三生制药
3SBIO INC.

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

ANNUAL REPORT 2016

Contents

Company Profile

3SBio Inc. (the "**Company**" or "**3SBio**", with its subsidiaries collectively, the "**Group**") is a leading biotechnology company in the People's Republic of China (the "**PRC**" or "**China**"). As a pioneer in the PRC biotechnology industry, the Group has extensive expertise in developing, manufacturing and marketing biopharmaceuticals. The core products of the Group include TPIAO (特比澳), Yisaipu (益賽普), a product acquired through the acquisition of the then Shanghai CP Guojian Pharmaceutical Co., Ltd. (now Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. (三生國健藥業(上海)股份有限公司, "**Guojian**"), and EPIAO (益比奥), all of which being market leaders in the PRC. TPIAO is the only commercialized recombinant human thrombopoietin (rhTPO) product in the world. According to the data of IMS Health Inc. ("**IMS**"), the China market share of TPIAO increased to 45.6% for the treatment of thrombocytopenia in 2016. Yisaipu is a TNF α inhibitor product with a dominant market share in China of 62.7% in 2016, according to IMS. According to IMS, the Group, with its two recombinant human erythropoietin (rhEPO) products EPIAO and SEPO (賽博爾), is the dominant market leader in the China rhEPO market, with a total market share of 43.9% in 2016.

As at 31 December 2016, amongst the 24 product candidates in the Group's active pipeline, 15 have been developed as National Class I New Drugs (國家一類新藥) in the PRC. The Group has 10 product candidates in oncology, including eight monoclonal antibody ("**mAb**") therapeutics; eight product candidates that target auto-immune diseases and other diseases such as rheumatoid arthritis, refractory gout and Age-Related Macular Degeneration ("**AMD**"); three product candidates in nephrology, which include the next-generation erythropoiesis-stimulating agents; two product candidates in the metabolic area that target type 2 diabetes; and one product candidate in dermatology.

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

The Group is well positioned to expand its global presence. The Group is applying for approval to initiate clinical trials of TPIAO in the United States, India and Mexico. Yisaipu has been approved in nine countries and is in the process of registration in 18 countries. The Group is conducting multi-center biosimilar clinical trials for EPIAO in Russia and Thailand. In the long term, the Group aims to market its products in developed countries. Furthermore, the Group is collaborating with international partners to develop and market the Group's product candidates, such as pegsiticase and several mAb therapeutics. The Group aims to focus its efforts on research and development ("**R&D**") by providing innovative therapeutics for patients in China and globally.

As at 31 December 2016, the Group maintains operation facilities in Shenyang, Shanghai, Hangzhou and Shenzhen, all in China, as well as in Como, Italy, with over 3,400 employees. The Group's pharmaceutical products are marketed and sold in all provinces, autonomous regions and special municipalities in the PRC, as well as a number of foreign countries and regions. For the year ended 31 December 2016, the Group's nationwide sales and distribution network enabled it to sell its products to approximately 7,800 hospitals and medical institutions in the PRC.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. LIU Dong
Mr. LV Dong

Independent Non-executive Directors

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

JOINT COMPANY SECRETARIES

Ms. LI Huihui (resigned on 29 April 2016)
Ms. LIU Yanli (appointed on 29 April 2016)
Ms. LAI Siu Kuen

AUTHORIZED REPRESENTATIVES

Mr. TAN Bo
Ms. LI Huihui (resigned on 29 April 2016)
Ms. LIU Yanli (appointed on 29 April 2016)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE (IN THE CAYMAN ISLANDS)

Cricket Square, Hutchins Drive
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Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Causeway Bay
Hong Kong

HEADQUARTER

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PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG SHARE REGISTRAR

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Corporate Information

PRINCIPAL BANKER

Industrial Bank Co., Ltd, Shenyang Branch
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Certified Public Accountants
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LEGAL ADVISERS

As to Hong Kong law and United States law:
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Hong Kong

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Hong Kong

STOCK CODE

1530

COMPANY'S WEBSITE

www.3sbio.com

Financial Highlights

	2012 RMB '000	2013 RMB '000	2014 RMB '000	2015 RMB '000	**2016 RMB '000**
Revenue	656,145	875,396	1,130,854	1,673,126	**2,797,289**
Gross Profit	585,641	792,217	1,043,373	1,431,215	**2,395,021**
EBITDA	135,721	231,663	399,528	660,705	**1,141,324**
Normalized EBITDA	164,445	410,457	518,791	734,136	**1,148,730**
Net Profit	101,877	96,056	291,728	526,230	**714,254**
Normalized Net Profit	131,611	274,853	410,991	599,661	**721,660**
Profit attributable to owners of the parent	101,666	95,892	291,728	526,280	**712,564**
Total Assets	1,476,301	1,268,326	2,306,441	6,630,432	**11,038,802**
Total Liabilities	97,062	186,523	1,362,849	994,967	**4,272,460**
Total Equity	1,379,239	1,081,803	943,592	5,635,465	**6,766,342**

Chairman's Statement

Dear Shareholders:

On behalf of the board of directors ("**Directors**") of the Company ("**Board**"), I am pleased to present the annual results of the Company for the financial year ended 31 December 2016.

2016 was an important and exciting year for the Company as we made meaningful progress across all aspects of our business. The Company has developed to become the leading biological company in China with a strong commercial position, innovative R&D capability and a comprehensive manufacturing platform.

In October 2016, 3SBio entered into an exclusive license agreement with AstraZeneca to commercialize Byetta, a GLP-1 agonist which is already approved, and Bydureon, a long-active version which is pending China Food and Drug Administration's ("**CFDA**") manufacturing approval with the application submitted in May 2016 in China. Byetta's sales team of approximately 150 personnel have already been integrated into the Group's commercialization platform and will form the core of its new metabolic disease business unit. This marks the beginning of 3SBio's commercial partnership with a multinational company to grow an innovative product, which entrenches the leading market position of our commercial platform. We will continue to look for opportunities to add new products to satisfy treatment needs in China.

In February 2017, three of the Group's products, Yisaipu, TPIAO and Qiming Keli (芪明顆粒), are included in the "National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement (2017 Version)" (the "**2017 National Reimbursement Drug List**"). This is a very positive development which will further increase our penetration into more hospitals and increase patient access to 3SBio's products.

