2020 ANNUAL REPORT

三生制药
3SBIO INC.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1530 | Convertible Bonds Code : 40285

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Contents

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3SBIO INC.

Company Profile

3SBio Inc. (the "**Company**" or "**3SBio**", and with its subsidiaries collectively, the "**Group**") is a leading biotechnology company in the People's Republic of China (the "**PRC**"). 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), and recombinant human erythropoietin ("**rhEPO**") products EPIAO (益比奥) and SEPO (賽博爾). All four products are market leaders in Mainland China[1]. TPIAO is the only commercialized recombinant human thrombopoietin ("**rhTPO**") product in the world. According to IQVIA[2], the market share in the treatment of thrombocytopenia, in terms of sales value, of TPIAO in Mainland China was 72.7% in 2020. With its two rhEPO products, the Group has been the premier market leader in the Mainland China rhEPO market for nearly two decades, holding a total share of 41.1% in 2020. Yisaipu is a Tumour Necrosis Factor ("**TNF**") α inhibitor product with a continuing dominant share in the Mainland China TNF α market of 45.5% in 2020. The Group has been expanding its therapeutic coverage by adding products through internal research and development ("**R&D**") and various external strategic partnerships.

As at 31 December 2020, amongst the 34 product candidates within the Group's active pipeline, 24 were being developed as National New Drugs in Mainland China. Out of these 34 products, 19 are monoclonal antibody ("**mAb**") or bi-specific antibodies, six are other biologic products, and nine are small molecule entities. The Group has 12 product candidates in oncology; 14 product candidates that target auto-immune diseases including rheumatoid arthritis ("**RA**"), and other diseases including refractory gout and ophthalmological diseases such as age-related macular degeneration ("**AMD**"); six product candidates in nephrology; and two 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 Mainland China, the biotechnology industry enjoys strong government support and has been selected by the State Council of the PRC as a key strategic emerging industry. Strong government support along with increasing physician adoption of biopharmaceuticals has driven strong industry growth in Mainland China.

The Group is positioned for global expansion. Outside of Mainland China, TPIAO has been approved in eight countries; Yisaipu has been approved in 15 countries; and EPIAO has been approved in 22 countries. 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. The Group aims to focus its R&D to provide innovative therapeutics for patients in Mainland China and globally.

As at 31 December 2020, the Group had operation facilities in Shenyang, Shanghai, Hangzhou and Shenzhen, all in Mainland China, as well as in Como, Italy, with nearly 5,600 employees. The Group's pharmaceutical products are marketed and sold in all provinces, autonomous regions and special municipalities in Mainland China, as well as a number of foreign countries and regions. For the year ended 31 December 2020 (the "**Reporting Period**"), the Group's nationwide sales and distribution network enabled it to sell its products to over 17,000 hospitals and medical institutions in Mainland China.

[1] Hereinafter referred to as the mainland area of the PRC.

[2] All market share information throughout this report cites the IQVIA data, unless otherwise noted.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. LOU Jing *(Chairman & Chief Executive Officer)*
Ms. SU Dongmei

Non-executive Directors

Mr. HUANG Bin
Mr. TANG Ke (appointed on 10 February 2020)
Mr. LIU Dong (resigned on 10 February 2020)

Independent Non-executive Directors

Mr. PU Tianruo
Mr. David Ross PARKINSON
Dr. WONG Lap Yan

COMPANY SECRETARY

Ms. LEUNG Suet Wing

AUTHORIZED REPRESENTATIVES

Ms. LEUNG Suet Wing
Ms. SU Dongmei

AUDIT COMMITTEE

Mr. PU Tianruo *(Chairman)*
Mr. HUANG Bin
Dr. WONG Lap Yan

REMUNERATION COMMITTEE

Dr. WONG Lap Yan *(Chairman)*
Mr. PU Tianruo
Mr. TANG Ke (appointed on 10 February 2020)
Mr. LIU Dong (resigned on 10 February 2020)

NOMINATION COMMITTEE

Dr. LOU Jing *(Chairman)*
Mr. PU Tianruo
Dr. WONG Lap Yan

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

31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

HEADQUARTER

No. 3 A1, Road 10
Shenyang Economy and Technology Development Zone
Shenyang
People's Republic of China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Corporate Information

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

PRINCIPAL BANK

Industrial Bank Co., Ltd, Shenyang Branch
No. 36 Shiyiwei Road
Heping District
Shenyang
People's Republic of China

AUDITOR

Ernst & Young
Registered Public Interest Entity Auditor
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, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

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

As to Cayman Islands law:
Conyers Dill & Pearman
SIX, 2nd Floor, Cricket Square
171 Elgin Ave
George Town, Grand Cayman
Cayman Islands

SECURITIES CODES

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

Convertible Bonds Listing
EUR320,000,000 Zero-Coupon
Convertible Bonds due 2025
The Stock Exchange of Hong Kong Limited
(Convertible Bonds Code: 40285)

COMPANY'S WEBSITE

www.3sbio.com

Financial Highlights

	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020** **RMB'000**
Revenue	2,797,289	3,734,334	4,583,869	5,318,091	**5,587,636**
Gross Profit	2,395,021	3,058,099	3,706,614	4,392,744	**4,524,725**
Research and Development Costs	243,006	257,310	362,706	526,565	**590,343**
EBITDA	1,141,324	1,476,817	1,892,824	1,586,379	**1,343,011**
Normalized EBITDA	1,151,789	1,445,451	1,781,760	2,005,009	**1,606,119**
Net Profit Attributable to Owners of the Parent	712,564	935,389	1,277,167	973,717	**835,791**
Normalized Net Profit Attributable to Owners of the Parent	719,970	904,023	1,166,103	1,392,347	**1,166,371**
Net Cash Flows from Operating Activities	1,004,324	1,074,098	1,150,251	1,887,384	**1,344,561**
Gearing Ratio (excluding Convertible Bonds)	45.2%	28.0%	11.2%	4.8%	**3.2%**
Total Assets	11,038,802	13,752,971	13,839,655	14,809,306	**17,678,195**
Total Liabilities	4,272,460	6,123,325	4,932,285	4,449,987	**4,584,860**
Total Equity	6,766,342	7,629,646	8,907,370	10,359,319	**13,093,335**

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 for the financial year ended 31 December 2020.

2020 is a special year as COVID-19 brought impact on the overall operation of the whole society, which posed obstacles for the business operations in many segments of pharmaceutical industry and negatively affected the performance of the industry. At the same time, the national medical reform entered the critical phase of development in 2020. With the launch and implementation of a series of medical reform policies, such as dynamic adjustment mechanism of medical insurance and volume-based procurement of medicines, the pharmaceutical industry has entered its "golden age" of increased supply-side concentration and the development of innovative drugs.

3SBio responded firmly to the national guidance on further deepening of medical security and adhered to the concept of "let high quality drugs be generally available to patients". While comprehensively promoting the accessibility of biopharmaceuticals to general patients on the one hand, we have been accelerating the launch of our own innovative biopharmaceuticals on the other, thereby continuously strengthening the commercialization and innovation capabilities of our biopharmaceuticals and jointly procuring the sustainable development of the Group's performance.

Clinical stage R&D progress

With the successful listing of Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. ("**Sunshine Guojian**") on the Science and Technology Innovation Board (the "**STAR Market**") of the Shanghai Stock Exchange (the "**SSE**"), we have made various advances in respect of our mAb. In June 2020, Cipterbin (302H) Inetetamab was approved for launch. It is the first targeted anti-HER2 mAb independently developed in Mainland China, which was included in the National Reimbursement Drug List ("**NRDL**") in 2020 (effective as of 1 March 2021), bringing to the end the absolute monopoly of imported mAb drugs of its kind in the Chinese market. For 601A, a recombinant humanized anti-vascular endothelial growth factor ("**VEGF**") mAb injection, in relation to ophthalmic indications, the patient enrollments for phase I clinical trials for AMD and for diabetic retinopathy with macular edema ("**DME**") were completed; while phase II clinical trials for treatment of retinal vein occlusion ("**RVO**") have been initiated, and a phase II trial for pathologic myopia choroid neovascularization ("**pmCNV**") will commence soon. Following the completion of phase I clinical trial for 602 (an anti-epidermal growth factor receptor ("**EGFR**") antibody) in the first half of the year, phase II clinical trial for patients with colorectal cancer has been initiated. For 609A (an anti-programmed cell death protein 1 ("**PD1**") antibody), the patient enrollment of phase I clinical trial in the United States of America ("**U.S.**") was completed, and patient enrollment of Phase I clinical in Mainland China is proceeding smoothly. Regarding the targeted interleukin ("**IL**") mAbs 608, 610 and 611 for the treatment of autoimmune diseases, clinical trials have begun, with patient enrollments for phase I clinical trials starting smoothly and proceeding towards phase II. For 608 (an anti IL-17A humanized mAb injection), patient enrollments for phase I clinical trial were completed, and phase II clinical trials for patients with severe plaque psoriasis and other inflammatory diseases are under preparation. For 610 (an anti-IL-5 humanized mAb injection), we received an investigational new drug ("**IND**") approval from the PRC National Medical Products Administration ("**NMPA**") during the first half of 2020, and completed patient enrollment of Phase Ia clinical trial during the second half of 2020. For 611 (an anti-IL-4α mAb drug), we received approvals for clinical trials in both Mainland China and the U.S., and patient enrollment for phase Ia clinical trial in the U.S. is ongoing smoothly.

In 2020, the Group has also achieved considerable progress in the nephrology area and in small molecule chemical drugs. We have completed the patient enrollment for phase II clinical trial of NuPIAO (SSS06), a second-generation long-acting thrombopoietin, and clinical trial is ongoing in good order; we have six small molecule products now at bioequivalence assessment ("**BE**") stage, which, upon launch, together with our biopharmaceutical products, will establish product portfolio synergistically in the applicable therapeutic areas.

Global strategic partnerships

In 2020, the Group moved forward on the themes of "global innovation" and "segments synergy". The Group cooperates with Numab Therapeutics ("**Numab**"), a leading antibody platform in the world, and is ready to introduce the first candidate from Numab. In the future, we plan to work with Numab on up to five multi-specific antibody candidates. In our collaboration with Verseau Therapeutics, Inc. ("**Verseau**"), we have selected two macrophage targets, VSIG-4 and PSGL-1, for pre-clinical research. The patient enrollment of a bridging phase III trial of Remitch (TRK820) to treat pruritus in hemodialysis patients, jointly developed by us and Toray Industries, Inc. in Japan ("**Toray**"), will soon be completed. Our partner Selecta Biosciences, Inc. (listed on NASDAQ with symbol SELB) ("**Selecta**") has commenced a phase III clinical trial in the U.S. for Pegsiticase, a uricase biologic drug for the treatment of gout and hyperuricemia, and we received a milestone payment of USD4 million from Selecta. In addition, the Group also participated in the investment in GenSight Biologics (listed on Euronext with symbol SIGHT) ("**GenSight**"), a leading ophthalmic gene therapy company in the world, to establish our presence in ophthalmic gene therapy industry.

COVID-19

In 2020, due to the impact of the epidemic, work resumption was delayed, transportation was hampered, and the movement of personnel and hospital visits were significantly restricted; these have to a certain extent negatively affected pharmaceutical sales and promotion. In response, the Company closely monitored and prudently analyzed risks, focused on core issues, reduced expenses, maintained strong cash flow, safely coped with the normalcy of the pandemic environment, and sustained solid performance, such that any adverse impact may be minimized.

MSCI ESG

For the past three years, the Group has been continuously improving and optimizing its ESG work and corporate governance. On 26 August 2020, the Group's MSCI ESG rating has been raised to A-level, outperforming 78% of the rated global biotech peers.

In this year, the domestic pharmaceutical industry is also at the crossroad of a new round of development. With the core products as its moat, and with many high-quality R&D results achieved, supported by an excellent marketing team, and with closer collaboration with leading international pharmaceutical companies, cooperation and development with international renowned pharmaceutical companies, the Group sees its long-term sustainable development on solid foundations. 3SBio focuses on four core areas, aiming to meet unmet clinical needs, and also follows the guidance of government policies. Drawing on the advantage of integrated R&D, production and sales, 3SBio is committed to a synergic growth of social responsibility and business performance, to create greater value for shareholders and the society.

Finally, on behalf of 3SBio, I give my sincerest thanks to all our valued stakeholders — including patients, medical workers, employees and shareholders — for supporting our efforts to enhance 3SBio's capabilities and contribute to improving care for patients.

Dr. LOU Jing
Chairman & Chief Executive Officer
30 March 2021

Management Discussion and Analysis

BUSINESS REVIEW

Key Events

Repurchases and Redemption of Existing 2022 Bonds

With respect to the repurchases and redemption of the Euro-denominated zero-coupon convertible bonds (the "**Bonds**") in an aggregate principal amount of EUR300,000,000 due 2022 ("**2022 Bonds**") issued by Strategic International Group Limited ("**Strategic International**") and guaranteed by the Company, the following actions were undertaken:

— April 2020 Repurchase

As announced on 20 April 2020, the Company repurchased an aggregate principal amount of EUR5,000,000 in face value of the 2022 Bonds through over-the-counter market in accordance with the terms and conditions of the 2022 Bonds on 16 April 2020. The aggregate purchase price paid for this repurchase was EUR5,255,000 (including agent fee). Immediately thereafter, there were outstanding 2022 Bonds in the principal amount of EUR295,000,000.

— Concurrent Repurchase

As announced on 17 June 2020, Strategic International repurchased the 2022 Bonds concurrently with the issuance of the Bonds in an aggregate principal amount of EUR320,000,000 due 2025 (the "**2025 Bonds**") (the "**Concurrent Repurchase**"). Strategic International repurchased the 2022 Bonds in the aggregate principal amount of EUR104,459,000 in the Concurrent Repurchase. The repurchase price under the Concurrent Repurchase was EUR107,738.32 per EUR100,000 principal amount of the 2022 Bonds. Immediately thereafter, the aggregate principal amount of the 2022 Bonds that remained outstanding became EUR190,541,000.

— Exercise of Put Option by Bondholders

Pursuant to the terms and conditions of the 2022 Bonds, the holder(s) of the 2022 Bonds had the right to require Strategic International to redeem all or some of the 2022 Bonds of such holder(s) on 21 July 2020 by depositing a duly completed and signed notice of redemption (the "**Optional Put Exercise Notice**") no later than 21 June 2020. As at 21 June 2020, Strategic International had received Optional Put Exercise Notices in respect of EUR143,561,000 in aggregate principal amount of the 2022 Bonds (the "**Put Bonds**"). The Put Bonds were redeemed by Strategic International on 21 July 2020.

Following the redemption and cancellation of the Put Bonds, there were 2022 Bonds in the principal amount of EUR850,000 outstanding.

— Exercise of Clean-Up Call Option

Pursuant to the terms and conditions of the 2022 Bonds, Strategic International had the right to redeem all and not some of the 2022 Bonds upon notice if less than EUR30,000,000 principal amount of the 2022 Bonds (i.e. 10% of the principal amount of the 2022 Bonds originally issued) remain outstanding. Strategic International gave notice to exercise such right to redeem all of the then outstanding 2022 Bonds in the principal amount of EUR850,000. All such then outstanding 2022 Bonds were redeemed on 27 August 2020. Accordingly, the 2022 Bonds were delisted from The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") upon the close of business on 4 September 2020.

For more information regarding the repurchases and redemption of the existing 2022 Bonds, please refer to the announcements of the Company dated 20 April 2020, 17 June 2020, 18 June 2020, 29 June 2020 and 28 August 2020.

New 2025 Bonds Issue

As announced on 29 June 2020, Strategic International successfully completed the issuance to institutional investors of the 2025 Bonds, which was guaranteed by the Company. The listing of, and permission to deal in, the 2025 Bonds on the Stock Exchange became effective on 30 June 2020.

As announced on 17 June 2020, the initial Conversion Price[3] of the 2025 Bonds is HK$13.1750 per Conversion Share[4], which represents (i) a premium of approximately 25% over the closing price of HK$10.54 per Share[5] as quoted on the Stock Exchange on 17 June 2020 (being the trading day on which the subscription agreement for the 2025 Bonds was entered into) and (ii) a premium of approximately 31.72% over the average closing price of approximately HK$10.0020 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 17 June 2020. For more details of the issuance of the 2025 Bonds, please refer to the section headed "Convertible Bonds" of this annual report.

Spin-Off and Separate Listing of Sunshine Guojian

The listing of and dealings in the ordinary shares of Sunshine Guojian on the STAR Market of the SSE commenced on 22 July 2020, and Sunshine Guojian issued a total of 61,621,142 shares for subscription on the STAR Market (the "**Offering**"), representing approximately 10% of its total issued shares immediately prior to the Offering. As a result of the spin-off listing and the Offering, the Company's equity interest in Sunshine Guojian was reduced from approximately 89.96% to approximately 80.96%, and Sunshine Guojian remains as a subsidiary of the Company.

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[3] "Conversion Price" refers to the price per Conversion Share (as defined in footnote 4 below), subject to adjustments, at which the 2025 Bonds may be converted into the Conversion Shares.

[4] "Conversion Share(s)" refers to the Share(s) (as defined in footnote 5 below) to be issued by the Company upon conversion of the 2025 Bonds pursuant to the trust deed and the terms and conditions that govern the 2025 Bonds.

[5] "Share(s)" refers to ordinary share(s) in the share capital of the Company with a par value of USD0.00001 each.

Pursuant to the Offering, the offer price was RMB28.18 per share, which was determined with references to the historical financial performance and business prospects of Sunshine Guojian, its market-leading position and the prevailing market conditions of the STAR Market. Sunshine Guojian received total proceeds of RMB1,736,483,781.56 from the Offering. Such proceeds are expected to fund the principal business activities of Sunshine Guojian and its general working capital, as well as to pay for expenses of the Offering.

For more information regarding the listing of Sunshine Guojian, please refer to the announcements of the Company dated 31 October 2019, 24 June 2020, 9 July 2020 and 22 July 2020, as well as the Company's 2019 annual report dated 29 April 2020 under the heading "Proposed Spin-off of Sunshine Guojian".

RD02 Approved for Launch

As announced on 19 August 2020, the Group has obtained approval from the PRC NMPA to launch the nadroparin calcium injection (RD02) which is self-developed by the Group.

Ampholipad™ Marketing Authorization Application Accepted

As announced on 26 August 2020, the Group has also obtained the acceptance by the NMPA of the Marketing Authorization Application for Ampholipad™, which is the complex generic of Gilead's AmBisome® (amphotericin B liposome for injection) from Taiwan Liposome Company, Ltd. ("**TLC**") used for the treatment of systemic fungal infections. TLC is a clinical-stage specialty pharmaceutical company dually listed on NASDAQ (NASDAQ ticker: TLC) and the Taiwan OTC Exchange (TWO: 4152) and is a collaboration partner of the Company. The Company will commercialize the product in Mainland China.

NRDL Listings

On 28 December 2020, Cipterbin, the first innovative anti-HER2 mAb independently developed in Mainland China by Sunshine Guojian, was accepted for listing in the 2020 NRDL.

In addition, TPIAO, the Company's self-developed proprietary product for the treatment of chemotherapy-induced thrombocytopenia ("**CIT**") and immune thrombocytopenia ("**ITP**"), was also accepted for listing in the 2020 NRDL through negotiation on the same day.

Key Events after the Reporting Period

AstraZeneca Licenses Update

Due to streamlining in respect to the products licensed under an exclusive license agreement with AstraZeneca[6], with effect from 25 January 2021, all the arrangements in relation to Bydureon, the weekly administered GLP-1 receptor agonist product launched in May 2018, were terminated and Hongkong Sansheng Medical Limited ("**Hongkong Sansheng**"), a wholly-owned

[6] AstraZeneca refers to the applicable subsidiaries of AstraZeneca PLC.

subsidiary of the Company, was therefore relieved from any further and future obligations in respect of Bydureon. Meanwhile, Hongkong Sansheng and AstraZeneca will continue to cooperate for the commercialization of Byetta, an injectable GLP-1 receptor agonist administered to treat type 2 diabetes, pursuant to the exclusive license agreement. The Group will continue to explore other collaboration and business opportunities with AstraZeneca.

Lilly Collaboration Update

Due to streamlining of the Group's products portfolio, save for the distribution of Humulin cartridges and KwikPens, all the distribution and promotion arrangements between the Group and Lilly China (and its affiliate) ("**Lilly**") in relation to Humulin, a human insulin product, were terminated on 28 February 2021 and the Group was therefore relieved from any further and future obligations relating thereto. The Group will continue to explore any other collaboration and business opportunities with Lilly from time to time.

Please also refer to "Key Product Developments" and "Key R&D Collaboration and Partnership Activities" sections below.

Key Products

TPIAO

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 NMPA for two indications: the treatment of 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.

TPIAO has been listed on the NRDL as a Class B Drug for the treatment of severe CIT in patients with solid tumors or ITP since 2017. According to the "Chinese Guideline on the Diagnosis and Management of Adult Primary Immune Thrombocytopenia (2020 version)"[7] (the "**Guidelines**") issued by the Chinese Medical Association (the "**CMA**"), rhTPO is one of the primary treatments for ITP emergency cases and is the first choice recommendation in the second line treatments list in the Guidelines for both ITP and ITP in pregnancy. According to the "Chinese Expert Consensus on Prevention and Treatment of CIT in Malignant Lymphoma"[8] issued by the Chinese Society of Clinical Oncology ("**CSCO**"), rhTPO is one of the treatments for lymphoma CIT. According to the "Expert Consensus for Diagnosis and Treatment of Thrombocytopenia in China"[9] issued by the CMA, rhTPO is the first choice recommendation for boosting platelet production. According to the "Expert Consensus for Diagnosis and Treatment of Thrombocytopenia in Adult Critical Illness in China"[10], TPO can be used to treat myelosuppressive thrombocytopenia. In the "Consensus on the Clinical Diagnosis, Treatment, and Prevention of Chemotherapy-Induced Thrombocytopenia in China (2019 version)"[11] issued by the China Anti-Cancer Association, rhTPO is

[7] Issued by the Thrombosis and Hemostasis Group of the Chinese Society of Hematology of the CMA
[8] Issued by Anti-Lymphoma Alliance and the Anti-Leukemia Alliance of the CSCO in 2020
[9] Issued by the Chinese Society of Internal Medicine, of CMA in July 2020
[10] Issued by the Critical Care Medicine Committee of Chinese PLA and Chinese Society of Laboratory Medicine, of the CMA in 2020
[11] Issued by the Society of Chemotherapy and Committee of Neoplastic Supportive-Care (CONS), both being subordinate units under the China Anti-Cancer Association

one of the primary treatments for CIT. In the "Chinese Guidelines for Treatment of Adult Primary Immune Thrombocytopenia", published in the International Journal of Hematology in April 2018, rhTPO was included as the first choice recommendation for the second line treatments list. In the "CSCO Guidelines — Soft Tissue Sarcoma (2019)", rhTPO is a primary treatment strategy for thrombocytopenia accompanying treating soft tissue sarcoma. rhTPO has also received similar professional endorsements in several national guidelines and experts consensus on treating certain other diseases in Mainland China, including conventional osteosarcoma and certain off-label uses.

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 Mainland China. The Group believes that TPIAO is still at an early stage of its product life cycle. The Group estimates that its penetration rates for both CIT and ITP indications in Mainland China are in the range of approximately 23% to 31%. Currently, the majority of the Group's sales of TPIAO is generated from approximately 11% of the hospitals covered by the Group's sales team. In 2020, its market share for the treatment of thrombocytopenia in Mainland China was 25.5% in terms of sales volume and 72.7% in terms of sales value. The Group has started a phase III clinical trial of TPIAO in the pediatric ITP indication. A phase I clinical trial for TPIAO in surgery patients with hepatic dysfunction at the risk of thrombocytopenia has been completed, and the Group is planning to initiate the phase II trials soon. Outside of Mainland China, TPIAO has been approved in eight countries, including Ukraine, the Philippines and Thailand.

EPIAO

EPIAO is still the only rhEPO product approved by the NMPA for the following 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 has been listed on the NRDL as a Class B Drug for renal anemia since 2000 and, additionally, for CIA in patients with non-hematological malignancies since 2019. EPIAO has also been listed in the 2018 National Essential Drug List. EPIAO has consistently been the premier market leader in the Mainland China rhEPO market since 2002 in terms of both sales volume and value. EPIAO is the only rhEPO product in Mainland China available at 36,000 IU (international unit per vial) dosage. Further, EPIAO and SEPO together claim a majority market share of the Mainland China rhEPO market at 10,000 IU dosage. Future growth for EPIAO is expected to be driven by: (1) the increase of the dialysis penetration rate among patients with stage IV and V CKD, which the Group believes is substantially lower in Mainland China as compared with other countries; and (2) the increase in the applications of EPIAO in CIA oncology indication and in reducing allogeneic blood transfusion in Mainland China, which the Group believes is at a very early stage of growth. The NRDL addition of a CIA oncology indication since 2019 validates the growth potential of EPIAO as well as the Group's assessment thereof. 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 in Mainland China. The Group expects that SEPO will continue to gain market share in the rhEPO market in Mainland China. Patient enrollment in a randomized phase II clinical trial has been completed on NuPIAO (SSS06), a second-generation rhEPO to treat anemia. Patient enrollment in a randomized phase II clinical trial is ongoing on RD001, a pegylated long-acting rhEPO. Outside of Mainland China, EPIAO has been approved in 22 countries, including Ukraine, Thailand and Pakistan. The multi-center biosimilar clinical trials for EPIAO in Russia and Thailand are expected to be completed in 2021.

Yisaipu

Yisaipu, generically known as etanercept, is a TNF α inhibitor product. It was first launched in 2005 in Mainland China for RA. Its indications were expanded to ankylosing spondylitis ("**AS**") and psoriasis in 2007. The Group actively participated in the development of the "2018 China Rheumatoid Arthritis Treatment Guidance" (the "**China RA Guidance**"), an authoritative document issued by the CMA. Yisaipu was adopted in the China RA Guidance under 'TNF α inhibitors' as one of the RA treatment options, and the China RA Guidance deemed TNF α inhibitors as a group of biological agents with relatively sufficient evidence and relatively wide adoption in treating RA. Yisaipu has been listed on the NRDL as a Class B Drug since 2017 for the treatment of patients with a confirmed diagnosis of RA and for the treatment of patients with a confirmed diagnosis of AS (excluding pre-radiographic axial spondylarthritis), each subject to certain medical prerequisites, and additionally, since 2019 for the treatment of adult patients with severe plaque psoriasis. Yisaipu is the first-to-market etanercept product in Mainland China, with a dominant TNF α market share in Mainland China of 45.5% in 2020. The sales coverage of Yisaipu extended to more than 3,700 hospitals in Mainland China, including nearly 1,700 Grade III hospitals, in 2020. The Group believes that Yisaipu is still at an early stage of its product life cycle. The Group estimates that its penetration rates for both RA and AS in Mainland China are in the range of approximately 5% to 9%. Currently, the majority of the Group's sales of Yisaipu is generated from approximately 11% of the hospitals covered by the Group's sales team. Outside of Mainland China, Yisaipu has been approved in 15 countries, including Colombia, Thailand, the Philippines and Pakistan.

Cipterbin

Cipterbin (Inetetamab) is the first innovative anti-HER2 mAb in Mainland China with the engineered Fc region, optimized production process and a stronger antibody-dependent cell-mediated cytotoxicity ("**ADCC**") effect. It was approved by the NMPA on 19 June 2020 for the treatment of HER2-positive metastatic breast cancer in combination with chemotherapy, as it was proven to be capable of delaying the disease progression for, and bringing survival benefits to, HER2-positive metastatic breast cancer patients. Sunshine Guojian independently developed this product based on its proprietary technology platform. Cipterbin is listed on the 2020 NRDL. According to the "Chinese Advanced Breast Cancer Consensus Guideline 2020 (CABC3)" issued by the China Medical Women's Association, Inetetamab (Cipterbin) is one of the preferred treatments of advanced breast cancer. Inetetamab is adopted in the "Guidelines for the Clinical Application of New Anti-tumor Drugs (2020 edition)" issued by the PRC National Health Commission.

Mandi

Mandi (蔓迪), generically known as minoxidil tincture, was launched in 2002 as the first over-the-counter (OTC) drug in Mainland China for male pattern alopecia and alopecia areata ("**AA**"). In the "Guideline for Diagnosis and Treatment of Androgenetic Alopecia" issued by Chinese Medical Doctor Association, minoxidil was listed as the only recommended topical drug for androgenetic alopecia. In the "Guideline for Diagnosis and Treatment of AA (2019)" issued by the CMA, minoxidil was listed as one of the topical treatments for AA. Patient enrollment has been completed in a phase III study of the foam form of Mandi, comparing head-to-head in male patients with hair loss to Rogaine®, the leading minoxidil drug in the United States. If approved, Mandi will likely be the only minoxidil foam in the Mainland China market.

Research and Development

The Group's integrated R&D platform covers a broad range of technical expertise in the discovery and development of innovative bio-pharmaceutical and small molecule products, including antibody discovery, molecular cloning, antibody/protein engineering, gene expression, cell line construction, manufacturing process development, pilot and 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 the R&D of mammalian cell-expressed, bacterial cell-expressed and chemically-synthesized pharmaceuticals.

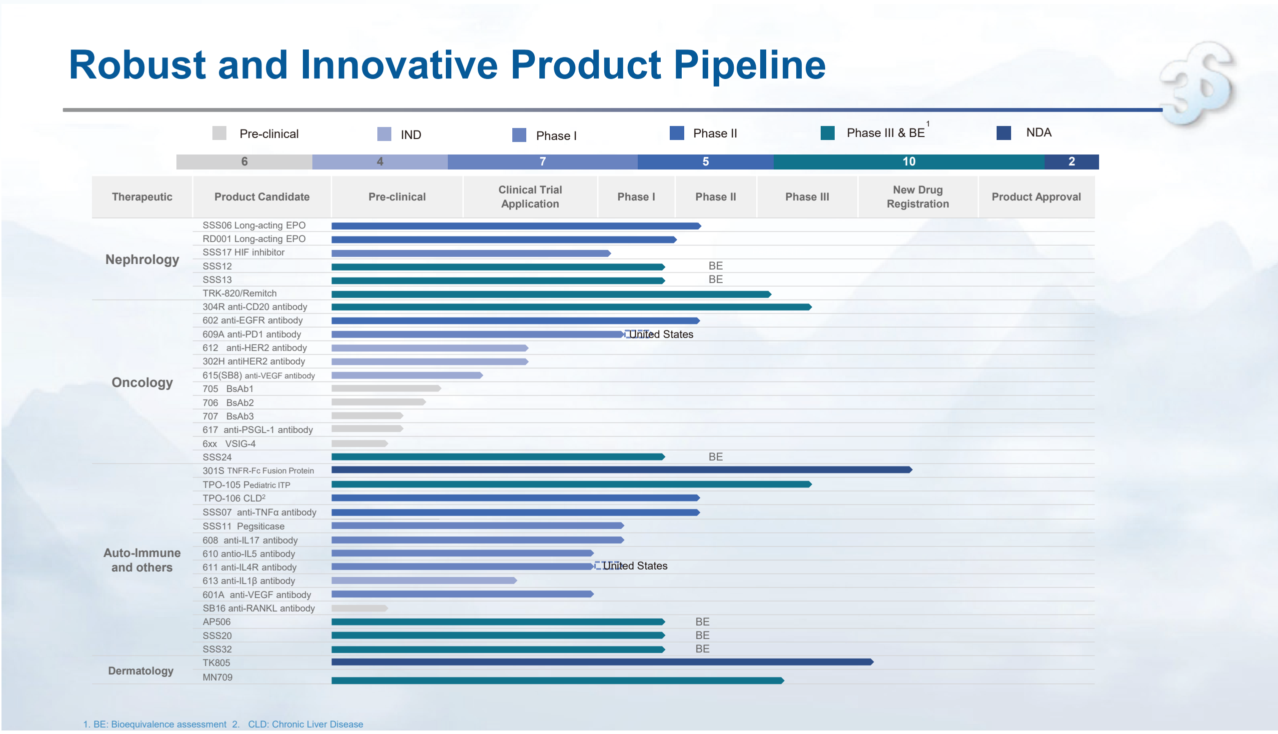
The Group focuses its R&D efforts on researching and developing innovative biological products as well as in small molecule therapeutics. Currently, the Group has several leading biological products in various stages of clinical development, including 304R (an anti-CD20 antibody to treat non-Hodgkin's lymphoma and other autoimmune diseases), 301S (the pre-filled aqueous injection solution of Yisaipu), SSS06 (NuPIAO, a second-generation rhEPO to treat anemia), RD001 (a pegylated long-acting rhEPO to treat anemia), SSS07 (an anti-TNF α antibody to treat RA and other inflammatory diseases), pegsiticase (a modified pegylated recombinant uricase from candida utilis to treat refractory gout), 601A (an anti-VEGF antibody to treat AMD and other ophthalmological diseases), 602 (an anti-EGFR antibody to treat cancer), 608 (an anti-IL-17A antibody to treat autoimmune and other inflammatory diseases), 609A (an anti-PD1 antibody to treat cancer), 610 (an anti-IL-5 antibody to treat severe asthma), and 611 (an anti-IL-4R α antibody to treat atopic dermatitis). On the small molecule side, the Group is conducting clinical trials of two innovative products: nalfurafine hydrochloride (TRK-820, a highly selective kappa receptor agonist) to treat pruritus in hemodialysis patients, and HIF-117 capsule (SSS17, a selective small molecule inhibitor to hypoxia inducible factor ("**HIF**") proline hydroxylase) to treat anemia. In addition, the Group is performing bio-equivalency studies of a number of generic small molecule products in the field of nephrology, autoimmune and dermatological diseases.

On the research front, the Group is developing a panel of novel biological products, including mAbs, bi-specific antibodies and fusion proteins, and a number of small molecule drugs, both innovative and generic, in the areas of oncology, autoimmune and inflammatory diseases, nephrology, ophthalmology and dermatological diseases. The Group expects to file multiple IND applications to both the U.S. Food and Drug Administration ("**USFDA**") and the PRC NMPA on new biologic entities with first-in-class and/or best-in-class potential, including new mAb and bi-specific antibodies, within the next 12 months.

The Group's R&D team, consisting of over 500 experienced scientists, 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.

Product Pipeline

As at 31 December 2020, amongst the 34 product candidates within the Group's active pipeline, 24 were being developed as National New Drugs in Mainland China. Out of these 34 products, 19 are mAb or bi-specific antibodies, six are other biologic products, and 9 are small molecule entities. The Group has 12 product candidates in oncology; 14 product candidates that target auto-immune diseases including RA, and other diseases including refractory gout and ophthalmological diseases such as AMD; six product candidates in nephrology; and two product candidates in dermatology.



Key Product Developments

As announced on 25 February 2020, the Group has received an IND approval from the NMPA to conduct clinical trials of an anti-IL-5 antibody (the Company's development code: 610) in patients with severe eosinophilic asthma. A dose-escalating phase I trial in healthy volunteers has been completed. The Group expects to initiate phase II trials in asthma patients soon.

