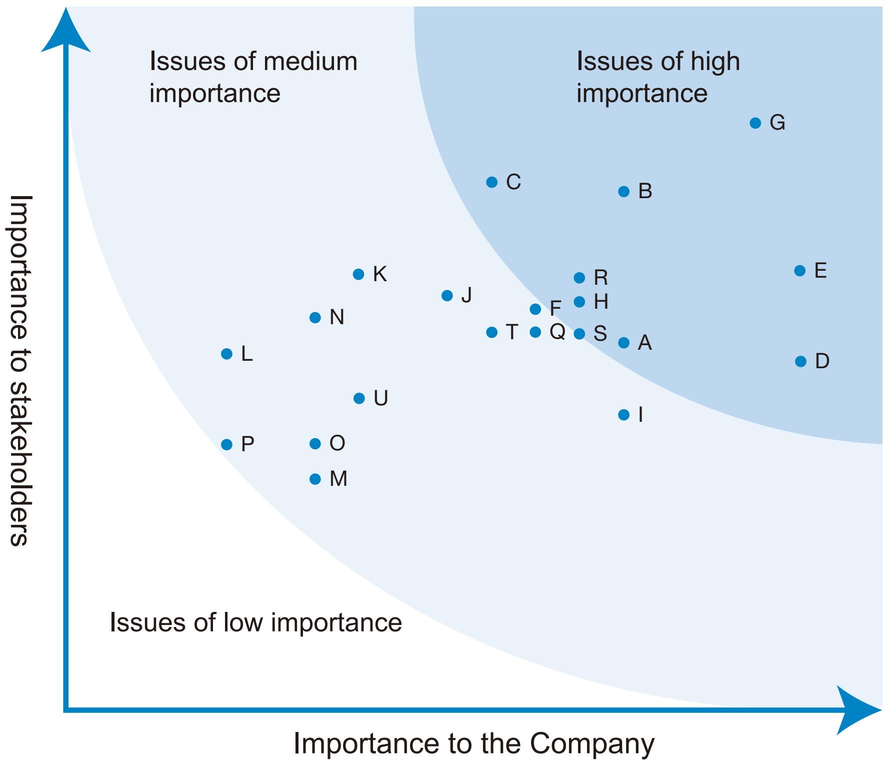
- According to ESG Reporting Guide of the Stock Exchange of Hong Kong Limited and GRI Sustainability Reporting Guidelines (G4), peer benchmarking and the Company's operations, the Group has identified 21 material issues.

Stakeholders' Engagement

- The Group has received feedbacks from 95 stakeholders in total through questionnaires to understand the concern on the material issues among stakeholders.

Analysis of Materiality

- Based on the results of stakeholders' engagement and the opinions of experts, the Group will conduct an analysis on materiality.



- A Risk control
- B Compliance operations
- C Anti-corruption
- D Economic performance
- E Innovative operations
- F Industry development
- G Quality of the products and services
- H Responsible sales
- I Customer communication and satisfaction
- J Customer interests and information protection
- K Green manufacturing
- L Energy utilization
- M Water utilization
- N Pollutant dischage
- O Climate change mitigation and adaptation
- P Preventing child labor and forced labor
- Q Interests and welfare of employees
- R Health and safety of employees
- S Development and training of employees
- T Management of supply chain's sustainable development
- U Community and public welfare

1.3 Social Recognition

Major social recognition in 2017

Honors	Issued by
Shenyang Sunshine	
Innovative Pharmaceutical Enterprise in China of 2017 (2017年中國創新力醫藥企業)	China State Institute of Pharmaceutical Industry
Best Industrial Enterprise of Chinese Pharmaceuticals on Research and Development (中國醫藥研發產品線最佳工業企業)	China Pharmaceutical Industry Information Center of the Ministry of Industry and Information Technology of the People's Republic of China
Top 50 Enterprises with Growth Potentials in the PRC Pharmaceutical Industry (中國醫藥行業成長五十強企業)	Medical Pharmaceutical Chamber of the All-China Federation of Industry & Commerce
The Most Trustworthy Brand (TPIAO Product) of China Healthcare Clinical Industry of 2017 (2017年中國健康產業臨床最信賴品牌 (特比澳產品))	China Pharmaceutical Industry Information Center
Second Prize in Science and Technology Progress of Liaoning (遼寧省科學技術進步二等獎)	The people's government of Liaoning province
Zhejiang Wansheng	
Awarded the Second Prize in Science and Technology Progress of Hangzhou for The research and industrialization of Tacrolimus Preparations (他克莫司製劑研究及產業化榮獲杭州市科技進步二等獎)	The people's government of Hangzhou
Innovation Award on Enterprise Technology (企業科技創新獎)	The Qingshan Lake Science and Technology Town Committee of Hangzhou, Zhejiang (浙江杭州青山湖科技城管委會)

Honors	Issued by
Demonstration Staff Home Award (示範職工之家)	Labor Union of the Industry of Hangzhou (杭州市工業工會)
Industry-study-research Cooperation Awards for Promoting Scientific and Technological Innovation to Accelerate the Transformation of Scientific Results of Linan (臨安區推進科技創新加快科技成果轉化產學研合作獎勵)	Linan Science and Technology Bureau (臨安區科技局)
Sciprogen	
Assessment Certificate of Management System for the Integration of Informatization and Industrialization (兩化融合管理體系評定證書)	China Electronics Standardization Institute
Guangdong Province Enterprise of Observing Contract and Valuing Credit (廣東省守合同重信用企業)	the Market Supervision Administration of Shenzhen Municipality (深圳市市場監督管理局)
Shenzhen Quality City Promotion Key Enterprise (深圳市質量強市骨幹企業)	Shenzhen Quality City Promotion Association (深圳市質量強市促進會)
Sunshine Guojian	
Bronze Medal of National Enterprise Technology Centre (國家企業技術中心銅牌)	National Development and Reform Commission of the People's Republic of China, Ministry of Science and Technology, Finance Department, General Administration of Customs, State Administration of Taxation
Famous Trademark in Shanghai (Yisaipu Product) (上海市著名商標(益賽普產品))	Shanghai Administration for Industry and Commerce
PRC Outstanding Enterprise Intellectual Property Management Team of 2016(Intellectual property department of Sunshine Guojian) (2016年度中國傑出企業知識產權管理團隊(三生國健知識產權部))	China Intellectual Property Magazine

Honors	Issued by
First Prize for Quality Management Team(Zhongzhi QC team of raw solution C workshop of Sunshine Guojian) (質量管理小組一等獎 (三生國健原液C車間眾智QC小組))	China Quality Association for Pharmaceuticals
Rating of Site Management (National) (B zone of raw solution workshop of Sunshine Guojian) (現場管理(全國) 五星級評價 (三生國健原液車間B區))	China Quality Association
China Enterprises with Reliable Quality (Distribution of raw solution of B zone of raw solution workshop of Sunshine Guojian) (全國質量信得過班組 (三生國健原液車間B區配液組))	China Quality Association

2. Responsibility of Environmental Protection

The 19th National Congress of the Communist Party of China pointed out that "the modernization that we pursue is the one characterized by harmonious coexistence between human and nature". The Group pays attention to the relevant domestic and overseas environmental protection laws and regulations, and in 2017 there were no litigation and non-compliance events occurred in terms of environmental protection and pollutant discharge. In compliance with laws and regulations, the Group combines the ideology of green development with practices to continuously optimize the production process, improve the environmental facilities, enhance the utilization of recycled materials and promote resources saving and pollutant discharge, sparing no efforts to pursue a harmonious balance between economic efficiency and natural environment, as well as harmonious coexistence between human and nature.

Overview of Laws and Regulations Relating to Responsibility of Environmental Protection

Area	Major Laws and Regulations
Environmental protection	The Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on Promoting Clean Production (《中華人民共和國清潔生產促進法》), the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Water Pollution Prevention Law of the People's Republic of China (《中華人民共和國水污染防治法》), Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》), Classification and Administration Lists of Pollutant Discharge Permits for Stationary Pollution Sources (Version 2017) (《固定污染源排污許可分類管理名錄 (2017年版)》)etc.