Overall, 3SBio is well aligned with key government development strategies. The first is innovation driven, the second is biologics and the third is chronic disease management. Our product portfolio and research pipeline fit these three major trends. The government's policy reforms emphasize clinically-needed medicines, high quality manufacturing, and proven efficacy and safety.

3SBio is positioned to thrive in today's competitive environment and contribute to improved healthcare both in China and internationally. For example, in terms of quality, 3SBio's EPIAO follows the European Union standard. Our production platform has one of the longest track records in China — 18 years with recombinant proteins and over 10 years with monoclonal antibodies. We have a national sales team of approximately 2,000 people focused on academic promotion. Our R&D team is strong and focused on innovation.

On the international front, we are continuing with preparing the supplementary data after filing Investigation New Drug ("**IND**") applications for TPIAO in the United States. The Shenyang facility passed the Brazil Good Manufacturing Practice ("**GMP**") inspection, further supporting our growing business in South America. The international biosimilar clinical trials for EPIAO in Thailand and Russia are progressing well with patients recruitment for the maintenance period to be completed by December 2017 and the trials expected to be completed by the end of 2018. We are also reviewing options to expand SSS07, our Phase I anti-TNF for which we have global rights, to international markets.

Finally, on behalf of 3SBio, I give my sincerest thanks to our shareholders for your significant contributions to the Company.

Mr. LOU Jing
Chairman & Chief Executive Officer
17 March 2017

Management Discussion and Analysis

BUSINESS REVIEW

Overview and Key Events

3SBio is a leading biotechnology company in the PRC. As a pioneer in the PRC biotechnology industry, the Group has extensive expertise in the R&D, manufacturing and marketing of biopharmaceuticals. The core products of the Group include TPIAO (特比澳), Yisaipu (益賽普), a product acquired through the acquisition of Guojian, and EPIAO (益比奧), all of which being market leaders in the PRC. TPIAO is the only commercialized recombinant human thrombopoietin (rhTPO) product in the world. According to the data of IMS, the China market share of TPIAO increased to 45.6% for the treatment of thrombocytopenia in 2016. Yisaipu is a tumor necrosis factor (TNF) α inhibitor product with a dominant market share in China of 62.7% in 2016, according to IMS. According to IMS, the Group, with its two recombinant human erythropoietin (rhEPO) products EPIAO and SEPO (賽博爾), is the dominant market leader in the China rhEPO market, with a total market share of 43.9% in 2016. The Group is also actively pursuing international expansion through exports, licensing, partnerships and acquisitions.

In January 2016, the Group further acquired (1) approximately 38.5% equity interest in the then Shanghai Lansheng Guojian Pharmaceutical Company Limited (now Shanghai Xingsheng Pharmaceutical Company Limited (上海興生藥業有限公司), "**Xing Sheng**"), which held approximately 41.69% equity interest in Guojian and (2) approximately 0.73% equity interest in

Guojian for an aggregate consideration of approximately RMB1,033.3 million. In March 2016, the Group acquired (1) an additional equity interest in Guojian of approximately 43.42% for an aggregate consideration comprising approximately RMB2,713.8 million and options to subscribe for up to a total of 125,765,500 ordinary shares of the Company, subject to certain exercise conditions; and (2) an additional equity interest of approximately 12.04% in Guojian for an aggregate consideration of approximately RMB1,218.0 million. After the completion of these acquisitions, the Group controls approximately 97.78% equity interest in Guojian in aggregate. The integration of Guojian has been orderly, effective, well-implemented and synergistic. Guojian has built China's leading mAb research, manufacturing and sales platform. The acquisition significantly enhanced the Group's status as a leading Chinese biotechnology company and provided a strong foundation for the Group's development in China and international markets.

According to an announcement published on MSCI Inc.'s website on 12 May 2016, the Company was added as a constituent to the MSCI China Index after the market closed on 31 May 2016. The Group believes that this will enhance the Group's profile in the international investment community.

In July 2016, the China Pharmaceutical Industry Information Center (the "**CPIIC**") issued the "2015 China Pharma 100 List" (with ranking based on revenue) (the "**List**"), which ranked the Group as the 85th amongst the top 100 pharmaceutical companies in China, with the Group being the only biopharmaceutical company elected. CPIIC is an official pharmaceutical information platform of the PRC Ministry of Industry and Information Technology. The List is officially recognized by local authorities in the government-sponsored competitive bidding process that determines the medicine procurement of state-owned hospitals, as any company elected in the List will be awarded points for the bidding. CPIIC also elected the Group as one of the Best Pharmaceutical Research and Development Pipeline Companies in China.

On 11 October 2016, Hongkong Sansheng Medical Limited (香港三生醫藥有限公司) ("**Hongkong Sansheng**"), a wholly-owned subsidiary of the Company, as licensee, entered into an exclusive license agreement (the "**Agreement**") with certain subsidiaries of AstraZeneca PLC ("**AstraZeneca**"), a leading global biopharmaceutical company, as licensor. Pursuant to such Agreement, AstraZeneca has agreed to grant an exclusive license to Hongkong Sansheng for the commercialization of four diabetes products (the "**Licensed Products**") in the PRC, in exchange for an upfront payment of USD50,000,000 and milestone payments of a maximum of USD50,000,000 from Hongkong Sansheng. In addition, the parties have agreed that AstraZeneca will supply the Licensed Products and Hongkong Sansheng will pay AstraZeneca the pre-agreed purchase price for the Licensed Products. The Licensed Products are Byetta, Bydureon single dose tray, Bydureon dual chamber pen and Bydureon auto-injector. The Group believes that Byetta and Bydureon have enormous growth potential in the under-penetrated market in China and can become a new growth engine for the Group.

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

In 2016, despite the challenging market conditions, the Group has made significant progress in R&D, sales and marketing and manufacturing. Five of the Group's 24 active pipeline products received IND application approvals, including PEG-irinotecan, eltrombopag tablets, Trifluridine and Tipiracil Hydrochloride Tablets (曲氟尿苷鹽酸替比拉西片, "**TAS102**"), an anti-epidermal growth factor receptor ("**anti-EGFR**") monoclonal antibody and Pegsiticase, a pegylated recombinant uricase (聚乙二醇化重組尿酸氧化酶 "**Pegsiticase**"). The Group entered into a strategic collaboration with Sorrento Therapeutics, Inc. (NASDAQ: SRNE) ("**Sorrento**") to develop chimeric antigen receptor T cell ("**CAR-T**") therapies. TPIAO demonstrated strong growth momentum primarily attributable to the increasing recognition by the medical profession and the further penetration into the hospitals covered by the Group's sales team. The integration of the sales and marketing team was smooth and effective which resulted in stronger growth of Yisaipu. The Group's rhEPO products continued to outgrow the market. TPIAO received marketing authorization from Ukraine, a member country of the Pharmaceutical Inspection Co-operative Scheme (the "**PIC/S**"). The Group entered into an exclusive license agreement with AstraZeneca for the commercialisation of Beyetta and Bydureon in the PRC and tapped into the diabetic therapeutic area. The Group's mAb, mammalian cell-based, bacteria cell-based and small molecule manufacturing facilities will continue to manufacture high quality pharmaceutical products with scalable manufacturing capacity. The Shenyang facility (which primarily manufactures EPIAO and TPIAO) passed the Brazil GMP inspection with no deficiency.