As announced on 19 June 2020, the anti-HER2 antibody for injection, Inetetamab (commercial name: Cipterbin®/賽普汀®) has been approved by the NMPA for treatment of HER2-positive metastatic breast cancer in combination with chemotherapy. Sunshine Guojian independently developed this product based on its proprietary technology platform, and this product is Mainland China's first innovative anti-HER2 mAb with engineered Fc region and optimized production process and stronger ADCC effect. With Cipterbin being a project under Mainland China's national 863 Program, and a National Major Scientific and Technological Special Project for "Significant New Drugs Development" as well as a key Shanghai Municipal Science and Technological Project, its approval is expected to serve the unmet medical need of breast cancer patients in Mainland China, break the monopoly of imported drugs for anti-HER2 mAb and enhance the accessibility of national innovative drugs, thereby benefitting more patients in Mainland China.

As announced on 28 June 2020, the humanized mAb against IL 4 receptor alpha (IL-4R α) (the Company's development code: 611) independently developed by Sunshine Guojian was approved by the USFDA for clinical trials for the treatment of patients with atopic dermatitis (eczema). A dose-escalating phase I clinical trial in healthy volunteers is currently ongoing in the United States. An IND approval from the NMPA was received on 22 September 2020. The Group is planning to initiate phase Ib clinical trials in patients with atopic dermatitis in Mainland China in the very near future.

The Group has completed the phase III trial on the pre-filled aqueous injection solution of Yisaipu (301S) and submitted an application to the NMPA for manufacturing approval in July 2019. The application was accepted for review by the NMPA.

The Group has completed a phase I head-to-head trial comparing 304R (Jiantuoxi, an anti-CD20 antibody) with rituximab (Rituxan®) in non-Hodgkin's lymphoma patients with zero tumour burden, with major endpoints of safety and pharmacokinetics. The Group is currently performing internal auditing of the participating clinical trial sites and clinical study reports.

The Group has started a phase III clinical trial of TPIAO in the pediatric ITP indication. Patient enrollment is ongoing. The Group expects to complete patient enrollment in the second quarter of 2021. A phase I clinical trial for TPIAO in surgery patients with hepatic dysfunction at the risk of thrombocytopenia has been completed, and the Group is planning to initiate the phase II trials soon.

The Group has completed multiple phase I trials on NuPIAO (SSS06) in anemic patients. Patient enrollment in a randomized phase II clinical trial has been completed, and the Group expects a data readout by the early fourth quarter of 2021. The Group is currently planning for a phase III trial of the product.

The Group has completed a dose-escalating phase I safety and pharmacokinetics study on RD001 in healthy volunteers. Patient enrollment in a randomized phase II clinical trial is ongoing.

The Group has completed the phase I clinical trial of a humanized anti-TNF α antibody (SSS07) in both healthy volunteers and RA patients, and has submitted an IND application for a phase II trial in patients with RA.

The Group has completed two phase I trials of an anti-EGFR antibody (602): one in healthy volunteers and the other in patients with colorectal cancer, and has initiated a phase 2 clinical trial of the product in patients with colorectal cancer. Patient enrollment is ongoing.

The Group is currently conducting the phase I clinical trials for pegsiticase (SSS11) in refractory gout patients with high uric acid level. In the United States, the Group's business partner, Selecta, has commenced the phase III clinical program of the combination therapy SEL-212 for treatment of chronic refractory gout[12]. In 2014, Selecta was authorized by the Company to use pegsiticase, also known as pegadricase, (a recombinant enzyme that metabolizes uric acid) in the development of SEL-212. SEL-212 consists of pegsiticase and Selecta's proprietary ImmTOR® immune tolerance platform, which can durably control serum uric acid, reduce immunogenicity, and allow for repeated monthly dosing. In connection with the commencement of the phase III clinical program, Selecta made a milestone payment of USD4 million to the Company.

The Group has completed two dose-escalating phase I clinical trials of its anti-VEGF antibody (601A): one in AMD and the other in DME patients. The trials enrolled a total of 128 patients and have clearly demonstrated the safety and preliminary efficacy of the treatment. The Group has since initiated two phase II trials in patients with branch RVO and central RVO, respectively. Patient enrollment of both trials is actively ongoing. The Group is planning to initiate a phase II trial in pmCNV patients soon. The Group is also preparing to start phase II/III clinical trials of 601A in AMD and DME patients in the near future.

The Group has completed a dose-escalating phase I clinical trial of its anti-IL17A antibody (608) in healthy volunteers. A phase II trial in patients with plaque psoriasis is expected to start soon.

The Group has completed patient enrollment in a US phase I trial of its anti-PD1 antibody (the Company's development code: 609A) in patients with various cancers. Patient enrollment in a phase I trial in Mainland China is actively ongoing. The Group is currently planning for advanced clinical trials for the product in multiple cancer indications, both as a single agent therapy and in various combination therapies.

The Group has completed the part I study of a bridging phase III trial of nalfurafine hydrochloride (TRK-820, known as "REMITCH" as approved in Japan), an in-licensed product from Toray Industries, Inc., to treat pruritus in hemodialysis patients. TRK-820 is a highly selective κ (kappa)-opioid receptor agonist marketed in Japan since 2009 to treat pruritus in patients with chronic kidney and liver diseases. Patient enrollment for the part 2 study is actively ongoing. The Group expects to complete patient enrollment by the third quarter of 2021, with potential data readout in the fourth quarter of 2021.

The Group has started a randomized, double-blinded phase III study comparing head-to-head of MN709 (minoxidil foam) to Rogaine® in male patients with hair loss. Patient enrollment has been completed, and the Group expects a data readout by the third quarter of 2021.

The Group has initiated patient enrollment of a phase I clinical trial of HIF-117 capsule (SSS17) to treat anemia patients. SSS17 is a selective small molecule inhibitor to HIF proline hydroxylase, a molecule which can improve the stability and half-life of HIF α, so as to motivate the secretion of erythropoietin. It is expected that SSS17 will create synergies with the Group's rhEPO injections and provide CKD patients with alternative treatment options, particularly for pre-dialysis patients, a large and under-treated patient population in Mainland China.

[12] The phase III clinical program is on behalf of Sobi™ ("**Sobi**"), as pursuant to a strategic licensing agreement between Selecta and Sobi.

Key R&D Collaboration and Partnership Activities

On 14 December 2020, Sunshine Guojian and Verseau announced the selection of a mAb targeting VSIG-4, as a licensed program under their partnership agreement that focuses on the development and commercialization of novel mAbs in the field of immuno-oncology for a broad range of cancers. This is the second licensed program under the partnership agreement signed between the parties in 2019. The first licensed program was granted by Verseau to Sunshine Guojian for VTX-0811, a novel PSGL-1-targeted antibody in the field of immuno-oncology, on 18 November 2019.

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 team. The Group sells these products to distributors who are responsible for delivering products to hospitals and other medical institutions.

As at 31 December 2020, the Group's extensive sales and distribution network in Mainland China was supported by approximately 3,263 sales and marketing employees, 797 distributors and 2,263 third-party promoters. As at 31 December 2020, the Group's sales team covered over 2,500 Grade III hospitals and over 14,000 Grade II or lower hospitals and medical institutions across all provinces, autonomous regions and special municipalities in Mainland 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.

Outlook

In recent years, government policies on medical insurance reforms have focused on expanding insurance coverage and maintaining basic insurance levels. A number of measures have been implemented to advance the Chinese healthcare industry to its next stage of development, including dynamic adjustments of product selections and prices on the 2020 NRDL and National Essential Drugs List, gradual increase in the centralized volume-based drug procurement and price reduction of a variety of drugs, initiation of the Diagnosis Related Groups ("**DRGs**") pilot program for medical insurance, and the adoption of a two-tier diagnosis and treatment system involving regional healthcare associations and healthcare service alliances. Facing unprecedented changes, domestic innovative drugs are ready to take off, and the market competitive landscape has changed. The outcome of the negotiations of national medical insurance eliminated short and medium term market uncertainties, and strengthened the confidence in Mainland China's innovation-driven companies during a period of industrial advancement, which are of benefit to domestic innovative drug companies. The consistency evaluations of injections have accelerated the elimination of generic companies that lack credibility and competitiveness, and promoted the transformation of pharmaceutical companies that have R&D capacity for innovative drugs. The new drug-evaluation mechanism encourages innovation, and has accelerated the introduction of innovative drugs on the market, and advantages weigh eminently on the side of companies equipped with strong innovative R&D capabilities and multi-mode market operation capacities.

Government policy support will focus increasingly on innovative drugs and drugs with urgent clinical needs, signalling shorter approval timelines and greater chance for admission in the NRDL. The R&D standard has been raised, which promotes better product quality. The acceptance of overseas clinical trial data will help bring in more innovative drugs to address unmet medical needs in Mainland China. The improved living standards and the increase in the ageing population will demand more high quality healthcare products.

The mission of the Group is to stand at the forefront of innovation and to provide medicines that are innovative, affordable, and of international quality standard to the public. The Group aims to become a China-based, leading biopharmaceutical company by leveraging its integrated R&D, production and marketing platforms.

Medical reform policies now face greater challenges and difficulties. After the introduction of a new series of policies, the domestic pharmaceutical industry is also at the crossroad of a new round of development. Under the backdrop of the COVID-19 pandemic, the Group's core products serve as its moat, and we plan to advance in the broader markets of county-level areas by further penetrating hospitals that have already been covered by the Group's marketing team and the new hospitals that we plan to cover, and enhance the accessibility and convenience of marketed products through continuous academic promotions to medical professionals. The Group will continue to utilize its R&D outputs to create solid production patents and technology barriers, and in combination with its strong marketing team, the deepening of collaboration with leading international pharmaceutical companies, and the continued efforts to enhance business structures, such factors will contribute to the future success of the Group. Under the adjustment of the current medical reform policies, innovative R&D is of high significance, and maintaining a solid performance is also crucial amid the COVID-19 pandemic outbreak. The Group focuses on innovative bio-pharmaceutical drugs within four core areas. By adhering to the principle of "R&D + production + sales + external collaboration", the Group will endeavor a soft landing amidst major impacts, and leverage its structural competitive advantages so as to achieve stable growth under various metrics, including revenues and profits.

The Group has consistently pursued innovation and technology excellence. Its rich pipeline now includes 34 candidates, with 24 candidates being developed as National New Drugs (including registration Class I and Biologics Class II). The Group has successfully completed the divesture of its diabetes business in early 2021*, and will sharpen focus and continue to allocate resources in four core therapeutic areas including oncology, autoimmune diseases, nephrology and dermatology. The Group is pursuing further differentiation in chronic diseases, including the R&D of domestic first-tier drug candidates such as anti-IL-4R α antibody, anti-IL-5 antibody, and anti-IL-17A antibody, and focusing on researching and developing next generation bio-therapeutics, including programmed CAR-T cell therapeutics, immune checkpoint inhibitors, macrophage checkpoint modulators, bi-specific antibodies and other innovative antibody molecules, antibodies to novel targets, and various combination therapies based on the Company's comprehensive antibody pipeline. The Group will continue to build up its in-house clinical development capacity, accelerate the clinic process, and advance its integrative research capability on a highly focused basis.

* With only the exclusive license agreement in respect of the commercialization of Byetta remaining.

The Group will continue to maintain a comprehensive quality management and control system and voluntarily comply with global quality standards. The Group's facilities comprise its existing 38,000-liter mAb facility, which is the largest in Mainland China, as well as its production facilities for mammalian cells, bacterial cells and small molecules, all based on international standards. The Group's track records in respect of efficacy and product safety have been well proven. In addition to passing all the unannounced inspections conducted by the NMPA and the local governments, the Group has gradually expanded the production and scale at its four major bases in recent years, to meet the demands of the medical insurance policies (especially for national and provincial volume-based procurement) in future and rising sales. With more than 28 years of experience in the biopharmaceutical manufacturing field, the Group is able to produce high-quality medicines at a very competitive cost and with large-scale production capacity.

The Group positions itself in innovative drugs, and through strategic development, has achieved transformation and ascension to a global leading first-tier pharmaceutical company based in Mainland China. Sunshine Guojian, a subsidiary of the Company, whose shares have been listed on the STAR Market, will proactively introduce innovative targets and combination therapies, keeping pace with international trends and exploring global innovative drug candidates, with an aim to build up a next-generation platform for innovative antibody biotechnology, and to form a closed loop with the Group's innovative pharmaceuticals. In 2020, the Group screened various projects, and endeavored to extend external strategic partnerships so as to continuously bring in products that have market potential, and that are in line with the Group's direction and synergistic with the existing product pipeline. This allows the Group to expand its product portfolio in the core therapeutic areas, and to give overall consideration on future globalization strategy. At the same time, advancing the existing strategic collaborations with companies such as Toray, Samsung Bioepis, Refuge Biotechnologies, Verseau, TLC, Numab, GenSight, Sensorion and INV affirms the Group as a partner of choice to leading pharmaceutical companies around the world, and will serve as stepping stones for future strategic collaborations. The Group is growing its international sales through registration of existing products in new countries and development of new products in highly regulated markets.

The outbreak of the COVID-19 pandemic in 2020 has brought immeasurable uncertainties, risks and challenges to businesses. In the first half of 2020, work resumption was delayed, transportation was affected, and flow of goods and people and hospital visits were highly restricted, all of which impacted the Group's operations. In the second half of 2020, the general social and economic order in Mainland China returned to normal. In response, the Group closely monitored and analyzed risks, maintained focus and reduced expenses to maintain strong cash flows for security in the face of the outbreak and sustain stable performance to minimize the impacts. While fully cognizant of uncertainties and risks, the Group holds cautious confidence that after the 2020 experience, the Group has gained substantial experience in dealing with the new normalcy of the pandemic environment and developed a set of well-tested measures, such that stable growth may be sustained throughout the coming year.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the Group's revenue amounted to approximately RMB5,587.6 million, as compared to approximately RMB5,318.1 million for the year ended 31 December 2019, representing an increase of approximately RMB269.5 million, or approximately 5.1%. The increase was mainly attributable to the strong sales growth of TPIAO, EPIAO and small molecule therapeutics, which was partially offset by the decrease in the sales of Yisaipu.

For the year ended 31 December 2020, the Group's sales of TPIAO increased to approximately RMB2,762.7 million, as compared to approximately RMB2,322.9 million for the year ended 31 December 2019, representing an increase of approximately RMB439.8 million, or approximately 18.9%. Sales of TPIAO was not severely affected by the outbreak of COVID-19 pandemic mainly due to the inelastic nature of the medical need of its target patients. For the year ended 31 December 2020, the sales of TPIAO accounted for approximately 49.2% of the Group's total sales of goods.

For the year ended 31 December 2020, the Group's combined sales of EPIAO and SEPO increased to approximately RMB973.9 million, as compared to approximately RMB749.0 million for the year ended 31 December 2019, representing an increase of approximately RMB224.9 million, or approximately 30.0%. The increase was mainly due to the increase in sales volume which was in turn primarily driven by the improved penetration rate, as rhEPO has become a necessary basic drug at lower tier public medical institutions. For the year ended 31 December 2020, the Group's sales of EPIAO increased to approximately RMB733.0 million, as compared to approximately RMB546.3 million for the year ended 31 December 2019, representing an increase of approximately RMB186.8 million, or approximately 34.2%. For the year ended 31 December 2020, the Group's sales of SEPO increased to approximately RMB240.9 million, as compared to approximately RMB202.8 million for the year ended 31 December 2019, representing an increase of approximately RMB38.2 million, or approximately 18.8%. For the year ended 31 December 2020, the sales of EPIAO and SEPO accounted for a total of approximately 17.4% of the Group's total sales of goods.

For the year ended 31 December 2020, the Group's sales of Yisaipu decreased to approximately RMB615.3 million, as compared to approximately RMB1,143.6 million for the year ended 31 December 2019, representing a decrease of approximately RMB528.3 million, or approximately 46.2%. Such decrease was attributable to the intensifying competition in the market and the treatment of RA, with more elasticity associated with a chronic illness, being more susceptible to the impact of COVID-19 pandemic. Further, the Company announced a 50% price reduction of Yisaipu in October 2020, which had a negative effect to the sales of Yisaipu in the fourth quarter of 2020. For the year ended 31 December 2020, the sales of Yisaipu accounted for approximately 11.0% of the Group's total sales of goods.

For the year ended 31 December 2020, the Group's sales of small molecule therapeutics were approximately RMB644.9 million, as compared to approximately RMB527.1 million for the year ended 31 December 2019, representing an increase of approximately RMB117.8 million, or approximately 22.3%. The increase was mainly attributable to the increased sales volume of Mandi and Sparin (an injectable low-molecular-weight heparin calcium product indicated for: (1) prophylaxis and treatment of deep vein thrombosis and (2) prevention of clotting during hemodialysis). For the year ended 31 December 2020, the Group's sales of Mandi increased to approximately RMB367.6 million, as compared to approximately RMB250.2 million for the year ended 31 December 2019, representing an increase of approximately RMB117.4 million, or approximately 46.9%. The increase was mainly attributable to the increased market demand for hair loss and growth treatments, which was driven by the Group's diversified and effective promotional efforts. For the year ended 31 December 2020, the sales of small molecule therapeutics accounted for approximately 11.5% of the Group's total sales of goods.

For the year ended 31 December 2020, the Group's export sales decreased to approximately RMB62.1 million, as compared to approximately RMB68.0 million for the year ended 31 December 2019, representing a decrease of approximately RMB5.9 million, or approximately 8.7%. The decrease was mainly attributable to a reduced volume of purchase orders due to the outbreak of COVID-19 in 2020.

For the year ended 31 December 2020, the Group's other sales, which primarily consisted of sales from license-in products and contract manufacturing income from Sirton Pharmaceuticals S.p.A. ("**Sirton**"), a wholly-owned subsidiary of the Group, and other subsidiaries of the Group, increased to approximately RMB554.9 million, as compared to approximately RMB531.5 million for the year ended 31 December 2019, representing an increase of approximately RMB23.0 million, or approximately 4.3%. The increase was primarily attributable to the increased sales of license-in products and IV Iron Sucrose, an iron sucrose injection product indicated for the treatment of iron deficiency anemia.

Cost of Sales

The Group's cost of sales increased from approximately RMB925.3 million for the year ended 31 December 2019 to approximately RMB1,062.9 million for the year ended 31 December 2020, which accounted for approximately 19.0% of the Group's total revenue for the same period. The increase in the Group's cost of sales was due to the increased sales volume for the year ended 31 December 2020, as compared to the corresponding period in 2019.

Gross Profit

For the year ended 31 December 2020, the Group's gross profit increased to approximately RMB4,524.7 million, as compared to approximately RMB4,392.7 million for the year ended 31 December 2019, representing an increase of approximately RMB132.0 million, or approximately 3.0%. 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 81.0% for the year ended 31 December 2020 from approximately 82.6% for the corresponding period in 2019. The decrease was mainly due to the increased cost of raw materials for some products in the Group's product portfolio.

Other Income and Gains

The Group's other income and gains mainly comprised government grants, interest income, foreign exchange gain and other miscellaneous income. For the year ended 31 December 2020, the Group's other income and gains decreased to approximately RMB178.2 million, as compared to approximately RMB218.1 million for the year ended 31 December 2019, representing a decrease of approximately RMB39.9 million, or approximately 18.3%. The decrease was mainly attributable to the foreign exchange losses in 2020, as compared to the foreign exchange gain in 2019.

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 2020, the Group's selling and distribution expenses amounted to approximately RMB2,019.7 million, as compared to approximately RMB1,950.7 million for the year ended 31 December 2019, representing an increase of approximately RMB69.0 million, or approximately 3.5%. The increase was broadly in line with its revenue growth during the period. In terms of the percentage of revenue, the Group's selling and distribution expenses represented approximately 36.1% for the year ended 31 December 2020 as compared to approximately 36.7% for the year ended 31 December 2019.

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 2020, the Group's administrative expenses amounted to approximately RMB452.8 million, as compared to approximately RMB676.0 million for the year ended 31 December 2019, representing a decrease of approximately RMB223.2 million, or approximately 33.0%. The decrease was mainly due to the effects of the expenses associated with the share options and the share awards of the Company and the employee share ownership plan (the "**ESOP**") of Sunshine Guojian. Had the effects of the non-recurring items been excluded, the administrative expenses for the year ended 31 December 2020 would have been approximately RMB351.5 million, as compared to approximately RMB329.9 million for the year ended 31 December 2019, representing an increase of approximately RMB21.6 million, or approximately 6.5%. The administrative expenses (excluding the aforementioned non-recurring items) as a percentage of revenue was approximately 6.3% for the year ended 31 December 2020, as compared to approximately 6.2% for the corresponding period in 2019.

R&D costs

The Group's R&D costs primarily consisted of staff costs, materials consumption, clinical trials costs, depreciation and amortization, and other miscellaneous R&D expenses. For the year ended 31 December 2020, the Group's R&D costs amounted to approximately RMB590.3 million, as compared to approximately RMB526.6 million for the year ended 31 December 2019, representing an increase of approximately RMB63.8 million, or approximately 12.1%. The increase was mainly due to the increased investments in R&D activities and projects, which was in turn driven by the accelerated progress of the Group's product pipeline. The R&D costs as a percentage of revenue was approximately 10.6% for the year ended 31 December 2020, as compared to approximately 9.9% for the corresponding period in 2019.

Other Expenses

The Group's other expenses primarily consisted of donation expenses, provision for impairment of financial assets, other miscellaneous expenses and foreign exchange losses. For the year ended 31 December 2020, the Group's other expenses amounted to approximately RMB549.5 million, as compared to approximately RMB114.0 million for the year ended 31 December 2019, representing an increase of approximately RMB435.4 million, or approximately 381.9%. The increase was mainly attributable to the foreign exchange losses and the write-off expenses of the termination of the exclusive distribution rights in other intangible assets in relation to Bydureon and Humulin.

Finance Costs

For the year ended 31 December 2020, the Group's finance costs amounted to approximately RMB81.1 million, as compared to approximately RMB109.5 million for the year ended 31 December 2019, representing a decrease of approximately RMB28.4 million, or approximately 26.0%. The decrease was mainly due to the decrease in interest expenses in relation to the repayment of bank borrowings and the lower interest cost in respect of the 2025 Bonds. Excluding the non-cash interest expenses of the Bonds, the finance costs decreased from approximately RMB37.0 million for the year ended 31 December 2019 to approximately RMB13.6 million for the year ended 31 December 2020, representing a decrease of approximately RMB23.4 million, or approximately 63.2%.

Income Tax Expense

For the year ended 31 December 2020, the Group's income tax expense amounted to approximately RMB208.0 million, as compared to approximately RMB242.8 million for the year ended 31 December 2019, representing a decrease of approximately RMB34.8 million, or approximately 14.3%. The effective tax rates for the year ended 31 December 2020 and the corresponding period in 2019 were 21.2% and 19.9%, respectively. The increase in the effective tax rate was mainly attributable to the increase in offshore losses for the year ended 31 December 2020, as compared to the year ended 31 December 2019.

EBITDA and Net Profit Attributable to Owners of the Parent

The EBITDA for the year ended 31 December 2020 decreased by approximately RMB243.4 million or approximately 15.3% to approximately RMB1,343.0 million, as compared to approximately RMB1,586.4 million for the year ended 31 December 2019. The normalized EBITDA is defined as the EBITDA for the period excluding, as applicable: (a) the interest expenses incurred in relation to the 2022 Bonds and the 2025 Bonds; (b) the expenses associated with the share options and awarded shares granted in February 2017, March 2020 and September 2020; (c) the expenses associated with the awarded shares under the ESOP by Sunshine Guojian; and (d) the write-off expenses of the termination of the exclusive distribution rights in other intangible assets in relation to Bydureon and Humulin. The Group's normalized EBITDA for the year ended 31 December 2020 decreased by approximately RMB398.9 million or approximately 19.9% to approximately RMB1,606.1 million, as compared to approximately RMB2,005.0 million for the year ended 31 December 2019.

The net profit attributable to owners of the parent for the year ended 31 December 2020 was approximately RMB835.8 million, as compared to approximately RMB973.7 million for the year ended 31 December 2019, representing a decrease of approximately RMB137.9 million, or approximately 14.2%. 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 interest expenses incurred in relation to the 2022 Bonds and the 2025 Bonds; (b) the expenses associated with share options and awarded shares granted in February 2017, March 2020 and September 2020; (c) the expenses associated with the awarded shares under the ESOP by Sunshine Guojian; and (d) the write-off expenses of the termination of the exclusive distribution rights in other intangible assets in relation to Bydureon and Humulin. The Group's normalized net profit attributable to owners of the parent for the year ended 31 December 2020 was approximately RMB1,166.4 million, as compared to approximately RMB1,392.3 million for the year ended 31 December 2019, representing a decrease of approximately RMB226.0 million, or approximately 16.2%.

Normalized net profit attributable to owners of the parent for the year ended 31 December 2020, after excluding foreign exchange losses, was approximately RMB1,416.4 million, as compared to approximately RMB1,344.7 million for the year ended 31 December 2019, as after excluding foreign exchange gains in the year, representing an increase of approximately RMB71.7 million, or approximately 5.3%.

Earnings Per Share

The basic earnings per share for the year ended 31 December 2020 was approximately RMB0.33 as compared to approximately RMB0.38 for the year ended 31 December 2019, representing a decrease of approximately 13.2%. The calculation of the normalized basic earnings per share amount is based on the normalized net profit attributable to owners of the parent and the weighted average ordinary shares of the Company in issue during the Reporting Period, as adjusted to reflect the issue of ordinary shares during the Reporting Period. The normalized basic earnings per share for the year ended 31 December 2020 was approximately RMB0.46, as compared to approximately RMB0.55 for the year ended 31 December 2019, representing a decrease of approximately 16.4%.

Other Comprehensive Income or Losses

The Group's other comprehensive income mainly consisted of comprehensive investment income and converted differences in foreign currency statements. For the year ended 31 December 2020, the Group's comprehensive investment income amounted to approximately RMB197.1 million, as compared to approximately RMB0.9 million for the year ended 31 December 2019, representing an increase of approximately RMB196.2 million, or approximately 22,839.8%. The increase was mainly attributable to the significant increase of the fair value of certain equity investments of the Group measured at fair value through other comprehensive income.

Financial Assets Measured at Fair Value

As at 31 December 2020, financial assets measured at fair value primarily comprised the investment in treasury or cash management products issued by certain banks, the investment in listed companies and the investments in private equity funds which focus on the healthcare industry.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group's liquidity remained strong despite a decrease in net cash inflow. For the year ended 31 December 2020, the Group's operating activities generated a net cash inflow of approximately RMB1,344.6 million, as compared to approximately RMB1,887.4 million for the year ended 31 December 2019, representing a decrease of RMB542.8 million or approximately 28.8%. The decrease was mainly attributable to the increased cash outflow for operating expenses. As at 31 December 2020, the Group's cash and cash equivalents and pledged deposits were approximately RMB3,216.7 million.

Net Current Assets

As at 31 December 2020, the Group had net current assets of approximately RMB5,229.0 million, as compared to net current assets of approximately RMB2,984.5 million as at 31 December 2019. The current ratio of the Group increased from approximately 2.9 as at 31 December 2019 to approximately 4.6 as at 31 December 2020. The increase in net current assets and current ratio was mainly attributable to the receipt of the proceeds of the Offering of Sunshine Guojian's shares.

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 2020, the Group had an aggregate interest-bearing bank borrowing of approximately RMB413.5 million, as compared to approximately RMB497.2 million as at 31 December 2019. The decrease in bank borrowings primarily reflected the repayment of loans of RMB589.4 million, which was partially offset by additional bank loans of RMB501.8 million obtained in 2020. Among the short-term deposits, none was pledged to secure the aforementioned bank loans as at 31 December 2020. At 31 December 2020, certain of the Group's land and buildings, which had aggregate carrying amounts of approximately RMB2.8 million (2019: RMB2.7 million) and RMB13.6 million (2019: RMB14.4 million), respectively, were pledged to secure general banking facilities granted to the Group.

As at 31 December 2020, the Group had outstanding convertible bonds of approximately RMB2,461.4 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 3.2% as at 31 December 2020 from approximately 4.8% as at 31 December 2019. The decrease was primarily due to the movement of equity, which was brought by comprehensive income and capital injection from non-controlling shareholders.

Contingent Liabilities

As at 31 December 2020, the Group had no significant contingent liabilities, save for the potential contingent liabilities in connection with the following proceedings in 2020:

- **Lawsuit of Sunshine Guojian**

  Shenyang Aircraft Industry Group Aluminum Curtain Wall Engineering Co., Ltd. ("**Shenyang Aircraft**") filed a lawsuit in July 2020, requesting the court to order Shanghai Shengguo Pharmaceutical Development Co., Ltd. ("**Shanghai Shengguo**"), a wholly-owned subsidiary of Sunshine Guojian, to pay the outstanding project funds and the liquidated damages for delayed payment of RMB5,095,438 in total. Shenyang Aircraft added Nantong Sijian Construction Group Co., Ltd. ("**NTSJ**") as the defendant in December 2020 and changed the claims as requesting the court to order NTSJ to pay the outstanding project funds and liquidated damages for delayed payment of RMB5,095,438 in total, and also demanding Shanghai Shengguo to bear joint liabilities. NTSJ instituted a countersuit in December 2020, requesting the court to order Shenyang Aircraft to compensate for the liquidated damages for the project delay of RMB28,825,813 in total, and also demanding Shanghai Shengguo to bear joint liabilities.

  As of the date of this annual report, the above case is still pending. After making overall analysis and consulting with lawyers for professional opinions, the management of Sunshine Guojian considers that the above pending lawsuits have no material impact on the financial statements of Sunshine Guojian on the balance sheet date.

- **Lawsuit of Sciprogen**

  Shandong Beiyao Lukang Pharmaceutical Technology Co., Ltd. ("**Shandong Beiyao**") filed a lawsuit in March 2020, requesting the court to order Shenzhen Sciprogen Bio-pharmaceutical Technology Co., Ltd. ("**Sciprogen**"), a wholly-owned subsidiary of the Company, to pay losses and return prepayment of RMB16,886,107 in total. Subsequently, Sciprogen was informed that Shandong Beiyao changed the sum of its claims for losses to RMB60,032,223 on 9 March 2021. As of the date of this annual report, Sciprogen has not yet received the complete set of evidential materials newly submitted by Shandong Beiyao after changing its claims.

  As of the date of this annual report, the above case is still pending. After making overall analysis and consulting with lawyers for professional opinions, the management of the Company considers that the above pending lawsuits have no material impact on the financial statements of the Company on the balance sheet date.

Contractual Obligations

The Group's capital commitment amounted to approximately RMB1,420.3 million as at 31 December 2020, as compared to approximately RMB1,822.0 million as at 31 December 2019.

Foreign Exchange and Exchange Rate Risk

The Group mainly operates in Mainland 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 RMB62.1 million, or approximately 1.1% of the Group's revenue, for the year ended 31 December 2020. 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-dominated Bonds, the Group believes that it does not have any other material direct exposure to foreign exchange fluctuations. As at 31 December 2020, the Group's foreign currency denominated bank deposits primarily comprised: (1) approximately USD34.9 million (equivalent to approximately RMB228.0 million); (2) approximately HKD21.5 million (equivalent to approximately RMB18.1 million); and (3) approximately EUR28.9 million (equivalent to approximately RMB232.3 million). 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 2020, the Group did not have any significant investments.

Future Plans for Material Investments or Capital Assets

The Group estimates that the total capital expenditure of the Group for the next three years will be in the range of RMB2,000 million to RMB2,500 million. 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 2020, the Group employed a total of 5,584 employees, as compared to a total of 5,404 employees as at 31 December 2019. The staff costs, including Directors' emoluments but excluding any contributions to the pension scheme, were approximately RMB1,219.9 million for the year ended 31 December 2020, as compared to approximately RMB1,436.6 million for the corresponding period in 2019. 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, which is 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 and a share award scheme and other incentive initiatives such as cash awards for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. In addition, Sunshine Guojian has adopted a restricted share incentive plan in February 2021.

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 the Group has.

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, of the Group's key products, TPIAO, EPIAO and SEPO, Yisaipu and Cipterbin, as well as certain other products including Byetta and Qiming Keli, are listed on the 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 government agencies for selection, which usually is based on the bid price, clinical effectiveness and quality of each product and the reputation of the bidder. For each product category, the local government agencies 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 in 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 NMPA;
- 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 NMPA before they can be marketed and sold in Mainland China. The NMPA 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 NMPA. In addition, the NMPA 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 NMPA approval for the Group's product candidates, or possibly preclude the Group from obtaining NMPA 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 collaborations, licensing arrangements, partnerships, joint ventures, strategic alliances, acquisitions, or other strategic investments or arrangements, which may fail to produce anticipated benefits and may 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 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 risks or issues 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 58, was appointed as a Director on 5 September 2006 and was re-designated 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 is a co-founder of the Group and joined Shenyang Sunshine Pharmaceutical Company Limited ("**Shenyang Sunshine**") as a director of R&D 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) chairman of the board of Sciprogen;

10) 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**");

11) chairman of the board of Guangdong Sunshine Pharmaceutical Co., Ltd. (廣東三生製藥有限公司, "**Guangdong Sunshine**");

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

13) director of Strategic International;

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

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

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 "First Prize of 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 "Third Prize of Liaoning Province Scientific and Technological Achievements" (遼寧省科技成果轉化三等獎) for his contribution to the industrialization of production of recombinant human thrombopoietin. 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.

Ms. SU Dongmei, aged 51, was appointed as a Director on 11 June 2012 and was re-designated 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;

(iii) director of Sciprogen;

(iv) director of Guangdong Sciprogen;

(v) director of Guangdong Sunshine; and

(vi) director of Strategic International.

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.

Non-executive Directors

Mr. HUANG Bin, aged 60, 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, and was re-designated as a non-executive Director on 20 June 2019. Mr. Huang joined Shenyang Sunshine in 1993 as a manager of the human resources department.

Mr. Huang also holds the following positions (in a non-executive capacity) with other members of the Group:

(i) director and vice president of Shenyang Sunshine; and

(ii) director and general manager of Taizhou Huan Sheng Investment.

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.

Mr. TANG Ke, aged 41, was appointed as a non-executive Director on 10 February 2020. He has more than 15 years of work experience in the investment sector. Mr. Tang joined CITIC Private Equity Funds Management Co., Ltd (中信產業投資基金管理有限公司, "**CITIC PE**") in 2013 and had held various positions, including Vice President and Managing Director, before he became in charge of the investment department of the healthcare sector at CITIC PE. Mr. Tang has substantial experience in corporate investment, strategic planning, capital operation and corporate management. Mr. Tang served as an Associate and Executive Director at the investment banking division of Goldman Sachs Gao Hua from 2008 to 2011 and later served as an Investment Manager at the Principal Investment Department of Goldman Sachs Group from 2012 to 2013.