2.1 Environmental Management System

The Group has established an environmental management system in accordance with the requirements under domestic and overseas Good Manufacturing Practices ("GMP"). The Group has formulated the Environmental Management Measures in 2014, which is applicable to all departments and employees within the Group, including contractors and interns. It serves as a reference for the formulation and implementation of the Environment Management Measures of subsidiaries. Meanwhile, the Group established a steering group on environmental protection, which is responsible for deciding on environmental protection matters, as well as approving and implementing of environmental protection measures. The steering group comprised the competent department and the executive department of environmental protection. The respective department managers and persons-in-charge are the principal persons responsible for the environmental protection. The Group requires all environmental protection related work to be in compliance with the requirements under relevant PRC laws and regulations. There is a right to veto over any non-environmental friendly projects in the Group's operations. Each of the production bases has set up an Environment, Health and Safety (EHS) Department, which is responsible for environment management related work, and developed the Management Manual of Environment, Health and Safety, the Dangerous Waste Management Regulations and the Emergency Plan of Environment Event, to ensure that environment management work progresses smoothly. The environment management system of Sunshine Guojian has been certified to ISO14001:2015.

In addition, the Group has actively participated in ecological construction activities. For example, Sciprogen has participated ecological construction activities of "Jointly manage and share the blue sky, Develop simple life in a green manner (共享共治藍天•綠色發展簡約生活)" in Guangdong Province.

Overview of Environment Management Performance

The Group has fully considered the impact of its own operations on the environment in two respects: as “inputs”, the Group’s production and operations consume energy, water and other raw materials; and as “outputs”, the Group generates non-GHG emissions, waste water and wastes. While endeavoring to achieve resources saving and pollutants reduction in its own operations, the Group has integrated the ideology of green development into supplier management. In respect of environmental protection, the Group requires suppliers to make commitment to achieve better environment management performance along the supply chain (please see the section of supply chains for details).

INPUTS

Major Performance Indicators	2017
Water resources	
Water consumption (cubic meter)	507,582.00
Water consumption per unit operating income (cubic meter/RMB10,000)	1.56
Energy	
Electricity consumption (MWh)	25,011.80
Electricity consumption per unit operating income (MWh/RMB10,000)	0.08
Natural gas consumption (cubic meter)	1,730,693.00
Natural gas consumption per unit operating income (cubic meter/RMB10,000)	0.53
Packing materials	
Total volumes of packing materials used in ex-factory delivery (ton)	60.00

Office administration, production, and research and development

OUTPUTS

Major Performance Indicators	2017
Non-GHG Emissions, waste water	
Waste gas discharge (cubic meter)	25,000,000.00
Industrial waste water discharge (cubic meter)	321,521.00
Greenhouse Gas	
Greenhouse Gas emission (tCO_2-eq)	21,037.17
Greenhouse Gas emission per unit operating income (tCO_2-eq/RMB 10,000)	0.065
Wastes	
Total volumes of hazardous wastes (ton)	36.96
Volumes of hazardous wastes generated per unit operating income (kg/RMB 10,000)	0.11
Total volumes of non-hazardous wastes (ton)	150.62
Volumes of non-hazardous wastes generated per unit operating income (kg/RMB 10,000)	0.46

2.2 Resources Saving

Water, electricity and gas are the main resources consumed in the Group's production process. Each of the production bases has taken several measures, including technological improvement of equipment, upgrading of LED lamps and recycling of excessive heat and water, to improve energy and water resources use efficiency and reduce energy consumption. Currently, municipal water supplies are the Group's main water resources, and the Group has not experienced any difficulties in locating appropriate water resources.

The Group also actively advocates the concept of "green office" and implements a series of measures to save energy in the office, including cultivating the energy-saving awareness of employees and encouraging them to save water and electricity voluntarily through acts such as turning off the power after work and setting a reasonable temperature of air conditioner.

Main measures of saving energy and water resources

Technological improvement of equipment	The Group uses automatic control equipment with lower energy consumption, such as automatic control air conditioner, variable frequency pumps and steam automatic regulating equipment used by cold chain store and warehouse research and development center.
Energy saving of LED light	The Group plans to gradually replace all the existing light with LED energy-saving ones. It is expected to save approximately 50% of the total electricity consumption per year, which would save over RMB100,000.
Recycling of excessive heat	Currently, excessive heat is recycled mainly through recovery of condensed steam water. The Group uses excessive heat recycling equipment to supply the saved heat to the underground garage.
Treatment and reusing of waste water	The Group uses the processed waste water to water the greens and clean factories, which improved water resources use efficiency. For example, Shenyang Sunshine has recycled 5,000 tons of waste water, and Sciprogen 300 cubic meters.

2.3 Control on the Discharge of Pollutants

Management of the Discharge of Waste Gas and Water

The Group is principally engaged in biopharmaceutical business, and thus almost does not generate non-GHG pollutants. The controlled non-GHG pollutants of chemicals are mainly non-methane hydrocarbon (120mg/m^3) and odor emission (2,000, dimensionless), both of which currently are entrusted to a third party for testing.

Waste water produced by the Group includes household waste water, industrial waste liquid and industrial waste water. Industrial waste liquid produced is of a small quantity and non-toxic, and is discharged according to relevant requirements after being collected and inactivated through soda. The household waste water and industrial waste water is processed in the sewage plant located within the factory or the industrial park, and the recyclable water is reused and the remaining wastewater is discharged after reaching relative emission standards. Main indicators for testing waste water discharge of the Group include chemical oxygen demand (COD), biochemical oxygen demand (BOD), ammoniacal nitrogen, suspended matter and PH,etc., and the Group has passed all the tests.

Major measures of waste gas and water reduction

Emissions reduction

- Shenyang Sunshine has set up new exhaust units in its animal feeding rooms with efficient filter and activated carbon adsorption devices installed so as to achieve emissions reduction.
- Sciprogen's biomass boilers consumed fuel before April 2015, and later fuel was replaced by natural gas, which has effectively satisfied the standards of emissions. In 2016, Sciprogen has upgraded its energy saving technology for its boilers to effectively improve combustion performance and further reduce waste gas emission.

Waste water reduction

- In 2017, Sciprogen effectively reduced the sewage discharge through different levels of control from the front and back end. On one hand, it controlled the source of sewage in the workshop, which reduced water consumption and improved the recycling utilization rate. On the other hand, the sewage will be recycled after being processed in the back-end sewage plant which further reduced the discharge of pollutants on top of the discharge standard being already met.

Management of waste

The Group produces non-hazardous solid waste (including household garbage, packaging waste, abandoned rubber plugs, and aluminium caps produced in production), a small quantity of used activated carbon produced in water production process and water treatment stations, and hazardous solid waste such as waste organic solution, waste medicine residue, used penicillin bottle and harmful sludge produced by water treatment stations, all of which are disposed by suppliers with relevant qualification.

In addition, in 2017, Sunshine Guojian conducted "exchange waste for wealth, action for green (以廢換寶，綠色行動)" activities to encourage workers to recycle used electronic products, which resulted in 89 people receiving gifts from exchange and collection of more than 100 waste cellphones for recycling.

Major types of waste and their disposal

Non-hazardous solid waste

- Household garbage: disposed by environmental sanitation department
- Spear, disposable plastics article (packaging waste), abandoned rubber plugs and aluminium caps: disposed by companies with relevant qualification after being collected
- Used activated carbon (produced by water treatment stations): collected and disposed by sales companies

Hazardous waste

- waste organic solution, waste medicine residue, used penicillin bottle and harmful sludge produced by water treatment stations: disposed by suppliers with relevant qualification
- defective products identified during product testing and expired products identified in storage: destroyed on the spot under the supervision of quality control department

3. Product and Customer Service Responsibility

The Group's products are mainly sold to hospitals and other medical institutions (namely, customers). As of 31 December 2017, the Group's sales team covered approximately 2,000 Grade III hospitals and approximately 12,000 Grade II or lower hospitals and health care institutions. The scope of coverage includes all provinces, autonomous regions and municipalities in the PRC. Meanwhile, the Group strives to provide high quality products to patients, who are the end users of our products (namely, consumers). Main products of the Group include TPIAO (the treatment of chemotherapy-induced thrombocytopenia and the treatment of immune thrombocytopenia), Yisaipu (the treatment of rheumatoid arthritis, ankylosing spondylitis and psoriasis), EPIAO (the treatment of anemia associated with chronic kidney disease, the treatment of chemotherapy-induced anemia and the reduction of allogeneic blood transfusion in surgery patients), SEPO (the treatment of anemia associated with chronic kidney disease and chemotherapy), Byetta/Bydureon (the improvement of glycemic control in adults with type-2 diabetes mellitus) and Qiming Keli (the treatment of retinopathy caused by type-2 diabetes).