Key Products

TPIAO is the Group's self-developed proprietary product, and has been the only commercialized rhTPO product in the world since its launch in 2006. TPIAO has been approved by the CFDA for two indications: the treatment of chemotherapy-induced thrombocytopenia ("**CIT**") and immune thrombocytopenia ("**ITP**"). TPIAO has the advantages of higher efficacy, faster platelet recovery and fewer side effects as compared to alternative treatments for CIT and ITP. In "The Consensus of Chinese Experts on Diagnosis and Treatment of Adult Primary Immune Thrombocytopenia" (2016 Version), rhTPO products are included as the first choice recommendation for the second tier treatments list, and are recommended among medicines to boost platelet production in certain emergencies cases. TPIAO is included in the 2017 National Reimbursement Drug List as a Class B Drug (No. 214) for the treatment of severe CIT in patients with solid tumors or ITP. TPIAO has experienced significant sales growth due to increasing physician awareness of its safety and efficacy as a treatment of CIT and ITP and its quick adoption in China. The Group believes TPIAO is still at an early stage of its product life cycle. The Group estimates that the penetration rates for both CIT and ITP indications in China may be approximately 10%. Currently, the majority of the Group's sales of TPIAO is generated from approximately 10% of the hospitals covered by the Group's sales team. TPIAO received marketing authorization from the Ministry of Public Health of Ukraine for the treatment of CIT in patients with solid tumors on 24 June 2016. Ukraine is a member of the PIC/S. The PIC/S is a non-binding and informal co-operative arrangement between regulatory authorities in the field of GMP of medicinal products for human or veterinary use. PIC/S members include the regulatory authorities of the United States, Japan, Australia, Canada, France, Germany, and the United Kingdom, among others. The marketing authorization received from a PIC/S member will facilitate the review process by other PIC/S members and benefit the Group's international registration in PIC/S countries and its further expansion into the highly regulated markets. The Group is applying for approval to initiate clinical trials of TPIAO in the United States, India and Mexico.

Yisaipu, generically known as Etanercept, is a TNF α inhibitor product. It was first launched in 2005 in China for rheumatoid arthritis. Its indications were expanded to ankylosing spondylitis and psoriasis in 2007. Yisaipu has experienced significant growth as the first-to-market Etanercept product in China, with a dominant market share in China of 62.7% by sales in 2016, according to IMS. Yisaipu is included in the 2017 National Reimbursement Drug List as a Class B Drug (No. 846) for the treatment of patients with confirmed diagnosis of rheumatoid arthritis, and for the treatment of patients with confirmed diagnosis of ankylosing spondylitis (not including preradiological axial spondyloarthritis), both with certain medical prerequisites. The Group believes that Yisaipu is still at an early stage of its product life cycle in China, given the mAb market in China is under-penetrated compared to the global market. Yisaipu has been approved in nine countries and is in the process of registration in 18 countries.

EPIAO is still the only rhEPO product approved by the CFDA for three indications: the treatment of anemia associated with chronic kidney disease ("**CKD**"), the treatment of chemotherapy-induced anemia ("**CIA**") and the reduction of allogeneic blood transfusion in surgery patients. EPIAO has consistently been the dominant market leader in the PRC rhEPO market since 2002. EPIAO is the only rhEPO product in China available at 36,000 IU (international unit per vial) dosage, and together with SEPO, claims the majority of the PRC rhEPO market share at 10,000 IU dosage. Future growth for EPIAO may be driven by: (1) the enhancement of the dialysis penetration rate among stages IV and V CKD patients, which the Group believes is substantially lower in China as compared with other countries; and (2) the increase in the applications of EPIAO in reducing allogeneic blood transfusion and in CIA oncology indication in China, which the Group believes is at a very early stage of growth. In December 2014, the Group acquired another rhEPO product, SEPO, which helped broaden the Group's market coverage, especially in Grade II and Grade I hospitals, where rhEPO has been experiencing significant growth. During 2016, while EPIAO faced pricing pressure in certain provincial tenders, SEPO performed strongly in the lower-tier cities. The Group's combined rhEPO products franchise continued to be the market leader in the rhEPO segment. According to IMS, in 2016, the two rhEPO brands of the Group grew by 15.9% while the China rhEPO market grew by 13.5%, as compared to 2015. The Group expects that SEPO will achieve further growth in lower-tier cities. The multi-center biosimilar clinical trials for EPIAO in Russia and Thailand have made good progress, with patients recruitment for the maintenance period to be completed in 2017. The trials are expected to be completed by 2018.

Qiming Keli, Man Di (蔓迪), Di Su (迪蘇) and Lai Duo Fei (萊多菲) were a group of dermatology and ophthalmology drugs acquired in July 2015, indicated to treat diabetic retinopathy, alopecia areata, chronic bronchitis and chronic idiopathic urticaria, respectively. Qiming Keli is included in the 2017 National Reimbursement Drug List as a Class B Traditional Chinese Medicine (No. 1004) for the treatment of non-proliferative retinopathy caused by type 2 diabetes.

Product Pipeline

As at 31 December 2016, amongst the 24 product candidates within the Group's active pipeline, 15 have been developed as National Class I New Drugs (國家一類新藥) in the PRC. The Group has 10 product candidates in oncology, including eight mAb therapeutics; eight product candidates that target auto-immune diseases and other diseases such as rheumatoid arthritis, refractory gout and AMD; three product candidates in nephrology, which include the next-generation erythropoiesis-stimulating agents; two product candidates in the metabolic area that target type 2 diabetes; and one product candidate in dermatology.