Mr. Tang also serves as a non-executive Director of Acotec Scientific Co. Ltd* (北京先瑞達醫療科技有限公司), (previously as its chairman of the board of directors and its legal representative) and as the chairman of the board of directors of Spectrum Dynamics Medical Group Limited, Changzhou Dingjian Medical Limited* (常州鼎健醫療器械有限公司), Shanghai Guang Mai Medical Technology limited.* (上海光脈醫療科技有限公司), and Beijing EverLife Healthcare Hospital Management Company Limited* (北京長生眾康醫院管理有限公司), respectively. He was a director in Biosensors International Group, Ltd. (a company formerly listed on Singapore Exchange Securities Trading Limited which was subsequently delisted in 2016) from 2016 to 2018. Mr. Tang also served as a director of Bluesail Medical Co., Ltd.* (藍帆醫療股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 002382) from September 2018 to May 2020.

Mr. Tang obtained his Bachelor of Arts from Southeast University and his Master of Business Administration from the Kellogg School of Management of the Northwestern University.

* For identification purposes only

Independent Non-executive Directors

Mr. PU Tianruo, aged 53, 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 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, Kaixin Auto (a company listed on the NASDAQ with symbol KXIN), One Connect Financial Technology (a company listed on the NYSE with symbol OCFT) since December 2019, and Luckin Coffee (a company listed on the NASDAQ with symbol LK). Mr. Pu was previously the independent non-executive director of JMU Limited (a company listed on the NASDAQ with symbol JMU) and the chief financial officer of Zhaopin Ltd. (a company listed on the NYSE with symbol ZPIN). 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 71, 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 CTI BioPharma, Inc. and of Angiocrine Bioscience. He is the co-founder and chairman of the board of Refuge Biotechnology, 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, of Threshold Pharmaceuticals, Inc. (a company listed on the NASDAQ with symbol THLD) from May 2010 to July 2017, and of Tocagen Inc. (previously listed on the NASDAQ with symbol TOCA) from May 2015 to June 2020. 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 USFDA 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.

Dr. WONG Lap Yan, aged 50, was appointed as an independent non-executive Director on 8 October 2019. He is a Chartered Biologist and Fellow of the Royal Society of Biology and a Chartered Scientist of the Science Council of the United Kingdom. Dr. Wong has over 20 years of work experience with various highly respected healthcare and biopharmaceutical companies, genetic services providers and academia in biology, including conducting antibody cancer research in translational oncology at Genentech Inc. (formerly listed on NYSE: DNA and now a subsidiary of Roche), research in pharmacokinetics and drug metabolism at Amgen Inc. (a company listed on the NASDAQ with symbol AMGN) and pharmaceutical research at SRI International (a scientific research institute established by the trustees of Stanford University) in the United States. His research work has contributed to the discovery, research and development of cancer target therapy drugs, including Bevacizumab (Avastin) and Vemurafenib (Zelboraf), which are medication used to treat different types of cancers and specific eye diseases. He has published numerous medical research articles and abstracts in journals on different topics, including cancer and nutritional science, which have been cited extensively by peer scientists and researchers.

Dr. Wong has also served as a Postdoctoral Fellow at the Faculty of Medicine at The University of Hong Kong and as a chief executive officer of a biotechnology company in Hong Kong. Dr. Wong is now the Chief Scientific Officer and Principal Scientist of Alom Intelligence Limited that offers deep learning technology and analytical solutions relating to healthcare and financial data, and a director and founder of Cannan Biotech Limited that offers biotech and A.I. technology consultancy services.

Dr. Wong obtained his Bachelor of Science in Human Biology from the University of Toronto, Canada and Doctor of Philosophy in Biological Sciences from The University of Hong Kong.

SENIOR MANAGEMENT

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

Dr. ZHU Zhenping (朱禎平), aged 56, is the president of R&D at Sunshine Guojian since June 2019. He had been the president of R&D and chief scientific officer of the Company from January 2017 to September 2019. 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 USFDA-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.

Directors and Senior Management

Mr. WANG Fei (王飛), aged 44, is the chief financial officer of the Company. Before joining the Company in April 2020, Mr. Wang worked at AstraZeneca, as the chief financial officer of its China operation from January 2011 to October 2015 and as the director of finance of its respiration, immunology and inflammation department from January 2020 to April 2020. He served as an executive director and as chief financial officer of a Hong Kong listed company from March 2018 to December 2019. Mr. Wang received a bachelor's degree in management from Xinjiang University of Finance and Economics in 1999 and a MBA from Shanghai Jiao Tong University and Euromed Marseille Ecole de Management (now known as KEDGE) in 2012. Mr. Wang is a certified public accountant in the PRC.

Mr. XIAO Weihong (肖衛紅), aged 52, is the general manager of Sunshine Guojian since June 2019. He had been the chief operating officer of the Company from March 2016 to September 2019. 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. CHEN Yongfu (陳永富), aged 64, is a vice president of the Company, and has been in charge of administration and construction of the Group since 2018. Previously, he was also responsible for compliance and internal control. Mr. Chen has served as a non-executive director of Sunshine Guojian since June 2019. Mr. Chen has also served as a director of Hongkong Sansheng since November 2014. Mr. Chen had 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 40, is the vice general manager and secretary to the board of directors of Sunshine Guojian since June 2019. She had been the joint company secretary of the Company from April 2016 to October 2019, and was responsible for overseeing capital market, corporate governance, legal and public relation matters of the Group. Ms. Liu has served as a director of Hongkong Sansheng since November 2014, and as the supervisor of Sciprogen since December 2014. She also served as the supervisor of Shenzhen Baishitong from December 2014 to September 2019, and as the supervisor of Guangdong Sciprogen from December 2014 to August 2019. She served as a director of Sirton from January 2015 to November 2018. Ms. Liu joined Shenyang Sunshine as an international drug registration representative in January 2007. Ms. Liu served as an assistant to the chief executive officer and a project manager of foreign drug registration of Shenyang Sunshine from 2008 to 2011. Ms. Liu was responsible for various roles in the Hong Kong initial public offering of the Company. Ms. Liu obtained a Bachelor's degree in Biochemistry and a Master's degree in Chemistry with Entrepreneurship from the University of Nottingham in July 2004 and December 2006, respectively.

Mr. XU Yong (徐勇), aged 56, was appointed as a general manager and director of Sciprogen in 2015. He is also a director of Guangdong Sciprogen, Guangdong Sunshine and Gains Prestige. 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 2020.

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 (the "**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 biopharmaceutical products in PRC. Analysis of the principal activities of the Group during the year ended 31 December 2020 is set out in the note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss on page 84 of this annual report.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: nil).

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 2020 using financial key performance indicators are provided in the section headed "Management Discussion and Analysis" on pages 9 to 32. 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 56 to 57 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 2020, the Group's sales to its five largest customers accounted for 17.0% (2019: 17.1%) of the Group's total revenue and the Group's single largest customer accounted for 4.9% (2019: 5.3%) of the Group's total revenue.

Major Suppliers

For the year ended 31 December 2020, the Group's five largest suppliers accounted for 46.7% (2019: 37.6%) of the Group's total purchases and the Group's single largest supplier accounted for 18.0% (2019: 14.2%) of the Group's total purchases.

During the year ended 31 December 2020, 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 2020 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 2020 are set out in note 34 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 incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

EQUITY-LINKED AGREEMENTS

Share Option Scheme

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 Report of Directors.

Except as disclosed above, the Company had not entered into any equity-linked agreements in 2020, nor did there subsist any equity-linked agreement entered into by the Company as at 31 December 2020.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2020 are set out on pages 88 to 89 in the consolidated statement of changes in equity in this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Laws of Cayman Islands, amounted to approximately RMB4,383.7 million (as at 31 December 2019: RMB4,643.7 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2020 are set out in note 31 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2020 and up to the date of this annual report are:

Executive Directors:

Dr. LOU Jing *(Chairman & Chief Executive Officer)*	(appointed on 5 September 2006)
Ms. SU Dongmei	(appointed on 11 June 2012)

Non-executive Directors:

Mr. HUANG Bin	(appointed on 27 November 2014, and re-designated from executive Director on 20 June 2019)
Mr. TANG Ke	(appointed on 10 February 2020)
Mr. LIU Dong	(appointed on 27 November 2014, and resigned on 10 February 2020)

Independent Non-executive Directors:

Mr. PU Tianruo	(appointment effective on 1 June 2015)
Mr. David Ross PARKINSON	(appointment effective on 1 June 2015)
Dr. WONG Lap Yan	(appointed on 8 October 2019)

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 ("**AGM**"), provided that every Director shall be subject to retirement by rotation at least once every three years.

In accordance with article 83(3) of the Articles of Association, any Director appointed by the Board either to fill a casual vacancy or as an addition to the Board will hold office until the first general meeting or the next following AGM of the Company after his/her appointment.

Details of the Directors to be re-elected at the AGM will be set out in the circular to the shareholders of the Company prior to its upcoming AGM.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 33 to 38 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed his/her 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 AGM of the Company since the Listing Date (whichever is earlier), which shall be automatically renewed for successive periods of three years 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. Ms. SU Dongmei, the other executive Director, has entered into a service contract with the Company for an extended term of three years commencing from 11 June 2018 until the date of the AGM of the Company in the year 2021 (or, in case there is no AGM in such year, until 20 June 2021), until termination in accordance with the terms and conditions of the service contract, or by either party giving to the other prior notice in writing. Ms. Su Dongmei's service contract is expected to be renewed.

Mr. HUANG Bin, one of the non-executive Directors, has entered into an appointment letter with the Company for a term commencing from 20 June 2019 until, hereafter, the date of the second upcoming AGM of the Company, which shall be automatically renewed for further three years, unless otherwise terminated in accordance with the terms and conditions of the appointment letter. Mr. TANG Ke, the other non-executive Director, has entered into an appointment letter with the Company for a term commencing from 10 February 2020 until, hereafter, the date of the second upcoming AGM of the Company, which shall be automatically renewed for further three years, unless otherwise terminated in accordance with the terms and conditions of the appointment letter.

Each of Mr. David Ross PARKINSON and Mr. PU Tianruo, two of the independent non-executive Directors, entered into an appointment letter with the Company on 23 May 2015. The appointment under the aforementioned letter has been renewed and extended until, hereafter, the date of the second upcoming AGM of the Company, which shall be automatically renewed for further three years, unless otherwise terminated in accordance with the terms and conditions of the appointment letter. Dr. WONG Lap Yan, the other independent non-executive Director, has entered into an appointment letter with the Company for a term of three years commencing from 8 October 2019, which shall be automatically renewed for further three years, unless terminated in accordance with the terms of the appointment letter.

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 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 CONTRACTS OF SIGNIFICANCE

Other than those transactions disclosed in note 41 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 2020.

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 2020.

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 2020 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 notes 10 and 33 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 2020.

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

As at 31 December 2020, 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 to the Listing Rules were as follows:

(i) Interests in the Company

Name	Position	Nature of Interest	Number of Shares held	Approximate percentage of all Shares in Issue(1)
LOU Jing(2) (婁競)	Executive Director	Beneficial owner	660,000(L)	0.03%
		Beneficiary of a trust	50,174,510(L)	1.97%
		Other	476,774,553(L)	18.74%
			Total: 527,609,063(L)	20.74%
SU Dongmei(3) (蘇冬梅)	Executive Director	Interest in controlled corporation	24,384,630(L)	0.96%
		Beneficial owner	660,000(L)	0.03%
			Total: 25,044,630(L)	*0.98%
HUANG Bin(4) (黃斌)	Non-Executive Director	Interest in controlled corporation	32,197,350(L)	1.27%

Notes:

(L): denotes long position

*: Figures shown as total may not be an arithmetic aggregation of the figures being added up due to rounding adjustment.

(1) The calculation is based on the total number of 2,543,600,999 Shares in issue as at 31 December 2020.

(2) Dr. LOU Jing was granted 660,000 share options by the Company, representing 660,000 Shares upon full exercise. Dr. LOU Jing was a beneficiary under two unnamed trusts which were interested in 41,746,000 Shares and 8,428,510 Shares respectively. Further, Dr. LOU Jing was an enforcer and a beneficiary of an unnamed discretionary trust which was interested in 476,774,553 Shares. Therefore, Dr. LOU Jing was deemed to be interested in all such Shares as discussed in the foregoing.

(3) Ms. SU Dongmei directly holds the entire issued share capital of Joint Palace Group Limited ("**JPG**") and therefore, was deemed to be interested in the same number of the Shares in which JPG was interested (i.e. 24,384,630 Shares); and, Ms. SU Dongmei was granted 660,000 share options by the Company, representing 660,000 Shares upon full exercise.

(4) Mr. HUANG Bin directly holds the entire issued share capital of Known Virtue International Limited ("**KVI**") and therefore, was deemed to be interested in the same number of the Shares in which KVI was interested (i.e. 32,197,350 Shares).

(ii) Interests in Associated Corporations

Name	Position	Associated Corporation	Nature of Interest	Number of Securities held	Approximate Percentage of Outstanding Share Capital of the Associated Corporation[1]
LOU Jing (婁競)	Executive Director	Sunshine Guojian	Interest in controlled corporation	25,160,657[(L)(1)]	4.54%
SU Dongmei (蘇冬梅)	Executive Director	Sunshine Guojian	Others[2]	200,000[(L)(2)]	0.04%

Notes:

(L): denotes long position.

(1) The shares were allotted by Sunshine Guojian to Achieve Well International Limited, a company wholly-owned by Dr. LOU Jing, under the ESOP adopted by Sunshine Guojian as announced on 2 July 2019 by the Company, for purposes of holding the awarded shares granted to Dr. LOU Jing. Upon completion of the Offering of Sunshine Guojian on 22 July 2020, the approximate percentage of Dr. LOU Jing's interest in the share capital of Sunshine Guojian was diluted to 4.08%. The change did not trigger a disclosure obligation under the SFO and therefore the information shown in the table as of 31 December 2020 reflects Dr. LOU Jing's interests position as required to be disclosed under the SFO.

(2) An ultimate beneficial owner of an interest in a fund (the "**Fund**") that is used for holding shares awarded under the ESOP adopted by Sunshine Guojian as announced on 2 July 2019 by the Company, which directly holds the awarded shares for the ultimate benefit of Ms. SU Dongmei, being one of the grantees of the awarded shares that have been allotted to the Fund by Sunshine Guojian. Upon completion of the Offering of Sunshine Guojian on 22 July 2020, the approximate percentage of Ms. SU Dongmei's interest in the share capital of Sunshine Guojian was diluted from 0.036% to 0.032%. The change did not trigger a disclosure obligation under the SFO and therefore the information shown in the table as of 31 December 2020 reflects Ms. SU Dongmei's interests position as required to be disclosed under the SFO.

Save as disclosed above, as at 31 December 2020, 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

Other than disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the Reporting Period was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

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

As at 31 December 2020, 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**")[2]	Beneficial owner	476,774,553[(L)]	18.74%
Century Sunshine Limited ("**CSL**")[2]	Interest in a controlled corporation	476,774,553[(L)]	18.74%
XING Lily[3]	Interest in a controlled corporation[2]	476,774,553[(L)]	18.74%
	Interest of spouse[3]	48,606,010[(L)]	1.91%
		Total: 525,380,563[(L)]	20.65%
Lambda International Limited[2]	Interest in a controlled corporation	476,774,553[(L)]	18.74%
TMF (Cayman) Ltd.[4]	Trustee	580,514,043[(L)]	22.82%
CS Sunshine Investment Limited[5]	Beneficial owner	472,212,360[(L)]	18.56%
CPEChina Fund, L.P.[5]	Interest in a controlled corporation	472,212,360[(L)]	18.56%
CITIC PE Associates, L.P.[5]	Interest in a controlled corporation	472,212,360[(L)]	18.56%
CITIC PE Funds Limited[5]	Interest in a controlled corporation	472,212,360[(L)]	18.56%
CITICPE Holdings Limited[5]	Interest in a controlled corporation	472,212,360[(L)]	18.56%
CLSA Global Investment Management Limited[5]	Interest in a controlled corporation	472,212,360[(L)]	18.56%
CITIC Securities International Company Limited[5]	Interest in a controlled corporation	472,212,360[(L)]	18.56%
CITIC Securities Company Limited[5]	Interest in a controlled corporation	472,212,360[(L)]	18.56%

Name of Shareholder	Nature of Interest	Number of Shares held	Approximate percentage of all Shares in Issue[(1)]
JPMorgan Chase & Co.	Interest in a controlled corporation	125,024,198[(L)]	4.92%
		114,333,892[(S)]	4.49%
	Person having a security interest in shares	117,599,533[(L)]	4.62%
	Approved lending agent	36,228,610[(L)&(P)]	1.42%
		Total: 278,852,341[(L)]	10.96%
		114,333,892[(S)]	4.49%
		36,228,610[(P)]	1.42%
Hillhouse Capital Advisors, Ltd.[(6)]	Investment manager	229,371,477[(L)]	9.02%
Gaoling Fund, L.P.[(6)]	Beneficial owner	223,514,977[(L)]	8.79%

Notes:

(L): denotes long position

(S): denotes short position

(P): denotes lending pool

(1) The calculation is based on the total number of 2,543,600,999 Shares in issue as at 31 December 2020.

(2) DSL was wholly-owned by CSL and therefore CSL was deemed to be interested in 476,774,553 Shares held by DSL; further, 42.60% and 35.65% of CSL were respectively controlled by Ms. XING Lily and Lambda International Limited, who were therefore deemed to be interested in such 476,774,553 Shares.

(3) Ms. XING Lily's spouse is Dr. LOU Jing. With respect to certain changes in the interest of spouse, given that the resulting change of the total deemed interest of Ms. XING Lily as a substantial shareholder, as a percentage of all Shares in issue, did not cross over whole percentage level, the change did not trigger a disclosure obligation under the SFO and therefore the information shown in the table as of 31 December 2020 reflects that of Ms. XING Lily's interests positions as required to be disclosed under the SFO.

(4) TMF (Cayman) Ltd. was the trustee with respect to four unnamed trusts, which respectively were interested in 476,774,553, 47,946,010, 18,276,500, and 37,516,980 Shares, and therefore TMF (Cayman) Ltd. was deemed to be interested in all such Shares. With respect to certain changes in such trusts, given that the resulting change of total deemed interest of TMF (Cayman) Ltd. as a substantial shareholder, as a percentage of all Shares in issue, did not cross over whole percentage level, the change did not trigger a disclosure obligation under the SFO and therefore the information shown in the table as of 31 December 2020 reflects that of TMF (Cayman) Ltd.'s interests positions as required to be disclosed under the SFO.

(5) CS Sunshine Investment Limited was wholly-owned by CPEChina 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 was 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.

(6) Hillhouse Capital Advisors, Ltd. was the investment manager of Gaoling Fund, L.P. and was therefore deemed to be interested in the Shares held by Gaoling Fund, L.P.

Save as disclosed above, as at 31 December 2020, 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 were 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 was authorised to issue up to 242,439,857 ordinary shares (subject to possible adjustments), which represented approximately 9.53% of the issued shares as at the date of this annual report. The purpose of the Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Unless approved by the shareholders in accordance with the terms of the Scheme, the total number of shares issued and to be issued upon exercise of the options granted and to be granted under the Scheme and any other share option scheme(s) of the Company to each selected participant (including both exercised and outstanding options) in any 12 month period shall not exceed 1% of the total number of shares in issue. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Scheme. A nominal consideration of RMB1.00 is payable upon acceptance of the grant of an option. For details, please refer to Appendix IV to the Company's prospectus dated 1 June 2015.

The Scheme will continue to be in effect for a term of ten years unless terminated sooner, and has a remaining term of approximately 4 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 2020:

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 LISTED SHARES IMMEDIATELY BEFORE THE GRANT DATE OF OPTIONS *(HKD PER SHARE)*	THE WEIGHTED AVERAGE CLOSING PRICE OF THE COMPANY'S LISTED SHARES IMMEDIATELY BEFORE THE EXERCISE DATES *(HKD PER SHARE)*
	AS AT 1 JANUARY 2020	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	FORFEITED/ CANCELLED DURING THE YEAR	EXPIRED DURING THE YEAR	AS AT 31 DECEMBER 2020					
The Empire Trust*	18,276,500	–	161,000	–	–	18,115,500	2 February 2017	From 2 August 2018 to 2 February 2027**	7.62	7.37	10.49
	18,276,500	–	161,000	–	–	18,115,500					

* 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.

Please refer to note 35 to the consolidated financial statements for the accounting policy adopted for share options.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2020, the Company had repurchased a total of 1,493,500 ordinary shares of the Company on the Stock Exchange at an aggregate cash consideration of HKD12,505,955 (excluding expenses). All the shares repurchased by the Company during the year ended 31 December 2020 had been cancelled by the Company.

The financial position of the Company is solid and healthy. The Board believes the share repurchases and subsequent cancellation of the repurchased Shares can enhance the value of the Shares, thereby improving the return to shareholders of the Company. In addition, the share repurchases reflect the confidence of the Company in its business development and the long-term prospects of the industry. The Board believes that the share repurchases are in the interests of the Company and its shareholders as a whole.

Details of shares repurchased during the year ended 31 December 2020 are set out as follows:

Date of repurchases	Number of Shares repurchased on the Stock Exchange	Price paid per Share Highest	Price paid per Share Lowest	Aggregate consideration paid
27 February 2020	945,000	HKD8.73	HKD8.55	HKD8,138,955
28 February 2020	548,500	HKD8.00	HKD7.89	HKD4,367,000
Total	**1,493,500**			**HKD12,505,955**

Save for the aforesaid repurchases of shares and except as described under the headings "Repurchases and Redemption of Existing 2022 Bonds" and "New 2025 Bonds Issue" in the "Management Discussion and Analysis" section of this annual report, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2020.

CONVERTIBLE BONDS

The 2022 Bonds

On 12 July 2017, the Group, through Strategic International, a direct wholly-owned subsidiary of the Company, conducted an international offering of Euro-denominated zero-coupon convertible bonds, or the 2022 Bonds (as defined above), in an aggregate principal amount of EUR300,000,000, due 2022, which was unconditionally and irrevocably guaranteed by the Company. The issue of the 2022 Bonds was completed on 21 July 2017. The listing of and permission to deal in the 2022 Bonds became effective on 24 July 2017. The information regarding the 2022 Bonds is summarized in note 32 to the consolidated financial statements and the Company's announcements dated 12 July 2017, 13 July 2017 and 21 July 2017.

The 2022 Bonds constituted direct, unconditional, unsubordinated and (subject to the provision relating to the negative pledge in respect thereof) unsecured obligations of Strategic International and ranked *pari passu* and without any preference or priority among themselves.

Use of Proceeds of the 2022 Bonds

The net proceeds of approximately EUR295,898,164 represented a net issue price of approximately HKD14.04 per conversion share based on the initial conversion price of HKD14.28 per conversion share. As disclosed in the announcement of the Company dated 12 July 2017 in relation to the proposed issue of the 2022 Bonds (the "**2022 Bonds Announcement**"), the net proceeds from the 2022 Bonds were 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 at 31 December 2020, RMB1,829,151,750 of the proceeds of the 2022 Bonds were allocated or applied to repaying the loans of the Group, merger and acquisitions, purchase of operation facilities and other general corporate purposes.

It is estimated that the remaining balance of the proceeds of the 2022 Bonds, approximately RMB468,597,000, will be allocated or applied in accordance with the proposed uses as disclosed in the 2022 Bonds Announcement and is expected to be fully utilized in one to three years.

With respect to the repurchases, redemption and delisting of the 2022 Bonds, please refer to the section headed "Key Events — Repurchases and Redemption of Existing 2022 Bonds" for more details.

New 2025 Bonds Issue

As announced on 29 June 2020, Strategic International successfully completed the issuance to institutional investors of the 2025 Bonds, which was guaranteed by the Company,. The listing of, and permission to deal in, the 2025 Bonds on the Stock Exchange became effective on 30 June 2020.

The 2025 Bonds constitute direct, unconditional, unsubordinated and (subject to the provision relating to the negative pledge in respect thereof) unsecured obligations of Strategic International and shall rank *pari passu* and without any preference or priority among themselves. The successful issue of the 2025 Bonds signifies the business and financial performance of the Company being recognized by the international capital market, which will improve the liquidity position of the Group, reduce the financing costs of the Group and raise further working capital for the Company to facilitate the overall development and expansion of the Group.

Use of Proceeds of the 2025 Bonds

The net proceeds from the issuance of the 2025 Bonds (after deduction of commissions and other related expenses) are approximately EUR316,800,000. Such net proceeds were used to pay for the Concurrent Repurchase and the redemption of the Put Bonds as well as the redemption of the 2022 Bonds pursuant to the exercise of clean-up call option.

For more information regarding the issuance of the 2025 Bonds, please refer to the announcements of the Company dated 17 June 2020, 18 June 2020 and 29 June 2020.

Conversion Price and Shares to be Issued upon Full Conversion

As at 31 December 2020, the outstanding principal amount of the 2025 Bonds was EUR320,000,000. As announced on 17 June 2020, the initial Conversion Price of the 2025 Bonds is HK$13.1750 per Conversion Share, which represents (i) a premium of approximately 25% over the closing price of HK$10.54 per Share as quoted on the Stock Exchange on 17 June 2020 (being the trading day on which the subscription agreement for the 2025 Bonds was entered into) and (ii) a premium of approximately 31.72% over the average closing price of approximately HK$10.0020 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 17 June 2020.

Assuming full conversion of the 2025 Bonds at the initial Conversion Price of HK$13.1750 per Conversion Share and there being no further issue of Shares, the 2025 Bonds will be convertible into approximately 212,035,521 Shares, representing approximately 8.34% of the issued share capital of the Company as at 31 December 2020 and approximately 7.69% of the issued share capital of the Company as at 31 December 2020 as enlarged by the issue of the Conversion Shares. The Company has a general mandate sufficient to cover the shares issueable upon full conversion of the 2025 Bonds.

The following table summarises the potential effects on the shareholding structure of the Company as a result of the full conversion of the 2025 Bonds:

	As at 31 December 2020		Assuming the 2025 Bonds are fully converted at the initial Conversion Price	
Name of Shareholders	Number of Shares	Approximate % of total issued Shares[4]	Number of Shares	Approximate % of enlarged issued Shares[4]
Decade Sunshine Limited[1]	476,774,553	18.74%	476,774,553	17.30%
CS Sunshine Investment Limited	472,212,360	18.56%	472,212,360	17.14%
Hero Grand Management Limited[2]	50,174,510	1.97%	50,174,510	1.82%
Directors[3]	171,084,881	6.73%	171,084,881	6.21%
Other public shareholders	1,373,354,695	53.99%	1,373,354,695	49.84%
Bondholders	—	—	212,035,521	7.69%
Total	**2,543,600,999**	**100%**	**2,755,636,520**	**100%**

Notes:

(1) Decade Sunshine Limited is a company controlled by Dr. LOU Jing.

(2) Hero Grand Management Limited is owned by an unnamed trust that is owned as to 100% by TMF (Cayman) Ltd. as the trustee, and Dr. LOU Jing (Chairman of the Board) is the settlor and a beneficiary of the trust. As at 31 December 2020, Hero Grand Management Limited held approximately 1.97% of the total issued share capital of the Company, of which 1.64% was held on trust for Dr. LOU Jing and 0.33% was held by itself.

(3) To the best knowledge of the Company, the Directors (other than Dr. LOU Jing), together with a relevant former director, held approximately 6.73% of the total issued share capital of the Company in aggregate as at 31 December 2020.

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

CONNECTED TRANSACTIONS

Grant of Awarded Shares by the Company to a Connected Person

As announced on 8 September 2020, to recognize the contributions made by Dr. Zhu Zhenping ("**Dr. Zhu**"), a former president of R&D and chief scientific officer of the Company and currently the director, the president of R&D and the chief scientist of Sunshine Guojian, to the Group, the Board resolved to conditionally grant 10,000,000 new awarded Shares at nil consideration at an aggregate nominal value of US$100 (the "**Awarded Shares**") to Dr. Zhu under a specific mandate on 7 September 2020.

Dr. Zhu is a connected person at the subsidiary level of the Company, and thus the grant of the Awarded Shares (the "**Grant**") to Dr. Zhu and the allotment and issue of the Awarded Shares constituted connected transactions under Chapter 14A of the Listing Rules and were subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As announced on 6 November 2020, relevant resolutions in respect of the Grant and the allotment and issue of the Awarded Shares were passed by the independent Shareholders at an extraordinary general meeting of the Company held on the same day.

For further details of the Grant and the allotment and issue of the Awarded Shares, please refer to the announcements of the Company dated 8 September 2020 and 6 November 2020 and the circular of the Company dated 16 October 2020.

Connected transaction in relation to the Facility Agreement with Medical Recovery

On 17 July 2018, Strategic International, a direct wholly-owned subsidiary of the Company, entered into a facility agreement (the "**Facility Agreement**") with Medical Recovery Limited ("**Medical Recovery**"), a then controlling shareholder of the Company. Pursuant to the Facility Agreement, Strategic International agreed to provide a loan (the "**Loan**") to Medical Recovery in the principal amount of USD30,000,000 with an interest rate of 4% per annum. In connection with the Facility Agreement, a debenture was also made between Medical Recovery as chargor and Strategic International as chargee, pursuant to which all assets of Medical Recovery were charged to Strategic International. The Facility Agreement was subject to a final maturity date (the "**Final Maturity Date**") of 12 months after the date of the Facility Agreement or an extended date as agreed by Strategic International and Medical Recovery. As announced on 17 July 2019, Strategic International and Medical Recovery agreed to extend the Final Maturity date to 17 July 2020 (the "**First Extension**") and as announced on 17 July 2020, Strategic International and Medical Recovery agreed to further extend the Final Maturity Date to 17 July 2021 (the "**Second Extension**").

As at 17 July 2020, being the date on which the Company announced the Second Extension, Medical Recovery directly held approximately 1.48% of the issued share capital of the Company, and was an associate of connected persons of the Company for purposes of the Listing Rules as it is controlled by Dr. Lou Jing, Ms. Su Dongmei and Mr. Huang Bin, directors of the Company. Therefore, the Loan, the First Extension and the Second Extension constituted connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Facility Agreement, the First Extension and the Second Extension in aggregate pursuant to Rule 14A.81 of the Listing Rules was more than 0.1% but less than 5%, the Second Extension and the transaction contemplated thereunder were subject to the reporting and announcement requirements but were exempt from the independent Shareholders' approval requirements under the Listing Rules.

The purpose of the Loan is for Medical Recovery to purchase the issued ordinary shares of the Company for employee retention and incentives purposes. The Company considered it an effective and efficient way to motivate and incentivize its employees, which is beneficial to the sustainable development of the Group. Additionally, the Board considered that the Group had surplus cash resources and the entering into of the Facility Agreement can put such resources to more efficient use and to generate better returns.

For further details of the Facility Agreement, the First Extension and the Second Extension, please refer to the announcements of the Company dated 17 July 2018, 17 July 2019 and 17 July 2020.

Note 41 to the Consolidated Financial Statements

In respect of the Company's related party transactions disclosed in note 41 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 them, 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 41 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.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2020, 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 supports various medical charity projects. Please see Section 7.1 "Enhancing Accessibility to Medicines and Medical Services" in "2020 Environmental, Social and Governance Report of 3SBio Inc.".

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2020, 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 2020, 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 provides 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 labour 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 term 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 2020, 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 2020, 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 INDEMNITY 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

For material post-balance sheet events concerning the Group, please refer to note 46 to the consolidated financial statements.

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 2020. 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 59 to 75 of this annual report.

CLOSURE OF REGISTER OF SHAREHOLDERS

The AGM of the Company is scheduled to be held on 22 June 2021. For determining the entitlement to attend and vote at the AGM, the register of shareholders of the Company will be closed from 17 June 2021 to 22 June 2021, 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 AGM, 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 16 June 2021.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in or exercising of any rights (including entitlements to any relief of taxation) in relation to the Shares, they are advised to consult their professional advisers.

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 2020 and as of the date of this annual report.

AUDITOR

Ernst & Young was appointed as the Auditor for the year ended 31 December 2020.

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, the PRC
30 March 2021

Corporate Governance Report

The Board is pleased to present the corporate governance report of the Company for the year ended 31 December 2020.

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 to 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 2020. 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 two executive Directors, two non-executive Directors and three independent non-executive Directors as follows:

Executive Directors:
Dr. LOU Jing *(Chairman & Chief Executive Officer)*
Ms. SU Dongmei

Non-executive Directors:
Mr. HUANG Bin
Mr. TANG Ke

Independent Non-executive Directors:
Mr. PU Tianruo
Mr. David Ross PARKINSON
Dr. WONG Lap Yan

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 2020 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 the Board diversity 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.

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 secretary of the Company has 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 2020 is as follows:

Name of Directors	Nature of Continuous Professional Development Programmes
Executive Directors	
Dr. LOU Jing	A and B
Ms. SU Dongmei	B
Non-executive Directors	
Mr. HUANG Bin	B
Mr. TANG Ke (appointed on 10 February 2020)	B
Mr. LIU Dong (resigned on 10 February 2020)	B
Independent Non-Executive Directors	
Mr. PU Tianruo	B
Mr. David Ross PARKINSON	B
Dr. WONG Lap Yan	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

C: Giving talks in the seminars and/or meetings and/or forums

D: Attending training relevant to the Company's business conducted by lawyers

Separation of the Roles of 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 Board, was also appointed as the chief executive officer of the Company. The Board believes that vesting 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

Dr. LOU Jing, 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 AGM of the Company since the Listing Date (whichever is earlier), which shall be automatically renewed for successive periods of three years 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. Ms. SU Dongmei, the other executive Director, has entered into a service contract with the Company for an extended term of three years commencing from 11 June 2018 until the date of the AGM of the Company in the year 2021 (or, in case there is no AGM in such year, until 20 June 2021), until termination in accordance with the terms and conditions of the service contract, or by either party giving to the other prior notice in writing. Ms. Su Dongmei's service contract is expected to be renewed.

Mr. HUANG Bin, one of the non-executive Directors, has entered into an appointment letter with the Company for a term commencing from 20 June 2019 until, hereafter, the date of the second upcoming AGM of the Company, which shall be automatically renewed for further three years, unless otherwise terminated in accordance with the terms and conditions of the appointment letter. Mr. TANG Ke, the other non-executive Director, has entered into an appointment letter with the Company for a term commencing from 10 February 2020 until, hereafter, the date of the second upcoming AGM of the Company, which shall be automatically renewed for further three years, unless otherwise terminated in accordance with the terms and conditions of the appointment letter.

Each of Mr. David Ross PARKINSON and Mr. PU Tianruo, two of the independent non-executive Directors, entered into an appointment letter with the Company on 23 May 2015. The appointment under the aforementioned letter has been renewed and extended until, hereafter, the date of the second upcoming AGM of the Company, which shall be automatically renewed for further three years, unless otherwise terminated in accordance with the terms and conditions of the appointment letter. Dr. WONG Lap Yan, the other independent non-executive Director, has entered into an appointment letter with the Company for a term of three years commencing from 8 October 2019, which shall be automatically renewed for further three years, unless terminated in accordance with the terms of the appointment letter.