As a biopharmaceutical company developed in China, the Group adheres to improving the quality of products and services to customers as the focus of its work, paying close attention to the laws and regulations related to products and services and constantly improving its quality assurance system and customer services system. In 2017, the Group was not involved in any litigations or illegal and non-compliance incidents in respect of the health and safety of products and services, labelling and privacy of customers. In addition, the Group has established a research and development platform with its own intellectual property rights. As the Group's long-term target and strategic development principle, the Group focuses on the development of Chinese biopharmaceutical policies that persistently promote the industry development based on technological innovation.

Review of Laws and Regulations Related to Product and Customer Service Responsibility

Areas	Name of the principal laws and regulations
Product liability	Drug Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》), Good Manufacturing Practice (《藥品生產質量管理規範》), ICH Q10 Drug Quality Control System (ICH Q10《藥品質量管理體系》), Guidelines on cGMP Quality System Method for Pharmaceutical Industry (《製藥行業的cGMP質量系統方法指南》) by US FDA, the Advertisement Law of the People's Republic of China (《中華人民共和國廣告法》), the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), Measures on the Examination of Pharmaceuticals Advertisement (《藥品廣告審查辦法》; Standards for the Examination and Publication of Drug Advertisements (《藥品廣告審查發佈標準》) and so on.
Intellectual property	Trademark Law of the People's Republic of China (《中華人民共和國商標法》) and Patent Law of the People's Republic of China (《中華人民共和國專利法》), etc.

3.1 Quality Products with Continuous Innovation

Quality control System

The Group adheres to the principle of "quality originates from design". The Group has established a quality control system which covers the research and development, production, inspection, circulation and use of products, and has also formulated detailed guidelines on quality control process. The Group has formulated the Quality Inspection Management Regulations, which expressly set out the provisions to be followed by quality inspection and other related personnel during their inspection on materials, raw solutions, semi-finished products, unpackaged products and finished products. The Group monitors the process so as to continuously enhance its quality inspection management.

All the pharmaceutical subsidiaries of the Group had passed the certification under the 2010 Version of the GMP (Good Manufacturing Practice).

Overview of the Product Quality Control System of 3SBio Inc.

Sources of Raw Materials	Production Process	Shipment of Products	Transportation of Products
• Suppliers who supply materials for production must be examined and evaluated by quality department and approved by the Qualified Person, etc.	• The production process and post-operation are strictly carried out according to the process rules • The Quality Assurance personnel re-examine the products after the production process has completed etc.	• The finished products can only be shipped after they are tested, qualified and approved by the Qualified Person • The Quality Assurance personnel conduct to spot checks on the packing process of the finished products etc.	• A qualified third party transport agent is entrusted to carry out product transportation • The temperature and humidity monitoring system of transport vehicles refrigeration storage meets Good Supply Practice requirements, etc.

Product Safety

As a pharmaceutical enterprise, the Group places great importance on product safety and collects information and makes timely reports about adverse drug reactions and reports according to the requirements of the Administrative Measures on Reporting and Monitoring the Adverse Drug Reaction by the CFDA. The Group signed a pharmacovigilance cooperation agreement when introducing new products or signing contracts with external parties. In accordance with the requirements of the local China Food and Drug Administration, each production base regularly prepares drug safety analysis reports and checks the reports of adverse drug reactions reported by the national drug adverse drug reaction monitoring system monthly. In addition, the Group regularly checks the calls made to the call center about diabetes products, monitors the patients' messages on the WeChat platform, monitors the quality of pharmacovigilance, and timely transfers relevant cases of adverse drugs reactions to the manufacturers.

In 2017, the Group completed adverse drug reactions and testing training for a total of 3,880 staff members, the marketing staff's pharmacovigilance commitment signing rate was 100%, and the number of adverse events caused by drug quality defects was zero.

Technological innovation

Taken technological innovation as its long-term goal and strategic development principle, the Group is committed to providing high quality drugs for patients and improving their qualities of life. The Group constantly focuses on the policy in China's biopharmaceutical development, such as "13th Five Year Plan for the Pharmaceutical Industry", and the research and development of innovative drugs. The Group's strong research and development capabilities and comprehensive research and development platform (for biopharmaceuticals and chemical drugs) provide strong support for the research and development of innovative drugs. In 2016, NERC was approved to establish a "Shanghai municipal academician expert workstation", which further promoted the improvement of its own research and development ability. In 2017, the Group applied for 24 government funds, of which 6 was approved; and applied for 9 inspection and acceptance government funds, including one project on State High-Tech Research and Development Plan (863 Program) and one project on Significant Technology Advancement Project by National Ministry of Industry and Information. Shenyang Sunshine, Zhejiang Wansheng, Sunshine Guojian, NERC, which are the subsidiaries of the Group, were awarded the certifications of "National Advanced Technology Enterprise". As of 31 December 2017, the Group had 31 products under-developed, covering 5 major fields, namely oncology, auto-immune diseases and other diseases, nephrology, metabolic diseases and dermatology, among which, 16 were being developed as National Class I New Drugs (國家一類新藥) in China.

Management and protection of intellectual property right

The Group regards its intellectual property rights as an important asset, which include patent, trademark, confidential information, product research and development, manufacturing process, and technological know-how. These intellectual property rights enable the Group to maintain its competitive advantages, reputation and brand. Adhering to the intellectual property management policy of "innovation drives research and development, the management decides the future", the Group has formulated various measures and policies, such as the Administrative Measures of Intellectual Property Right, the Administrative Measures of Trade Secrets and the Management Manual of Corporate Intellectual Property Rights. The purposes of such measures and policies are to effectively manage and protect the Group's intellectual property rights and avoid infringing others of the same. In 2017, the Group had made 28 patent applications, of which 4 applications were approved, and made 13 trademark applications and completed 22 trademark registrations. In addition, Sunshine Guojian had passed the GB/T29490-2013 certification of national IPR management system, and its intellectual property department won the title of "China Outstanding Intellectual Property Management Team for 2016".

Key points in reviewing intellectual property rights during the project approval process

Prior to the project approval	• Patent application and authorization of project product or key technologies
	• The legal status of the patent or authorization
	• Its stability (if approved)
	• Its authorization prospects (if not approved)
After the project approval	• Follow-up search results on the patents of project products or key technologies

The intellectual property department of Sunshine Guojian was awarded "China Outstanding Intellectual Property Management Team for 2016"

In 2017, in the 7th China IP International Annual Forum 2017 Annual Conference of In-house IP Managers in China, the intellectual property team of Sunshine Guojian, with its outstanding management performance, stood out from more than 70 participants and won the title of "China Outstanding Intellectual Property Management Team for 2016".

For many years, Sunshine Guojian has always placed great importance on management and protection of intellectual property rights of enterprises. The work on intellectual property rights has been fruitful. It has obtained the honors such as the fourth batch of Intellectual Property Trial Unit of Chinese Enterprises and Public Institutions, the first batch of National Superior Enterprise with Intellectual Property, the first batch of Pilot Enterprise of National Industrial Intellectual Property Implementation Ability Cultivation Project, Chinese Gold Prize Patent award. It plays a demonstration role in Shanghai and even the whole country. The award of "China Outstanding Intellectual Property Management Team" is the recognition and affirmation of the outstanding achievements that the enterprise attained in work of intellectual property, as well as the comprehensive strength that it has in terms of the team's outstanding professional ability, business ability and research ability.

3.2 Providing Quality Service to Customers and Patients

Responsible sales

Adhering to the operating principles of integrity, compliance, transparency and fairness, the Group is committed to conducting medical promotion in an ethical, scientific and objective way, and ensuring that regulatory authorities, health professionals and patients would have access to scientific and precise product information and academic information in a timely manner. The Group aims to improve patients' qualities of lives and bring benefits to human health.