On 6 June 2016, the Group entered into a strategic collaboration with Sorrento to develop and commercialize proprietary CAR-T based immuno-therapies for several cancer indications.

Robust and Innovative Product Pipeline Supported by Integrated R&D Platform and Collaboration with Industry Leaders and International Partners

Therapeutic Area	Product Candidate	Intended Indication	Development Status	Classification
Nephrology	SSS06	Anemia associated with CKD	Phase I (completed)	Class I Biologic Drug
	SSS21	Hyperphosphatemia, Hypercholesteremia	IND application	Class III Chemical Drug
	SSS17	Anemia	Pre-IND application	Class I Chemical Drug
Oncology	302	Metastatic breast cancer, etc	New Drug Approval ("**NDA**")	Class I mAb
	304	Non-Hodgkin lymphomas	NDA	Class I mAb
	602	Metastatic colorectal cancer	Phase I	Class I mAb
	SSS23	Cancer	Pre-IND application	Class I mAb
	701	Metastatic breast cancer	Pre-IND application	Biosimilar mAb
	601t	Cancer	Pre-IND application	Biosimilar mAb
	SSS19	Acute leukemia	Pre-clinical	Class I mAb
	SSS25	Cancer	Pre-clinical	Class I mAb
	SSS24	Colorectal cancer ("**CRC**")	Phase I	Class III Chemical Drug
	SSS22	Solid tumors	Phase I	Class I Chemical Drug
Auto-Immune Diseases and Other Areas	301 (Prefilled Syringe)	Rheumatoid arthritis	Phase III (completed)	Class I mAb
	SSS07	Rheumatoid arthritis	Phase I	Class I mAb
	601a	AMD	IND application	Class I mAb
	SSS11	Refractory gout	Phase I (United States Phase II)	Class I Biologic Drug
	TPIAO	Children's ITP	IND application	Class I Biologic Drug
	608	Psoriasis, Rheumatoid arthritis	Pre-clinical	Class I mAb
	SSS20	ITP	Phase I	Class III Chemical Drug
	AP506	Psoriatic arthritis	Phase I	Class III Chemical Drug
Metabolic	Bydureon single dose tray	Type 2 diabetes	Import Drug Approval ("**IDA**")	Imported drug
	Bydureon dual chamber pen	Type 2 diabetes	IDA	Imported drug
Dermatology	KW303	Acne vulgaris	Phase III	Class III Chemical Drug

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 TPIAO, Yisaipu, EPIAO and Zhejiang Wansheng (as defined below) products mainly through its in-house sales and marketing team. The Group sells these products to distributors who are responsible for delivering products to hospitals and other medical institutions. The Group primarily relies on third-party promoters to market other products.

As at 31 December 2016, the Group's extensive sales and distribution network in the PRC was supported by approximately 1,929 sales and marketing employees, 230 distributors and 1,130 third-party promoters. As at 31 December 2016, the Group's sales team covered approximately 2,000 Grade III hospitals and approximately 5,900 Grade II or lower hospitals and medical institutions, reaching all provinces, autonomous regions and special municipalities in the PRC. In addition, TPIAO, Yisaipu, EPIAO, SEPO and some of the Group's other products are exported to a number of countries through international promoters.

After the acquisition of Guojian and with the granting of license by AstraZeneca in respect of the Licensed Products, Guojian's sales team of approximately 500 personnel and Beyetta's sales team of approximately 150 personnel are integrated into the Group's commercialization platform as two new business units, and the Group's sales function now comprises six business units under the leadership of Mr. XIAO Weihong, the chief operating officer of the Company, supported by integrated compliance, market access, commercial operation, marketing, sales force efficiency and finance, with improved overall efficiency.

R&D

The Group's integrated R&D expertise covers the areas of discovery and development of many biopharmaceutical products including molecular cloning, gene expression, cell line construction and process development, as well as design and management of pre-clinical and clinical trials, manufacturing process development and analytic process development for quality control and assurance. The Group is experienced in the R&D of both mammalian cell-expressed and bacterial cell-expressed biopharmaceuticals.

The Group focuses its R&D efforts on developing its leading biologic products, including NuPIAO (the second-generation rhEPO product of the Group), SSS07 (the anti-TNF mAb product which the Group acquired from Apexigen Inc.), Pegsiticase (a modified pegylated recombinant uricase from candida utilis developed to treat refractory gout), 602 (an anti-EGFR antibody) and prefilled syringe of Yisaipu.

The studies of the Phase I clinical trial of NuPIAO were completed by the end of 2015, with the data analysis and research report concluded by the end of 2016. The Group is expected to file an IND application for Phase II and Phase III clinical trials of NuPIAO in the second quarter of 2017.

The Group has initiated a Phase I clinical trial for SSS07 in the PRC in 2015 with the first part completed by August 2016 and with the second part expected to commence in May 2017.

As announced on 12 August 2016, the Group has received an approval of the IND application for clinical trial from the CFDA for an anti-EGFR antibody. The Group intends to develop this anti-EGFR mAb (also generally known as cetuximab (西妥昔單抗)) for advanced or metastatic cancers, including CRC and head and neck cancers. The patients recruitment for the Phase I trial is expected to commence in the second quarter of 2017.

The Group has completed the Phase III trial of prefilled syringe of Yisaipu and is expected to apply for manufacturing approval in the first half of 2017.

As announced on 5 January 2017, the Group has received an approval of the IND application for clinical trials for Pegsiticase from the CFDA. Clinical trials for the product are expected to start in the second quarter of 2017. The Group's business partner, Selecta Biosciences, Inc., completed the Phase I trial for Pegsiticase in the United States, with Phase II trial initiated in October 2016.

On 7 March 2016, the Group has received the approval of the IND application for clinical trial from the CFDA for PEG-irinotecan, a long-acting polymer-drug conjugate which inhibits topoisomerase I ("**Topo-I**"). Topo-I is over expressed in many solid tumors, including colorectal, ovarian, breast, glioma, small cell and non-small cell lung cancers. The Group has licensed PEG-irinotecan from Beijing JenKem Technology Co., Ltd (北京健凱科技有限公司), a Chinese biotechnology company in September 2014. The Group intends to develop PEG-irinotecan as a National Class I drug for relapsed or refractory cancers, such as CRC, metastatic breast cancer and platinum-resistant ovarian cancer.