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 AGM 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 2020, four 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 2020, four 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 meeting(s)
Executive Directors		
Dr. LOU Jing	4/4	2/2
Ms. SU Dongmei	4/4	1/2
Non-Executive Directors		
Mr. HUANG Bin	4/4	1/2
Mr. TANG Ke (appointed on 10 February 2020)	3/3	1/2
Mr. LIU Dong (resigned on 10 February 2020)	1/1	N/A
Independent Non-Executive Directors		
Mr. PU Tianruo	4/4	1/2
Mr. David Ross PARKINSON	4/4	1/2
Dr. WONG Lap Yan	4/4	1/2

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to 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 standards as set out in the Model Code during the year ended 31 December 2020.

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 currently comprises three members, including a non-executive director, namely, Mr. HUANG Bin, and two independent non-executive Directors, namely, Mr. PU Tianruo *(Chairman)* and Dr. WONG Lap Yan.

The principal duties of the Audit Committee include the following:

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

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 2020, 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 the course of audit;

- interim results of the Company and its subsidiaries for the six-month period ended 30 June 2020; 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. HUANG Bin	3/3
Dr. WONG Lap Yan	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 Dr. WONG Lap Yan.

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

The nomination policy of Directors of the Company sets as one of its objectives to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. For a summary of the Company's Board diversity policy, please refer to the relevant paragraph in the "Board Composition" section of this Corporate Governance Report.

Pursuant to these policies, in assessing and selecting candidates, the Board and the Nomination Committee should consider various factors including integrity, age, gender, skills, knowledge, experience, expertise, professional and educational qualifications, background, the board's composition and diversity, availability of service to the Company, expected contribution, independence, conflicts of interest, and any other relevant factors.

The Nomination Committee identifies or selects candidates pursuant to the criteria as set out above. The Nomination Committee then makes recommendation to the Board including the terms and conditions of the appointment. The Board deliberates and decides on the appointment based upon the recommendation of the Nomination Committee. All appointments of director should be confirmed by a service contract or letter of appointment (as the case may be) setting out the key terms and conditions. As applicable, the Board shall make recommendation to shareholders in respect of the proposed election or re-election of director at a general meeting.

During the year ended 31 December 2020, one meeting of the Nomination Committee was held. All three members of the Nomination Committee attended the meeting.

Remuneration Committee

The Remuneration Committee currently comprises three members, including two independent non-executive Directors, namely, Dr. WONG Lap Yan *(Chairman)* and Mr. PU Tianruo, and a non-executive Director, namely, Mr. TANG Ke.

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 2020, one meeting of the Remuneration Committee was held. Attendance of each Remuneration Committee member is set out in the table below:

Directors	Attended/Eligible to attend
Dr. WONG Lap Yan (*Chairman)*	1/1
Mr. PU Tianruo	1/1
Mr. TANG Ke (appointed on 10 February 2020)	1/1
Mr. LIU Dong (resigned on 10 February 2020)	0/0

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 33 to 38 of this annual report, for the year ended 31 December 2020 are set out below:

Remuneration band	Number of individual
Nil to RMB1,000,000	5
RMB1,000,001 to RMB1,500,000	1
RMB1,500,001 to RMB2,000,000	3
RMB2,000,001 to RMB2,500,000	1
RMB2,500,001 to RMB3,000,000	—
RMB3,000,001 to RMB3,500,000	—
RMB3,500,001 to RMB4,000,000	2
RMB4,000,001 to RMB4,500,000	—
RMB4,500,001 to RMB5,000,000	—
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 2020 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 81 to 83 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 conducts 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 2020, 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 2020, 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 of the Group and other audit services for the year ended 31 December 2020.

The remuneration for the services provided by Ernst & Young to the Group for the year ended 31 December 2020 was as follows:

Type of Services	Amount (RMB'000)
Audit services	2,915
Review services	3,610
Total	6,525

COMPANY SECRETARY

The 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 engages Ms. LEUNG Suet Wing ("**Ms. LEUNG**"), a manager of TMF Hong Kong Limited (a company secretarial service provider), as the company secretary.

The primary corporate contact person at the Company is Ms. SU Dongmei, an executive Director of the Company.

For the year ended 31 December 2020, Ms. LEUNG has undertaken not less than 15 hours of relevant professional training 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 AGM of the Company provides opportunity for the shareholders to communicate directly with the Directors. The chairman of the Board and the chairmen of the Board Committees of the Company will attend the AGM to answer shareholders' questions. The Auditor will also attend the AGM to answer questions about the conduct of the audit, the preparation and content of the Auditor's report, the accounting policies and auditor independence.

The Group's proactive approach to investor relations has widened the coverage of the Company by global funds in and outside Hong Kong and Mainland China in 2020. A number of local and international sell-side firms and brokers publish research reports on the Company, often on a regular basis, and the Company attracts attention of a wide range of institutional investors.

The Group's management and investor relations function take great efforts to maintain an open dialogue with the investment community to ensure a thorough understanding of the Company's business development, core strategies and corporate governance principles. In 2020, the Group participated in investor conferences, roadshows, healthcare summits on virtual basis and in-person. Nearly 370 meetings were held with institutional investors and research analysts in Hong Kong and internationally.

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 maintaining such relationship and communication on 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 is available for public access.

DIVIDEND POLICY

The Board shall consider various factors before declaring or recommending dividends, including the Company's actual and expected financial performance; retained earnings and distributable reserves of the Company and each of the members of the Group; the Group's working capital requirements, capital expenditure requirements and future expansion plans; the Group's liquidity position; general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and other factors that the Board deems relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of Cayman Islands and the Company's Memorandum and Articles of Association.

As a holding company, the Company is dependent upon the receipt of cash distributions from its PRC subsidiaries to fund any dividend payments. The ability of these subsidiaries to make dividend and other payments to the Company is restricted by their constitutional documents and to the laws of and regulations of the PRC.

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

The Company follows its shareholders' communication policy to provide shareholders with information about the Company to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner.

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 31/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 2020.

Independent Auditor's Report

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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel電話: +852 2846 9888
Fax傳真: +852 2868 4432
ey.com

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 84 to 212, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 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 2020, other intangible assets with indefinite lives amounted to RMB114,714,000. 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 lives 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 the internal valuation experts to assess the 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 2020, the carrying amount of goodwill was RMB3,918,921,000. 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 rate, profit margins and discount rates, which are affected by the expected future market or economic conditions, particularly in Mainland China. The Group's disclosures on 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 rate, profit margins and discount rates. We evaluated management's identification of CGU and impairment model used by the Group. We also reviewed the Group's disclosures of those assumptions to which the outcome of the impairment test was most sensitive and which had the most significant effect on the determination of the recoverable amount of goodwill. We involved our internal valuation experts in benchmarking the key assumptions in valuation models including expected perpetual rates and discount rates.

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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 disclosure requirements of 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.

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, actions taken to eliminate threats or safeguards applied.

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 Denis Ming Kui Cheng.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2021

Consolidated Statement of Profit or Loss

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	**5,587,636**	5,318,091
Cost of sales	6	**(1,062,911)**	(925,347)
Gross profit		**4,524,725**	4,392,744
Other income and gains	5	**178,171**	218,107
Selling and distribution expenses		**(2,019,717)**	(1,950,733)
Administrative expenses		**(452,776)**	(676,009)
Research and development costs		**(590,343)**	(526,565)
Other expenses	6	**(549,472)**	(114,024)
Finance costs	7	**(81,066)**	(109,476)
Share of profits and losses of:			
A joint venture	18	**(525)**	4,970
Associates	19	**(29,868)**	(16,001)
PROFIT BEFORE TAX		**979,129**	1,223,013
Income tax expense	11	**(208,023)**	(242,785)
PROFIT FOR THE YEAR		**771,106**	980,228
Attributable to:			
Owners of the parent		**835,791**	973,717
Non-controlling interests		**(64,685)**	6,511
		771,106	980,228
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic	13	**RMB0.33**	RMB0.38
— Diluted	13	**RMB0.33**	RMB0.38

Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
PROFIT FOR THE YEAR	**771,106**	980,228
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(123,790)**	27,732
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(123,790)**	27,732
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**193,234**	(2,801)
Income tax effect	**3,819**	3,660
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**197,053**	859
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**73,263**	28,591
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**844,369**	1,008,819
Attributable to:		
Owners of the parent	**909,054**	1,002,308
Non-controlling interests	**(64,685)**	6,511
	844,369	1,008,819

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,621,379**	1,988,793
Right-of-use assets	15(a)	**358,013**	335,936
Goodwill	16	**3,918,921**	4,145,896
Other intangible assets	17	**1,898,478**	2,165,139
Investment in a joint venture	18	**6,945**	7,470
Investments in associates	19	**749,722**	593,414
Equity investments designated at fair value through other comprehensive income	20	**897,717**	676,989
Long-term receivables	21	**2,200**	6,555
Prepayments, other receivables and other assets	25	**325,628**	163,909
Deferred tax assets	22	**219,282**	129,024
Total non-current assets		**10,998,285**	10,213,125
CURRENT ASSETS			
Inventories	23	**619,508**	528,473
Trade and notes receivables	24	**982,965**	1,018,265
Prepayments, other receivables and other assets	25	**587,917**	472,360
Financial assets at fair value through profit or loss	26	**1,272,862**	472,163
Pledged deposits	27	**125,823**	22,073
Cash and cash equivalents	27	**3,090,835**	2,082,847
Total current assets		**6,679,910**	4,596,181
CURRENT LIABILITIES			
Trade and bills payables	28	**203,286**	149,763
Other payables and accruals	29	**786,746**	913,990
Deferred income	30	**36,113**	37,217
Interest-bearing bank and other borrowings	31	**360,151**	483,957
Lease liabilities	15(b)	**7,007**	5,467
Tax payable		**57,618**	21,335
Total current liabilities		**1,450,921**	1,611,729
NET CURRENT ASSETS		**5,228,989**	2,984,452
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,227,274**	13,197,577

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**53,315**	13,286
Lease liabilities	15(b)	**32,219**	3,964
Convertible bonds	32	**2,461,427**	2,304,750
Deferred income	30	**308,460**	242,314
Deferred tax liabilities	22	**272,242**	268,077
Other non-current liabilities		**6,276**	5,867
Total non-current liabilities		**3,133,939**	2,838,258
Net assets		**13,093,335**	10,359,319
EQUITY			
Equity attributable to owners of the parent			
Share capital	34	**155**	155
Share premium	34	**4,297,946**	4,307,795
Other reserves		**6,391,213**	5,317,091
		10,689,314	9,625,041
Non-controlling interests		**2,404,021**	734,278
Total equity		**13,093,335**	10,359,319

Jing Lou
Director

Dongmei Su
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Attributable to owners of the parent											
	Share capital RMB'000 (note 34)	Treasury shares RMB'000 (note 34)	Share premium RMB'000 (note 34)	Contributed surplus* RMB'000 (note 35)	Equity component of convertible bonds* RMB'000 (note 32)	Statutory surplus reserves* RMB'000 (note 36)	Retained earnings* RMB'000	Fair value reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2018	156	(40,586)	4,376,056	209,679	47,133	437,733	3,456,641	157	127,464	8,614,433	292,937	8,907,370
Effect of adoption of IFRS 16	–	–	–	–	–	–	–	–	–	–	–	–
At 1 January 2019 (restated)	156	(40,586)	4,376,056	209,679	47,133	437,733	3,456,641	157	127,464	8,614,433	292,937	8,907,370
Profit for the year	–	–	–	–	–	–	973,717	–	–	973,717	6,511	980,228
Other comprehensive income for the year:												
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	–	895	–	895	–	895
Exchange differences related to foreign operations	–	–	–	–	–	–	–	–	27,732	27,732	–	27,732
Total comprehensive income for the year	–	–	–	–	–	–	973,717	895	27,732	1,002,344	6,511	1,008,855
Transfer to statutory reserves	–	–	–	–	–	142,807	(142,807)	–	–	–	–	–
Shares repurchased	–	(38,180)	–	–	–	–	–	–	–	(38,180)	–	(38,180)
Shares cancelled	(1)	78,766	(78,765)	–	–	–	–	–	–	–	–	–
Equity-settled share option arrangements (note 35)	–	–	–	11,001	–	–	–	–	–	11,001	–	11,001
Shares issued upon exercise of share options (Note 35)	–	–	10,504	(3,369)	–	–	–	–	–	7,135	–	7,135
Expenses associated with the shares awarded under the employee share ownership plan (Note 35)	–	–	–	335,110	–	–	–	–	–	335,110	–	335,110
Shares issued upon exercise of the shares awarded under the employee share ownership plan (Note 35)	–	–	–	(306,802)	–	–	–	–	–	(306,802)	351,169	44,367
Capital injection from a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	100,000	100,000
Dividends paid by a subsidiary	–	–	–	–	–	–	–	–	–	–	(16,339)	(16,339)
At 31 December 2019	155	–	4,307,795	245,619	47,133	580,540	4,287,551	1,052	155,196	9,625,041	734,278	10,359,319

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Attributable to owners of the parent											
	Share capital RMB'000 (note 34)	Treasury shares RMB'000 (note 34)	Share premium RMB'000 (note 34)	Contributed surplus* RMB'000 (note 35)	Equity component of convertible bonds* RMB'000 (note 32)	Statutory surplus reserves* RMB'000 (note 36)	Retained earnings* RMB'000	Fair value reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	155	–	4,307,795	245,619	47,133	580,540	4,287,551	1,052	155,196	9,625,041	734,278	10,359,319
Profit for the year	–	–	–	–	–	–	835,791	–	–	835,791	(64,685)	771,106
Other comprehensive income for the year:												
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	–	197,053	–	197,053	–	197,053
Exchange differences related to foreign operations	–	–	–	–	–	–	–	–	(123,790)	(123,790)	–	(123,790)
Total comprehensive income for the year	–	–	–	–	–	–	835,791	197,053	(123,790)	909,504	(64,685)	844,369
Transfer to statutory reserves	–	–	–	–	–	142,983	(142,983)	–	–	–	–	–
Shares repurchased	–	11,223	–	–	–	–	–	–	–	11,223	–	11,223
Shares cancelled	–	(11,223)	(11,223)	–	–	–	–	–	–	(22,446)	–	(22,446)
Equity-settled share option arrangements (Note 35)	–	–	–	5,094	–	–	–	–	–	5,094	–	5,094
Shares issued upon exercise of share options (Note 35)	–	–	1,374	(271)	–	–	–	–	–	1,103	–	1,103
Issue of convertible bonds (Note 32)	–	–	–	–	111,172	–	–	–	–	111,172	–	111,172
Repurchase of convertible bonds	–	–	–	428	(47,561)	–	–	–	–	(47,133)	–	(47,133)
Expenses associated with the share award schemes (Note 35)	–	–	–	96,206	–	–	–	–	–	96,206	–	96,206
Transfer to retained profits	–	–	–	–	–	–	1,016	(1,016)	–	–	–	–
Capital injection from non-controlling shareholders (Note)	–	–	–	–	–	–	–	–	–	–	1,734,428	1,734,428
At 31 December 2020	155	–	4,297,946	347,076	110,744	723,523	4,981,375	197,089	31,406	10,689,314	2,404,021	13,093,335

* These reserve accounts comprise the consolidated other reserves of approximately RMB6,391,213,000 (2019: RMB5,317,091,000) in the consolidated statement of financial position.

Note: On 22 July 2020, Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. (Sunshine Guojian), one of the subsidiaries of the Company completed its listing on the Science and Technology Innovation Board of the Shanghai Stock Exchange and the initial public offering of the ordinary shares (the "**Offering**"). Sunshine Guojian received total net proceeds of RMB1,634,429,000 from the Offering.

NMV Desen Biotech Co., Ltd., one of the subsidiaries of the Company received the capital injection from a shareholder amounting to RMB100,000,000 during the year.

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**979,129**	1,223,013
Adjustments for:			
Finance costs	7	**81,066**	109,476
Gain on repurchase of convertible bonds	5	**(6,527)**	—
Gain on deemed disposal of an associate	5	**(625)**	—
Share of profits and losses of a joint venture and associates	18, 19	**30,393**	11,031
Interest income		**(47,993)**	(83,858)
Foreign exchange differences	5, 6	**250,026**	(47,622)
Charge of share-based compensation costs	35	**101,300**	346,111
Depreciation	6	**185,524**	185,608
Amortisation of other intangible assets	6	**156,554**	135,068
Depreciation of right-of-use assets	6	**18,859**	13,292
Amortisation of long-term deferred expenses	6	**6,381**	3,780
Recognition of deferred income	30	**(43,606)**	(44,436)
Provision/(reversal of provision) for impairment of trade receivables	6	**879**	(12,078)
Provision for impairment of prepayments, other receivables and other assets	6	**26,363**	25,717
(Reversal of provision)/provision for impairment of long-term receivables	6	**(19,732)**	28,170
Provision for impairment and write-off of other intangible assets	6	**177,804**	—
Reversal of provision for impairment of inventories	23	**3,650**	1,507
Loss on disposal of items of property, plant and equipment	6	**1,016**	3,367
Loss on disposal of a derivative financial instrument		**—**	86
		1,900,461	1,898,232
Increase in inventories		**(93,113)**	(124,854)
Increase in pledged deposits		**(98,880)**	(9,752)
Decrease in trade and notes receivables		**34,875**	453,884
Increase in prepayments, other receivables and other assets		**(128,866)**	(65,900)
Increase in trade and bills payables		**53,231**	37,035
(Decrease)/increase in other payables and accruals		**(69,101)**	54,068
Cash generated from operations		**1,598,607**	2,242,713
Income tax paid		**(254,046)**	(355,329)
Net cash flows from operating activities		**1,344,561**	1,887,384

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**35,056**	68,282
Purchase of items of property, plant and equipment		**(892,985)**	(471,401)
Purchase of financial assets at fair value through profit or loss		**(7,426,746)**	(11,005,103)
Purchase of equity investments designated at fair value through other comprehensive income		**(74,274)**	(326,199)
Proceeds from disposal of financial assets at fair value through profit or loss		**6,626,047**	10,568,200
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		**38,756**	—
Loans to related parties		**(25,000)**	(32,200)
Loan to a third party		**—**	(20,000)
Repayment of loans from related parties		**35,474**	30,100
Repayment of loans from third parties		**—**	285,785
Payment for investment in an associate		**(200,000)**	(218,734)
Disposal of a subsidiary		**—**	(256)
Addition to other intangible assets		**(88,488)**	(14,852)
Proceeds from disposal of property, plant and equipment		**2,631**	2,020
Fund received from government grants		**100,048**	641
Net cash flows used in investing activities		**(1,869,481)**	(1,133,717)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**1,103**	7,135
Proceeds from issue of convertible bonds		**2,522,045**	—
Repurchases of convertible bonds		**(2,394,285)**	—
Received capital injection from non-controlling shareholders		**1,734,428**	144,367
(Increase)/decrease in pledged deposits		**(4,870)**	1,968
Repayments of bank borrowings		**(589,395)**	(1,740,529)
Acquisition of treasury shares	34	**(11,223)**	(38,181)
Proceeds from bank borrowings		**501,823**	1,230,007
Principal portion of lease payments		**(12,862)**	(4,592)
Dividend paid		**—**	(16,339)
Interest paid		**(196,078)**	(38,236)
Net cash flows from/(used in) financing activities		**1,550,686**	(454,400)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,025,766**	299,267
Cash and cash equivalents at beginning of the year		**2,082,847**	1,792,605
Effect of foreign exchange rate changes on cash, net		**(17,778)**	(9,025)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**3,090,835**	2,082,847
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**3,090,128**	2,082,142
Restricted cash	27	**707**	705
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**3,090,835**	2,082,847

Notes to Financial Statements

31 December 2020

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 biopharmaceutical products in the People's Republic of China (the "**PRC**") except for Taiwan, 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		Principal activities
			Direct	Indirect	
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**") 2,700,000,000	–	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 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
Shenzhen Baishitong Technology Development Company Limited ("**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

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		Principal activities
			Direct	Indirect	
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
Shanghai Anran Bio-technology Co., Ltd. ("**Shanghai Anran**") (上海安冉生物科技有限公司)	PRC/Mainland China 21 December 2016	RMB10,000,000	–	100%	Research and development of bio-technology and drugs and sale of chemical products
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 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	RMB498,883,645	–	80.96%	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

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
Cn-Gen Mab Co., Ltd. ("**Cn-Gen Mab**") (中健抗體有限公司)	Hong Kong 19 September 2012	HKD196,591,262	–	100%	Distribution and sale of pharmaceutical drugs
Sunshine Guojian Pharmaceutical (Suzhou) Co., Ltd. (三生國健藥業(蘇州)有限公司)	PRC/Mainland China 25 November 2013	RMB290,000,000	–	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	RMB100,000,000	–	100%	Manufacture and sale of biopharmaceutical drugs and research and development

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
Strategic International Group Limited ("**Strategic International**")	British Virgin Islands 14 June 2017	EUR50,000	100%	–	Investment holding
Grand Path Holdings Limited ("**Grand Path Holdings**")	Hong Kong 13 May 2010	HKD16,000	100%	–	Investment holding
NMV Desen Biotech Co., Ltd. ("**Desen Biotech**") (北方藥穀德生(瀋陽)生物科技有限責任公司)	PRC/Mainland China 26 February 2018	RMB3,830,000,000	–	90.34%	Manufacture and sale of biopharmaceutical drugs and research and development
Shenyang Jiasheng Agriculture Technology Co., Ltd. (瀋陽嘉生農業科技有限責任公司)	PRC/Mainland China 18 November 2020	RMB500,000	–	100%	Agricultural services

The English names of these companies registered in the PRC represent the best effort made by the 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

These 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 equity 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 Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2020. 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.

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.

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

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 Policies and Disclosures

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendments to IFRS 16	*Covid-19-Related Rent Concessions*
Amendments to IAS 1 and IAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

2.2 Changes in Accounting Policies and Disclosures (continued)

(b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, no leases of the Group have been reduced or waived by the lessors as a result of the covid-19 pandemic. The amendment did not have any impact on the financial position and performance of the Group.

2.2 Changes in Accounting Policies and Disclosures (continued)

(e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

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 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3, 5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 1	*Disclosure of Accounting Polices*[3]
Amendments to IAS 8	*Definition of Accounting Estimates*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contacts — Cost of Fulfilling a Contract*[2]
Annual Improvements to IFRSs 2018–2020	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41*[2]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

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 described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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 2015 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. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRSs 2018–2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments:* clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases:* removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

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 associate or joint venture, 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.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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*.

2.4 Summary of significant accounting policies (continued)

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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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.

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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.

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 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.

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

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.

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, contact assets, deferred tax assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), 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);
- (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;

2.4 Summary of significant accounting policies (continued)

Related parties (continued)

(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; and the sponsoring employers of the post-employment benefit plan;

(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.

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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.

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:

Buildings	10 to 45 years
Plant and machinery	5 to 12 years
Furniture and fixtures	3 to 12 years
Motor vehicles	4 to 10 years

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation (continued)

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.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

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 to 25 years
Intellectual Property ("**IP**") rights	14 to 25 years
Patents and technology know-how	5 to 20 years
Others	1 to 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

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	30 to 50 years
Buildings	1 to 4 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

2.4 Summary of significant accounting policies (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of certain buildings and vehicles (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office buildings that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee, are accounted for as finance leases.

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 subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and other unlisted investments. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. 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.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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.

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

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.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

General approach (continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables, financial assets included in prepayments, other receivables and other assets and long-term receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and certain financial assets included in prepayments, other receivables and other assets and long-term receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Simplified approach (continued)

For trade receivables and certain financial assets included in prepayments, other receivables and other assets and long-term receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

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, payables, 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 and borrowings and payables, net of directly attributable transaction costs.

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

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and 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.

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.

2.4 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

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 contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

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.

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.

2.4 Summary of significant accounting policies (continued)

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average 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.

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.

2.4 Summary of significant accounting policies (continued)

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 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.

Deferred tax assets are recognised for all deductible temporary differences, and 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, and 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.

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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.

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, for 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 or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

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.

2.4 Summary of significant accounting policies (continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of biopharmaceutical products

Revenue from the sale of biopharmaceutical products is recognised at the point in time when control of the asset is transferred to the customer, generally upon receipt of the biopharmaceutical products by customers.

Some contracts for the sale of biopharmaceutical products provide customers with rights of return and trade discounts. The rights of return and trade discounts give rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of biopharmaceutical products (continued)

(ii) Trade discounts

Retrospective trade discounts may be provided to certain customers once they paid timely. Trade discounts are offset against amounts payable by the customer. To estimate the variable consideration for the expected future trade discounts, the most likely amount method is used for contracts with the expected value method for contracts. The selected method that best predicts the amount of variable consideration is primarily driven by the credit of customers. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(b) Contracts for services

Revenue from the provision of technical services is recognised over time, using an input method to measure progress towards complete satisfaction of the service. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the services.

(c) Licensing revenue

The Group provides licenses of its IP or commercialisation licenses to customers and the revenue is recognised when the customers obtain rights to use the underlying IP or licensing. Licensing revenue is recognised at a point of time upon the customer obtains control of IP.

The consideration for licenses comprises a fixed element (the upfront payment) and variable elements (including development milestones and royalties).

The Group would not undertake activities which significantly affect the licenses. Thus, the customers get a right to use the licenses and the revenue is recognised at a point in time. Upfront payment is recognised as revenue when customers have ability to use the underlying IP or licenses and the variable elements are included in the transaction price when the Group can conclude that it is highly probable there will not be a significant reversal of revenue.

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Other income

Interest income is recognised 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received, or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

2.4 Summary of significant accounting policies (continued)

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

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 35 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.

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. Market performance conditions are reflected within the grant date fair value. 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.

2.4 Summary of significant accounting policies (continued)

Share-based payments (continued)

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.

Other employee benefits

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)

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 the defined benefit pension plan, 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

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.

2.4 Summary of significant accounting policies (continued)

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.

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.

2.4 Summary of significant accounting policies (continued)

Foreign currencies (continued)

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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- Determining the method to estimate variable consideration and assessing the constraint for the sale of biopharmaceutical products

  Certain contracts for the sale of biopharmaceutical products include a right of return and trade discounts that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

  The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of biopharmaceutical products with rights of return, given the large number of customer contracts that have similar characteristics. In estimating the variable consideration for the sale of biopharmaceutical products with trade discounts, the Group determined that using a combination of the most likely amount method and the expected value method is appropriate. The selected method that better predicts the amount of variable consideration related to trade discounts is primarily driven by the credit of customers contained in the contract.

  Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

3. Significant accounting judgements and estimates (continued)

Judgements (continued)

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.

Determination of control over an entity

The Group considers that it has no control over an entity even through it has more than 50% of the voting rights. Based on the assessment following the basis of consolidation and accounting policies set out in notes 2.1 and 2.4, respectively, the Group has not consolidated an entity that it has no control. For the investment that the Group has significant influence, it is accounted for as an associate in accordance with IAS 28 *Investments in Associates and Joint Ventures*.

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.

Variable consideration for returns and trade discounts

The Group estimates variable consideration to be included in the transaction price for the sale of biopharmaceutical products with rights of return and trade discounts.

The Group developed a statistical model for forecasting sales returns. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to the historical return pattern will impact the expected return percentages estimated by the Group.

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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 2020 was approximately RMB3,918,921,000 (2019: RMB4,145,896,000). Further details are given in note 16 to the financial statements.

Provision for expected credit losses on trade receivables, prepayments, other receivables and other assets and long-term receivables

The Group uses a provision matrix to calculate ECLs for trade receivables, prepayments, other receivables and other assets and long-term receivables. The provision rates are based on ageing for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 24 to the financial statements.

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for 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 unused tax losses to the extent that it is probable that taxable profit will be available against which the 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 together with future tax planning strategies. Further details are contained in note 22 to the financial statements.

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 44 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2020 was RMB267,522,000 (2019: RMB174,070,000). Further details are included in note 20 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2020, the best estimate of the carrying amount of capitalised development costs was RMB114,714,000 (2019: RMB151,764,000).

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 on 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 35 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.

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

	2020 **RMB'000**	2019 RMB'000
Mainland China	**5,420,940**	5,175,586
Others	**166,696**	142,505
	5,587,636	5,318,091

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

4. Operating segment information (continued)

Geographical information (continued)

(b) Non-current assets

	2020 RMB'000	2019 RMB'000
Mainland China	7,822,314	7,391,487
Others	2,056,772	2,009,070
	9,879,086	9,400,557

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 transactions with a significant customer accounted for 10% or more of the Group's total revenue during the year.

5. Revenue, other income and gains

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers		
Sale of biopharmaceuticals	5,549,693	5,292,397
Technical services	10,353	25,694
Licensing revenue	27,590	—
	5,587,636	5,318,091

5. Revenue, other income and gains (continued)

Revenue from contracts with customers

(a) Disaggregated revenue information

	2020 RMB'000	2019 RMB'000
Types of goods or services		
Sale of biopharmaceuticals	**5,549,693**	5,292,397
Technical services	**10,353**	25,694
Licensing revenue	**27,590**	—
Total revenue from contracts with customers	**5,587,636**	5,318,091
Geographical markets		
Mainland China	**5,420,940**	5,175,586
Others	**166,696**	142,505
Total revenue from contracts with customers	**5,587,636**	5,318,091
Timing of revenue recognition		
Goods transferred at a point in time	**5,549,693**	5,292,397
Services transferred over time	**10,353**	25,694
License or IP transferred at a point in time	**27,590**	—
Total revenue from contracts with customers	**5,587,636**	5,318,091

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of biopharmaceuticals	**34,431**	29,816

5. Revenue, other income and gains (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of biopharmaceuticals

The performance obligation is satisfied upon receipt of the biopharmaceutical products by customers and payment is generally due within 60 to 90 days from reception, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and trade discounts which give rise to variable consideration subject to constraint.

Technical services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of milestones and customer acceptance.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2020 **RMB'000**	2019 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**14,135**	18,300
After one year	**1,140**	15,705
	15,275	34,005

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue within two years related to technical service. The amounts disclosed above do not include variable consideration which is constrained.

5. Revenue, other income and gains (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations (continued)

Licensing revenue

The performance obligation is satisfied at the point of time when customer obtains control of license or IP.

	2020 RMB'000	2019 RMB'000
Other income		
Government grants related to		
— Assets (a)	**30,849**	31,578
— Income (b)	**51,719**	36,508
Interest income	**84,502**	83,858
Others	**3,949**	18,541
	171,019	170,485
Gains		
Gain on deemed disposal of an associate	**625**	—
Gain on repurchase of convertible bonds	**6,527**	—
Foreign exchange differences, net	**—**	47,622
	7,152	47,622
	178,171	218,107

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 30).

(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	2020 RMB'000	2019 RMB'000
Cost of inventories sold		**1,061,971**	918,155
Cost of service provided		**940**	7,192
Depreciation of property, plant and equipment	14	**185,524**	185,608
Depreciation of right-of-use assets	15(a)	**18,859**	13,292
Amortisation of other intangible assets		**156,554**	135,068
Amortisation of long-term deferred expenses		**6,381**	3,780
Lease payments not included in the measurement of lease liabilities	15(c)	**4,851**	6,615
Auditor's remuneration		**6,525**	9,367
Employee benefit expenses (excluding directors' and chief executive's remuneration):			
Wages, salaries and staff welfare		**984,072**	973,269
Equity-settled compensation expenses		**100,964**	153,469
Pension scheme contributions		**31,294**	71,694
Social welfare and other costs		**128,241**	108,237
		1,244,571	1,306,669
Other expenses and losses:			
Donation		**102,898**	63,679
Loss on disposal of items of property, plant and equipment		**1,016**	3,367
Foreign exchange differences, net		**250,026**	—
(Reversal of provision for impairment)/provision for impairment of long-term receivables	21	**(19,732)**	28,170
Provision for impairment/(reversal of provision for impairment) of trade receivables	24	**879**	(12,078)
Provision for impairment of prepayments, other receivables and other assets	25	**26,363**	25,717
Provision for impairment and write-off of other intangible assets	17	**177,804**	—
Others		**10,218**	5,169
		549,472	114,024

7. Finance costs

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest on bank loans	**11,873**	36,380
Interest on convertible bonds	**67,472**	72,518
Interest on lease liabilities	**1,721**	578
	81,066	109,476

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:

	2020 RMB'000	2019 RMB'000
Fees	**5,052**	6,975
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**1,268**	2,011
Equity-settled compensation expenses	**336**	192,642
Pension scheme contributions	**409**	646
	7,065	202,274

On 2 February 2017, 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 35 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:

	2020 RMB'000	2019 RMB'000
Mr. David Ross Parkinson	**253**	269
Mr. Jun Ma (i)	**—**	127
Mr. Tianruo Pu	**253**	269
Mr. Wong Lap Yan	**253**	62
	759	727

(i) Mr. Jun Ma resigned on 20 June 2019.

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

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

	Fees RMB'000	Salaries, allowances, bonuses and other benefits RMB'000	Equity-settled compensation expenses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2020					
Chief executive					
Dr. Jing Lou (i)	**2,967**	**432**	**168**	**337**	**3,904**
Executive director					
Ms. Dongmei Su	**489**	**836**	**168**	**72**	**1,565**
Non-executive directors					
Mr. Bin Huang (iii)	**837**	**—**	**—**	**—**	**837**
Mr. Tang Ke (vi)	**—**	**—**	**—**	**—**	**—**
	4,293	**1,268**	**336**	**409**	**6,306**

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	Equity-settled compensation expenses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2019					
Chief executive					
Dr. Jing Lou (i)	2,809	432	190,405	318	193,964
Executive directors					
Mr. Bo Tan (ii)	2,218	368	363	215	3,164
Ms. Dongmei Su	523	851	1,874	99	3,347
Mr. Bin Huang (iii)	698	360	—	14	1,072
Non-executive directors					
Mr. Bin Huang (iii)	—	—	—	—	—
Mr. Dong Liu (v)	—	—	—	—	—
Mr. Dasong Wang (iv)	—	—	—	—	—
	6,248	2,011	192,642	646	201,547

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

(ii) Mr. Bo Tan resigned on 2 December 2019.

(iii) Mr. Bin Huang resigned as an executive director and was appointed as a non-executive director on 20 June 2019.

(iv) Mr. Dasong Wang resigned on 8 October 2019.

(v) Mr. Dong Liu resigned on 10 February 2020.

(vi) Mr. Tang Ke was appointed as a non-executive director on 10 February 2020.

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 the chief executive (2019: the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2019: four) highest paid employees who are neither directors nor chief executives of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances, bonuses and other benefits	11,001	11,231
Pension scheme contributions	230	503
Equity-settled compensation expenses	75,340	58,757
	86,571	70,491

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	
	2020	2019
HKD2,000,001 to HKD2,500,000	1	—
HKD2,500,001 to HKD3,000,000	1	—
HKD3,000,001 to HKD3,500,000	—	—
HKD3,500,001 to HKD4,000,000	—	—
HKD4,000,001 to HKD4,500,000	—	—
HKD4,500,001 to HKD5,000,000	1	—
HKD6,500,001 to HKD7,000,000	—	1
HKD9,000,001 to HKD9,500,000	—	1
HKD29,500,001 to HKD33,000,000	—	1
HKD33,000,001 to HKD33,500,000	—	1
HKD93,000,001 to HKD93,500,000	1	—
	4	4

On 2 February 2017, share options were granted to two 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 35 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.