In addition, the Group has formulated a management specification process involving the design, audit and use of product labels, requiring the content, pattern and text of the product label to be consistent with those approved by drug regulatory agency. The content aims at satisfying the demand for sales as far as possible in accordance with the requirements of national regulations (the Drug Instruction and Label Management Regulations (No. 24 order of the CFDA) to ensure that such requirements are not violated. The label design should facilitate the control of the process and the applicability of the production process. For example, when designing, it is important to take into consideration the obvious difference between the label imposition and color of the different products and that the layout should be appropriate and reasonable while materials need for design should be compatible to the products.

Managing customers' complaints

The Group places importance on dealing with complaints from its customers including the distributors and medical institutions. It mainly collects customers' feedback and complaints through marketing network and various departments' adverse reaction hotlines. It has formulated measures to respond to such complaints and arranges designated employees to deal with the complaints. In addition, the Group communicates with the relevant authorities about the issues in the first instance and responds to the customers with proper solutions jointly and the relevant authorities. The Group's response and handling rate of customers' complaints reached 100% in 2017.

Methods of dealing with complaints

Issues of adverse drug reaction

The first person who receives complaints notifies the medical department within 24 hours and assists clinical staff with filling in an adverse reaction checklist for the medical department to advise on. The first person who receives the complaints then communicates with the clinical staff for any corresponding follow-up issues.

Issues of product quality or damaged package during the transportation

The first person who receives complaints notifies his or her direct supervisor. Once confirmed of the issue, he or she communicates with the business department or manufacturing department, and follows up with product exchange or recall.

Product recall

To ensure that the marketed drugs of the Group which have potential safety hazards would be recalled in a legal, accurate and quick manner, and to reduce circulation of defective products on the market, the Group continuously standardizes the Management Regulations on Product Recall with reference to domestic and foreign laws and regulations, such as the Administrative Measures for Drug Recalls (No. 29 order of the CFDA), new version of the Chinese GMP and European Union cGMP. A simulated recall shall be carried out at least once every two years. In 2017, the Group did not experience any incident of product recalls due to product quality defects.

Protection of customers' data privacy

The Group places considerable emphasis on the protection of customers' data privacy and protects the non-public information of customers, employees, agents and other third parties in accordance with the relevant laws and regulations and agreements. The Group has formulated the Code of Conduct and Ethics of Employees which is applicable to all employees and specifies the principle of confidentiality in detail to be followed by the employees. In addition, prior to joining the Group, each employee must sign a confidential agreement with the Group and strictly complies with the agreement.

The Group had established the SFE (Sales Force Effectiveness) management system with the purpose of protecting customers' data privacy and better managing the sales team with on-going improvement and update. Only necessary information of the customers will be collected during the use of the system. No other information about the patients will be collected. In addition, any information about business companies and hospitals can only be read and used within the system and any form of export is strictly prohibited. Meanwhile, the system is equipped with stringent authority management so that users with different levels of authority would have access to different data.

4. Supply Chain Synergetic Development Responsibility

The effective management on suppliers can help the Group to reduce its costs and cooperation risk, improve the quality of its products and services, and build a quality brand during the course of the Group's development. The Group paid attention to the relevant laws and regulations in respect of supply chain management. On the premises of high quality and competitive price of products, the Group has carried out businesses and promoted mutual beneficial relationships with quality suppliers based on the principles of openness, fairness and justice.

4.1 Setting Up Sustainable Supply Chain

In order to ensure compliance, quality and safety, the Group has incorporated the environmental protection concepts into supply chain management. A green procurement chain was set up from the source of goods to the delivery by formulating a series of management rules, such as the Management Manual of Procurement, the Management Rules of Suppliers for Production Supplies, the Quality Audit Rules of Supplier and the Management Regulations on Production Supplies, which allow the Group to meet the social, environmental, health and safety responsibilities requirements in the sustainable development of the society.

Compliance with supply chain management, quality and safety, environmental protection philosophy	
Compliance	To realize "sunshine procurement", the procurement business shall strictly comply with the requirements of GMP, Sarbanes-Oxley Act, and the Contract Law of the People's Republic of China and other relevant laws.
Quality and safety	Suppliers must commit to the Group that the quality of the material provided shall satisfy the requirements for authoritative certification and pass the review by the Group's professionals so as to ensure drug safety.
Environmental protection	On the premises of ensuring production of drugs with satisfactory quality, the Group shall pay close attention to the environmental protection and communicate such philosophy to suppliers so as to facilitate the production, packaging and logistics processes in a more environmental-friendly manner.

The Group has classified its suppliers into four categories and requested Class I, II and III suppliers to provide statement of compliance to show their pledge on compliance with legal, moral, social and environmental commitments. If any suppliers fail to comply with any of the commitments, the Group may terminate the cooperation with the supplier. In addition, the Group will evaluate the suppliers in terms of products quality and safety every year, and grade the suppliers in the aspect of environmental protection and social responsibility on a regular basis.

Categories of suppliers

Class I suppliers	Suppliers of raw materials, auxiliary materials, packaging materials and consumable related to the production
Class II suppliers	Suppliers of large-sized equipment and non-production bulk materials
Class III suppliers	Suppliers of small and medium-sized equipment and general non-production materials
Class IV suppliers	Suppliers other than Class I, II and III suppliers

The Group's Suppliers' Pledges on Compliance with Legal, Moral, Social and Environmental Commitments (Summary)

Compliance with laws and regulations	• Suppliers and their designed manufacturing factories and distributors (hereafter collectively "**Suppliers**") undertake to fully comply with all applicable requirements of national and local laws and regulations, including but not limited to laws and regulations on labor, health, safety and environment • Suppliers undertake that they will keep accurate records of all business dealings with the Group pursuant to the requirements of Corporate Accounting Standards (CAS), International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS)
Environment	• Suppliers undertake that raw materials and manufacturing equipment supplied conform to the environmental laws of the countries and regions where our business operate, including relevant laws on emissions of polluted air, disposal of toxic and hazardous waste • Suppliers must obtain the permits and approvals in respect of the discharge of pollutants and disposal of hazardous materials • Suppliers should actively set up measures for energy saving and emissions reduction
Employment principle	• Suppliers shall undertake to strictly comply with the labour laws of the countries where our businesses operate and not to employ child labour and forced labour • Suppliers undertake to comply with the principles of equality and anti-discrimination in recruitment • Suppliers must take vigorous actions to minimize occupational disease and other hazardous elements

The Group's Suppliers' Pledges on Compliance with Legal, Moral, Social and Environmental Commitments (Summary)

Health and safety	• Suppliers undertake to provide employees with safe and healthy working environment and dormitory
Anti-corruption	• Suppliers undertake not to provide precious or valuable goods to other third parties, such as government officials, medical professional staff, customers and competitors under the name of the Group to gain undue advantages in business competition
Gifts and entertainment	• Suppliers undertake not to offer gifts or organize entertainment activities for employees of the Group
Conflict of interest	• Suppliers undertake to truthfully disclose whether employees have any familial, equity or cooperative relationships with them

4.2 Giving Support to Suppliers

The Group strives to establish a long-term technology cooperation relationship with suppliers to co-develop with them. According to the Management Manual of Procurement of the Group, Class I/II qualified suppliers could enter into long-term supply agreement with the Group for at least a year based on mutually agreed cooperation intention. The long-term agreement with Class I suppliers related to GMP system also includes the Quality Guarantee Agreement and the Quality Standard.

Zhejiang Wansheng's win-win cooperation with suppliers

In order to make a breakthrough in the monopoly restraint of the raw materials supply of Minoxidil, Zhejiang Wansheng commenced technological cooperation with TIPR Pharmaceutical Responsible Co., Ltd. ("**TIPR Pharmaceutical**"). TIPR Pharmaceutical obtained the new GMP certification in October 2015. The Group entered into a long-term cooperation agreement with TIPR Pharmaceutical in 2016, which contributed to a decrease of 18.27% in the purchase price of raw materials and approximately RMB 1.70 million in the annual purchase costs.