As announced on 2 June 2016, eltrombopag tablets for the treatment of thrombocytopenia in patients with chronic ITP have received clinical trial approval from the CFDA. Eltrombopag tablets are being co-developed by the Group and Beijing Labworld Bio-Medicine Technology Company Ltd. (北京藍貝望生物醫藥科技股份有限公司). The Group also intends to co-market the product with the Group's existing rhTPO product, TPIAO, which would further expand the Group's portfolio of treatments targeting auto-immune diseases in China. According to IMS, the market size of products for the treatment of ITP in China amounted to approximately RMB1.48 billion for 2015, with an estimated compound annual growth rate of 20.5% from 2013 to 2018.

As announced on 7 July 2016, TAS102 has received clinical trial approval from the CFDA. TAS102 is co-developed by the Group and Shandong Chengchuang Pharmaceutical R&D Co., Ltd (山東誠創醫藥技術開發有限公司). The Group will be responsible for its further clinical development and commercialization in China. TAS102 is a medicine for CRC. It has demonstrated significant anti-tumor activity in patients suffering from CRC who are refractory to standard treatment regimens. Currently, no similar medicine is available in the PRC market.

The Group has filed three more IND applications, respectively, for an anti-VEGF antibody indicated for the treatment of age-related macular degeneration and additionally indicated for cancer, and an anti-Her2 ADC indicated for the treatment of Her2-positive metastatic breast cancer, and is expected to receive regulatory approval for clinical trials for the three IND applications in the second half of 2017 or the first quarter of 2018.

Two more IND applications, respectively, for a hypoxia-inducible factor prolylhydroxylase ("**HIF-PH**") for the treatment of anemia and an anti-VEGFR2 mAb for the treatment of cancer, are planned to be filed in the first half of 2018.

After considering the recent changes in the relevant CFDA drug approval policies, the Group withdrew two drug applications, respectively, for Ipterbin (賽普汀) (also generally known as trastuzumab (曲妥珠單抗)) and for Jiantuoxi (健妥昔) (also generally known as rituximab (利妥昔單抗)), that had been submitted to the CFDA. Depending on the regulatory framework at the time and its capability to fulfill the relevant regulatory requirements, the Group intends to re-submit the clinical trial data of Ipterbin and Jiantuoxi to the CFDA as and when appropriate.

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

Outlook

The Group intends to leverage its position as the leading biopharmaceutical company in China to continue to build its strength in commercial, R&D and manufacturing platforms. The Group plans to boost the revenue of its launched products through further penetration into the hospitals covered by the Group's sales and marketing team and new hospitals, and through continuous education within the medical profession. With the three products (including two key products) included in the 2017 National Reimbursement Drug List, the Group is of the view that this development will enhance its penetration into the hospitals in its coverage and allow its further expansion to lower-tier cities and hospitals. The Group received five IND application approvals in 2016 and is expected to receive three more IND application approvals in the second half of 2017 or the first quarter of 2018. The Group targets to move those candidates which have received IND application approvals into clinical trials and to launch the products as early as possible, which would enable the Group to provide a variety of treatment options for patients. With the Group's approximately 38,000-liter capacity mAb facility, as well as mammalian cell-based, bacteria cell-based and small molecule manufacturing facilities, the Group is able to manufacture high quality pharmaceutical products with scalable manufacturing capacity, which will in turn enable the Group to further satisfy treatment needs.

The Group continues to seek selective merger and acquisition and collaboration opportunities to enrich its existing product portfolio and pipeline so as to provide growth engine for the long term. The strategic collaboration with AstraZeneca helps the Group to expand product lines and brings it into the field of diabetes, a major chronic disease, and is an affirmation of the Group being the partner of choice to leading pharmaceutical companies around the world, which lays a foundation for the Group to launch future strategic collaboration opportunities. The Group is expanding international sales through registration of existing products in new countries and registration of new products by going through a biosimilar pathway in highly regulated markets.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, the Group's revenue amounted to approximately RMB2,797.3 million, as compared to approximately RMB1,673.1 million for the year ended 31 December 2015, representing an increase of approximately RMB1,124.2 million, or 67.2%. The increase was mainly attributable to: (1) the sales growth of the Group's key products; and (2) the consolidation of the revenue of Guojian into the Group's financial information since 1 April 2016.

For the year ended 31 December 2016, the Group's sales of TPIAO in China increased to approximately RMB765.0 million, as compared to approximately RMB605.1 million for the year ended 31 December 2015, representing an increase of approximately RMB159.9 million, or 26.4%. The increase was primarily attributable to an increase in sales volume, which in turn was primarily driven by the increased recognition of TPIAO within the medical profession. For the year ended 31 December 2016, sales of TPIAO in China accounted for approximately 27.2% of the Group's total sales of goods.

The Group's sales of Yisaipu was approximately RMB786.2 million for the nine months from 1 April 2016 to 31 December 2016. For the year ended 31 December 2016, the Group's sales of Yisaipu increased to approximately RMB925.2 million, as compared to approximately RMB842.3 million for the year ended 31 December 2015, representing an increase of approximately RMB82.9 million, or 9.8%. The increase was primarily attributable to an increase in sales volume, which in turn was primarily driven by the increasing demand for anti-TNF products and Yisaipu's continued dominance in the PRC anti-TNF market. For the nine months ended 31 December 2016, sales of Yisaipu accounted for approximately 28.0% of the Group's total sales of goods.

For the year ended 31 December 2016, the Group's sales of EPIAO and SEPO increased to approximately RMB772.8 million, as compared to approximately RMB727.2 million for the year ended 31 December 2015, representing an increase of approximately RMB45.6 million, or 6.3%. The increase was primarily attributable to an increase in sales volume, which in turn was primarily driven by the surging demand for rhEPO products in lower-tier cities. For the year ended 31 December 2016, the Group's sales of SEPO increased to approximately RMB95.6 million, as compared to approximately RMB43.5 million for the year ended 31 December 2015, representing a significant increase of approximately RMB52.1 million, or 120.0%. For the year ended 31 December 2016, the Group's sales of EPIAO decreased to approximately RMB677.2 million, as compared to approximately RMB683.7 million for the year ended 31 December 2015, representing a slight decrease of approximately RMB6.5 million, or 1.0%. The decrease was primarily attributable to a decrease in ex-factory price. In addition, while EPIAO was facing pressure in certain provincial tendering processes, SEPO performed strongly and helped maintain the Group's market share. For the year ended 31 December 2016, sales of EPIAO and SEPO accounted for approximately 27.5% of the Group's total sales of goods.