9. Five highest paid employees (continued)

On 7 September 2020, the board of the directors of the Company approved the adoption of the share award scheme to grant 10,000,000 shares to Dr. Zhu Zhenping ("**Dr. Zhu**"), a former president of research and development and chief scientific officer of the Company and currently a director, the president of research and development and the chief scientist of Sunshine Guojian, further details of which are included in the disclosures in note 35 to the financial statements.

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 within the scope of the relevant PRC and Italy regulations at 13% and 30% (2019: 16% 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 2020 amounted to approximately RMB31,703,000 (2019: RMB72,340,000). Certain social insurance is exempted by government authorities due to the impact of covid-19.

11. Income tax

The Group is subject to income tax on an entity basis on profits 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% (2019: 27.9%).

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 became effective on 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.

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

	2020 **RMB'000**	2019 RMB'000
Current	**290,297**	286,431
Deferred	**(82,274)**	(43,646)
Total tax charge for the year	**208,023**	242,785

11. Income tax (continued)

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:

	2020 RMB'000	2019 RMB'000
Profit before tax	**979,129**	1,223,013
At the PRC's statutory income tax rate of 25%	**244,782**	305,753
Preferential income tax rates applicable to subsidiaries	**(61,225)**	(81,911)
Additional deductible allowance for research and development expenses	**(48,080)**	(59,890)
Income not subject to tax	**(3,454)**	(15,157)
Effect of non-deductible expenses	**11,168**	16,744
Tax losses utilised from previous periods	**(140)**	(1,361)
Tax losses not recognised	**37,469**	74,889
Others	**27,503**	3,718
Tax charge at the Group's effective rate	**208,023**	242,785

The effective tax rate of the Group for the year ended 31 December 2020 was 21.2% (2019: 19.9%).

12. Dividends

	2020 RMB'000	2019 RMB'000
Proposed and declared dividend	**–**	–

No dividends were declared or paid by the Company for the year ended 31 December 2020 (31 December 2019: Nil).

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 2,534,742,913 (2019: 2,535,438,744) 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:

	2020 RMB'000	2019 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**835,791**	973,717
Interest on convertible bonds	**67,472**	—
Less: Gain on repurchase of convertible bonds	**(6,527)**	—
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds and gain on repurchase of convertible bonds	**896,736**	973,717

	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,534,742,913**	2,535,438,744
Effect of dilution — weighted average number of ordinary shares:		
Share options	**2,796,830**	2,299,436
Awarded shares	**10,869,773**	—
Convertible bonds	**202,410,360**	—
	2,750,819,876	2,537,738,180

14. Property, plant and equipment

2020

	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 31 December 2019 and at 1 January 2020:						
Cost	893,638	1,215,211	206,514	14,116	564,458	2,893,937
Accumulated depreciation	(216,513)	(537,392)	(141,034)	(10,205)	–	(905,144)
Net carrying amount	677,125	677,819	65,480	3,911	564,458	1,988,793
At 1 January 2020, net of accumulated depreciation	677,125	677,819	65,480	3,911	564,458	1,988,793
Additions	234	57,744	40,760	782	719,839	819,359
Disposals	(1,138)	(1,869)	(640)	–	–	(3,647)
Depreciation provided during the year	(46,888)	(105,603)	(32,015)	(1,018)	–	(185,524)
Transfers	59,701	43,515	885	–	(104,101)	–
Exchange realignment	438	496	29	1	1,434	2,398
At 31 December 2020, net of accumulated depreciation	689,472	672,102	74,499	3,676	1,181,630	2,621,379
At 31 December 2020:						
Cost	952,608	1,306,354	243,350	14,688	1,181,630	3,698,630
Accumulated depreciation	(263,136)	(634,252)	(168,851)	(11,012)	–	(1,077,251)
Net carrying amount	689,472	672,102	74,499	3,676	1,181,630	2,621,379

A freehold land with a carrying amount of approximately RMB4,087,000 as at 31 December 2020 (2019: RMB3,980,000) 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 RMB11,276,000 as at 31 December 2020 (2019: RMB65,472,000). 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 did not have any significant impact on the Group's financial position as at 31 December 2020.

At 31 December 2020, certain of the Group's land and buildings, which had aggregate carrying amounts of approximately RMB2,806,000 (2019: RMB2,733,000) and RMB13,583,000 (2019: RMB14,443,000), respectively, were pledged to secure general banking facilities granted to the Group (note 31).

14. Property, plant and equipment (continued)

2019

	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 31 December 2018 and at 1 January 2019:						
Cost	857,819	1,148,204	159,486	13,547	353,914	2,532,970
Accumulated depreciation	(171,818)	(443,143)	(115,789)	(10,259)	—	(741,009)
Net carrying amount	686,001	705,061	43,697	3,288	353,914	1,791,961
At 1 January 2019, net of accumulated depreciation	686,001	705,061	43,697	3,288	353,914	1,791,961
Additions	15	53,855	53,357	2,032	278,796	388,055
Disposals	(2,234)	(2,205)	(825)	(146)	—	(5,410)
Depreciation provided during the year	(46,245)	(106,977)	(31,127)	(1,259)	—	(185,608)
Transfers	39,652	28,182	383	—	(68,217)	—
Exchange realignment	(64)	(97)	(5)	(4)	(35)	(205)
At 31 December 2019, net of accumulated depreciation	677,125	677,819	65,480	3,911	564,458	1,988,793
At 31 December 2019:						
Cost	893,638	1,215,211	206,514	14,116	564,458	2,893,937
Accumulated depreciation	(216,513)	(537,392)	(141,034)	(10,205)	—	(905,144)
Net carrying amount	677,125	677,819	65,480	3,911	564,458	1,988,793

15. Leases

The Group as a lessee

The Group has lease contracts for certain land and buildings. Lump sum payments were made upfront to acquire the lease land from the owners with lease periods of 30 to 50 years, and no ongoing payments will be made under the terms of these land leases. Some of the leased buildings have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB'000	Operating lease RMB'000	Total RMB'000
As at 1 January 2019	335,205	8,243	343,448
Additions	—	5,780	5,780
Depreciation charge	(8,769)	(4,523)	(13,292)
As at 31 December 2019 and 1 January 2020	326,436	9,500	335,936
Additions	—	40,936	40,936
Depreciation charge	(8,770)	(10,089)	(18,859)
As at 31 December 2020	317,666	40,347	358,013

15. Leases (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	**9,431**	8,243
New leases	**40,936**	5,780
Accretion of interest recognised during the year	**1,721**	578
Payments	**(12,862)**	(5,170)
Carrying amount at 31 December	**39,226**	9,431
Analysed into:		
Current portion	**7,007**	5,467
Non-current portion	**32,219**	3,964

The maturity analysis of lease liabilities is disclosed in note 45 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	**1,721**	578
Depreciation charge of right-of-use assets	**18,859**	13,292
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses)	**4,530**	5,956
Expense relating to leases of low-value assets (included in administrative expenses)	**321**	659
Total amount recognised in profit or loss	**25,431**	20,485

16. Goodwill

	RMB'000
Cost at 1 January 2019	4,089,064
Exchange realignment	56,832
Cost and net carrying amount at 31 December 2019	4,145,896
Cost at 1 January 2020	**4,145,896**
Exchange realignment	**(226,975)**
Cost and net carrying amount at 31 December 2020	**3,918,921**
At 31 December 2020:	
Cost	**3,918,921**
Accumulated impairment	**—**
Net carrying amount	**3,918,921**

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the group of biopharmaceutical 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 are based on financial forecast approved by the Company's directors covering a period of six years (the "**Forecast Period**"). The discount rate applied to the cash flow projections is 16.0% (2019: 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% (2019: 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 2020. 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.

16. Goodwill (continued)

Impairment testing of goodwill (continued)

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.

In the opinion of the Company's directors, a decrease in the growth rate by 5% would cause the recoverable amount of the cash-generating unit to exceed its carrying amount by approximately RMB3,107,846,000 to RMB1,522,520,000, and any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause the carrying amount of the cash-generating unit to exceed its recoverable amount.

17. Other Intangible Assets

2020

	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 2020, net of accumulated amortisation	499,963	1,210,630	281,528	151,764	21,254	2,165,139
Additions	—	—	53,349	35,139	—	88,488
Transfer	—	56,193	—	(56,193)	—	—
Amortisation provided during the year	(60,027)	(71,535)	(19,925)	—	(6,416)	(157,903)
Impairment during the year	—	—	—	(15,996)		(15,996)
Write-off during the year	(161,808)	—	—	—	—	(161,808)
Exchange realignment	(19,585)	—	20	—	123	(19,442)
At 31 December 2020	258,543	1,195,288	314,972	114,714	14,961	1,898,478
At 31 December 2020:						
Cost	333,657	1,774,056	476,246	130,710	69,771	2,784,440
Accumulated amortisation and impairment	(75,114)	(578,768)	(161,274)	(15,996)	(54,810)	(885,962)
Net carrying amount	258,543	1,195,288	314,972	114,714	14,961	1,898,478

17. Other intangible assets (continued)

2019

	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 2019, net of accumulated amortisation	550,886	1,279,980	301,081	138,481	28,307	2,298,735
Additions	—	—	—	13,283	1,569	14,852
Amortisation provided during the year	(58,097)	(69,350)	(19,553)	—	(8,604)	(155,604)
Exchange realignment	7,174	—	—	—	(18)	7,156
At 31 December 2019	499,963	1,210,630	281,528	151,764	21,254	2,165,139
At 31 December 2019:						
Cost	627,220	1,717,863	422,897	151,764	69,573	2,989,317
Accumulated amortisation	(127,257)	(507,233)	(141,369)	—	(48,319)	(824,178)
Net carrying amount	499,963	1,210,630	281,528	151,764	21,254	2,165,139

Impairment testing of IPR&Ds

IPR&Ds were either acquired from a third party or capitalised in accordance with the accounting policies for 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 are based on financial forecast approved by the Company's directors. The discount rates applied to the four cash flow projections are from 18.5% to 29.0% (2019: from 18.5% to 29.0%), 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 amounts are based would not cause the carrying amounts of IPR&Ds to exceed their recoverable amounts.

Assumptions were used in the value in use calculation of IPR&Ds as at 31 December 2020. 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 five-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

	2020 **RMB'000**	2019 RMB'000
Share of net assets	**6,945**	7,470

Particulars of the Group's joint venture are as follows:

Name	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Liaoning Sunshine Bio-Pharmaceutical Investment Fund Management Partnership LLP ("**Sunshine Bio-Pharmaceutical Fund**")	PRC/ Mainland China	50%	50%	50%	Health industry investment management
Shenyang Sunshine Logistics Co., Ltd. ("**Shenyang Sunshine Logistics**")	PRC/ Mainland China	50%	50%	50%	Logistics services

18. Investment in a joint venture (continued)

The following table illustrates the aggregate financial information of the Group's joint venture that is not individually material:

	2020 RMB'000	2019 RMB'000
Share of the joint venture's (loss)/profit for the year	**(525)**	4,970
Aggregate carrying amount of the Group's investment in a joint venture	**6,945**	7,470

19. Investments in associates

	2020 RMB'000	2019 RMB'000
Share of net assets	**749,722**	593,414

Particulars of the Group's associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group %	Principal activities
Refuge Biotechnologies, Inc. (a) ("**Refuge**")	Preferred shares	United States	10.21	Research and development
Shanghai Companion Diagnostics Technology Ltd. (a) ("**Shanghai Companion**")	Ordinary shares	PRC/ Mainland China	14.00	Research and development
Liaoning Sunshine Medical Industry Investment Fund Partnership LLP (a) ("**Sunshine Medical Industry Fund**")	Limited partner	PRC/ Mainland China	66.01	Investment holding

19. Investments in associates (continued)

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group %	Principal activities
Verseau Therapeutics, Inc. (a) (b) ("**Verseau**")	Preferred shares	United States	11.75	Research and development
Shanghai Corinline Diagnostics Technology Ltd. (a) (c) ("**Corinline**")	Ordinary shares	PRC/ Mainland China	8.00	Research and development
Numab Therapeutics AG, Inc. (d) ("**Numab**")	Preferred shares	Switzerland	15.47	Research and development

Notes:

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

(b) On 2 February 2019, the Group entered into an agreement to purchase 3,750,000 preferred shares at a consideration of USD15,000,000. The Group retained one seat in the board and can exercise significant influence over Verseau.

(c) On 19 August 2019, the Group entered into an agreement to obtain certain equity interest in Corinline at a consideration of RMB12,000,000. The Group retained one seat in the board and can exercise significant influence over Corinline.

(d) On 27 September 2019, the Group entered into an agreement to acquire certain equity of Numab at a consideration of Swiss Franc 15,001,000. The Group retained one seat in the board and can exercise significant influence over Numab.

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

	2020 **RMB'000**	2019 RMB'000
Share of the associates' losses for the year	**(29,868)**	(16,001)
Share of the associates' total comprehensive losses	**(29,868)**	(16,001)
Aggregate carrying amount of the Group's investments in the associates	**749,722**	593,414

20. Equity investments designated at fair value through other comprehensive income

	2020 RMB'000	2019 RMB'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value	**630,195**	502,919
Unlisted equity investments, at fair value	**267,522**	174,070
	897,717	676,989

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

In February 2020, the Group redeemed part of its equity interest in an unlisted equity investment. The fair value on the date of redemption was RMB6,968,000 and the accumulated gain recognised in other comprehensive income of RMB1,016,000 was transferred to retained earnings.

In August 2020, the Group sold part of its equity interest in a listed equity investment. The fair value on the date of sale was RMB21,696,000 and the accumulated gain recognised in other comprehensive income of RMB28,278,000 was transferred to retained earnings.

21. Long-term receivables

	2020 RMB'000	2019 RMB'000
Long-term receivables due from a related party (a)	6,826	37,816
Long-term receivables	6,849	6,849
	13,675	44,665
Provision for impairment of long-term receivables	(11,475)	(38,110)
	2,200	6,555

(a) On 29 March 2016, Shenyang Sunshine lent to Zhejiang Sunshine Pharmaceutical Co., Ltd. ("**Zhejiang Sunshine**"), a related party which was under control of certain middle management personnel 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 had repaid the principal amount of RMB50,000,000. Pursuant to the supplemental agreement dated on 29 June 2018, the maturity date was extended to 29 June 2020. In 2020, Zhejiang Sunshine had repaid the principal amount of RMB25,000,000. The accrued interest for the year ended 31 December 2020 was RMB914,000 (2019: RMB963,000).

The movements in the loss allowance for impairment of long-term receivables are as follows:

	2020 RMB'000	2019 RMB'000
Balance at beginning of the year	38,110	9,940
(Reversal)/additions	(19,732)	28,170
Amount written off as uncollectible	(6,903)	—
Balance at end of the year	11,475	38,110

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.

21. Long-term receivables (continued)

Impairment under IFRS 9 for the year ended 31 December 2020

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's long-term receivables using a provision matrix:

As at 31 December 2020

	Ageing		
	Within 1 Year	**1 to 2 years**	**Over 2 years**
Expected credit loss rate	1%	56.0%	100%
Gross carrying amount (RMB'000)	—	5,000	8,675
Expected credit losses (RMB'000)	—	2,800	8,675

22. Deferred tax

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

Deferred tax liabilities

	2020			
	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Fair value adjustments of equity investments designated at fair value through other comprehensive income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	253,481	2,821	11,775	268,077
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	(13,193)	—	20,179	6,986
Deferred tax credited to the consolidated statement of comprehensive income	—	(2,821)	—	(2,821)
Gross deferred tax liabilities at 31 December 2020	240,288	—	31,954	272,242

22. Deferred tax (continued)

Deferred tax assets

	2020						
	Accruals	Impairment/ write-off of inventories, other intangible assets, and financial assets	Decelerated depreciation for tax purposes	Government grants	Loss available for offsetting against future taxable profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	67,368	22,279	2,527	25,670	–	11,180	129,024
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 11)	17,483	20,796	574	(1,689)	45,142	6,954	89,260
Deferred tax credited to the consolidated statement of comprehensive income	–	–	–	–	–	998	998
Gross deferred tax assets at 31 December 2020	84,851	43,075	3,101	23,981	45,142	19,132	219,282

22. Deferred tax (continued)

Deferred tax liabilities

	2019			
	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Fair value adjustments of equity investments designated at fair value through other comprehensive income RMB'000	Others RMB'000	Total RMB'000
At 31 December 2018	264,367	6,394	—	270,761
Effect of adoption of IFRS 16	—	—	1,237	1,237
At 1 January 2019 (restated)	264,367	6,394	1,237	271,998
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	(10,886)	—	10,538	(348)
Deferred tax credited to the consolidated statement of comprehensive income	—	(3,573)	—	(3,573)
Gross deferred tax liabilities at 31 December 2019	253,481	2,821	11,775	268,077

22. Deferred tax (continued)

Deferred tax assets

	2019					
	Accruals RMB'000	Impairment of inventories and financial assets RMB'000	Decelerated depreciation for tax purposes RMB'000	Government grants RMB'000	Others RMB'000	Total RMB'000
At 31 December 2018	31,109	13,710	1,195	27,949	10,439	84,402
Effect of adoption of IFRS 16	—	—	—	—	1,237	1,237
At 1 January 2019 (restated)	31,109	13,710	1,195	27,949	11,676	85,639
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 11)	36,259	8,569	1,332	(2,279)	(583)	43,298
Deferred tax credited to the consolidated statement of comprehensive income	—	—	—	—	87	87
Gross deferred tax assets at 31 December 2019	67,368	22,279	2,527	25,670	11,180	129,024

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 2020, 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 (2019: Nil).

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 RMB5,569,896,000 (2019: RMB4,306,848,000).

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

22. Deferred tax (continued)

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

	2020 RMB'000	2019 RMB'000
Tax losses arising in Mainland China (a)	**306,625**	130,199
Tax losses arising in Hong Kong and other countries (b)	**1,065,332**	585,542
	1,371,957	715,741

Notes:

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

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

23. Inventories

	2020 RMB'000	2019 RMB'000
Raw materials	**203,605**	154,710
Work in progress	**262,651**	233,235
Finished goods	**125,735**	117,846
Consumables and packaging materials	**33,460**	24,975
	625,451	530,766
Impairment	**(5,943)**	(2,293)
	619,508	528,473

24. Trade and notes receivables

	2020 RMB'000	2019 RMB'000
Trade receivables	**912,431**	982,331
Notes receivable	**122,964**	87,485
	1,035,395	1,069,816
Provision for impairment of trade receivables	**(52,430)**	(51,551)
	982,965	1,018,265

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:

	2020 RMB'000	2019 RMB'000
Within 1 month	**515,759**	464,339
1 to 3 months	**319,032**	375,581
3 to 6 months	**22,570**	74,424
6 months to 1 year	**7,989**	18,682
1 to 2 years	**8,214**	14,981
Over 2 years	**38,867**	34,324
	912,431	982,331

24. Trade and notes receivables (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	51,551	63,629
Impairment losses, net	879	(12,078)
At end of year	52,430	51,551

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2020

	Ageing					
	Within 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years
Expected credit loss rate	0.98%	0.95%	0.93%	0.83%	63.44%	100%
Gross carrying amount (RMB'000)	515,759	319,032	22,570	7,989	8,214	38,867
Expected credit losses (RMB'000)	5,052	3,025	209	66	5,211	38,867

As at 31 December 2019

	Ageing					
	Within 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years
Expected credit loss rate	0.83%	0.83%	0.83%	0.83%	63.30%	100%
Gross carrying amount (RMB'000)	464,339	375,581	74,424	18,682	14,981	34,324
Expected credit losses (RMB'000)	3,854	3,117	618	155	9,483	34,324

25. Prepayments, other receivables and other assets

	2020 RMB'000	2019 RMB'000
Prepayments, other receivables and other assets — current portion:		
Interest receivables	—	418
Prepayments	36,222	25,951
Other deposits and other receivables	189,909	138,861
Deductible input VAT	76,481	23,182
Due from related parties	362,689	334,969
	665,301	523,381
Impairment allowance	(77,384)	(51,101)
Exchange realignment	—	80
	587,917	472,360
Prepayments, other receivables and other assets — non-current portion:		
Advance payments for property, plant and equipment	253,682	121,595
Other non-current assets	71,946	42,314
	325,628	163,909

25. Prepayments, other receivables and other assets (continued)

The movements in the loss allowance for impairment of prepayments, other receivables and other assets are as follows:

	2020 RMB'000	2019 RMB'000
Balances at beginning of the year	**(51,021)**	(25,384)
Charge for the year	**(26,363)**	(25,717)
Exchange realignment	**—**	80
At end of the year	**(77,384)**	(51,021)

Other receivables mainly represent the Group's receivables from related parties and third parties. According to the related party's historical credit, repayment and mortgage information, the loss given default was estimated to be 1% within one year, 56.0% from one year to two years and 100% for more than two years.

26. Financial assets at fair value through profit or loss

	2020 RMB'000	2019 RMB'000
Other unlisted investments, at fair value	**1,272,862**	472,163

The above unlisted investments were treasury or cash management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

27. Cash and cash equivalents and pledged deposits

	2020 RMB'000	2019 RMB'000
Cash and bank balances	**3,090,128**	2,082,142
Restricted cash	**707**	705
Pledged deposits	**125,823**	22,073
	3,216,658	2,104,920
Less:		
Pledged deposits	**(125,823)**	(22,073)
Cash and cash equivalents	**3,090,835**	2,082,847

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.

The Group's cash and cash equivalents and deposits as at 31 December 2020 are denominated in the following currencies:

	2020 RMB'000	2019 RMB'000
Denominated in:		
— RMB	**2,738,328**	1,585,014
— HKD	**18,083**	85,380
— USD	**227,954**	310,954
— EUR	**232,291**	123,570
— Great Britain Pound ("**GBP**")	**2**	2
	3,216,658	2,104,920

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 RMB125,823,000 (2019: RMB22,073,000) have been pledged to secure letters of credit, bank acceptance bills and others as at 31 December 2020.

28. Trade and bills payables

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

	2020 RMB'000	2019 RMB'000
Within 3 months	176,735	131,436
3 to 6 months	21,093	14,790
Over 6 months	5,458	3,537
	203,286	149,763

The trade and bills payables are non-interest-bearing and repayable within the normal operating cycle or on demand.

29. Other payables and accruals

	2020 RMB'000	2019 RMB'000
Accrued selling and marketing expenses	279,488	294,498
Accrued salaries, bonuses and welfare expenses	167,135	157,277
Contract liabilities (a)	33,733	34,431
Due to related parties (note 41(b))	—	71,855
Taxes payable (other than income tax)	49,860	41,008
Interest payables	—	143,666
Payable to vendors of property, plant and equipment and other intangible assets	128,074	31,828
Others	128,456	139,427
	786,746	913,990

29. Other payables and accruals (continued)

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2020	31 December 2019	1 January 2019
	RMB'000	RMB'000	RMB'000
Short-term advances received from customers			
Sale of biopharmaceuticals	33,733	34,431	29,816
Total contract liabilities	33,733	34,431	29,816

(b) Other payables are non-interest-bearing.

30. Deferred income

	2020	2019
	RMB'000	RMB'000
At beginning of the year	279,531	311,224
Received during the year		
— Government grants (a)	108,648	12,743
Less: Recognition during the year		
— Government grants (a)	(43,606)	(44,436)
	344,573	279,531
Less: Deferred income — current portion		
— Government grants (a)	(36,113)	(37,217)
	308,460	242,314

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.

31. Interest-bearing bank and other borrowings

	2020			2019		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**3.15–3.30**	**2021**	**360,151**			—
Bank loans — secured			**—**	1.00–4.35	2020	483,957
			360,151			483,957
Non-current						
Bank loans — unsecured	**4.20**	**2029**	**30,042**			—
Bank loans — secured	**2.75**	**2028**	**23,273**	2.75	2028	13,286
			53,315			13,286
Convertible bonds (note 32)	**1.50**	**2020–2025**	**2,461,427**	2.50	2017–2022	2,304,750
			2,514,742			2,318,036
			2,874,893			2,801,993

31. Interest-bearing bank and other borrowings (continued)

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**360,151**	483,957
In the second year	**—**	—
In the third to tenth years, inclusive	**53,315**	13,286
	413,466	497,243

Notes:

(a) The bank borrowings bear interest at fixed interest rates ranging from 2.75% to 4.20% per annum (2019: 1.00% to 4.35%).

(b) Certain of the Group's bank loans are secured by mortgages over the Group's land and buildings, which had a net carrying value at the end of the reporting period of approximately RMB2,806,000 (2019: RMB2,733,000) and RMB13,583,000 (2019: RMB14,443,000), respectively.

(c) As at 31 December 2020, except for secured bank borrowings of RMB23,273,000 (2019: RMB64,086,000) which were denominated in EUR, all the bank borrowings were denominated in RMB.

(d) The carrying amounts of the current bank borrowings approximate to their fair values.

32. Convertible bonds

On 21 July 2017, Strategic International, a direct wholly-owned subsidiary of the Company, issued Euro-denominated zero-coupon convertible bonds (the "**2022 Bonds**") with a nominal value of EUR300,000,000. The 2022 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.

All of the 2022 Bonds were repurchased during the year. Following the settlement and the cancellation of such 2022 Bonds, the aggregate principal amount of the 2022 Bonds that remained outstanding as at 31 December 2020 was nil.

On 29 June 2020, Strategic International issued Euro-denominated zero-coupon convertible bonds (the "**2025 Bonds**") with a nominal value of EUR320,000,000. The 2025 Bonds are guaranteed by the Company and convertible at the option of the bondholders into ordinary shares with the initial conversion price of HKD13.1750 per share at any time on and after 9 August 2020 and up to the close of business on the date falling seven days prior to 29 June 2025. The 2025 Bonds are redeemable at the option of the bondholders at a 1.50% 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 2025 Bonds issued during the year have been split into the liability and equity components as follows:

	RMB'000 (Unaudited)
Nominal value of convertible bonds issued at 29 June 2020	**2,547,520**
Equity	**(111,172)**
Direct transaction costs attributable to the liability component	**(25,475)**
Liability component at the issuance date	**2,410,873**
Interest accrual	**30,592**
Exchange realignment	**19,962**
Liability component at 31 December 2020 (note 31)	**2,461,427**

33. 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:

	2020
Discount rate (%)	**1.5**
Expected rate of future pension cost increases by (%) — 2021	**1.8**
Expected rate of future pension cost increases by (%) — 2022	**2.2**
Expected rate of future pension cost increases by (%) — 2023	**2.3**
Expected rate of future pension cost increases by (%) — from 2024	**2.9**

	2019
Discount rate (%)	1.5
Expected rate of future pension cost increases by (%) — 2020	2.0
Expected rate of future pension cost increases by (%) — 2021	2.3
Expected rate of future pension cost increases by (%) — 2022	2.5
Expected rate of future pension cost increases by (%) — from 2023	2.9

33. Retirement benefit obligations (continued)

A quantitative sensitivity analysis for significant assumption 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
2020				
Discount rate	**0.5**	**1,115**	**0.5**	**433**
2019				
Discount rate	0.5	258	0.5	282

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:

	2020 RMB'000	2019 RMB'000
Current service cost	**274**	219
Interest cost	**42**	86
Net benefit expenses	**316**	305
Recognised in finance costs	**316**	305

33. Retirement benefit obligations (continued)

The movements in the present value of the defined benefit obligations are as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	**5,866**	6,303
Current service cost	**274**	219
Interest cost	**42**	86
Benefit paid	**(769)**	(649)
Actuarial gain/(loss)	**743**	(24)
Exchange realignment	**120**	(69)
At 31 December	**6,276**	5,866

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 (2019: 15 years).

34. Share capital

Shares

	2020 RMB'000	2019 RMB'000
Issued and fully paid:		
2,543,600,999 (2019: 2,535,048,051) ordinary shares	**155**	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 2019 and 1 January 2020	**2,535,048,051**	**155**	**4,307,795**	**4,307,950**
Share options exercised (a)	**161,000**	**—**	**1,374**	**1,374**
Shares cancelled (b)	**(1,493,500)**	**—**	**(11,223)**	**(11,223)**
Shares issued as new awarded shares	**9,885,448**	**—**	**—**	**—**
Ordinary shares of USD0.00001 each at 31 December 2020	**2,543,600,999**	**155**	**4,297,946**	**4,298,101**

	Number of shares	Treasury shares RMB'000
At 1 January 2019	**4,370,000**	**40,586**
Repurchased	**5,000,000**	**38,180**
Cancelled	**(9,370,000)**	**(78,766)**
At 31 December 2019	**—**	**—**
Repurchased	**1,493,500**	**11,223**
Cancelled	**(1,493,500)**	**(11,223)**
At 31 December 2020	**—**	**—**

34. Share capital (continued)

Shares (continued)

Notes:

(a) The subscription rights attaching to 161,000 share options were exercised at the subscription price of HK$7.62 per share (note 35), resulting in the issue of 161,000 shares for a total cash consideration, before expenses, of RMB1,103,000. An amount of RMB271,000 was transferred from the contributed surplus to share premium upon the exercise of the share options.

(b) The Group repurchased a total of 1,493,500 ordinary shares at an aggregate cash consideration of RMB11,223,000 during the year. All the repurchased shares have been cancelled during the year.

(c) The Group issued 9,885,448 shares as new awarded shares to the selected participants under the share award scheme adopted by the Company on 23 March 2020 (note 35).

35. Share incentive scheme

Share option scheme adopted by the Company

On 26 September 2016, a total of 20,000,000 share options, each of which 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 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 of 20,000,000 share options, each of which entitles the holders to subscribe for one ordinary share of the Company at an exercise price of HKD7.62 (which is the higher 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.

35. Share incentive scheme (continued)

Share option scheme adopted by the Company (continued)

The following share options were outstanding under the Share Option scheme during the year:

	2020		2019	
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000
At 1 January	7.62	18,276	7.62	20,000
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	(660)
Exercised during the year	7.62	(161)	7.62	(1,064)
Expired during the year	—	—	—	—
At 31 December	7.62	18,115	7.62	18,276

The weighted average share price at the date of exercise for share options exercised during the year was HKD9.05 per share (2019: HKD12.99 per share).

The fair value of the share options at the grant date is estimated using a binomial option 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 end of the reporting period, the Company had 18,115,500 share options outstanding under the Share Option Scheme, which represented approximately 0.70% of the Company's shares in issue as at that date.

The Group had recorded share-based payment expenses of RMB5,094,000 in the statement of profit or loss during the year ended 31 December 2020 (2019: RMB11,001,000).

35. Share incentive scheme (continued)

Share award scheme adopted by the Company

As part of the Group's initiatives to recognise the contributions of the selected participants, attract suitable personnel and provide the selected participants with a direct economic interest in attaining a long-term relationship between the Group and the selected participants, on 23 March 2020, the board of the directors of the Company approved the adoption of the share award scheme to grant 9,885,448 shares to 32 employees of the Group at nil consideration. Vesting conditions upon which the awarded shares will vest and become exercisable by batch include net profit growth rate and net return on assets from 2021 to 2023. If the vesting conditions are not met, the awarded shares will lapse.

The following share options were outstanding under the share award share option scheme during the year:

The fair value of the awarded shares at the grant date is estimated using a binomial option pricing model, taking into account the terms and conditions upon which the awarded shares were granted. There is no cash settlement of the share award. The fair value of the share award granted on 23 March 2020 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	—
Expected volatility (%)	44.83
Risk-free interest rate (%)	0.86
Discounts for the lack of marketability (%)	17.00
Expected contractual life of share options (years)	10.00
Underlying share price (RMB)	5.12

At the end of the reporting period, the Company had 9,885,448 awarded shares outstanding under the share award scheme, which represented approximately 0.39% of the Company's shares in issue as at that date. The Group had recorded share-based payment expenses of RMB21,731,000 in the statement of profit or loss during the year ended 31 December 2020.

On 7 September 2020, the board of the directors of the Company approved the adoption of the share award scheme to grant 10,000,000 shares at nil consideration to Dr. Zhu. The fair value of the 10,000,000 awarded shares granted to Dr. Zhu is approximately HKD84,400,000 on the grant date. The Group had recorded the expenses associated with the awarded shares of RMB74,475,000 in the statement of profit or loss during the year ended 31 December 2020.

35. Share incentive scheme (continued)

Employee share ownership plan adopted by Sunshine Guojian

As part of the Group's initiatives to incentivise the performance of its directors, senior management and employees, on 19 June 2019, the shareholders of Sunshine Guojian approved the adoption of the employee share ownership plan ("**ESOP**") to further promote the productivity and strong work performance of the directors, senior management and employees of the Group.

On 19 June 2019, the shareholders of Sunshine Guojian approved and resolved to issue 44,367,221 shares, representing not more than 8% of the enlarged issued share capital of Sunshine Guojian, for the purpose of granting and allotting the awarded shares to the selected participants: (1) 25,160,657 awarded shares issued to Achieve Well International (Hong Kong) Limited, which is under control of a director of the Company and (2) 19,206,564 awarded shares issued to Shanghai Haohan Investment Partnership (Limited Partnership), which is beneficially owned by certain management personnel of the Group.

The fair value of the awarded shares at the grant date was estimated using a discounted cash flow model with the following assumptions:

Risk-free interest rate (%)	2.64
Weighted average cost of capital (%)	14.00
Discount for lack of marketability (%)	25.00

In 2019, 44,367,221 awarded shares have been exercised with the total consideration of RMB44,367,221 at the weighted average exercise price of RMB1.00. The Group had recorded the expenses associated with the awarded shares under the ESOP of RMB335,110,000 in the statement of profit or loss during the year ended 31 December 2019.

36. 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.

37. Notes to the consolidated statement of cash flows

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB22,077,000 and RMB1,540,000, respectively, in respect of lease arrangements for certain buildings (2019: RMB5,780,000 and RMB5,780,000).

(b) Changes in liabilities arising from financing activities

2020

	Bank and other borrowings RMB'000	Lease liabilities RMB'000	Convertible bonds RMB'000
At 1 January 2020	497,243	9,431	2,304,750
Changes from financing cash flows	(87,572)	(11,141)	127,760
Gains on repurchase of convertible bonds	—	—	(6,527)
Equity component of convertible bonds	—	—	(64,039)
New leases	—	40,936	—
Interest accrual	—	1,721	67,472
Interest paid classified as operating cash flows	—	(1,721)	—
Exchange realignment	3,795	—	32,011
At 31 December 2020	413,466	39,226	2,461,427

2019

	Bank and other borrowings RMB'000	Lease liabilities RMB'000	Convertible bonds RMB'000
At 31 December 2018	995,350	—	2,299,321
Effect of adoption of IFRS 16	—	8,243	—
At 1 January 2019 (restated)	995,350	8,243	2,299,321
Changes from financing cash flows	(510,522)	(4,592)	—
New leases	—	5,780	—
Interest accrual	—	578	13,902
Interest paid classified as operating cash flows	—	(578)	—
Exchange realignment	12,415	—	(8,473)
At 31 December 2019	497,243	9,431	2,304,750

37. Notes to the consolidated statement of cash flows (continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 RMB'000	2019 RMB'000
Within operating activities	**6,572**	7,193
Within financing activities	**11,141**	4,592
	17,713	11,785

38. Contingent liabilities

Lawsuit of Sunshine Guojian

Shenyang Aircraft Industry Group Aluminum Curtain Wall Engineering Co., Ltd. ("**Shenyang Aircraft**") filed a lawsuit in July 2020, requesting the court to order Shanghai Shengguo Pharmaceutical Development Co., Ltd. ("**Shanghai Shengguo**"), a wholly-owned subsidiary of Sunshine Guojian, to pay the outstanding project funds and the liquidated damages for delayed payment of RMB5,095,438 in total. Shenyang Aircraft added Nantong Sijian Construction Group Co., Ltd. ("**NTSJ**") as the defendant in December 2020 and changed the claims as requesting the court to order NTSJ to pay the outstanding project funds and liquidated damages for delayed payment of RMB5,095,438 in total, and also demanding Shanghai Shengguo to bear joint liabilities. NTSJ instituted a countersuit in December 2020, requesting the court to order Shenyang Aircraft to compensate for the liquidated damages for the project delay of RMB28,825,813 in total, and also demanding Shanghai Shengguo to bear joint liabilities.