5. Staff Development Responsibility

Employees are the valuable assets of enterprises. The Group safeguards the employees' interests, initiates diversified employee culture, perfects the employees' promotion path, guarantees the employees' occupational health and safety, advocates employees' work-life balance, takes care of employees in all aspects and satisfies the requirements of employees. Moreover, the Group places great emphasis on building a clean organization and aims to help set up business conduct standards for employees through a series of policies and measures, so as to raise the awareness of integrity and self-discipline of employees. In 2017, the Group has not experienced any litigation or non-compliance events in respect of employment, occupational health and safety, child labor and forced labor, nor have the Group and its employees been involved in confirmed incidents of corruption and lawsuits.

Review of laws and regulations related to staff development responsibility

Areas	Main laws and regulations
Employee interests and benefits	Law of the People's Republic of China on Employment Contracts, Regulations Concerning the Labour Protection of Female Staff and Workers, Regulations on Pension, PRC Social Insurance Law, Labor Dispute Mediation and Arbitration Law of the People's Republic of China
Employee Health and Safety	Production Safety Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Occupational Diseases, Fire Prevention Law of the People's Republic of China, Hazardous Chemicals Management Regulations, Standards for Fire Prevention Systems of Structures
Anti-corruption	Law of the People's Republic of China on Donations for Public Welfare, Criminal Law of the People's Republic of China, Provisions on the Establishment of Adverse Records of Commercial Briberies in the Medical Purchase and Sales Industry

5.1 Safeguarding Employees' Interests

Staff employment and basic interests

The Group has formulated the Staff Manual and established standardized, legal and humanized human resource management policies, covering employment and promotion, working hours and holidays, remuneration and welfare and employee training. The Group provides equal rights to employees in terms of employment, training, promotion and remuneration to avoid any discrimination against any person's race, religion, gender, age, marital status, disability or nationality. Meanwhile, the Group strives to hire in a legal manner. There is no child labor hired or forced labor.

In 2017, the Group initiated the Group and its subsidiaries apply the unified network recruitment platform for the coordinated management of recruitment channels. The Group utilized the unified system of employees' performance management and formulated a unified commercial welfare insurance policy, ensuring 100% employees' participation rate in the insurance.

An overview of staff employment and interests system of 3SBio Inc.

Recruitment and promotion	Working hours and holidays	Compensation and welfare
✓ **Recruitment:** recruits excellent and suitable talents based on the principle of equal employment opportunity ✓ **Promotion:** employee performance evaluation is a standard for annual performance bonus and promotion and demotion or rewards and punishment	✓ **Working hours:** standard working hours: each staff works for 40 hours per week; comprehensive working hours: each staff shall arrange the working time and rest time according to the actual situation of each department ✓ **Overtime:** for overtime, employees can apply for taking working days off ✓ **Vacations:** paid annual leave, leave for marriage or funeral, maternity leave, sick leave and other vacations shall be provided as prescribed by the state	✓ **Compensation:** formulates and pays in accordance with the requirements of laws and regulations; implements the pay mechanism based on post, performance and capability; investigates and surveys the salary and welfare of the pharmaceutical and other industries to provide reference for wages adjustment ✓ **Social Insurance:** medical insurance, pension insurance, and unemployment insurance shall be provided as prescribed by the state ✓ **Supplement Welfare:** commercial insurances, such as accidental injuries, major diseases and clinic/hospital

Communication and care

The Group makes continuous efforts in building and maintaining a harmonious relationship with its employees, and creates a broad development space for employees. The Group also strives to establish a management mechanism with participation by all the employees, which serves as an opportunity for every employee to participate in the Company's management and demonstrate their talents. Labor union and workers' congress are established in all subsidiaries and production bases of the Group. Collective contracts were also entered into.

In terms of employee care, the Group sets up a major medical fund for employees. Zhejiang Wansheng has also formulated a poverty alleviation mechanism for the poor employees, to provide employee support funds and other assistance to needy employees, and actively carried out the work on needy staff holiday greetings. In addition, in order to enrich the spare time of employees and provide them with a comfortable working environment to achieve a work-life balance, the Group adheres to the people-oriented philosophy and actively organizes various activities to rejuvenate the cultural life of employees and promote the building of corporate culture based on the employees' requests.

An overview of staff communication and care activities in 2017

Democratic communication	• Zhejiang Wansheng has carried out an activity of rationalization proposals for workers' safety in production, involving 233 participants • Sunshine Guojian convened the fourth conference of the first workers' congress, and discussed the issues related to employee interests on the renewal of wage collective contracts
Staff activities	• Zhejiang Wansheng held a competition for "Firefighting Skills" • Sciprogen held an activity of "Three Days High Speed Rail to Miraculous Gaoyi Ridge, Misty Xiaodong River and Yangtian Lake Prairie", which increased staff cohesion
Staff care	• Shenyang Sunshine set up a "Baby Care Room", which equipped with fridge, locker, sofa, screen and other facilities and daily items • Sciprogen Trade Union Organization visited employees in hospital and sent caring gifts • Sunshine Guojian carried out activities of "Women's Day" to care for female employees, including "A quick lecture on vitality makeup", "Jelly candle DIY workshop" and other staff care activities

5.2 Healthy and Safe Working Environment

Occupational health

The Group strives to create a healthy and safe working environment for its employees. The Group adheres to the policy of "focusing on prevention, combining it with control" to prevent and control occupational diseases. Each of its subsidiaries has formulated the Occupational Health Management System and has set up employee health management departments. It regularly identifies occupational hazards, and persists in implementing the pre-employment, on-duty and off-post medical check-ups for employees to ensure their health and to create occupational health monitoring records.

In 2017, the Group and its subsidiaries continued to improve the occupational health management system, strengthen the occupational health training and provide protective facilities and equipment against occupational diseases to employees according to relevant PRC laws and regulations, so as to minimize the hazardous factors in the production process and the adverse impact on the health of employees.

Safe production

The Group continuously adheres to the policy of "safety as priority, focusing on prevention, and combining it with treatment" for its production. The Group established a series of safety production systems, including the Safety Production Management System, the Safety Inspection Management System, the Identification and Treatment Management System for Hidden Safety Perils, the Emergency Rescue Management System and the Hazardous Chemicals Management System. The Group has also set up a safety production management committee. Shenyang Sunshine, Sunshine Guojian and Zhejiang Wansheng, the subsidiaries of the Group, have obtained the National Third-Class Work Safety Standardization Certificate. Meanwhile, Sunshine Guojian has obtained the Occupational Health and Safety Management System Certificate (OHSAS 18001).

Major progress on safety inspection, training and emergency exercise in 2017

Sunshine Guojian	• provided 3 lectures on safety education for new employees, involving 121 participants
Shenyang Sunshine	• carried out one fire emergency exercise, involving 150 participants
Zhejiang Wansheng	• identified a total of 35 hidden dangers, and rectified 35 of them • carried out 3 fire and safety drills, involving 135 participants in total
Sciprogen	• identified 292 hidden dangers, rectified 289 and 3 of them are under reconstruction • provided all staff safety education training with “DUTE” column of Shenzhen Special Zone Daily on the subject of “popularizing safety knowledge”, involving 121 participants in total • provided safety production month training on the subject of “Safety Emergency Plan”, involving 142 participants • carried out two emergency drills for all staff, involving 287 participants in total

5.3 Career Training and Development

Employee growth is a continuous and intelligent contributor for corporate development. The Group assists employees in their career development plan with attentive care and established 3S training system, divided into three levels of trainings, namely regular training, precision training, and customized self-management training. The Group provides different levels of training courses under each level of training, including compliance training, performance management, and emotional intelligence leadership. Employees develop personalized training courses according to their abilities and improve their learning efficiency.