For the year ended 31 December 2016, the Group's export sales increased to approximately RMB50.0 million, as compared to approximately RMB32.3 million for the year ended 31 December 2015, representing an increase of approximately RMB17.8 million, or 55.1%. The increase was primarily attributable to an increase in sales in Sri Lanka, Dominican Republic and Thailand, and the consolidation of Yisaipu's export sales into the Group's financial information since 1 April 2016.

For the year ended 31 December 2016, the Group's sales by Zhejiang Wansheng Pharmaceutical Co., Ltd. ("**Zhejiang Wansheng**") were approximately RMB223.2 million, the financial results of which were consolidated into the Group's financial information since 1 August 2015. For the period from 1 August 2015 to 31 December 2015, the Group's sales by Zhejiang Wansheng were approximately RMB103.3 million.

For the year ended 31 December 2016, the Group's sales of other products primarily include the contract manufacturing income of Sirton Pharmaceuticals S.p.A ("**Sirton**") as well as the sales of IV Iron Sucrose (蔗糖鐵注射液) and Sparin (賽博利).

Cost of Sales

The Group's cost of sales increased from approximately RMB241.9 million for the year ended 31 December 2015 to approximately RMB402.3 million for the year ended 31 December 2016, and accounted for approximately 14.4% of the Group's total revenue for the year ended 31 December 2016. The primary reasons for the increase in the Group's cost of sales were: (1) the increased sales volumes for the year ended 31 December 2016, as compared to the corresponding period in 2015; (2) the consolidation of the costs of sales of Guojian into the Group's financial information since 1 April 2016; and (3) the consolidation of the costs of sales of Zhejiang Wansheng into the Group's financial information since 1 August 2015.

Gross Profit

For the year ended 31 December 2016, the Group's gross profit increased to approximately RMB2,395.0 million, as compared to approximately RMB1,431.2 million for the year ended 31 December 2015, representing an increase of approximately RMB963.8 million or 67.3%. The increase in the Group's gross profit was broadly in line with its revenue growth. The Group's overall gross profit margin was stable as compared to the year ended 31 December 2015. The decrease of gross profit margin attributable to the Group's consolidation of Zhejiang Wansheng since 1 August 2015, which had a lower gross profit margin than the Group's other businesses, was offset by the consolidation of Guojian since 1 April 2016, which had a higher gross profit margin than the Group's other businesses.

Other Income and Gains

The Group's other income and gains mainly comprised government grants, interest income, gain on deemed disposal of investment in an associate (namely Ascentage Jiangsu Pharmaceutical Group Co., Ltd. ("**Ascentage Jiangsu**")), gain on disposal of available-for-sale investments and other miscellaneous income. For the year ended 31 December 2016, the Group's other income and gains increased to approximately RMB215.6 million, as compared to approximately RMB208.6 million for the year ended 31 December 2015, representing an increase of approximately RMB7.0 million, or 3.3%. The increase was mainly attributable to: (1) the increase of gain on deemed disposal of investment in an associate (namely Ascentage Jiangsu); (2) the consolidation of Guojian's government grants since 1 April 2016; and (3) the gain on disposal of available-for-sale investments, which was partially offset by the decrease in fair value gain on available-for-sale investments upon reclassification to investments in associates.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily comprised marketing and promotion expenses, staff costs, transportation expenses, consulting fees and other miscellaneous selling and distribution expenses. For the year ended 31 December 2016, the Group's selling and distribution expenses amounted to approximately RMB1,017.2 million, as compared to approximately RMB585.6 million for the year ended 31 December 2015, representing an increase of approximately RMB431.6 million, or 73.7%. The increase was mainly attributable to: (1) the increased promotional activities for the Group's products; (2) the consolidation of the selling and distribution expenses of Guojian into the Group's financial information since 1 April 2016; and (3) the consolidation of the selling and distribution expenses of Zhejiang Wansheng into the Group's financial information since 1 August 2015. In terms of the percentage of revenue, the Group's selling and distribution expenses increased from 35.0% for the year ended 31 December 2015 to 36.4% for the year ended 31 December 2016, primarily due to the consolidation of the selling and distribution expenses of Zhejiang Wansheng, which had a selling and distribution expenses to revenue ratio higher than that of the Group's other businesses.

Administrative Expenses

The Group's administrative expenses comprised staff costs, professional fees, depreciation and amortization, property expenses, and other miscellaneous administrative expenses. For the year ended 31 December 2016, the Group's administrative expenses amounted to approximately RMB301.2 million, as compared to approximately RMB301.0 million for the year ended 31 December 2015, representing an increase of approximately RMB0.2 million, or 0.1%. The difference was mainly due to certain non-recurring items as follows: (1) the advisory fees of RMB85.7 million incurred for the acquisition of Guojian and the exclusive license agreement with AstraZeneca during the year ended 31 December 2016 as compared to RMB107.1 million during the year ended 31 December 2015; and (2) there being no expenses during the year ended 31 December 2016 as incurred during the year ended 31 December 2015 as follows: (i) the one-off expenses RMB22.6 million for the listing (the "**Listing**") of the Company on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"); and (ii) the warrants expenses associated with the warrants granted to the management of Guojian on 1 January 2015 (the "**Guojian Warrants**") of RMB46.6 million. The decrease in the non-recurring items in 2016 partially offsets the increase attributable to the consolidation of the administrative expenses of Guojian into the Group's administrative expenses since 1 April 2016. Had the effects of the non-recurring items been excluded, the administrative expenses for the year ended 31 December 2016 would have been RMB220.8 million. The administrative expenses (excluding the impact of the aforementioned non-recurring items) as a percentage of revenue is 7.9% for the year ended 31 December 2016, as compared to 7.5% for the corresponding period in 2015.

Other Expenses and Losses

The Group's other expenses and losses primarily comprised R&D costs. For the year ended 31 December 2016, the Group's other expenses and losses amounted to approximately RMB282.2 million, as compared to approximately RMB142.7 million for the year ended 31 December 2015, representing an increase of approximately RMB139.6 million, or 97.8%. The increase was mainly due to the consolidation of Guojian's R&D costs of RMB124.7 million from 1 April 2016 to 31 December 2016.

Finance Costs

For the year ended 31 December 2016, the Group's finance costs amounted to approximately RMB147.7 million, as compared to approximately RMB26.5 million for the year ended 31 December 2015, representing an increase of approximately RMB121.2 million, or 456.5%. The increase was mainly due to the increase in average monthly outstanding bank borrowings during the year ended 31 December 2016, as compared to the corresponding period in 2015. The increase in bank borrowings primarily reflected additional bank loans taken for the acquisition of Guojian.