At the date of approval of these financial statements, the above case is still pending. After making overall analysis and consulting with lawyers for professional opinions, the management of Sunshine Guojian considers that the above pending lawsuits have no material impact on the financial statements of Sunshine Guojian at the end of the reporting period.

38. Contingent liabilities (continued)

Lawsuit of Sciprogen

Shandong Beiyao Lukang Pharmaceutical Technology Co., Ltd. ("**Shandong Beiyao**") filed a lawsuit in March 2020, requesting the court to order Sciprogen, a wholly-owned subsidiary of the Company, to pay losses and return prepayment of RMB16,886,107 in total. Subsequently, Sciprogen was informed that Shandong Beiyao changed the sum of its claims for losses to RMB60,032,223 on 9 March 2021. At the date of approval of these financial statements, Sciprogen has not yet received the complete set of evidential materials newly submitted by Shandong Beiyao after changing its claims.

At the date of approval of these financial statements, the above case is still pending. After making overall analysis and consulting with lawyers for professional opinions, the management of the Group considers that the above pending lawsuits have no material impact on the financial statements of the Group at the end of the reporting period.

39. Pledge of assets

Details of the Group's interest-bearing bank and other borrowings which are secured by the assets of the Group are included in note 31 to the financial statements.

40. Commitments

The Group had the following capital commitments at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
Plant and machinery	953,631	1,064,452
Capital contribution payable to funds	466,667	757,499
	1,420,298	1,821,951

41. 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
Sunshine Bio-Pharmaceutical Fund	Joint venture
Shenyang Sunshine Logistics	Joint venture
Dalian Huansheng Medical Investment Co., Ltd.* ("**Dalian Huansheng**")	Under control of certain middle management personnel of the Company
Liaoning Sunshine Technology Development Co., Ltd. ("**Liaoning Sunshine Technology**")	A subsidiary of Dalian Huansheng
Zhejiang Sunshine Pharmaceutical Co., Ltd. ("**Zhejiang Sunshine**")	Under control of certain middle management personnel of the Company
Medical Recovery Limited ("**Medical Recovery**")	Under control of directors of the Company

* "Beijing Huansheng Medical Investment Co., Ltd." changed its official name to "Dalian Huansheng Medical Investment Co., Ltd." during the year of 2020.

(a) The Group had the following transactions with related parties during the year:

	Notes	2020 RMB'000	2019 RMB'000
Convertible loan including interest to Zhejiang Sunshine	21(a)	**37,816**	37,816
Loans to Liaoning Sunshine Technology	(i)	**34,117**	32,853
Loans to Dalian Huansheng	(ii)	**11,088**	10,653
Loans to Zhejiang Sunshine	(iii)	**89,902**	62,785
Loans to Medical Recovery	(iv)	**221,121**	221,121
Loan from Century Sunshine	(v)	**71,855**	71,855

Notes:

(i) On 20 June 2019, Sciprogen provided a loan, the principal amount of which was RMB32,200,000, to Liaoning Sunshine Technology at an interest rate of 3.92% per annum with the maturity date on 20 June 2020. Pursuant to a supplemental agreement dated on 20 June 2020, the maturity date was extended to 10 June 2021. The accrued interest for the year of 2020 was RMB1,264,000 (2019: RMB653,000).

(ii) On 26 May 2017, Zhejiang Wansheng provided a loan, the principal amount of which was RMB10,000,000, to Dalian Huansheng at an interest rate of 4.35% per annum with the maturity date on 26 May 2018. Pursuant to supplemental agreements dated 27 May 2018, 27 May 2019 and 27 May 2020, the maturity dates were extended to 26 May 2019, 27 May 2020 and 27 May 2021, respectively. The accrued interest for the year of 2020 was RMB435,000 (2019: RMB435,000).

41. Related party transactions (continued)

(a) The Group had the following transactions with related parties during the year: (continued)

Notes: (continued)

(iii) On 25 September 2018, Shenyang Sunshine provided a loan, the principal amount of which was RMB30,000,000, to Zhejiang Sunshine at an interest rate of 3.48% per annum with the maturity date on 25 September 2019. Pursuant to a supplemental agreement dated 25 September 2019, the maturity date was extended to 25 September 2020. During the year ended 31 December 2020, Zhejiang Sunshine repaid the loan principal of RMB30,000,000 to Shenyang Sunshine.

On 8 August 2019, Shenyang Sunshine provided an entrusted loan, the principal amount of which was RMB30,000,000, to Zhejiang Sunshine at an annual interest rate of 3.48% per annum with the maturity date on 7 August 2020. Pursuant to a supplemental agreement dated 7 August 2020, the maturity date was extended to 7 August 2021. The accrued interest for the year of 2020 was RMB977,000 (2019: RMB962,000).

On 30 November 2020, Shenyang Sunshine provided an entrusted loan, the principal amount of which was RMB55,000,000, to Zhejiang Sunshine at an annual interest rate of 3.15% per annum with the maturity date on 11 November 2021. The accrued interest for the year of 2020 was RMB119,000 (2019: Nil).

On 8 August 2018, Shanghai Xingsheng Pharmaceutical Company Limited provided a loan of RMB1,100,000 to Zhejiang Sunshine with no maturity date and interest.

(iv) On 17 July 2018, Strategic entered into a loan agreement with Medical Recovery to provide Medical Recovery with a loan, of which the principal amount was USD30,000,000 at an interest rate of 4.00% per annum with the maturity date on 16 July 2019. Pursuant to supplemental agreements dated 16 July 2019 and 17 July 2020, the maturity date was extended to 17 July 2020 and 17 July 2021, respectively. The accrued interest for the year of 2020 was RMB8,782,000 (2019: RMB11,835,000).

(v) On 29 December 2014 and 9 January 2015, Century Sunshine provided loans of USD12,700,000 and USD3,100,000 to Hongkong Sansheng Medical Limited (hereinafter collectively referred to as the "**Hongkong Sansheng**"). Hongkong Sansheng repaid Century Sunshine part of the loan of USD5,500,000 during 2017, which was equivalent to RMB37,135,000. During the year of 2020, Hongkong Sansheng repaid Century Sunshine the remaining amount of the loan of USD10,300,000 entirely, which was equivalent to RMB71,855,000.

41. 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:

	2020 RMB'000	2019 RMB'000
Due from related parties		
Current portion		
Medical Recovery	**214,202**	218,910
Zhejiang Sunshine	**68,985**	44,955
Liaoning Sunshine Technology	**16,072**	32,524
Dalian Huansheng	**2,382**	4,875
Directors and senior management	**5,607**	6,496
	307,248	307,760
Non-current portion		
Zhejiang Sunshine	**–**	1,605

	2020 RMB'000	2019 RMB'000
Due to a related party		
Current portion		
Century Sunshine	**–**	71,855

(c) Compensation of key management personnel of the Group:

Key management compensation is detailed in notes 8 and 9 to the financial statements.

(d) Liaoning Sunshine entered into a lease agreement with Shenyang Sunshine Logistics Co., Ltd to lease certain warehouse and related equipment. During the year ended 31 December 2020, the depreciation charged for the right-of-use assets and the accretion of interest of lease liability recognised amounted to RMB4,378,000 and RMB1,379,000, respectively. Payments of lease liability during the year ended 31 December 2020 amounted to RMB7,469,000.

(e) Liaoning Sunshine entered into an agreement with Dalian Huansheng to entrust Dalian Huansheng as an agent for certain of the Group's products. The Group had recorded the expenses associated with this agreement of RMB1,181,000 in the statement of profit or loss during the year ended 31 December 2020. Outstanding balance due from Dalian Huansheng amounted to RMB1,759,000 at the end of the reporting period.

42. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2020

Financial assets

	Financial assets at fair value through profit or loss (Designated as such upon initial recognition) RMB'000	Financial assets at fair value through other comprehensive income (Equity investment) RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	897,717	–	897,717
Financial assets at fair value through profit or loss	1,272,862	–	–	1,272,862
Financial assets included in prepayments, other receivables and other assets	–	–	495,648	495,648
Trade and notes receivables	–	–	982,965	982,965
Long-term receivables	–	–	2,200	2,200
Cash and cash equivalents	–	–	3,090,835	3,090,835
Pledged deposits	–	–	125,823	125,823
	1,272,862	897,717	4,697,471	6,868,050

42. Financial instruments by category (continued)

2020 (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Lease liabilities	39,226
Trade and bills payables	203,286
Financial liabilities included in other payables and accruals	256,530
Interest-bearing bank and other borrowings	413,466
Convertible bonds	2,461,427
	3,373,935

42. Financial instruments by category (continued)

2019

Financial assets

	Financial assets at fair value through profit or loss (Designated as such upon initial recognition) RMB'000	Financial assets at fair value through other comprehensive income (Equity investment) RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	676,989	–	676,989
Financial assets at fair value through profit or loss	472,163	–	–	472,163
Financial assets included in prepayments, other receivables and other assets	–	–	385,413	385,413
Trade and notes receivables	–	–	1,018,265	1,018,265
Long-term receivables	–	–	6,555	6,555
Cash and cash equivalents	–	–	2,082,847	2,082,847
Pledged deposits	–	–	22,073	22,073
	472,163	676,989	3,515,153	4,664,305

42. Financial instruments by category (continued)

2019 (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Lease liabilities	9,431
Trade and bills payables	149,763
Financial liabilities included in other payables and accruals	386,776
Interest-bearing bank and other borrowings	497,243
Convertible bonds	2,304,750
	3,347,963

43. Transfers of financial assets

As at 31 December 2020, 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 a carrying amount totalling approximately RMB14,925,000 (2019: RMB30,603,000). 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 Involvement 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 2020, 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.

44. 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 2020 RMB'000	31 December 2019 RMB'000	**31 December 2020 RMB'000**	31 December 2019 RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**897,717**	676,989	**897,717**	676,989
Financial assets at fair value through profit or loss	**1,272,862**	472,163	**1,272,862**	472,163
Long-term receivables	**2,200**	6,555	**2,200**	6,555
	2,172,779	1,155,707	**2,172,779**	1,155,707
Financial liabilities				
Interest-bearing bank borrowings: non-current	**53,315**	13,286	**51,307**	13,642
Lease liabilities: non-current	**32,219**	3,964	**32,219**	3,964
Convertible bonds	**2,461,427**	2,304,750	**2,461,427**	2,304,750
	2,546,961	2,322,000	**2,544,953**	2,322,356

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and notes receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. 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. 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.

44. 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 non-current portion of interest-bearing bank and other borrowings, lease liabilities 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 changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2020 were 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 market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("**EV/EBITDA**") multiple and price to earnings ("**P/E**") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in unlisted investments, which represent treasury or cash management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

44. Fair value and fair value hierarchy of financial instruments (continued)

Below is a summary of significant unobservable input to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020 and 2019:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Market approach	Discount for lack of marketability	2020: -10% to 10% (2019: -10% to 10%)	10% (2019: 10%) increase/decrease in discount would result in decrease/increase in fair value of RMB3,788,000 and RMB3,099,000, respectively (2019: RMB370,000 and RMB392,000)

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.

44. Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2020

	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**
Equity investments designated at fair value through other comprehensive income:				
Listed equity investments	**630,195**	**—**	**—**	**630,195**
Unlisted equity investments	**—**	**—**	**267,522**	**267,522**
Financial assets at fair value through profit or loss:				
Treasury or cash management products	**—**	**1,272,862**	**—**	**1,272,862**
	630,195	**1,272,862**	**267,522**	**2,170,579**

As at 31 December 2019

	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
Equity investments designated at fair value through other comprehensive income:				
Listed equity investments	502,919	—	—	502,919
Unlisted equity investments	—	—	174,070	174,070
Financial assets at fair value through profit or loss:				
Treasury or cash management products	—	472,163	—	472,163
	502,919	472,163	174,070	1,149,152

44. Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	2020 RMB'000	2019 RMB'000
Equity investments at fair value through other comprehensive income:		
At 1 January	**174,070**	313,246
Purchases	**74,274**	74,036
Disposal	**(16,044)**	—
Reclassification to equity investments designated at fair value through other comprehensive income — listed equity investment	**—**	(272,512)
Total gains recognised in other comprehensive income	**33,660**	58,722
Exchange realignment	**1,562**	578
At 31 December	**267,522**	174,070

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 and 31 December 2019.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2019: Nil) and there were no transfers from Level 3 into Level 1 (2019: RMB272,512,000) due to the change of valuation technique following the successful listing of an investee in the current year.

44. Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

Assets for which fair values are disclosed:

As at 31 December 2020

	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	—	2,200	—	2,200

As at 31 December 2019

	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	—	6,555	—	6,555

44. Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2020

	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 and other borrowings:				
non-current	—	51,307	—	51,307
Lease liabilities: non-current	—	32,219	—	32,219
Convertible bonds	—	2,461,427	—	2,461,427
	—	2,544,953	—	2,544,953

As at 31 December 2019

	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 and other borrowings:				
non-current	—	13,642	—	13,642
Lease liabilities: non-current	—	3,964	—	3,964
Convertible bonds	—	2,304,750	—	2,304,750
	—	2,322,356	—	2,322,356

45. Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits, interest-bearing bank and other borrowings, lease liabilities 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 and notes 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 31 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 27 and Euro-denominated convertible bonds as disclosed in note 32 to the financial statements.

The Group's assets and liabilities denominated in USD and EUR were mainly held by the Company and certain subsidiaries incorporated outside Mainland China which had USD and EUR as their functional currency, and the Group did not have material foreign currency transactions during the year.

45. Financial risk management objectives and policies (continued)

Credit risk

As at 31 December 2020, all 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.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
				Simplified	
	Stage 1	Stage 2	Stage 3	approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and notes receivables*	–	–	–	982,965	982,965
Financial assets included in prepayments, other receivables and other assets*	–	–	–	495,648	495,648
Long-term receivables*	–	–	–	2,200	2,200
Pledged deposits					
— Not yet past due	125,823	–	–	–	125,823
Cash and cash equivalents					
— Not yet past due	3,090,835	–	–	–	3,090,835
	3,216,658	–	–	1,480,813	4,697,471

45. Financial risk management objectives and policies (continued)

Credit risk (continued)

As at 31 December 2019

	12-month ECLs		Lifetime ECLs		
				Simplified	
	Stage 1	Stage 2	Stage 3	approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and notes receivables*	—	—	—	1,018,265	1,018,265
Financial assets included in prepayments, other receivables and other assets*	—	—	—	385,413	385,413
Long-term receivables*	—	—	—	6,555	6,555
Pledged deposits					
— Not yet past due	22,073	—	—	—	22,073
Cash and cash equivalents					
— Not yet past due	2,082,847	—	—	—	2,082,847
	2,104,920	—	—	1,410,233	3,515,153

* For trade and notes receivables, financial assets included in prepayments, other receivables and other assets and long-term receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 24 to the financial statements.

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 and notes receivables are widely dispersed in different regions.

45. Financial risk management objectives and policies (continued)

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 and other borrowings, convertible bonds, lease liabilities 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.

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

	2020			
	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 10 years RMB'000	Total RMB'000
Financial liabilities:				
Trade and bills payables	176,735	24,964	1,587	203,286
Financial liabilities included in other payables and accruals	106,677	59,609	90,244	256,530
Interest-bearing bank and other borrowings	—	360,151	53,315	413,466
Convertible bonds	—	—	2,461,427	2,461,427
Lease liabilities	—	7,007	32,219	39,226
	283,412	451,731	2,638,792	3,373,935

45. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Group (continued)

	2019			
	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 10 years RMB'000	Total RMB'000
Financial liabilities:				
Trade and bills payables	131,436	14,790	3,537	149,763
Financial liabilities included in other payables and accruals	160,839	89,874	136,063	386,776
Interest-bearing bank and other borrowings	54,000	429,957	13,286	497,243
Convertible bonds	—	—	2,304,750	2,304,750
Lease liabilities	1,367	4,100	3,964	9,431
	347,642	538,721	2,461,600	3,347,963

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 included in equity investments designated at fair value through other comprehensive income (note 20) as at 31 December 2020 and 31 December 2019. The Group's major listed equity investments during the year ended 31 December 2020 were listed on the NASDAQ Stock Market ("**NASDAQ**"), the Euronext Stock Market ("**Euronext**"), Hong Kong Exchanges and Clearing Market ("**HKEX**") and were valued at quoted market prices at the end of the reporting period.

At 31 December 2020, if the quoted market price of these financial assets held by the Group had increased/decreased by 10%, with all other variables held constant, other comprehensive income and equity would have been RMB62,974,000 (2019: RMB50,258,000) and RMB62,974,000 (2019: RMB50,258,000) 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 2020.

45. Financial risk management objectives and policies (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is interest-bearing bank and other borrowings, lease liabilities and convertible bonds divided by the total equity.

The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Interest-bearing bank and other borrowings (note 31)	**413,466**	497,243
Lease liabilities	**39,226**	9,431
Convertible bonds	**2,461,427**	2,304,750
	2,914,119	2,811,424
Total equity	**13,093,335**	10,359,319
Gearing ratio	**22.3%**	27.1%

46. Events after the reporting period

On 8 February 2021, Sunshine Guojian held the 20th session meeting of the third term of its board of directors, at which the "Resolution regarding the Company's 2021 Restricted Stock Incentive Plan (Draft) and its Summary" was reviewed and passed. The Resolution approved the grants at RMB4.00 per share, to 146 class II grantees, a total of 278.1 million shares of restricted stock, with the grant date to be fixed by the board of directors after this incentive plan shall have been reviewed and approved by the company's shareholders' general meeting. The Resolution has been approved, on 24 February 2021, by the company's 2021 first extraordinary shareholders' general meeting.

47. 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:

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**1,619**	1,619
Investments in subsidiaries	**3,064,137**	3,178,495
Equity investments designated at fair value through other comprehensive income	**203,948**	244,486
Total non-current assets	**3,269,704**	3,424,600
CURRENT ASSETS		
Due from subsidiaries	**1,983,962**	1,736,131
Cash and cash equivalents	**51,955**	423,700
Total current assets	**2,035,917**	2,159,831
CURRENT LIABILITIES		
Trade payables	**7**	7
Other payables and accruals	**921,750**	940,613
Total current liabilities	**921,757**	940,620
NET CURRENT ASSETS	**1,114,160**	1,219,211
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,383,864**	4,643,811
NON-CURRENT LIABILITIES	**—**	—
Total non-current liabilities	**—**	—
Net assets	**4,383,864**	4,643,811
EQUITY		
Share capital	**155**	155
Share premium (note)	**4,223,018**	4,233,138
Other reserves (note)	**160,691**	410,518
Total equity	**4,383,864**	4,643,811

47. 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	Fair value reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2019	4,304,768	59,104	(1,775)	284,012	43,017	4,689,126
Total comprehensive income for the year	—	—	(48,068)	72,363	(9,136)	15,159
Equity-settled share option arrangements (note 35)	—	11,001	—	—	—	11,001
Shares cancelled	(78,765)	—	—	—	—	(78,765)
Shares issued upon exercise of share options (note 35)	7,135	—	—	—	—	7,135
At 31 December 2019	4,233,138	70,105	(49,843)	356,375	33,881	4,643,656
Total comprehensive income for the year	**—**	**—**	**(9,913)**	**(283,980)**	**(57,234)**	**(351,127)**
Equity-settled share option arrangements (note 35)	**—**	**5,094**	**—**	**—**	**—**	**5,094**
Expenses associated with the share award schemes (Note 35)	**—**	**96,206**	**—**	**—**	**—**	**96,206**
Shares cancelled	**(11,223)**	**—**	**—**	**—**	**—**	**(11,223)**
Shares issued upon exercise of share options (note 35)	**1,103**	**—**	**—**	**—**	**—**	**1,103**
At 31 December 2020	**4,223,018**	**171,405**	**(59,756)**	**72,395**	**(23,353)**	**4,383,709**

48. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2021.

2020 Environmental, Social & Governance (ESG) Report of 3SBio Inc.

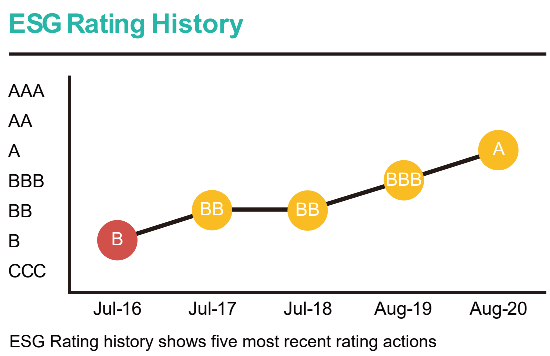
March 2021

CONTENTS

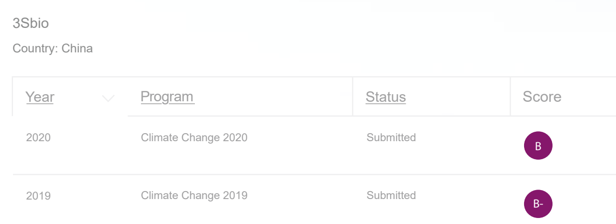
2020 Environmental, Social and Governance Report of 3SBio Inc.

Special Topic: Improving ESG Management

As a responsible corporate citizen, 3SBio Inc. (the "**Company**" or "**3SBio**," with its subsidiaries collectively referred to as the "**Group**") makes ESG a priority of its management agenda and has been working to improve ESG management. The Group's ESG achievements have been recognized by society and the capital market. In 2020, the Group's ESG performance was upgraded to an "A" rating by MSCI, higher than 78 percent of the rated worldwide peers; the Group's CDP Climate Change Questionnaire 2020 score was raised to a "B" rating (management level), outperforming 74 percent of the scored companies worldwide[1].



Higher ESG rating by MSCI



Higher scores in CDP Climate Change Questionnaire

Our 2020

In 2020, the Group continued to improve ESG management, established ESG committee at the board level, issued ESG management guidelines and objectives and boosted its ESG management and performance in a top-down manner.

ESG Work Highlights

Governance **Strengthening compliance and business ethics audits**

The Group offers compliance training to all board directors, employees and contractors, and carries out a full-in-house audit procedure once every three years. In 2020, the Internal Audit Department completed auditing 34 accounting procedures including sales and receivables, cost and inventory, payments and benefits and taxes for its four manufacturing bases. In the meantime, the Group implemented a trial program of integrating internal audit with internal control, moved forward the focus of audit, and realized the goal of early warning and in-process control, improving the Group's capability for compliance operation.

Social **Improving quality management level from employees to suppliers**

To ensure product safety and quality, the Company offers training programs to both its employees and suppliers. In 2020, Shenyang Sunshine and Sunshine Guojian launched training sessions on product quality control in transportation for cold-chain contractors. Shenyang Sunshine helped its packaging supplier improve the management system to enhance its quality management. The Group's control over product safety and quality was further enhanced.

1 According to the official information provided by CDP: globally, 74% of companies on the list received a "D" or "C" rating in 2020.

2020 Environmental, Social and Governance Report of 3SBio Inc.

Environmental **Setting emission-reduction goals**

In 2020, the Group scaled up efforts in environmental management. It set goals for 2025 in respect of the discharge of hazardous wastes, reduction of greenhouse gas emission, and improvement of energy use efficiency. For example, the group aims to have the discharge of hazardous wastes per revenue unit drop by 30 percent in 2025 compared to the level in 2018. In the meantime, the Group identified climate change-related risks and opportunities, improved management of climate change and carbon emission agenda and actively responded to China's carbon neutrality goal by 2060.

ESG Key Performance in 2020

Environmental performance

The ratio of water recycling and reuse increased by 2.03% from the previous year

Exhaust emissions per revenue unit decreased by 16% compared with the previous year

Social performance

Total workforce: 5,584	The percentage of employees trained 100%
Training hours per person averaged 39.2 hours	Charitable donations totaled RMB102.898 million

1. Corporate Social Responsibility (CSR)

1.1 CSR Notions

Driven by the mission of "making innovative biopharmaceuticals reachable", the Group has been devoted to solving medicine-related problems facing patients. Surmounting disease-related challenges one after another, it strives to improve patients' life quality with high-quality medicine and safeguard people's health.

The Group regards compliance operation as the foundation of its CSR. Honoring its commitments to stakeholders including shareholders, clients and consumers, employees, members of the public and community, and the government and regulators, the Group takes active measures to fulfill its CSRs, provides doctors with reliable treatment tools and patients with trustworthy medicines, helps the government reform the medical system, extends care and support to its employees and brings hope to patients and their families.

Mission

- Making innovative biopharmaceuticals reachable

Vision

- Based in China, we aim to emerge as a globally leading biopharmaceutical company

Values

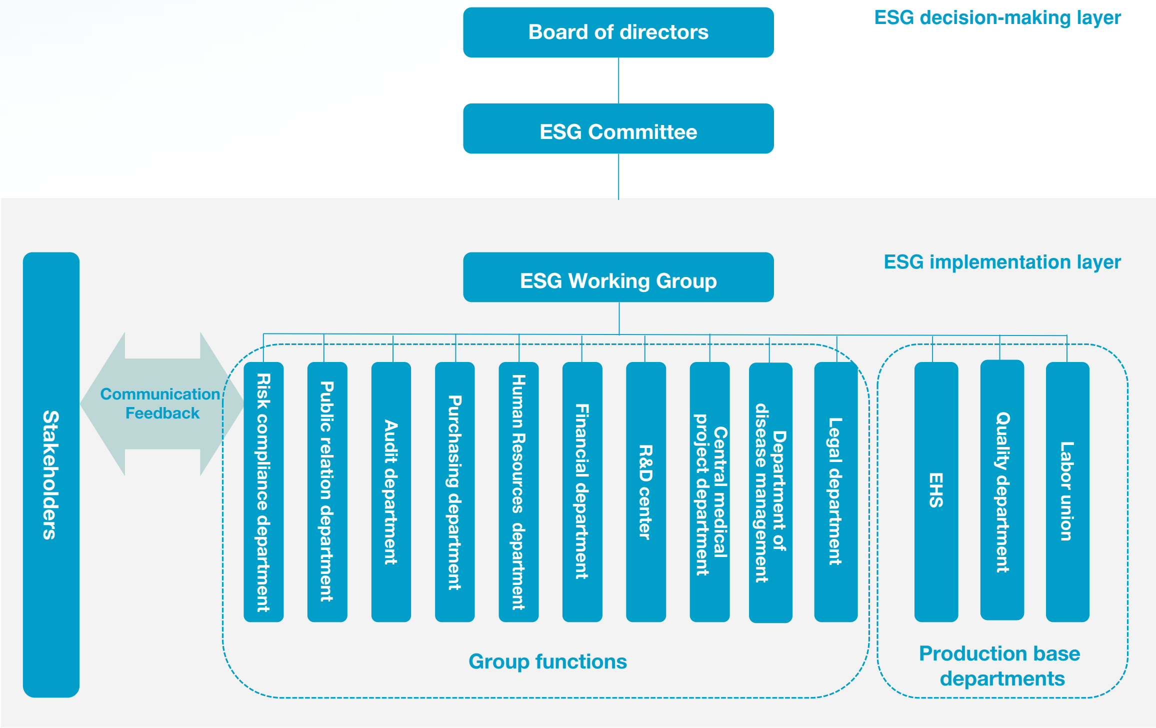
- Innovation, Quality, Win-win cooperation

Philosophy

- Cherish life
Caring for life
Create life

1.2 ESG Management Framework

The Group set up a top-down ESG management framework to ensure efficient implementation of its ESG agenda. The ESG Committee, with the participation of members of the board of directors, is responsible for the ESG agenda, and makes decisions regarding ESG and oversees ESG matters. The ESG Working Group implements decisions and measures under the guidance of ESG Committee.



Note: Powers and duties of ESG Committee are specified in the *Terms of Reference of Environmental, Social and Governance (ESG) Committee* (http://3sbio.com/en/images/investor_relations/down_9.pdf)

1.3 Identifying Material Topics

Communication with Stakeholders

The Group believes that understanding stakeholders' concerns and focuses is of great significance to improving the CSR management. Therefore, it has been involving stakeholders throughout its management of social responsibilities.

Stakeholders' Key Concerns and Responses

Key stakeholders	Issues of concern	Communication and responses
Investors	Compliance operation, business ethics, product safety and quality, product innovation and research and development (R&D)	Information disclosure as a listed company, shareholders' meetings, investors' meetings
Employees	Compliance operation, product safety and quality, employee health and safety, employee development and retention	Labor Union and Congress of Employees, Environment, Health and Safety (EHS) management system, regular training, performance assessment and job promotion
Clients and consumers	Product safety and quality, product pricing and availability, responsible marketing, client satisfaction and communication	Quality management system, standardized drug use training, client service system, Sales Force Effectiveness (SFE) management system
Government and regulators	Compliance operation, product safety and quality, product innovation and R&D, emissions management, climate change and carbon emission reduction	Establishment and management of compliance system, participation in and giving suggestions on policy making, scientific and technological innovation, intellectual property rights (IPRs) protection
Suppliers	Compliance operation, ethics, product safety and quality, product innovation and R&D	Standardized supplier management system, transparent and fair procurement, coordinated development
Public and community	Community and public welfare, emissions management	Various programs for public welfare, environmental impact analysis, plan and control

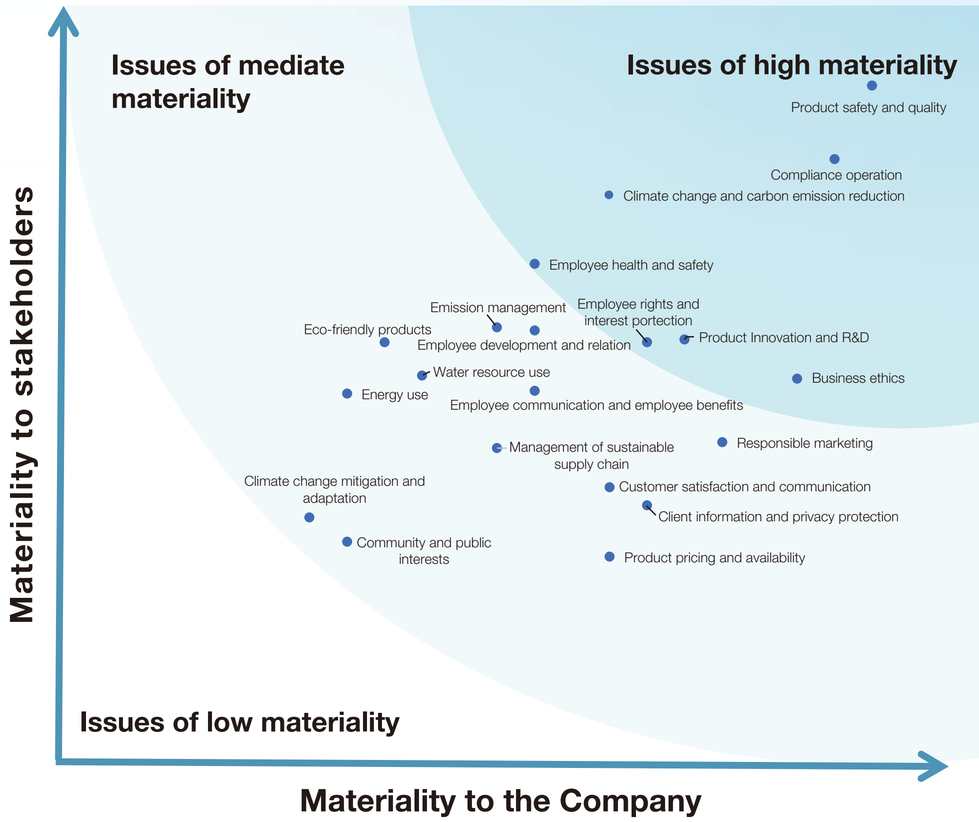
Analysis of Material Topics

In 2020, the Group made an analysis of material topics after consulting experts' opinions and taking into consideration stakeholders' concerns and focuses. Additionally, in response to China's target of peaking carbon emissions by 2030 and carbon neutrality by 2060, the Group included climate change and carbon dioxide emission reduction into its material topics.

Procedure for the analysis of material topics

Identifying	Prioritizing	Verifying and reporting
• The Group has identified 20 material topics in line with the *Environmental, Social and Governance Reporting Guide* of the Hong Kong Stock Exchange, keeping alignment with peer companies and based on the real business condition of the Company	• A matrix of material topics is formed after communicating with stakeholders, consulting experts and completing a materiality analysis	• The Board of Directors decides the integrity of material topics. Topics with higher materiality are highlighted in the ESG reporting

Matrix Of Material Topics



2. Compliance

2.1 Compliance & Ethics

The Group has put in place and constantly improved a well-established system for risk identification and compliance management. It introduced the *3SBio Compliance Management Regulations*, setting out compliance requirements at various sections of business operation. In 2020, the Company included the *Anti-Corruption and Anti-Bribery Policies* into the *3SBio ESG Code of Conduct*, which requires compliance by all staff employees, board directors and third-party representatives. Facilitation payment is explicitly prohibited.

In addition, the Group formulated the *Code of Conduct and Ethics for Employees* and the *Guidelines for Granting, Sponsorship and Donation (GSD) Project*. It specifies that the anti-bribery principle should be observed when engaging with the media, government officials and Health Care Practitioners (HCP) and when providing financial aid to third-party entities.

Compliance & Anti-Corruption Training

The Group has established and strictly observes the compliance training system. The Risk Compliance Department makes yearly plans for compliance training targeting the entire workforce. All employees should take part in regular compliance training and take tests after they are recruited. Board directors, full-time and part-time employees and contractors should take regular anti-corruption and business ethics training. Extra training programs were launched for major departments including the procurement, finance and manufacturing bases and the frequency of such training was raised to once a month. In addition, the Group enhanced employees' compliance awareness through Risk-Based Integrated Promotion Conduct Appraisal (IPCA) and Integrity Ambassador Initiative among other measures. Employees participation in compliance training is recorded in the IPCA for performance evaluation.