An overview of major training programs in 2017

Training programs	Training objects	Main content of training	Attendance
Marketing training for new regional managers	New regional managers	Emotional intelligence leadership	18 employees participated in the training
Marketing training for new employees	New employees for more than 3 months	Corporate culture, medical knowledge and product knowledge	500 employees participated in the training, and the training lasted 25 days
Online MBA system courses in China Europe International Business School	Regional managers	Leadership, operation management, financial management and marketing	24 employees participated in the training, and the online learning lasted 8 months
Shenyang pharmaceutical undergraduate course promotion project	Junior staff	College English, computer fundamentals and applications and pharmacology	24 employees participated in the training and the training lasted 24 days

5.4 Establishing the Code of Conduct for Employees

Culture of compliance

The Group persistently adheres to the basic principles of integrity, compliance, transparency and fairness during the business operation, and places importance on the formation of a compliance culture. The Group has formulated a series of Compliance Management System at the group level, which expressly sets out the compliance responsibility of each level to facilitate the Company and its subsidiaries in strengthening their internal compliance management, and formulated the Code of Conduct and Ethics of Employees which is applicable to all employees. In terms of anti-corruption, the Group has formulated the Anti-corruption and Anti-bribery Policies and Giving, Sponsor, Donation (GSD) Management Regulations to strengthen the constraints and regulations on Code of Conduct for employees in providing financial assistance to third party entities, so as to prevent any anti-corruption and anti-bribery acts. The Group has formed a compliance management system with group strategy as the core, compliance as the starting point and risk management as a means. Through monitoring compliance of high-risk projects and the ad hoc survey of corruption and bribery of employees, the Group engaged in the four aspects of pre-control, supervision, post-audit and feedback to promote the stable operation and sustainable and continuous development of the Group.

The Group has implemented an integrated scorecard for staff performance compliance (IPCA). With the help of diversified forms of compliance training, flight inspection, cost compliance review and special investigation, the Group assesses the employees' practices and takes them into account in the employees' performance assessments, which improved the effectiveness of compliance management. In addition, the Group has established integrity ambassadors in various business departments, whose main responsibility is to interpret the compliance risk policy of different business departments, and to guide the compliance operation of the team's business behavior and promote the Group's compliance culture. The Group improves the compliance awareness through diversified forms of "Integrity Ambassador Communication Meeting", compliance training, and compliance knowledge competition. In 2017, participating headcount of compliance training amounted to 7,882, which included frontline sales' staff and members of senior management of the Group.

Supervision and reporting system

The Group set up compliance committee, which is responsible for supervising the overall situation of compliance management and formulating control measures. Meanwhile, the Code of Conduct and Ethics of Employees expressly encourages the employees to report any illegal act, disciplinary offence and non-compliance behavior, and to notify the risk compliance department and compliance committee in time. The Group undertakes to protect the whistleblower and to ensure the independence of the management personnel who receives the reporting information and the safety of the reporting channels.

6. Community Contribution Responsibility

The Group firmly upholds the social responsibility philosophy of honoring commitments and delivering hope, focuses on its major products and the corresponding patients groups, and contributes to the medical healthcare industry. On one hand, the Group actively organizes drug donation charity activities to help indigent patients. On the other hand, the Group pays continuous attention to the development of Chinese medical industry by setting up communication platforms between doctors and patients, carrying out education about the relationship between doctors and patients, promoting new medical philosophy and supporting the advancement in medical science research.

6.1 Participating in Charitable Activities

As one of the leading biopharmaceutical companies in China, through organizing a variety of sponsorship projects and drug donation charitable activities for particular patients groups, the Group continues to improve the treatment of relevant diseases and help more patients to regain their health in China.

Main Work Progress of Charitable Donation Projects of the Group in 2017

Project name	People concerned	Cooperation institutions	Initiation time	Work progress
"Guard the Happiness" (守望幸福) Bethune TPIAO charity donation project	Immune Thrombocytopenia (ITP) patients in need of rhTPO injections	Beijing Bethune Charitable Foundation	2013	Donating drug valued over RMB20.00 million, benefiting over 12,000 patients, drug donations' value aggregating nearly RMB100 million
"Yi+Hope" (益+希望) Bethune Yisaipu charity donation project	Patients with rheumatoid arthritis and ankylosing spondylitis	Beijing Bethune Charitable Foundation	2015	Donating drug valued over RMB60.00 million, benefiting over 10,000 patients with rheumatoid arthritis and ankylosing spondylitis, drug donations' value aggregating nearly RMB150 million

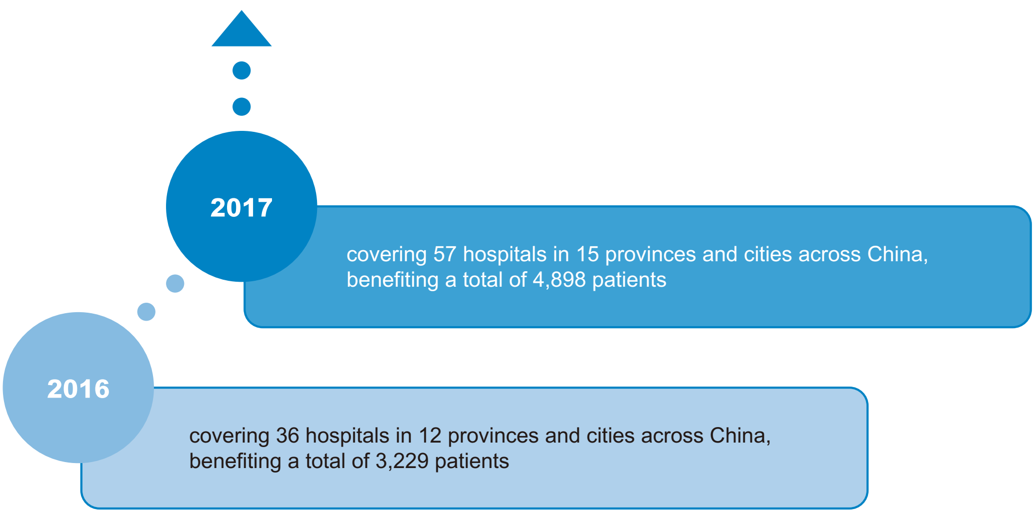
Project name	People concerned	Cooperation institutions	Initiation time	Work progress
"Loving with Heart" (愛隨心達) diabetes patients supporting projects	Diabetes patients	China Primary Health Care Foundation	2015	Covering over 4,700 people, donating drug valued over RMB30.00 million, benefiting 9,625 patients in total
"Youtang China Walk" (優糖中國行) charity walk training project for diabetes primary level management	Diabetes frontline doctors	China Primary Health Care Foundation	2017	Covering about 2,000 diabetes frontline doctors

Funding diabetes frontline doctors' training

To enhance frontline doctors' basic knowledge, basic skills and practical experience relating to kidney diseases and blood purification treatment, and improve patients management and nephrology department construction, Chinese Medical Doctor Association and Chinese Nephrologist Association organized and implemented the program of "chronic kidney disease and blood purification training for one million of kidney frontline doctors". In 2017, the Group devoted RMB0.5 million to fund the training of kidney frontline doctors of the project, helping to improve the treatment of China's chronic kidney diseases and blood purification with practical action, and thus benefit a vast number of patients.

Free iron detection project for hemodialysis patients

Patients with nephropathy, particularly hemodialysis patients, usually cannot receive timely and precise rectification and treatment of iron deficiency. In order to keep doctors well-informed of the iron deficiency of hemodialysis patients during clinical treatments, use iron supplements, adjust treatment protocols and indirectly manage the anemia at the clinical level based on the iron detection results and actual clinical performance, in 2016, Shenyang Sunshine launched charitable iron detection project, and in 2017 the project covered 57 hospitals in 15 provinces and cities across China, benefiting a total of 4,898 patients.



6.2 Promoting the Advancement of the Medical Industry

Setting up communication platforms between doctors and patients

The ineffective communication between doctors and patients is a main cause of medical disputes. In order to help doctors and patients to maintain an effective communication, the Group initiated and set up particular communication platforms between doctors and patients based on patients groups using its main products. These platforms help easing the tension between doctors and patients, and enable patients to receive timely and effective treatment.