Income Tax Expense

For the year ended 31 December 2016, the Group's income tax expense amounted to approximately RMB135.8 million, as compared to approximately RMB61.6 million for the year ended 31 December 2015, representing an increase of approximately RMB74.2 million, or 120.4%. The increase was mainly due to the consolidation of the income tax expenses of Guojian of RMB58.5 million since 1 April 2016. The effective tax rates for the year ended 31 December 2016 and 2015 were 16.0% and 10.5%, respectively. The increase in effective tax rate was mainly due to the decrease in non-taxable income that included, primarily, the income associated with the fair value on the available-for-sale investments upon reclassification to investments in associates, gain on deemed disposal of investment in an associate (namely Ascentage Jiangsu), and increased offshore losses for the year ended 31 December 2016, as compared to the year ended 31 December 2015.

EBITDA and Net Profit

The normalized EBITDA is defined as the EBITDA for the period excluding: (a) the expenses incurred in relation to the acquistion of of Guojian and the exclusive license agreement with AstraZeneca; (b) the warrant expenses associated with the Guojian Warrants; (c) the expenses incurred in relation to the Listing; (d) the income associated with the fair value gain of the approximately 28.8% equity interest in Guojian previously acquired by the Group in 2014 and 2015; and (e) the income associated with the gain on deemed disposal of investments in an associate (namely Ascentage Jiangsu). The Group's normalized EBITDA for the year ended 31 December 2016 increased by approximately RMB414.6 million or 56.5% to approximately RMB1,148.7 million, as compared to the year ended 31 December 2015. Without excluding the aforementioned items, the EBITDA increased by approximately RMB480.6 million or 72.7% to approximately RMB1,141.3 million, as compared to the year ended 31 December 2015.

The normalized net profit is defined as the profit for the period excluding: (a) the expenses incurred in relation to the acquistion of Guojian and the exclusive license agreement with AstraZeneca; (b) the warrant expenses associated with the Guojian Warrants; (c) the expenses incurred in relation to the Listing; (d) the income associated with the fair value gain of the approximately 28.8% equity interest in Guojian previously acquired by the Group in 2014 and 2015; and (e) the income associated with the gain on deemed disposal of investments in an associate (namely Ascentage Jiangsu). The Group's normalized net profit for the year ended 31 December 2016 was approximately RMB721.7 million, as compared to approximately RMB599.7 million for the year ended 31 December 2015, representing an increase of approximately RMB122.0 million or 20.3%. Without excluding the aforementioned items, the net profit for the year ended 31 December 2016 was approximately RMB714.3 million, as compared to approximately RMB526.2 million for the year ended 31 December 2015, representing an increase of approximately RMB188.0 million, or 35.7%.

Prepaid Land Lease Payments

As at 31 December 2016, the increase in prepaid land lease payments was primarily attributable to the acquisition of Guojian, which resulted in an increase of RMB209.2 million.

Goodwill

As at 31 December 2016, the increase in goodwill was primarily attributable to the acquisition of Guojian, which resulted in an increase of RMB3,565.3 million.

Long Term Receivables

As at 31 December 2016, long term receivables represented the convertible loan provided to Zhejiang Sunshine Pharmaceutical Company Limited (浙江三生製藥有限公司) ("**Zhejiang Sunshine**") in a principle amount of RMB75.0 million.

Available-for-sale Investments

As at 31 December 2016, available-for-sales investments primarily included the investment in wealth management products issued by certain banks.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group's liquidity remained strong. For the year ended 31 December 2016, the Group's operating activities generated a net cash inflow of approximately RMB1,004.3 million. As at 31 December 2016, the Group's cash and cash equivalents and deposits (including pledged deposits) were approximately RMB687.0 million.

Net Current Assets

As at 31 December 2016, the Group had net current assets of approximately RMB1,097.1 million, as compared to net current assets of approximately RMB1,990.4 million as at 31 December 2015. The current ratio of the Group decreased from approximately 3.6 as at 31 December 2015 to approximately 2.0 as at 31 December 2016. The decrease in net current assets was mainly due to the decrease in cash and cash equivalents utilized for the Guojian acquisition.

Funding and Treasury Policies, Borrowings and the 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 to improve the return of equity and assets while maintaining a prudent funding and treasury policy.

As at 31 December 2016, the Group had an aggregate interest-bearing bank borrowings of approximately RMB3,059.1 million, as compared to approximately RMB405.0 million as at 31 December 2015. All such borrowings are at fixed interest rates. The increase in bank borrowings primarily reflected the additional bank loans of RMB3,985.1 million taken in 2016 for the Group's acquisitions, which was partially offset by the repayment of loans of RMB1,467.6 million.

Within the short-term deposits, RMB5.9 million was pledged to secure bank loans as at 31 December 2016, as compared to RMB30.3 million as at 31 December 2015.

Gearing Ratio

The gearing ratio of the Group, which is calculated by dividing the total borrowings by the total equity, increased to approximately 45.2% as at 31 December 2016 from approximately 7.2% as at 31 December 2015. The increase was primarily due to an increase in the Group's bank borrowings which were taken for the acquisition of Guojian.

Contingent Liabilities

As at 31 December 2016, the Group had no significant contingent liabilities.

Contractual Obligations

As at 31 December 2016, the Group's operating lease commitment amounted to approximately RMB8.2 million, as compared to approximately RMB6.8 million as at 31 December 2015. The Group's capital commitment amounted to approximately RMB180.3 million as at 31 December 2016, as compared to approximately RMB27.4 million as at 31 December 2015.

Foreign Exchange and Exchange Rate Risk

The Group mainly operates in the PRC, with all material aspects of its regular business conducted in Renminbi other than in regard to: (1) the operations of Sirton; and (2) the Group's exports, which amounted to approximately RMB50.0 million, or 1.8% of the Group's revenue, for the year ended 31 December 2016. Except for the operations of Sirton, the Group's exports, potential international deal-making expenditures such as in licensing, joint ventures and acquisitions and the foreign currency denominated bank deposits, the Group believes that it does not have any other material direct exposure to foreign exchange fluctuations. As at 31 December 2016, the Group's foreign currency denominated bank deposits primarily comprised: (1) approximately USD52.3 million (equivalent to approximately RMB362.9 million) denominated in US dollars; and (2) approximately HKD43.1 million (equivalent to approximately RMB38.6 million) denominated in HK dollars. The Group expects that the fluctuation of the Renminbi exchange rate will not have a material adverse effect on the operations of the Group for the foreseeable period.