In 2020, the Group launched both online and offline compliance & business ethics training programs. The programs covered compliance policies, the Group's standards for compliance and ethics, and business compliance guidance and analysis. In total, 6,938 people including full-time and part-time employees and contractors attended the training. Under the integrity ambassador's initiative, 677 training sessions were launched and attended by 12,716 people.

Audit Mechanism

The Group revised the *3SBio Group System for Internal Audit* and the *3SBio Group Work Flow for Internal Audit*. It conducts a full in-house audit procedure once every three years to improve in-house control system and business management and forestall business risks. In 2020, the Audit Department completed auditing 34 accounting procedures including sales and receivables, cost and inventory, payments and benefits, taxes, expenses, projects in construction, and long-term assets for its four manufacturing bases, thus improving the Group's capability for compliance operation.

In addition, the Group hires third-party representatives to provide services for the Company or as its proxy in normal business operation. The Group conducts regular due diligence on third-party representatives and requires third-party representatives to sign at least a formal written statement every year, confirming their knowledge of and compliance with the *3SBio ESG Code of Conduct*.

Supervising and Reporting System

The Group has put in place a supervising and reporting system. The Group's Risk Compliance Department has put through multiple reporting channels via e-mails and telephones, inviting real-name or anonymous tip-offs about existing or suspected irregularities from employees, third-party representatives and business partners.

The Risk Compliance Department will report the tip-offs to the Compliance Committee. A case will be filed and investigated in accordance with the *3SBio Group Regulations for the Group's Internal Compliance Investigation*. An explicit reply and confirmed investigation report will be offered to the informer within one month, who will be protected with the following measures:

- Informer's personal information and the tip-offs will be kept completely confidential. The Group will mete out harsh punishment to those breaking confidentiality rules, and hold them accountable in accordance with the law;
- Those retaliating against informers or related witnesses will face consequences based on the severity of their behaviors, including but not limited to removal from a post, termination of labor contracts or judicial interference.

Anti-Corruption Management Targeting Suppliers

The Group issued the *Suppliers Compliance Statement*, which includes anti-corruption and anti-bribery policies for suppliers, and provides hotlines and e-mails for tip-offs, encouraging suppliers to report any corruption acts that they spot. If a supplier fails to comply with any term in the statement, the Group may terminate the cooperation with the supplier. The Group also provides anti-corruption training programs for suppliers to increase their awareness of compliance and ethics and their understanding of the Company's anti-corruption policies.

Anti-Corruption and Anti-Bribery Commitment by 3SBio Suppliers (excerpts)

Anti-corruption	• The supplier undertakes that it will never, in the name of the Group, offer or deliver any valuables to any government officials, medical professionals, clients, competitors or other third parties to gain unfair advantages in business competition • The supplier undertakes that it will conduct cooperation with 3SBio in line with ethics. It shall avoid any forms of corruption and bribery and make sure that its payments, gifts or other promises to the Group and other stakeholders are made in line with anti-corruption and anti-bribery laws and regulation • The supplier undertakes that it has faithfully disclosed any information regarding its family connection, stock-holding and partnerships with 3SBio employees

Compliance Training for Suppliers

To strengthen management of suppliers' compliance and guide the Group's business operation with suppliers, the Risk Compliance Department launched compliance training targeting qualified suppliers in February 2020 according to the Group's plan for compliance training for suppliers. The training explained 3SBio's guiding principles and requirements for compliance management, emphasized major matters of attention in procurement, expounded on the concept of conflict of interests and corresponding legal consequences, and introduced channels for reporting irregular acts and wrongdoings.

2.2 IPR Management and Protection

Upholding the principle of ‘innovation-driven research and development, future-oriented management’ in IPR management, the Group has put in place various regulations including the *Guidelines for IPR Management*, the *Guidelines for Commercial Secrets Management* and the *Manual for Business IPR Management*. While effectively managing and protecting IPRs including patents, trademarks and commercial secrets, the regulations have protected the Company’s competitive advantages and brand reputation and prevented infringement on others’ IPRs. On the basis of implementing the Group’s regulations, Sunshine Guojian and NERC introduced the *Guidelines for Patent Management*, the *Guidelines for Trademarks Management* and the *Guidelines for Patent Incentives* to better manage their own IPRs.

The Group carries out due diligence on IPR when reviewing projects. It checks the patent application and legal status of products or key technologies involved in a new project before the project is launched. It then issues a patent investigation report and alerts as to risks. After a project is launched, will keep tracking of the patent conditions of products or key technologies involved.

Area	Progress in 2020
Patents	• 39 patent applications filed • 11 patents granted
Trademarks	• 10 trademark applications filed • 5 trademarks registered

3. Product and Client Service Responsibility

3.1 Providing High-Standard Quality Products

The products of the Group include TPIAO for treating chemotherapy-induced thrombopenia in patients with solid tumor and immune thrombocytopenia, YISAIPU for treating rheumatoid arthritis, ankylosing spondylitis and psoriasis, EPIAO for treating anemia caused by chronic kidney disease, anemia caused by chemotherapy and the reduction of allogeneic blood transfusion in surgery patients, SEPO for treating anemia caused by chronic kidney disease and chemotherapy, Cipterbin for treating HER2-positive metastatic breast cancer in combination with chemotherapy, Mandi for treating male alopecia and alopecia areata, and Xenopax for preventing acute rejection after renal transplant, Byetta for improving the glycemic control in patients with type 2 diabetes, Qiming Keli for treating type 2 diabetic retinopathy, Aiyishu for treating iron-deficiency anemia, Sparin for prophylaxis and treatment of deep vein thrombosis and prevention of clotting during hemodialysis. The products are mainly sold to hospitals and other medical institutions, which are our clients. As of December 31, 2020, the Group provided products and services to over 2,500 Grade III hospitals and over 14,000 Grade II or lower hospitals and medical institutions across all provinces, autonomous regions and special municipalities in China.

Quality Control System

The Group implements a set of unified quality management standards, and has put in place a quality control system covering the entire product life cycle from raw materials to product R&D, manufacturing, testing, product release, circulation and post-marketing pharmacovigilance. In 2020, China enacted the revised *Pharmacopoeia of the People's Republic of China and promulgated Regulations for Supervising and Managing Pharmaceutical Manufacturing*, *Regulations for Pharmaceutical Registration* and *Standards for Pharmaceutical Records and Data Management (Trial)*. Against such a backdrop, the Group looked at its deficiencies and improved its internal management procedure to ensure conformity with prevailing quality standard system.

The Group's quality control system has been widely recognized at home and abroad. All of our pharmaceutical subsidiaries have acquired Good Manufacturing Practice (GMP) 2010 recognition by the People's Republic of China. In the meantime, Shenyang Sunshine and Sunshine Guojian have received PIC/S recognition by countries including Turkey.

Apart from official GMP reviews conducted by authorities at home and abroad, our manufacturing bases have been carrying out internal quarterly, yearly and random reviews of their quality management systems to ensure effective operation and continuous improvement of the quality systems.

Product Quality Control System

Material management

- Manufacturing bases put in place a full set of operational guidelines for supplier selection, materials procurement, receiving, inspection, release and storage The procurement, acceptance, sampling, inspection, storage and distribution of raw materials follow corresponding management rules and operational guidelines and the every step is documented.

Production and in process control

- Manufacturing bases conduct standardized management on their production process in strict accordance with state-approved production procedures.
- Through in process control, key-point control, procedure check-up methods and automatic testing system, manufacturing bases carry out non-stopping monitoring on the production process to ensure product quality.

Quality inspection

- Manufacturing bases set out management procedures for testing production materials, intermediate products, semi-finished products and samples. Products can only leave the factory after they pass quality inspection, and the results are verified and approved by the quality control managers.
- Manufacturing bases put in place handling procedures for unqualified products.

Product transportation

- Manufacturing bases entrust qualified third-party forwarding agents to transport their products and monitor the entire process of transportation. The monitoring system for temperature and humidity in cold-chain vehicles meets the standards of Good Supply Practice and the products are ensured to stay in stable quality during the transportation.

Drug label management

- Manufacturing bases formulated regulatory documents including Regulations for the Management of Printed Packaging Materials, and Regulations for the Evaluation and Management of the Design of Printed Packaging Materials. They put in place standard management protocols for drug labels and made explicit stipulations for the design, procurement, acceptance, inspection, storage and use of drug labels and insert sheets.

Product quality training

- The Group's Staff Training Management Protocols set out requirements for training of employees working on positions relating to pharmaceutical production quality. The training covers laws and regulations, professional knowledge and GMP.

Quality Inspection and Corrective & Preventive Action (CAPA)

Manufacturing bases have put in place the *Procedures for Quality Inspection Management* and the *General Guidelines for Inspection* among other mechanisms. Internal inspections on production materials, intermediate products, semi-products and samples are governed by these systems. Products can only leave the factory after they pass internal quality inspection, and the results are verified and approved by the quality control managers.

In the meantime, manufacturing bases formulated the *Standard Handling Procedure for Quality Deviation* and the *Standard CAPA Procedure to carry out corrective and preventive action (CAPA)* and preventive inspection in case there are deviations, do-over production, changes or return.

Preventive Inspection

- *Standard Handling Procedure for Quality Deviation* was put in place to manage deviation incidents in the process of production. It ensures that any deviation is reported, recorded, assessed, investigated and handled in line with standard procedures. All deviations will be looked into, handled and corrected. If necessary, preventive measures will be taken to prevent similar deviations from re-occurring.

- *Standard Procedure for Do-Over Operations* was formulated. Do-over must be carried out in line with pre-set and approved procedures. Related risks will be fully assessed.

- *Standard Procedure for Changes and Returns* was formulated. Returned products are only possible for re-packaging and resale after they passed tests and inspections by quality control departments.

In case of the above-mentioned conditions and other incidents, quality control departments will assess if it is necessary to carry out preventive inspection. Only meeting release standards as verified by the assessment, products can leave the factory. Otherwise, they will be treated as nonconforming products.

Deviation Handling Procedure

Deviation reporting and emergency handling

- Anyone should immediately report any deviation detected in work to the department chief and Quality Assurance (QA) and take emergency response measures
- On receiving such report, the department chief and QA should confirm the deviation and handle it on site

Investigation for fundamental reasons

- Investigating into the fundamental causes for the deviation, and assembling a special investigation team if necessary and then issuing a redress advice

Impact assessment and corrective measures

- Assessing the impact of the deviation on product quality and the quality control system
- Formulating corrective action and preventive action based on the assessment result

Deviation correcting

- Finishing the investigation, finding the fundamental causes, completing risk assessment and corrective actions, initiating CAPA procedure, and correcting the deviation

Deviation documentation

- Everything from deviation happening to investigation, risk assessment and deviation correction should be recorded as required

Manufacturing bases have put in place handling procedures and relevant requirements for disqualified products including expired drugs. The quality departments of manufacturing bases should oversee the entire process of handling disqualified products.

Post-Marketing Clinical Follow-up

Post-marketing pharmacovigilance (PV) and risk management represent an important section for the life-cycle risk management of products. To fulfill our promise to safeguarding patients' safety, the Group established a PV center, and formulated *Pharmacovigilance Management Procedure* to build and improve its PV system in line with regulations and guidelines released by the then State Food and Drug Administration including *Regulations on Adverse Drug Reaction Reporting and Surveillance* and *Notice on Direct Reporting of Adverse Reaction by Marketing Authorization Holder.* In addition, the Group offers regular training to marketing staff and signs PV agreements with dealers to ensure they strictly observe the Group's requirements for adverse reaction/incident surveillance and collection. In 2020, the Group strengthened work in this regard and opened a 24-hour hotline for adverse reaction reporting to receive patients' feedback in a timely manner.

Time Limit for Reporting Drug Safety Data after Marketing

Type of Incidents	Time Limit for Reporting
• Any events involving deaths or suspected deaths, group adverse reaction events	• Report immediately
• Other incidents	• Report within one working day

Procedure for Handling Drug Adverse Reaction Incidents

Collection	Reporting	Investigation	Analysis	Report
• Collection through market survey, client visits or reports by medical facilities and patients • The Group releases e-mail address, telephone and fax numbers on 3SBio's official website to receive any feedback on adverse reactions	• Relevant staff report the incidents to the working group for adverse reaction surveillance	• The working group for adverse reaction surveillance makes inquiries about the adverse reaction incidents by phone or via patient visits. It will check the product information, collect sample for testing and look into selling and shipping process, the use of the drug and medicine combination • An investigation report should be finished, and then reviewed by an adverse reaction coordinator and an adverse reaction supervisor, and approved by the quality control manager	• The working group for adverse reaction surveillance makes analysis of the investigation and reports new or serious adverse reactions or events	• Reporting the situation on the regulating platform: for new domestically made drugs under monitoring stage, all adverse reactions should be reported; for others, new and serious adverse reactions should be reported

Product Recall System

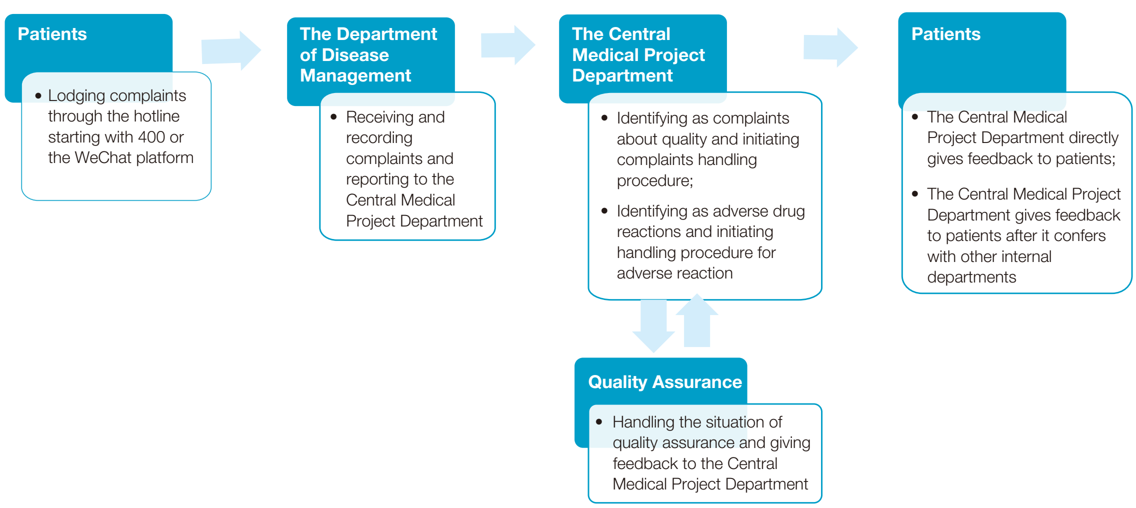
The Group has introduced Procedure for Products Recall, specifying levels of product recall and corresponding work flows. Manufacturing bases are required to carry out a drill product recall at least once every two years in line with laws and regulations including *Regulations on Drug Recall* and *Guidelines for Drug Production Quality Management (2010)* released by State Food and Drug Administration and *Guide to Good Manufacturing Practice for Medical Products by European Union*. The recall procedure covers the initiation of recall, transportation arrangement, receipts, isolation, investigation, transfer or destruction. In 2020, no mock recall was held and real product recall occurred due to quality flaws.

3.2 Providing Quality Services to Clients and Patients

Client Service System

The Group values services for clients and patients. With a well-established client service system made up by year-round 24-hour service provided by a hotline starting with 400, the WeChat platform and a third-party calling center as well as regular patient visits, we offer timely and efficient solutions. Immediately upon receiving client complaints, the Group starts in-house communication and works to offer a satisfactory reply and solution to clients.

Procedure for Handling Client Complaints



Client Privacy Protection

To protect the privacy of clients and consumers, the Group has put in place the *Code of Conduct and Ethics for Employees* and formulated the *Regulations for Personal Information and Data Safety Management* and the *Guidelines for Commercial Secrets Management,* requiring every employee to comply with the confidentiality principle when it comes to non-public information about clients, employees and agents. All employees of the Group are required to sign and strictly abide by the confidentiality agreements. Necessary client information is collected and managed through our Sales Force Effectiveness (SFE) system, whose access is strictly restricted. Users of different hierarchical levels only have limited access to the data in different visual forms. Any information regarding businesses, hospitals or other clients can only be viewed and used in the system. Downloads of the information in any form are strictly prohibited. In 2020, no confirmed client information leakage, theft or loss happened in the Group.

3.3 Responsible Marketing

Upholding the business philosophy of integrity, standardization, transparency and fairness, the Group promotes drugs and medicine in an ethical, science-based and objective manner. It has been faithfully observing national laws and regulations in product tags and advertisement, and ensured that regulators, medical professionals and patients have access to authentic and rigorous products and academic information in a timely manner.

The Group formulated the *Procedure for Approving Promotional and Educational Materials,* requiring that all information for marketing or statements should be accurate, clear and transparent:

- Accuracy: Promotional information or statements should be in line with the tags approved by the government, and no advertising or promotional materials may be used without proper authorization;

- Clearness: All product information for public communication should be complete and clear and contain no misleading narrative;

- Transparency: Full description of product safety should be offered; there should be no exaggeration of a product or technology, or hiding of potential risk to prevent misunderstanding in any form.

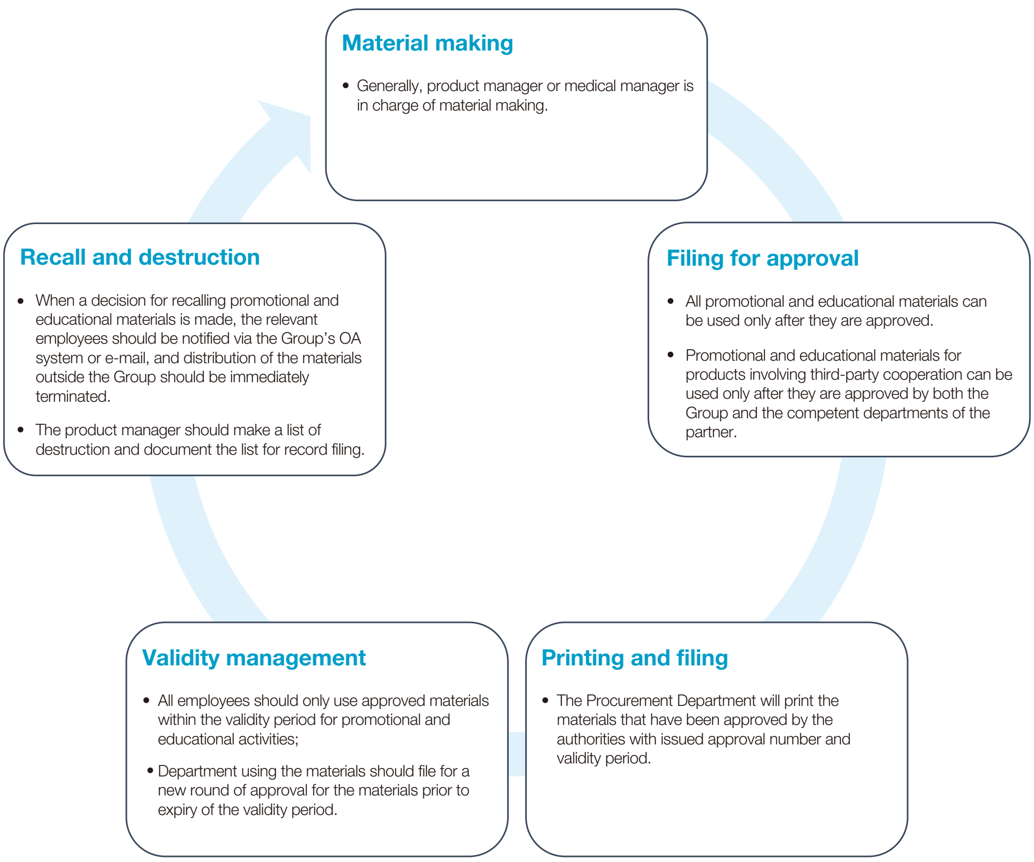
Staff Code of Conduct

Employees working on marketing, communication, sales or other positions involving advertisement development or review, product labeling or promotion, or those having other forms of communication with clients should know and understand applicable company standards, policies and procedures. The Group carries out training programs on responsible marketing or compliance on a regular basis to help employees understand laws and regulations as well as internal policies and rules. Employees of the Group should not spread any product information or uses except the product signs or logs. No employee is allowed to exaggerate the product and technology or hide any potential risks.

Responsible Marketing Audit

The Group conducts internal supervision and audit on responsible marketing. In accordance with the *Procedure for Approving Promotional and Educational Materials*, the Group makes, reviews, and approves materials for promotional and educational purposes. The term of validity of promotional materials is one year, and the Compliance Department should review and approve the promotional materials every year. The Group reviews information on product label and package and checks the accuracy, clearness and transparency of product instruction and data, and ensures that any changes of its products or services are reported to the competent authorities in a timely and accurate manner. It will submit an audit and improvement suggestion report for any potential risks spotted in the review process. It will stop the sales of products if any inappropriate acts are detected so that the products are improved to meet required compliance standards.

Procedure for Approving Promotional and Educational Materials



4. Employee Development Responsibility

4.1 Employee's Rights, Interests and Welfare

Employee Recruitment and Basic Rights and Interests

The Group abides by laws and regulations in recruiting workforce, and has signed labor contracts with all employees in accordance with laws and regulations. It regulates recruitment, working hours, employee promotion, remuneration and welfare among others through corporate mechanisms including the *Employees Manual,* the *Guidelines for Employee Dismissal,* and the *Guidelines for Employee Attendance and Leave*. It has been faithfully following the principle of employment equality, and ensured that no employee is discriminated due to their race, religion or gender. The Group also emphasizes respecting and protecting employees' personal privacy. It verifies job candidates' age and makes sure no child labor or forced labor is used.

In addition, the Group offers commercial insurances including accident insurance, critical illness insurance and insurance for out-patient and hospitalized services and benefits like holiday gifts and greetings to all of its employees.

Overview of Employee Recruitment and Their Basic Rights and Interests

Recruitment, dismissal and promotion	Working hours and leaves	Remuneration and welfare
• **Recruitment:** The Group follows the principle of employment equality and prohibits the use of child labor and forced labor. • **Dismissal:** The Group introduced the *Guidelines for Employee Dismissal* to regulate and improve management on employee dismissal. • **Promotion:** Employees will receive their year-end bonus or get promoted or demoted based on the result of their performance evaluation; the Group offers a clear career growth path to employees in terms of professional development and management development based on their personal willingness.	• **Working hours:** Employees of standard working hours work 40 hours a week; employees of comprehensive working hours work and rest according to the actual situation of their departments. • **Overtime:** Employees can apply for compensatory leave accordingly if they have overtime work. • **Leave:** The Group provides paid annual leave, marriage leave, bereavement leave, maternity leave, sick leave, etc. in accordance with national regulations.	• **Remuneration:** The payments are in line with laws and regulations; implementing a payment system combining employees' position, performance and competence; researching remuneration and welfare provided by peer pharmaceutical companies and those in other industries to provide reference for employees' payment adjustment; offering personalized remuneration adjustment to outstanding employees. • **Commercial insurance:** The Group provides all employees aged 18 to 60 with commercial policies including accident insurance, critical illness insurance and insurance for out-patient and hospitalized services. • **Enterprise annuity:** Sunshine Guojian has established an enterprise annuity system.

Employee Communication and Caring

The Group has built diverse platforms for democratic communication. It established Employees' Congress and online communication platforms among other channels to ensure employees' rights to know, participate, express and supervise. All manufacturing bases have formed labor unions. The labor unions negotiate with the Company in signing collective contracts, payment collective negotiation agreements and the *Special Agreements for Protecting Female Employees*. Each functional department conducts random survey on employees' satisfaction in order to understand the employees' satisfaction with business operation of the Company.

In addition, the Group takes concrete measures to care for its employees, particularly female employees and those facing difficulties. It has set up nursing rooms and offers breastfeeding leave to address the actual difficulties of breastfeeding employees. It has set up a special fund to support employees with serious illness. Zhejiang Wansheng has put in place an employee support system, with which it checks the living conditions of employees on a yearly basis, puts those living in difficulties on a record and provides them with special financial assistance.

Work-Life Balance

The Group encourages employees' work-life balance and strives to create a happy, wholesome and harmonious workplace to increase employees' sense of belonging and happiness. To make employees' lives more colorful, the Group encourages all employees to actively take part in club activities and provides financial support to various cultural and sports events hosted by the clubs. In 2020, the Group and its manufacturing bases launched celebrations on various festivals, inviting all employees — dispatched employees, part-time employees and staff workers — to take part in the event. The events helped alleviate employees' working pressure.

4.2 Occupational Health and Safety

Production Safety

The Group set up the Production Safety Management Commission and formulated the safety management mechanism including the *Production Safety Management Regulations*, the *Safety Inspection Management Regulations*, the *Safety Hazards Detecting and Correcting Regulations* and the *Emergency Rescue Regulations* to guide its work on production safety management.

All manufacturing bases examine production safety on a regular basis, identify, manage and eliminate safety hazards in workplaces and hold regular safety training and emergency drills to ensure workplace safety. As of 2020, Shenyang Sunshine, Sunshine Guojian and Sciprogen were recognized as level-3 companies with national work safety standardization certificates.

Manufacturing bases have put in place the *Regulations for Hazardous Chemicals Management* to manage hazardous chemicals involved in production and business operation. The regulations specify the procedures for depot management and the responsibilities of those purchasing, using and managing hazardous chemicals to ensure safety in using hazardous chemicals.

Occupational Health

The Group has been committed to creating a healthy and safe working and living environment for its employees. In strict accordance with the state and local laws and regulations, the Group formulated the *Manual for Environmental and Occupational Health and Safety Management* and the *Regulations on Occupational Health Management*, and established an occupational health management department to continuously improve management of employees' occupational health.

Dusts, noises and acid and alkali corrosion among others in manufacturing bases pose occupational health risks to employees. The Group has strengthened warning notices at work sites and day-to-day inspection patrols, and continually regulates staff employees' work operations in accordance with proper norm. We also offer employees full sets of protective measures and gears. Manufacturing bases detect hazardous elements that would harm employees' health in workplace and release corresponding results on a regular basis. They offer adequate protective gears to employees working on high-risk positions and arrange annual physical check-ups to ensure their occupational health. In the meantime, manufacturing bases have put in place well-established work safety training systems involving training for new employees on work safety education, safety education for all employees and safety theme training to increase all employees' safety awareness.

As of the end of 2020, Shenyang Sunshine, Sunshine Guojian, Zhejiang Wansheng and Sciprogen had all passed the assessment of the Occupational Health and Safety Management Systems (OHSMS). In 2020, the Group and its manufacturing bases reported no occupational diseases.

OHSMS Certification Passed by Manufacturing Bases

Manufacturing bases	Type of certification
Shenyang Sunshine	OHSAS18001 occupational health and safety management system certification
Sunshine Guojian, Sciprogen and Zhejiang Wansheng	ISO45001: 2018 occupational health and safety management system certification

4.3 Talents Development and Retention

Talents Introduction and Retention

The Group has introduced a series of incentives including setting up the "Talent Scout Award", "Talent Retention Award" and offering equity incentive so as to attract and keep top talents and sustain its business development with talents.

"Talent Scout Award"

- The Group's Research & Development Center set up the "Talent Scout Award" to encourage employees to recommend outstanding professionals. All employees from the R&D Center can recommend candidates based on job description. After the candidates are recruited and pass the probationary period, the one recommending the new recruitment will be eligible for the "Talent Scout Award."
- In 2020, a total of 25 employees won the "Talent Scout Award."

"Talent Retention Award"

- To retain core employees, the Group introduced a talent retention program. Over a three-year period, employees in the program will receive 30%, 30% and 40% of the bonus amount upon one more year of service.
- Currently, there are 34 employees working on R&D and manufacturing positions under the program.

Equity Incentive

- The Group has established an equity incentive system targeting executives, middle-level management and pillar employees working on key positions. The system covers 6 percent of the total workforce.

Employee Selection and Promotion

To standardize talents management, the Group adopts an integrated performance management system. Performance evaluation and employee promotion are carried out in a fair and transparent way. The results of performance evaluation are taken as the basis for bonus distribution and job promotion.

The Group makes clear career growth plans for employees who are free to choose to pursue a career in a professional area or in management. Manufacturing bases formulated the *Measures for Job Promotion*, making clear promotion principles and career development paths so as to provide strong guarantee for employees' career growth and development. In the meantime, the Group offers career growth suggestions and training support to employees based on expertise and skills required for different career growth paths.

Talents Training and Support

The Group pays high attention to talents training and regards employees' development as an important driving force for business growth and an important part of its social responsibility. It has established a 3S (Standard, Specific, Self-management) training system covering all employees including those from contractors. Under the system, standard, specific and self-management personalized training programs are offered to employees through online and offline channels.

Employee Training System

Way of Training	Training for New Employees	Training for Employee Growth	Management Training
Online	Germination Initiative • Public courses, position basic knowledge (including EHS and quality management) training	Daily Courses for Personal Growth • Improving employees' management and leadership capacities	Mini-MBA program by China Europe International Business School
Offline	Take-off Initiative • Public courses, professional knowledge (including EHS and quality management)	Standardized training Training tailor-made by departments	Training to boost leadership capability

The Group emphasizes the improvement of leadership capabilities of all employees and provides them with training programs in this regard. They include online daily course for the grassroots employees and tailor-made courses for the management. The programs are launched to enhance employees' professional skills and management capabilities and promote their all-round development.

In addition, the Group encourages and supports its employees to pursue further learning and improve their professional skills. It offers financial support to all employees studying for a higher diploma or professional accreditation. In 2020, a total of 77 employees from the marketing system involved in clinical trials took part in a Good Clinical Practice (GCP) training program launched by the National Medical Products Administration Institute of Executive Development with the financial support from the Group. All of the 77 participating employees passed the assessment and received certificates from the institute.

University-Business Joint Education Program

To help employees pursue a higher diploma and gain professional knowledge, the Group teamed up with Shenyang Pharmaceutical University to provide professional training programs for its employees. As of 2020, a total of 24 employees from the manufacturing, functional and marketing systems had finished such programs and passed the test after 60-day full-time learning. In addition to paying them as normal, the Group covered a total tuition fee of RMB156,000 for the participating employees.

Internal Training Instructors Certification Program

To better support the building of a training system for employees, the Group initiated an internal training instructor certification program in 2020 to support employees with outstanding training performance in growing as professional training instructors. The Group funds employees to acquire certificates for training instructors and help them develop comprehensive capabilities so that the employees can explore more career possibilities. During this year, 22 internal training instructors took part in training programs hosted by the American Association for Certification of Training Program. They are taking tests for certification by the association.

5. Environmental Protection Responsibility

5.1 Environmental Management System

The Group mainly consumes electricity, natural gas and steam directly or indirectly in its production and business operation. It uses water from the municipal water supply system and there are no risks in seeking appropriate water source. Main discharges and emissions by the Group include effluents, waste gases, solid waste and greenhouse gas. In line with the requirements of Good Manufacturing Practice (GMP), the Group has established and is improving its environmental management system. As of 2020, Shenyang Sunshine, Sunshine Guojian, Zhejiang Wansheng and Sciprogen had passed the certification of ISO14001: 2015 environmental management system,

The Group formulated the *Environmental Management Regulations* to guide environmental management in all manufacturing bases. It set up a leading group for environmental protection. The leading group consists of a supervising department which approves environmental protection mechanisms and an execution department which manages and implements the environmental protection agenda. The manager or chief of each department holds primary responsibility for environmental protection, to proactively implement the environmental protection responsibility system.

The Group's manufacturing bases, responsible for implementing environmental protection measures, have set up EHS departments, put in place guidelines for environmental management of manufacturing bases, and formulated regulations including the *EHS Management Manual,* the *Regulations on Hazardous Waste Management* and the *Contingency Plan for Emergence Response*. They have been implementing various guidelines and measures in production and operation to ensure effective containment of environment-related risks. Manufacturing bases have been carrying out internal audit on environmental impacts on a regular basis and other audits based on management demands of different projects.

Apart from self-management, the Group has integrated the principle of green development into management on suppliers. Since 2018, the Group has been requiring all suppliers to sign the *Suppliers Compliance Statement*, which specifies suppliers' responsibilities for environmental protection. The EHS departments of manufacturing bases have a veto power in audit and inspection on environmental protection.

5.2 Responding to Climate Change

The Group keeps a close eye on global climate change situation and has included climate change mitigation and adaptation into its corporate social responsibility. In 2020, the Group identified risks and opportunities relating to climate change in line with suggestions made by the Financial Stability Board (FSB) and the Task Force on Climate-related Financial Disclosures (TCFD). Accordingly, it improved its management and reduced greenhouse emissions in business operation so as to mitigate its impact on climate change. The Group found that it mainly generates indirect greenhouse emissions out of outsourced power supply.

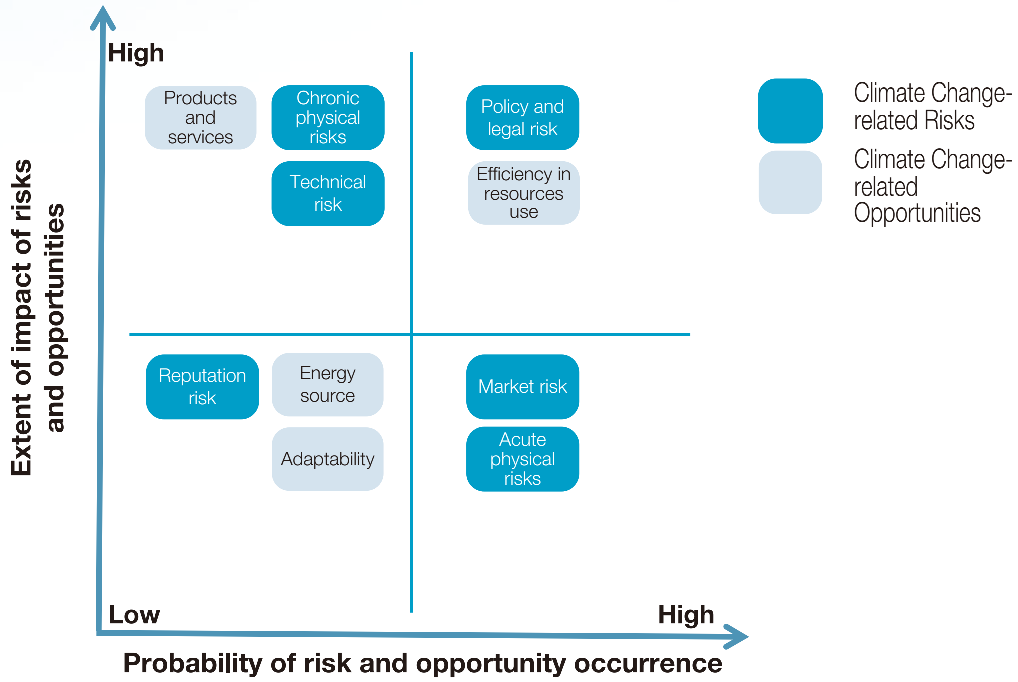
Management System for Climate Change

Governance	Including climate change into the Group's ESG agenda; All functional departments and the EHS department make climate change management a priority of their routine work;
Strategy	Based on major risks and opportunities identified, the Group evaluates potential impacts on business operation and finance; Launching management initiatives to improve energy use efficiency;
Risk Management	Drawing reference from the TCFD risk analysis framework, the Group identifies potential risks and opportunities in business operation, and plans to integrate climate change-related risks and opportunities into its overall operation risk management system;
Performance	Setting a greenhouse emission target: reducing the greenhouse emission per revenue unit by 20 percent from the 2017 level by 2025; Disclosing the amount and intensity of greenhouse emissions in its annual ESG report, evaluating the Company's performance on climate change mitigation and making plans for improvement.