List of Communication Platform Between Doctors and Patients

Name of platform	Main functions	Launch Time
Popular in China (紅遍中國) — networking management project relating to hemodialysis patients anemia information	• provides for hemodialysis patients • assists doctors in hemodialysis center to dynamically manage and monitor the anemia status of hemodialysis patients • increases the hemoglobin standard rate of patients	17 April 2015
Zhejiang Diseases Control ITP Platform	• provides for immune thrombocytopenia (ITP) patients • communication among patients • personal records of patients • rehabilitation counseling	16 October 2015
E Doctor	• provides for patients with rheumatoid arthritis and ankylosing spondylitis • patients have access to the schedule of their doctors and obtain one-on-one doctor's consultation • patients are informed of the updates about charitable donation of drugs and educational activities for patients • patients can record and summarize experimental indicators and self-assessment information related to diseases conveniently and effectively	12 November 2015
Diabetes patients club (糖堂俱樂部) WeChat public accounts	• provides for diabetes patients • diabetes patients can acquire professional, targeted and quality scientific knowledge of diabetes	1 July 2017

Popular in China (紅遍中國) — networking management project relating to hemodialysis patients anemia information

The project of the Popular in China (紅遍中國) was launched in June 2015, with an aim to assist doctors in hemodialysis center to dynamically manage and monitor the anemia status of hemodialysis patients, reduce the risk of cardiovascular death of patients and improve the patients' qualities of life. The project includes online management platform of hemodialysis patients and offline academic conference exchange of several regional centers. By the end of 2017, the number of hemodialysis centers that the project covers had increased from 20 in Shanghai and Guangdong to over 500 throughout the country, covering more than 70,000 patients and keeping 400,000 sets of data. In the future, the Group will continue to improve and upgrade the project, set up a new communication platform between doctors and patients and expand the scope to 1,000 centers covering 100,000 patients to continuously promote the development of Chinese Nephrology.

Patient education

The Group adheres to the principle of "servicing patients, reassuring doctors, achieving satisfactory sales (為患者服務、讓醫生放心、銷售滿意)". The Group established a patient education team (PSP) in December 2016, for providing professional after-sale services relating to products that are provided to patients with chronic disease on a non-profit basis, including providing standardized treatment options and follow-up calls on professional knowledge of the disease and health education. The PSP team currently has 22 experts and 2 managers, covering patient education on Byetta of Metabolism Business Unit (MBU) and Humulin of MBU. In 2017, the PSP team completed 500 conferences on patient education and visited 1,128 patients in total. There are 42,740 patients benefiting from active follow-up calls.

Medical academic promotion

Vigorously capitalizing on its own quality resources, the Group advocated and devoted itself to promoting the conference and forum on medical academic exchanges. The Group organized various activities, such as "China Tour (中國行) of The Committee of Rehabilitation and Palliative Care, China (CRPC)", "Annual Meeting of CRPC" and "Annual Meeting of the Chinese Society of Clinical Oncology (CSCO) ", to improve doctors' understanding of damages experienced by anemic patients with oncology and patients' quality of life. In addition, the Group proposed to set up the "Chinese Anemia Day (中國貧血日)" at the Anemia Management Forum on Multi-disciplines (第二屆多學科貧血管理高峰論壇) in 2017.

Major Progress of the Medical Academic Promotion Project of the Group in 2017

Project name	Progress
China Tour of CRPC	Launched the China Tour of CRPC — 4 training courses regarding anemia related to oncology provided to 220 doctors in oncology from 150 participating hospitals were held
Annual Meeting of CSCO	Held a oncology national conference for 60 doctors in oncology from 50 participating hospitals
Annual Meeting of CRPC	Held a oncology national conference for 60 doctors in oncology from 50 participating hospitals

Propose to set up the "Chinese Anemia Day"

On 18 August 2017, the second Anemia Management Forum on Multi-disciplines (第二屆多學科貧血管理高峰論壇) organized by the Group was held in Shanghai, in which the hot topic about anemia management was discussed from multiple perspectives. Under the initiative of the Group and experts present, the forum proposed to set up the "Chinese Anemia Day" which aims at sharing the academic progress on a regular basis every year, arousing the awareness of the community towards anemia diseases.

- **Supporting the development of medical scientific research**

Established in 2015, the "3SBio Inc. TCP Scientific Research Fund for Youth and Middle-aged" of Shenyang Sunshine aims to fund young and middle-aged scientific workers aged 45 or below to conduct relevant basic and clinical researches on TCP (Thrombocytopenia, 血小板減少症), so as to enhance the scientific research level of TCP of domestic young and middle-aged medicine and pharmacology practitioners, and to strengthen the clinical management of TCP while also benefit patients.

In 2017, in order to promote the development of kidney disease treatment technology and improve the level of prevention and treatment, the China CKD Alliance of China International Exchange and Promotion Association for Medical and Healthcare launched a "China Youth Doctor Research Fund for Nephrology". As a pharmaceutical enterprise with social responsibility, the Group has donated RMB0.5 million to promote the project, supporting and encouraging young Chinese nephrologists to engage in high-level kidney disease research.

6.3 Promoting the Development of the Biopharmaceutical Industry

With the vision of becoming the leading PRC biopharmaceutical company in the world, the Group strives to improve its own technology and places importance on the communication and interaction with the regulation authorities in the industry, so as to promote the overall standard of biopharmaceutical industry in China and the enhancement of competitiveness.

With the rapid development of the biopharmaceutical industry in China, the persistent optimization of pharmaceutical legal system and the building of a sound regulatory mechanism play a key role in the sustainable development of the industry. The Group keeps maintaining good communication with the regulatory authorities of the industry and participating in the formulation of various industry standards, including participating in the Compilation of Drug Data Management Standards (《藥品數據管理規範》) by CFDA, the Compilation of Guideline for Pharmaceutical Distribution Related Technology and On-site Inspection (《製藥配液相關技術與現場檢查指南》) by CCFDIE, and participating in the Compilation of the latest version of Pharmacopoeia of the PRC (《中國藥典》) and relevant technical documents as well as upgrading work. At the same time, the Group cooperates with Shanghai Institute for Food and Drug Control (SIFDC) to participate in programmed procedure expansion validation for four parameters regression methods, and cooperates with National Institute for Food and Drug Control (NIFDC) to participate in calibration interferon activity testing national standards, interleukin activity testing national standards and erythropoietin (EPO) activity testing national standards.

7. Data

Environment

Performance Indicators	Unit	2016[1]	2017
Resources utilization			
Electricity consumption (Indirect energy)	MWh	11,227.57	25,011.80
Power consumption per unit of operating income	MWh/RMB10,000	0.07	0.08
Natural gas consumption (Direct energy)	Cubic meter	115,189.00	1,730,693.00
Natural gas consumption per unit of operating income	Cubic meter/RMB 10,000	0.71	0.53
Water consumptions	Ton	145,750.00	507,582.00
Water consumption per unit of operating income	Ton/RMB 10,000	0.90	1.56
Total volume of packing materials used in finished products[2]	Ton	415.94	60.00
Emissions			
Non-GHG emissions[3]	Cubic meter	—	25,000,000.00
Industrial Waste Water Discharged	Cubic meter	—	321,521.00
Total Volume of hazardous waste generated	Ton	17.11	36.96
Hazardous waste generated per unit of operating income	Kg/RMB 10,000	0.11	0.11
Total Volumes of non-hazardous waste generated	Ton	40.82	150.62
Non-hazardous waste generated per unit of operating income	Kg/RMB 10,000	0.25	0.46
Greenhouse gas emissions[4]	tCO_2-eq	219.35	21,037.17
Comprised of: Scope 1 greenhouse gas emissions	tCO_2-eq	—	3,742.09
Scope 2 greenhouse gas emissions	tCO_2-eq	—	17,295.08
Greenhouse gas emissions per unit of operating income	tCO_2-eq/RMB 10,000	0.015	0.065

Notes:

1. The environmental data in 2016 includes that of Shenyang Sunshine and Sciprogen, and the data relating to greenhouse gas emissions only includes that of Sciprogen.

2. Total volume of packing materials used in finished products in 2017 derived from the data relating to Sciprogen, and the other production bases do not produce such data.

3. Total waste gas emissions in 2017 derived from data relating to Zhejiang Wansheng, and the other production bases, being biopharmaceutical production lines, do not produce that data as they do not discharge non-GHG pollutants emission.

4. Greenhouse gas emissions in 2017 are the summation of Scope 1 and 2 greenhouse emissions, which are calculated by natural gas consumption and power consumption as well as their respective emission factors.