Risks and Opportunities in Climate Change

To better deal with potential risks and opportunities relating to climate change, the Company identified related risks and opportunities in its business operation through policy studying, alignment with peer businesses and consulting experts. It also evaluated the impacts of these risks and opportunities on its financial conditions.

A Matrix of Climate Change-related Risks and Opportunities Identified



Financial Impacts of Climate Change-related Risks and Opportunities Identified by the Group

Climate Change-related Risks and Opportunities Identified			Potential Financial Risks	Countermeasures
Risks	**Transformation risks**	**Policy and legal risk** Efforts in meeting regulatory requirements may increase compliance costs; or the Group may face litigation or penalty if it fails to meet regulatory standards in environment management.	Increasing operational costs	• Identifying the source of carbon emissions • Climate change mitigation and adaptation is made one of top priorities for related functional departments and the EHS department • Identifying and managing climate change-related risks and opportunities in line with the TCFD framework • Making climate change an important topic and communicating with stakeholders about it through ESG reporting • Improving efficiency in energy and water use and reducing carbon footprint through renovating equipment and upgrading technologies or adopting energy-saving lights • Setting a carbon emission reduction target: reducing greenhouse emissions per revenue unit by 20 percent by 2025 from the 2017 level
		Technical risk If laws and regulations demand the deployment or use of clean energy, writing off existing assets or scrapping them in advance and using/designing new operation procedures might increase operational costs.	Increasing operational costs	
		Market risk Changes in the price of raw materials (like energy and water) and emission standards (like garbage treatment) will result in increase in production costs.	Increasing operational costs	
		Reputation risk Amid transformation to low-carbon economy, stakeholders expect the Group to take active measures in mitigating climate change and improve transparency in information disclosure. If the Group fails to respond to the expectations, there would be adverse impact on its reputation.	Adverse impact on workforce management and planning (like employee recruitment and retention)	

Climate Change-related Risks and Opportunities Identified		Potential Financial Risks	Countermeasures
Physical risks	**Acute physical risks** Extreme weather incidents disrupt power and water supplies, cause damage to plant, equipment and the supply chain, further resulting in reduction or chaos in outputs (for example, production suspension, disrupted transportation and supply chain breakdown); write-off of existing assets or early scrap (for example damage of assets in "risky" venues).	Increasing operational costs Decreasing value of fixed assets	
	Chronic physical risks Heat waves caused by climate change are likely to disrupt power supply. Climate change affects human's health, which is likely to lead to more uncertainties like the occurrence of more adverse reactions, in the Group's medicines, or require faster upgrading of medicines.	Increasing operational costs Decreasing business revenue	

	Climate Change-related Risks and Opportunities Identified	Potential Financial Risks	Countermeasures
Opportunities	**Efficiency in resources use** Increased efficiency in energy and water resource use will lower operational cost.	Lowering operational cost	
	Energy source More use of low-emission or clean energy will lower the risk of future energy price increase.	Lowering operational cost	
	Products and Services Climate change is like to enhance the incidence rate of some diseases; if the Group solves the diseases through R&D innovation, it would be able to improve its competitive edge and increase earnings.	Increasing business revenue	
	Adaptability By adopting measures for improving energy use efficiency and selecting eco-friendly suppliers, the Group will be more adaptable to climate change.	Lowering operational cost	

5.3 Efficient Use of Resources

Adhering to the principle of green development, the Group has been optimizing resource use, improving the efficiency through renovating equipment and upgrading technologies to reduce consumption of water, power and natural gas in production and business operation.

Major Measures for Saving Energy and Water

Upgrading Equipment and Technology	
Using energy-saving equipment including capacitor compensation cabinet, variable frequency motor, self-adjusting air conditioning system and variable frequency pump to reduce energy consumption in production	• Zhejiang Wansheng controls its waste gas tower with variable frequency motor to reduce energy consumption. • Zhejiang Wansheng uses variable-frequency air conditioning system for its warehouses to reduce energy consumption. • Sciprogen adopts industrial water recycling system and reduces the consumption of running water for gardening, dust removing and cleaning.
Using Energy-Saving Lights	
Gradually replacing lights in use with LED energy-saving lights	• Zhejiang Wansheng has replaced lights in around 50 percent of its factory area with energy-saving LED lights. • Sunshine Guojian has replaced around 68 percent of old fluorescent tubes with energy-saving LED lights.

5.4 Pollutant Reduction

Wastewater Management

Wastewater generated by the Group mainly includes domestic sewage, industrial effluents and production wastewater. Among them, production wastewater is small in amount and is not toxic. After treatment with alkali, it can be discharged by manufacturing bases in accordance with the requirements. Domestic sewage and industrial effluents can be discharged into the civil pipeline system after they are treated in the wastewater treatment center of the factory or industrial park and reach discharge standards. Shenyang Sunshine reuses industrial effluents recycled in its wastewater treatment center for gardening; Sciprogen has begun building an industrial water recycling system pending for completion.

In line with emission standards, manufacturing bases issue internal pollutants discharge and emission control standards. They control pollutants both at the workshop and in the effluent treatment center to reduce discharge of effluents and pollutants. On the basis of meeting national and regional discharge standards, manufacturing bases work to reach even higher standards they set for themselves on major pollutant indicators.

In 2020, Shenyang Sunshine and Sciprogen improved their wastewater treatment systems and increased standards for effluent discharge. In the meantime, Sciprogen introduced an optimal schedule for effluent treatment to improve efficiency, reducing discharge of pollutants per unit of outputs on the basis of meeting discharge standards. In the newly-built No. 2 EPO stock solution workshop, manual equipment cleaning was replaced by machines, thus improving efficiency while reducing discharge of effluents.

Standards for Effluent Discharge and Major Control Indicators

Types	Discharge Standards	Major Control Indicators
Effluents	Discharge Standards for Biopharmaceutical Industrial Wastewater (GB21907-2008) Comprehensive Discharge Standards for Wastewater (GB8978-1996) Shanghai Municipal Discharge Standards for Biopharmaceutical Industrial Pollutant (DB31/373-2010) Liaoning Provincial Comprehensive Discharge Standards for Wastewater (DB21/1627-2008) Guangdong Provincial Capping on Polluted Effluents Discharge (DB44/26-2001) Water Standards for Effluents Discharged into Municipal Pipeline Network (CJ343-2010)	BOD_5, COD_{cr}, suspended solids, ammonia nitrogen, and animal and vegetable oil, etc.

Waste gas Management

The main line of business of the Group is biopharmaceutical. The chemical drugs and Chinese patent medicine produced by Zhejiang Wansheng is a small part of its business. Waste gases from the biopharmaceutical business line come from the small amount of odor generated from nutrient solution discharge and replacement in biopharmaceutical production through fermentation. The waste gases, mainly comprising ammonia and steroid substances, contain a extremely low number of pollutants after infiltration and purifying, thus generating little adverse impact on external environment. Waste gases from the chemical drugs production line are mainly non-methane hydrocarbon and effluvium, and we have entrusted a third-party agency to test the two indicators, making sure that they are discharged up to standards. In addition, the Group uses boilers that generate waste gases including nitric oxide and sulfur dioxide.

In 2020, Zhejiang Wansheng renovated the waste gas pipeline into condensate and equalizing line so as to reduce waste gas emissions. Sciprogen treated the waste gases of electric generators to reach local emission standards. Shenyang Sunshine adopted advanced technologies and collected unorganized waste gases for centralized treatment, thus reducing waste gas emissions.

Standards for Waste Gas Emissions and Major Control Indicators

Type	Emission Standards	Major Control Indicators
Waste gas	Emission Standards for Biopharmaceutical Industrial Wastewater (GB37823-2019) Comprehensive Emission Standards for Air Pollutants (GB16297-1996) Emission Standards for Malodorous Pollutants (GB14554-1993) Air Quality — Determination of Odor — Triangle Odor Bag Method (GB/T14675-93) Shanghai Municipal Emission Standards for Boiler Pollutants (DB31/387-2018) Guangdong Provincial Emission Standards for Boiler Pollutants (DB44/765-2010) Hangzhou Municipal Emission Standards for Major Industrial Enterprises' Volatile Organic Compounds (DB3301T 0277-2018) Emission Standards for Biopharmaceutical Pollutant (DB31/373-2010)	Non-methane hydrocarbon ≤120 mg./cubic meters odor≤2,000 (dimensionless)

Solid Waste Management

Non-hazardous solid wastes generated by the Group include domestic wastes, wasted packaging generated in production, wasted rubber plugs, wasted aluminum caps and a small amount of wasted active carbon produced in water making process and water treatment centers. Hazardous wastes include wasted organic solutions, dregs of a decoction, wasted penicillin bottles, harmful sludge generated in water treatment centers, raw and auxiliary materials passing expiration date and wasted phenol.

In 2020, the Group set a target for solid waste disposal — reducing the disposal of harmful solid wastes per revenue unit by 30 percent from the level of 2018 by 2025.

The Group has been properly disposing non-hazardous and hazardous solid wastes. Manufacturing bases declare hazardous solid wastes stored in their warehouses every week and hand them over to qualified facilities for regular treatment. Rejected products found in finished products testing and drugs having passed the expiration date in storage will be destroyed under the supervision of quality departments.

Major Measures for Solid Waste Treatment

Non-hazardous solid waste	• Domestic waste: handed over to the sanitation department • Other solid wastes generated in production (including wasted silica sand, wasted aluminum foil, wasted paperboard and uncontaminated packaging) are collected and handed over to qualified facilities for unified treatment
Hazardous solid waste	• Hazardous solid wastes (including waste drugs produced in production and inspection processes, medicines passing the expiration date, wasted chemical agents produced in inspection process, toxic agents produced in production and inspection processes, toxic wasted packaging produced in production and inspection processes, and active carbon for absorbing exhaust) are handed over to qualified facilities for unified treatment

6. Supply Chain Responsibility

6.1 Supplier Quality Management

The Group carries out effective quality management on its suppliers and realizes a sound cooperation model featuring improving product and service quality, and lowering cost and risks. Manufacturing bases formulated the *Standards for Suppliers Management* and the *Standard Procedure for On-Site Audit on Suppliers* to manage the quality of products provided by suppliers. Suppliers' promise to the Group in quality can stand the test of authoritative certification and professionals from the Group, therefore ensuring the safety of medicine products.

Measures for Supplier Quality Management

- The Procurement Department reviews new suppliers' business qualification and quality standards for raw materials in a strict manner to ensure conformity with the standards for quality and technology in production.

- For suppliers in partnerships, the Quality Department works with the Procurement Department and the departments using the supplied raw materials to conduct regular and random quality inspection operations. The inspection focuses both on suppliers' production management and quality control and on their procurement standards, their audit mechanisms for their secondary suppliers and the list of their qualified suppliers among others.

- The Quality Department signs quality guarantee agreements with major suppliers, and conducts annual quality evaluation on suppliers in terms of the percentage of pass and deviation rate. Those failing the evaluation will be removed from the Group's suppliers list.

The Group values long-term technological cooperation with suppliers. There are explicit stipulations on long-term cooperation with suppliers of type I and type II in documents like the *Manual for Procurement Management,* the *Quality Guarantee Agreement* and the *Quality Standards.* In addition, manufacturing bases launch training sessions for suppliers, and Shenyang Sunshine and Sunshine Guojian offer training sessions on quality control in transportation to suppliers of cold-chain transportation.

Helping Packaging Supplier Improve Management System

Shenyang Sunshine has a supplier for packaging pill boxes. In the early stage of the cooperation, the enterprise stood out with quality services, but its quality management system was flawed. Shenyang Sunshine put forth high quality standards to encourage the enterprise to gradually improve quality management. As a result, its quality management system and product quality have witnessed substantial increase, and the enterprise has grown into a renowned packaging provider in Shenyang.

6.2 Social and Environmental Risk Management Regarding Suppliers

Based on products or services provided by suppliers, the Group categorizes suppliers into four types. It requires suppliers of Types I, II and III to sign the *Suppliers Compliance Statement*, declaring their commitment to laws, ethics and social and environmental promises.

Types of Suppliers

Type I Suppliers	Suppliers for production-related raw materials, auxiliary materials, packaging and consumables
Type II Suppliers	Suppliers for large-scale equipment, bulk non-production materials and large-scale engineering and services
Type III Suppliers	Suppliers for small and medium-sized equipment, general non-production materials, small and medium-sized engineering and services
Type IV Suppliers	Suppliers other than those of Types I, II and III

In line with regulations including the *Manual for Procurement Management*, the *Standards for Production Material Suppliers Management* and the *Standard Procedure for On-Site Audit on Suppliers,* the Group conducts evaluation and audit on its suppliers. Every year, it grades suppliers in terms of product quality and safety, environmental protection and social responsibility fulfillment on a regular basis so as to meet standards in supply chain compliance, quality and safety, environmental protection and sustainable development. While meeting GMP standards, the Group pays attention to environmental protection and conveys the principle to suppliers, encouraging suppliers to adopt an eco-friendlier approach to production, packaging and transportation. The on-site audit on major raw and auxiliary materials provided by suppliers covers suppliers' procedure for wastes disposal among other environmental protection efforts.

In 2020, the Group evaluated the performance of 78 percent of its suppliers in the environmental protection, labor use and ethics. In addition, the Group entrusted Dun & Bradstreet to conduct due diligence on its suppliers. It also used the system provided by RiskRaider to conduct due diligence investigation and monitor risks on its suppliers.

The Group has established a two-way communication mechanism with its suppliers. The Procurement Department offers effective guidance to all suppliers via telephone or e-mail on a regular basis. Staff from the Procurement Department explains the significance of abiding by law, labor and environment requirements via telephone or e-mail on a regular basis. Suppliers give feedback to designated contact from the Procurement Department and get knowledge of laws, labor and the environment from the contact, thus facilitating the Group's guidance on its suppliers .

7. Social Contribution Responsibility

7.1 Enhancing Accessibility to Medicines and Medical Services

R&D Innovation

R&D has been rooted in the foundation of the Group started since the beginning. The Group boasts a professional R&D team made up by more than 300 scientists, and the only national engineering research center of antibody medicine approved by the National Development and Reform Commission. With four R&D bases in Shenyang, Shanghai, Shenzhen and Hangzhou, the Group has established a dual platform for biological and chemical drug. Its subsidiaries of Shenyang Sunshine, Zhejiang Wansheng, Sunshine Guojian, NERC and Sciprogen have been recognized as "National High-Tech Enterprises".

As of 31 December 2020, the Group had 34 product candidates in the pipeline, covering areas of oncology, autoimmune diseases and other diseases, nephropathy and dermatology, of which 24 were National New Drugs.

Benefiting More Patients with Donations

To deliver safe, effective and high-quality products to more patients, the Group donates products and medical services to patients in need through cooperation with charitable groups.

Public Donations in 2020

Project Name	Partner Agency	Commencement period	Progress in 2020
"Watching for Happiness" Bethune TPIAO Donation Program	Beijing Bethune Charitable Foundation	2013	Number of provincial-level regions involved: 27 provinces and municipalities Targeted patients: patients suffering from immune thrombocytopenia (ITP) in need of recombinant human thrombopoietin injection Number of patients benefited: 4,664
"Benefit + Hope" Bethune YISAIPU Donation Program	Beijing Bethune Charitable Foundation	2015	Number of provincial-level regions involved: 27 provinces and municipalities Targeted patients: patients suffering from rheumatoid arthritis, ankylosing spondylitis (AS) and moderate and severe plaque psoriasis Number of patients benefited: 69,323

Project Name	Partner Agency	Commencement period	Progress in 2020
"For Life" Bethune Cipterbin Donation Program	Beijing Bethune Charitable Foundation	2020	Number of provincial-level regions involved: 27 provinces and municipalities Targeted patients: patients suffering from HER2-positive metastatic breast cancer Number of patients benefited: 520

7.2 Supporting Healthcare Development

Improving the Level of Social Medical Services

With emerging to be a globally leading Chinese biopharmaceutical maker as the goal, the Group has been committed to improving medical services in China. In 2020, the Group launched training programs on patient management and disease knowledge for hospitals and medical workers nationwide through both online and offline channels, helping them improve medical services and contributing to the development of medical service and medical R&D. In addition, the Group contributed to national efforts in poverty reduction through supporting patients suffering from AS.

Sunshine TCP R&D Fund for Young Physicians contributes to basic medical research and clinical application

To encourage more young Chinese physicians to contribute to basic research and clinical application in the area of TCP, 3SBio launched Sunshine TCP R&D Fund for Young Physicians jointly with Shenyang Pharmaceutical University in 2015. As of March 2021, the fund had seen the submission of 346 research projects, and 45 were under research. Six high-quality papers had been publicized. The research provides important evidence and scientific support for clinical practices like treating pregnant ITP patients, mobilizing stem cell before transplantation and implanting platelet after transplantation.

Taking an Active Part in National Impoverished AS Patients Support Program

The national support program for AS patients living in difficulties is a charitable program jointly launched by China Poverty Alleviation Promotion of Volunteer Services and China Foundation for Disabled Persons. It is also supported by the former State Council Leading Group Office of Poverty Alleviation and Development, the National Health Commission and the Central Committee of the Chinese Peasants and Workers Democratic Party. The program provided medical services to about 20,000 poor AS patients from 832 registered impoverished counties under state support. 3SBio donated RMB180 million to the program.

Helping Biopharmaceutical Industry to Develop

As a leading bio-pharmaceutical companies integrating R&D, manufacturing and marketing, the Group has been dedicated to academic changes in medicine and the development of the bio-pharmaceutical industry through active participation in various academic meetings and events.

Academic Exchanges in 2020

Project Name	Achievements
2020 Annual Conference of Chinese Nephrologist Association	• More than 9,000 3SBio employees took part online and about 1,000 attended the conference offline • Attended the national meeting for quality control in blood purification and shared the Group's data; attended the meeting for quality control in nephrology and finished documentation and analysis of data on hemodialysis and peritoneal dialysis
2020 Chinese Society of Clinical Oncology (CSCO)-Changbai Summit of Oncology	• Five experts gave lectures via video link
The 16th Annual Conference of Cancer Recovery and Palliative Medicine	• 1,800 representatives from the Group attended the conference online, and the Group organized the hematopoietic factor special event

In addition, the Group shared its industry expertise at the sixth Summit for Kidney Dialysis Innovation (NDF-2020), the 2020 Blood Purification Forum of Chinese Society of Nephrology, and the 2020 Annual Congress of Chinese Society of Nephrology among other academic meetings.

The Group also took an active part in revising industry standards and expert consensus to boost the development and progress of bio-pharmaceutical industry. In 2020, Shenyang Sunshine contributed to the revision of standards for recombinant human erythropoietin injection, human interferon α 2a fluid, recombinant human interferon α 2a for injection and recombinant human interleukin-2 for injection in the 2020 version of *Chinese Pharmacopoeia.*

8. Performance Data

Environmental Responsibility

Performance indicators	Unit	2018	2019	2020
Use of resources				
Power consumption (indirect energy)	MWh	39,162.14	44,722.03	51,489.08
Power consumption intensity	MWh/RMB10,000	0.08	0.08	0.09
Natural gas consumption (direct energy)	m^3	2,538,096.50	2,414,169.00	2,898,614.00
Natural gas consumption intensity	MWh/RMB10,000	0.0528	0.0448	0.0561
Total steam consumption	MWh	—	20,086.25	23,007.91
Steam consumption intensity	MWh/RMB10,000	—	0.0378	0.0412
Gasoline consumption of self-owned vehicles	L	78,163.81	72,514.84	71,415.86
Diesel consumption of self-owned vehicles	L	8,237.00	10,500.00	17,175.30
Water consumption	ton	583,031.00	636,932.00	759,613.00
Water consumption intensity	ton/RMB10,000	1.23	1.20	1.36
Total circulating water	m^3	5,385.00	5,000.00	21,445.20
Proportion of water circulation and recycled water to the total water consumption	%	0.92	0.79	2.82
Total packaging material used for finished products	ton	1,578.08	1,483.00	1,163.90

Performance indicators	Unit	2018	2019	2020
Emissions				
Waste gas emissions	m^3	26,793,008.00	58,230,086.00	51,256,120.00
Industrial wastewater discharge	m^3	207,077.00	227,349.70	303,741.60
Chemical oxygen demand (COD) emissions	ton	11.52	6.86	3.32
Ammonia nitrogen (NH_3-N) emissions	ton	0.61	0.49	0.06
Total hazardous waste	ton	349.98	526.53	742.40
Hazardous waste intensity	kg/RMB10,000	0.74	0.99	1.33
Total non-hazardous waste	ton	379.00	118.29	323.97
Non-hazardous waste intensity	kg/RMB10,000	0.80	0.22	0.58
Greenhouse gas emissions	ton of CO_2 equivalent	40,049.35	48,705.01	55,955.72
Category 1 GHG emissions	ton of CO_2 equivalent	5,729.12	5,451.81	6,516.09
Category 2 GHG emissions	ton of CO_2 equivalent	34,320.23	43,253.20	49,439.62
GHG emission intensity	ton of CO_2 equivalent/ RMB10,000	0.103	0.092	0.100

Notes:

1. All intensity data in 2018 including that on power consumption intensity, natural gas consumption intensity and water consumption intensity were calculated on the basis of the output value per RMB10,000; data in 2019 and 2020 were based on operating revenue per RMB10,000, and data on steam consumption and corresponding intensity were added in the 2019 and 2020 reporting. Sirton's environmental data were also included in the 2020 reporting.

2. The total waste gas emissions in the 2018 reporting were from Sunshine Guojian, as Zhejiang Wansheng generated no emissions in the year when production was suspended due to infrastructure construction. Data in the 2019 reporting covered emissions from both Sunshine Guojian and Zhejiang Wansheng.

3. In the 2018 and 2019 reporting, the total discharges of industrial wastewater, as well as pollutants of COD and NH_3-N were contributed by Sunshine Guojian, Sciprogen, NERC and Zhejiang Wansheng. In accordance with local environmental regulations, Shenyang Sunshine is not put under special government surveillance and therefore is not included in online monitoring system. In 2020, the discharge of industrial wastewater increased mainly because the Shanghai manufacturing base, mainly focusing on R&D, adjusted its product line, which led to increase in energy and water resource consumption and waste generation.

4. Greenhouse gas emissions are the sum of GHG emissions of category I and II. GHG emissions of category I is calculated on the basis of natural gas consumption, vehicle gasoline and diesel consumption and corresponding emission factors; GHG emissions of category II are calculated on the basis of power consumption and steam consumption and their corresponding emission factors. With a retrospective approach, GHG emission data in 2018 and 2019 were updated in line with updated emission factors. The data for 2020 include that of Sirton.

Employment

Performance indicators	Unit	2018	2019	2020
Employment[1]				
Total workforce	Person	5,047	5,404	5,584
Number of male employees	Person	2,536	2,720	2,772
Number of female employees	Person	2,511	2,684	2,812
Number of employees under labor contracts	Person	4,978	5,316	5,481
Number of employees dispatched	Person	40	47	56
Number of employees under labor agreements	Person	19	27	41
Number of part-time employees	Person	10	14	6
Number of employees under 30	Person	1,764	1,952	1,951
Number of employees aged 30–50	Person	3,155	3,317	3,474
Number of employees aged above 50	Person	128	135	159
Number of employees from the Mainland China	Person	4,968	5,327	5,501
Number of employees from Hong Kong, Macao, Taiwan and foreign countries	Person	79	77	83
Employee turnover rate[2]	%	19	24	26
Turnover rate of male employees	%	21	27	29
Turnover rate of female employees	%	17	22	24
Turnover rate of employees under 30	%	20	23	27
Turnover rate of employees aged 30–50	%	18	25	26
Turnover rate of employees aged above 50	%	10	13	17
Turnover rate of employees from the Mainland China	%	19	25	26
Turnover rate of employees from Hong Kong, Macao, Taiwan and foreign countries	%	5	3	1
Employees' Health and Safety				
Number of working days lost due to work injury[3]	Day	247	45	24
Work-related death toll[3]	Person	0	0	1

Performance indicators	Unit	2018	2019	2020
Employee training	%	76	67	100
Employee training coverage				
Training coverage of male employees	%	75	71	100
Training coverage of female employees	%	76	63	100
Training coverage of grass-roots employees	%	61	60	100
Training coverage of middle management employees	%	100	98	100
Training coverage of senior management employees	%	100	96	100
Training time per employee	hour	21.3	15.3	39.2
Training time per male employee[4]	hour	20.9	15.4	43.1
Training time per female employee[4]	hour	21.6	15.2	35.5
Average hours of training for grassroots employees	hour	20.6	10.8	38.4
Average hours of training for middle management	hour	23.6	37.5	47.5
Average hours of training for senior management	hour	27.9	27.4	18.4

Notes:

1. Employment data in 2018 and 2019 reporting cover management and sales teams of the Group, Shenyang Sunshine, Liaoning Sunshine, NERC, Sunshine Guojian, Zhejiang Wansheng, Sciprogen, NMV Desen Biotech Co., Ltd., Shanghai Anran, Shanghai Aoxi and Sirton. The data in 2020 reporting exclude that of Shanghai Aoxi, as Shanghai Aoxi is not consolidated for accounting purpose in 2020.

2. Employee turnover rate = number of leaving employees of this category in the reporting year/(number of total employees of this category at the end of the reporting year + number of leaving employees of this category in the reporting year) ×100%

3. In 2018 and 2019, the work injury incidents of the Group did not reach the level of work injury identification standards. In 2020 reporting year, Shanghai manufacturing base reported one work-related injury incident, in which an employee died in a road accident when leaving work for home.

4. With a retrospective approach, the 2018 data on hours of training completed per male and female employee were updated.

Products and Client Services

Performance indicators	Unit	2018	2019	2020
Percentage of total products sold subject to recalls for safety and health reasons	%	0	0	0
Number of products and services related complaints received	number	13	47	32
Complaint handling rate for products and services	%	100	100	100
Total number of irregularities arising from health and safety and labeling of products and services	number	0	0	0

Supply Chain Responsibility

Performance indicators	Unit	2018	2019	2020
Total number of suppliers	firms	1,160	1,003	1,965
Number of suppliers from the Mainland China	firms	1,150	968	1,534
Number of suppliers from Hong Kong, Macao, Taiwan and foreign countries	firms	10	35	431
Number of suppliers accepting evaluation in terms of environment, labor and ethics	firms	522	381	1,523
Number of suppliers passing evaluation in terms of environment, labor and ethics	firms	522	365	1,523

Anti-corruption

Performance indicators	Unit	2018	2019	2020
Number of concluded legal cases regarding corrupt practices brought against the Company or its employees	number	0	0	0
Average hours of anti-corruption training completed per employee[1]	hour	—	0.2	0.6

Note:

1. The Group conducts compliance training for all employees, and the training covers anti-corruption and commercial bribery. In addition, the Group carries out additional targeted anti-corruption training for employees of the marketing system. The statistical indicator represents the additional training hours per employee of the marketing system.

Social Responsibility

Performance indicators	unit	2018	2019	2020
Charitable donations	RMB10,000	3,622.40	6,367.94	10,289.80
Number of people contributing to volunteer services	number	640	800	1,006
Total hours of volunteer services	hour	230,400	288,000	282,124

Compliance

The Group takes compliance as the cornerstone of its sustainable growth. In 2020, it reported no confirmed irregularities or wrongdoings in respect of product quality and client services, employment, occupational health and safety, child and forced labor, anti-corruption and ethics, IPR protection and responsible marketing.

Area	Major laws and regulations
Anti-corruption and Ethics	The *Anti-Unfair Competition Law of the People's Republic of China,* the *Anti-Monopoly Law of the People's Republic of China, Interim Provisions on Banning Commercial Bribery,* the *Welfare Donations Law of the People's Republic of China,* and *Regulations on Recording Commercial Bribery in Pharmaceutical Purchases and Sales*
IPR Protection	The *Patent Law of the People's Republic of China, Rules for the Implementation of the Patent Law of the People's Republic of China,* and *Trademark Law of the People's Republic of China*
Product Quality	The *Law of the People's Republic of China on the Administration of Drugs, Chinese Pharmacopoeia* (2020 revision)*, Good Manufacturing Practice for Pharmaceutical Products, Measures for the Supervision over and Administration of Pharmaceutical Production* (enacted in 2020)*, Provisions for Drug Registration* (enacted in 2020), *Regulations for Drug Recording and Data Management (trial)* (enacted in 2020), *Regulations for the Administration of Post-Marketing Drug Changes (trial)* (enacted in 2021), *Drug Good Laboratory Practices, Good Clinical Practice of Pharmaceutical Products, Provisions for Drug Insert Sheets and Labels, ICH-Q10 Pharmaceutical Quality System, Quality Systems Approach to Pharmaceutical Current Good Manufacturing Practice Regulations* by the U.S. Food and Drug Administration*, and EU Guidelines for Good Manufacturing Practice for Medicinal Products for Human and Veterinary Use*

Area	Major laws and regulations
Responsible Marketing	The *Advertisement Law of the People's Republic of China, Anti-Unfair Competition Law of the People's Republic of China, Anti-Monopoly Law of the People's Republic of China, Provisions for Drug Advertisement Examination, Law of the People's Republic of China on the Administration of Drugs,* and *Standards for Drug Advertisement Examination*
Employees' Rights and Interests and Welfare	The *Labor Law of the People's Republic of China, Law of the People's Republic of China on Employment Contracts, Special Provisions on Labor Protection of Female Workers, Provisions on Social Endowment Insurance,* and *Social Insurance Law of the People's Republic of China*
Employees' Health and Safety	The *Law of the People's Republic of China on Work Safety, Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, Fire Prevention Law of the People's Republic of China,* and *Regulations on the Safety Administration of Dangerous Chemicals*
Supply Chain Responsibility	The *Good Manufacturing Practice for Pharmaceutical Products, Contract Law of the People's Republic of China,* and *Sarbanes-Oxley Act*
Environmental Protection	The *Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (2020 revision), Law of the People's Republic of China on the Prevention and Control of Water Pollution, Law of the People's Republic of China on the Prevention and Control of Air Pollution, Law of the People's Republic of China on Promoting Clean Production,* and *Regulations on the Administration of Construction Project Environmental Protection*

9. Index to the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange

Aspects, General Disclosure, Key Performance Indicators (KPIs)	Chapters
A. Environmental	
A1. Emissions	Environmental management system Pollutant Reduction Performance Data
A1.1	Performance Data
A1.2	Performance Data
A1.3	Performance Data
A1.4	Performance Data
A1.5	Responding to climate change Pollutant Reduction
A1.6	Pollutant Reduction
A2. Use of Resources	Environmental management system Efficient Use of Resources
A2.1	Performance Data
A2.2	Performance Data
A2.3	Efficient Use of Resources
A2.4	Efficient Use of Resources
A2.5	Performance Data
A3. The Environment and Natural Resources	Environmental management system Efficient Use of Resources
A3.1	Environmental management system Efficient Use of Resources
A4. Climate Change	Responding to climate change
A4.1	Responding to climate change
B. Social	
Employment and Labor Practices	
B1. Employment	Employee's Rights, Interests and Welfare Talents development and retention Performance Data
B1.1	Performance Data
B1.2	Performance Data
B2. Health and Safety	Occupational Health and Safety Performance Data
B2.1	Performance Data
B2.2	Performance Data
B2.3	Occupational Health and Safety

Aspects, General Disclosure, Key Performance Indicators (KPIs)	Chapters
B3. Development and Training	Talents development and retention
B3.1	Performance Data
B3.2	Performance Data
B4. Labor Standards	Employee's Rights, Interests and Welfare Performance Data
B4.1	Employee's Rights, Interests and Welfare
B4.2	No violations
Operating Practices	
B5. Supply Chain Management	Social and Environmental Risk Management Regarding Suppliers
B5.1	Performance Data
B5.2	Suppliers Quality Management Social and Environmental Risk Management Regarding Suppliers
B5.3	Social and Environmental Risk Management Regarding Suppliers
B5.4	Social and Environmental Risk Management Regarding Suppliers
B6. Product Responsibility	Providing high-standard quality products Providing quality services to clients and patients Responsible marketing Performance Data
B6.1	Performance Data
B6.2	Providing quality services to clients and patients Performance Data
B6.3	IPR management and protection
B6.4	Providing high-standard quality products
B6.5	Providing quality services to clients and patients
B7. Anti-corruption	Compliance and ethics Performance Data
B7.1	Performance Data
B7.2	Compliance and ethics
B7.3	Compliance and ethics

Aspects, General Disclosure, Key Performance Indicators (KPIs)	Chapters
Community	
B8. Community Investment	Enhancing accessibility to medicines and medical services Supporting healthcare development
B8.1	Enhancing accessibility to medicines and medical services Supporting healthcare development
B8.2	Enhancing accessibility to medicines and medical services Supporting healthcare development

10. About the Report

The ESG Report is the fifth released by 3SBio. It discloses to key stakeholders the actions the Group took in promoting sustainable economic, environmental and social development and the achievements it made.

Basis of the Report

The Report is prepared in line with the 2020 *Environment, Social and Governance Reporting Guide* released by the Stock Exchange of Hong Kong Limited.

Scope of the Report

Organizational coverage: This report covers 3SBio and its subsidiaries, consistent with the coverage of consolidated financial statements in the annual report. Among them, environmental performance data come from the subsidiaries mainly engaged in manufacturing and R&D, excluding subsidiaries mainly engaged in investment holding and project management.

Time Scope: from 1 January 2020 to 31 December 2020.

Company Names in the Report

Major subsidiaries	Name in short
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
Sirton Pharmaceuticals S.p.A.	Sirton

Data Description

Data and cases in this Report come from the original records of business operation or financial reports of the Group. Financial data in this Report are denominated in RMB. In the event of any discrepancy in financial data between this Report and the Group's annual financial statements, the latter shall prevail.

Principles of Reporting

The Report follows the reporting principles of the ESG Guide by the Hong Kong Stock Exchange. They include:

- **Materiality Principle**

  In line with the principle, the Report determines ESG issues that should be responded to in reporting through surveys on stakeholders and analysis of materiality. ESG issues that are sufficiently important to investors and other stakeholders are highlighted in the Report.

- **Quantitative Principle**

  By this principle, the Report discloses KPIs which are accompanied by a narrative, explaining calculation basis and assumptions.

- **Balance Principle**

  By this principle, the Report provides an unbiased picture of the Group's performance, with both positive and negative indicators.

- **Consistency Principle**

  By this principle, the Report explains the KPI numbers as well as corresponding calculation basis and assumptions. Meanwhile, it manages to use consistent KPIs in different reporting periods to reflect the performance trend.