Products liability

Performance Indicators	Unit	2016	2017
Percentage of products recall as a result of safety and health issues	%	0	0
Number of complaints about products and services received	unit	40	43
Resolving rate of complaints about products and services	%	100	100
Total non-compliance incidents of products and services provided in respect of health and safety and labeling	times	0	0

Supply chain management

Performance Indicators	Unit	2016	2017
Total number of suppliers	Persons	849	960
Number of suppliers from Mainland China	Persons	832	950
Number of suppliers from Hong Kong, Macau and Taiwan and overseas	Persons	17	10
Number of suppliers having completed assessment on environment, labor and morality	Persons	/	88
Number of inspections of suppliers	times	849	960

Employment and labor practice

Performance Indicators	Unit	2016[1]	2017
Staff employment			
Total number of employees	Persons	3,465	4,051
Male	Persons	1,646	2,055
Female	Persons	1,662	1,996
Labor contract	Persons	3,290	4,001
Labor dispatch	Persons	18	50
Under the age of 30	Persons	954	1,442
30 to 50 years old	Persons	2,280	2,524
50 years of age or older	Persons	74	85
Employees in Mainland China	Persons	3,302	4,046
Staff from HK, Macau and Taiwan and overseas	Persons	6	5
Staff turnover rate[2]	%	14	20
Male	%	17	21
Female	%	12	19
Under the age of 30	%	18	18
30 to 50 years old	%	12	21
50 years of age or older	%	21	12
Employees in mainland China	%	14	20
Staff from HK, Macau and Taiwan and overseas	%	33	17
Staff health and security			
Safety trainings	Persons	5,934	6,882
Days of absence from work due to work-related injury	Days	0	0
Number of work related fatalities	Persons	0	0
The percentage of employees participating in the occupational health check-ups	%	100	100

Performance Indicators	Unit	2016[1]	2017
Staff training			
Total investment in employee training	RMB10,000	34	1,557
Training participation rate of employees	%	100	73
Training participation rate of male employees	%	100	77
Training participation rate of female employees	%	100	69
Training participation rate of junior employees	%	100	65
Training participation rate of mid-level employees	%	100	94
Training participation rate of employees at the senior management level	%	100	93
Average per capita hours of training	Hour	43	27
Average per capita hours of training for male staff	Hour	/	31
Average per capita hours of training for female staff	Hour	/	23

Notes:

1. The total number of employees in 2016 includes the management and sales team of the Group, Shenyang Sunshine, NERC, Sunshine Guojian, Zhejiang Wansheng, Sciprogen, Sirton and Shanghai Aoxi while the other figures exclude those of Sirton and Shanghai Aoxi; figures of staff training include Shenyang Sunshine and Zhejiang Wansheng.

2. Staff turnover rate is calculated based on the following formula: staff turnover rate = the number of staff of the category lost during the reporting period/(the number of staff of the category at the beginning of the reporting period + the number of newly employed staff of the category during the reporting period) x 100%.

Anti-corruption

Performance Indicators	Unit	2016	2017
Numbers of concluded legal cases regarding corrupt practices brought against the Company and its employees	Case	0	0

8. Indexes for the Hong Kong Stock Exchange ESG Reporting Guides

Aspects, General Disclosures and Key Performance Indictors	Disclosure Chapters	Aspects, General Disclosures and Key Performance Indictors	Disclosure Chapters	Aspects, General Disclosures and Key Performance Indictors	Disclosure Chapters
Aspect A1: Emissions		Aspect B1: Employment		Aspect B6: Product Responsibility	
General Disclosure A1	Environmental Management System; Control on the Discharge of Pollutants	General Disclosure B1	Safeguarding Employees' Interests	General Disclosure B6	Product and Customer Service Liability
KPI A1.1	Environmental Management System; Data	KPI B1.1	Data	KPI B6.1	Data
KPI A1.2	Environmental Management System; Data	KPI B1.2	Data	KPI B6.2	Providing Quality Service to Customers and Patients
KPI A1.3	Environmental Management System; Data	Aspect B2: Health and Safety		KPI B6.3	Quality Products with Continuous Innovation
KPI A1.4	Environmental Management System; Data	General Disclosure B2	Healthy and Safe Working Environment	KPI B6.4	Quality Products with Continuous Innovation; Providing Quality Service to Customers and Patients

Aspects, General Disclosures and Key Performance Indictors	Disclosure Chapters	Aspects, General Disclosures and Key Performance Indictors	Disclosure Chapters	Aspects, General Disclosures and Key Performance Indictors	Disclosure Chapters
KPI A1.5	Control on the Discharge of Pollutants	KPI B2.1	Data	KPI B6.5	Providing Quality Service to Customers and Patients
KPI A1.6	Control on the Discharge of Pollutants	KPI B2.2	Data	Aspect B7: Anti-corruption	
Aspect A2: Use of Resources		KPI B2.3	Healthy and Safe Working Environment	General Disclosure B7	Establishing the Code of Conduct for Employees
General Disclosure A2	Environmental Management System; Resources Saving	Aspect B3: Development and Training		KPI B7.1	Data
KPI A2.1	Environmental Management System; Data	General Disclosure B3	Career Training and Development	KPI B7.2	Establishing the Code of Conduct for Employees
KPI A2.2	Environmental Management System; Data	KPI B3.1	Data	Aspect B8: Community Investment	
KPI A2.3	Resources Saving	KPI B3.2	Data	General Disclosure B8	Participating in the Charitable Activities; Promoting the Advancement of the Medical Industry

Aspects, General Disclosures and Key Performance Indictors	Disclosure Chapters	Aspects, General Disclosures and Key Performance Indictors	Disclosure Chapters	Aspects, General Disclosures and Key Performance Indictors	Disclosure Chapters
KPI A2.4	Resources Saving	Aspect B4: Labor Standards		KPI B8.1	Promoting the Advancement of the Medical Industry; Promoting the Development of the Biopharmaceutical Industry
KPI A2.5	Data	General Disclosure B4	Safeguarding Employees' Interests		
Aspect A3: The Environment and Natural Resources		KPI B4.1	Safeguarding Employees' Interests		
General Disclosure A3	Environmental Management System; Resources Saving				
KPI A3.1	Resources Saving	KPI B4.2	No non-compliance	KPI B8.2	Participating in the Charitable Activities; Promoting the Advancement of the Medical Industry; Data
		Aspect B5: Supply Chain Management			
		General Disclosure B5	Setting Up Sustainable Supply Chain; Giving Support to Suppliers		
		KPI B5.1	Data		
		KPI B5.2	Setting Up Sustainable Supply Chain		

9. About this Report

This report is the second ESG Report published by 3SBio Inc., which aims to disclose to the stakeholders the efforts and achievements made by the Group in the sustainable development of economy, environment and the society.

Basis of preparation

This report is prepared with reference to the Environmental, Social and Governance Reporting Guide issued by The Stock Exchange of Hong Kong Limited.

Scope of Report

Organizations and data: the companies that this report involves mainly include 3SBio Inc. and its subsidiaries, namely Shenyang Sunshine Pharmaceutical Company Limited, Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd., National Engineering Research Center of Shanghai Antibody Medicine (上海抗體藥物國家工程研究中心有限公司), Zhejiang Wansheng Pharmaceutical Co., Ltd. and Shenzhen Sciprogen Bio-pharmaceutical Co., Ltd. (collectively, the "**Group**").

Reporting period: from 1 January 2017 to 31 December 2017.

Main subsidiaries	Abbreviation in this report
Shenyang Sunshine Pharmaceutical Company Limited	Shenyang Sunshine
Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd.	Sunshine Guojian
National Engineering Research Center of Shanghai Antibody Medicine	NERC
Zhejiang Wansheng Pharmaceutical Co., Ltd.	Zhejiang Wansheng
Shenzhen Sciprogen Bio-pharmaceutical Co., Ltd.	Sciprogen

Data descriptions

Data and cases in this Report are originated from the Group's original records in its daily operation or the Group's financial reports.

Reliability assurance

The Board of the Group confirms that there are no false information, misleading statements or material omissions in the contents of this report. According to the environmental databases of Institute of Public & Environmental Affairs (IPE) and Shanghai Qingyue (上海青悦環保) , there were no negative records which are related to the environmental protection of 3SBio Inc. or its subsidiaries.