Future Plans for Material Investments or Capital Assets

The Group estimates that the capital expenditures will be in the range of RMB200 million to RMB250 million per year for the Group for the next three years. These expected capital expenditures will primarily be incurred for the maintenance of the existing facilities and the expansion of production capabilities. The Group expects to finance such capital expenditures through a combination of internally generated funds and bank borrowings.

EMPLOYEES AND EMOLUMENTS POLICY

As at 31 December 2016, the Group employed a total of 3,465 employees, as compared to a total of 2,177 employees as at 31 December 2015. The staff costs, including the directors's emoluments but excluding any contributions to pension scheme, were approximately RMB498.0 million for the year ended 31 December 2016, as compared to approximately RMB317.4 million for the corresponding period in 2015. The Group's employees' remuneration package includes salary, bonus and allowance elements. The compensation programs are designed to remunerate the employees based on their performance and are measured against specified objective criteria. The Group also provides the employees with welfare benefits in accordance with applicable regulations and the Group's internal policies. The Company has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

As at the date of this annual report, all of the Group's key products, TPIAO, Yisaipu and EPIAO, were listed in the 2017 National Reimbursement Drug List.

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

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

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

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

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

The Group do 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 corrupt or other improper conduct that result 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 institution in the PRC.

Directors and Senior Management

DIRECTORS

Executive Director

Mr. LOU Jing, aged 54, was appointed as a Director on 5 September 2006 and was redesignated as an executive Director on 27 November 2014. He was appointed as the chairman of the Board on 1 April 2012. Mr. Lou is also the chief executive officer and president of the Company. He is responsible for the strategic development and planning, overall operational management and major decision making of the Group. He joined Shenyang Sunshine Pharmaceutical Company Limited ("**Shenyang Sunshine**") as a director of research and development in September 1995.

Mr. 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) executive director of Liaoning Sunshine Science Technology Development Company Limited (遼寧三生科技發展有限公司, "**Liaoning Sunshine Technology**");

8) 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**");

9) 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**");

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

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

12) 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**");

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

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

15) director and chairman of the board of Xing Sheng.

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

Mr. TAN Bo, aged 44, was appointed as a Director on 29 May 2013 and was redesignated as an executive Director on 27 November 2014. Mr. Tan is also the chief financial officer and the executive vice president of the Company. He is responsible for overseeing the financial activities and the daily operation of the business development of the Group. Mr. Tan joined Shenyang Sunshine as the chief financial officer and vice president in February 2009. He also served as a director of Hongkong Sansheng from November 2009 to November 2014.

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

1) director of Collected Mind;

2) director of Excel Partner;

3) director of Ample Harvest;

4) director of Taizhou Huan Sheng Investment;

5) director of Sciprogen;

6) director of Guangdong Sciprogen;

7) director of Grand Path Holdings Limited;

8) director of Gains Prestige;

9) director of Guojian; and

10) director of Xing Sheng.

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

Ms. SU Dongmei, aged 46, was appointed as a Director on 11 June 2012 and was redesignated as an executive Director on 27 November 2014. Ms. Su is also the Company's senior vice president and the general manager of Shenyang Sunshine. She is responsible for strategic direction of the Group. Ms. Su joined Shenyang Sunshine as a scientist of the research and development department in January 1993, and served as a director of the research and development department from 1997 to 2006. She subsequently served as the chief technology officer responsible for research and development 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; and

(iii) supervisor of Liaoning Sunshine Technology.

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

Mr. HUANG Bin, aged 56, was first appointed as a Director on 5 September 2006 and ceased to be a Director on 29 May 2013. Mr. Huang was re-appointed as an executive Director on 27 November 2014. Mr. Huang is also a vice president of the Company. He is in charge of the administrative management of the Group and the operations management of the Group's subsidiaries and joint ventures. Mr. Huang joined Shenyang Sunshine in 1993 as a manager of the human resources department.

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

(i) director of Collected Mind;

(ii) director and vice president of Shenyang Sunshine;

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

(iv) director of Guojian.

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

Non-executive Directors

Mr. LIU Dong, aged 44, was appointed as a non-executive Director on 27 November 2014. He is responsible for participating in the formulation of the Company's corporate and business strategies. Mr. Liu had served as a director of Shenyang Sunshine from 28 May 2013 to 18 July 2016.

Mr. Liu joined CITIC Private Equity Funds Management Co., Ltd. ("**CITICPE**") in January 2009. He is a managing director of CITICPE in charge of investment in the healthcare sector. Mr. Liu also currently serves as a director of Zhejiang Beingmate Technology Industry & Trade Co. Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 002570), and Biosensors International Group, Ltd. (a company listed on the SGX-ST with symbol B20). Mr. Liu served as a non-executive director of Luye Pharma Group Ltd. (a company listed on the Stock Exchange with stock code 2186) from March 2014 to June 2016. Neither of the aforesaid listed companies competes or is likely to compete with the Group. Mr. Liu received a joint Bachelor's degree in Physics and Finance from Nankai University (南開大學) in June 1995 and an Executive Master of Business Administration from China Europe International Business School (中歐國際工商學院) in October 2011.

Mr. LV Dong, aged 42, was appointed as a non-executive Director on 27 November 2014. He is responsible for participating in the formulation of the Company's corporate and business strategies. Mr. Lv had served as a director of Shenyang Sunshine from 28 May 2013 to 18 July 2016. He has served as an executive director of PAG Asia Capital since July 2016. Mr. Lv received a Master's degree in Pharmacy from Peking University (北京大學) in 2003 and a Doctorate degree in Pharmaceutical Administration from China Pharmaceutical University (中國藥科大學) in June 2010.

Independent Non-executive Directors

Mr. PU Tianruo, aged 48, 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, the audit committee chair and a compensation committee member of the Company from 1 September 2012 to 29 May 2013.

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

Mr. David Ross PARKINSON, aged 67, was appointed as an independent non-executive Director on 23 May 2015, with such appointment taking effect on 1 June 2015. He is responsible for participating in decision-making and advising on issues relating to the Company's significant events and corporate governance.

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

Mr. MA Jun, aged 54, was appointed as an independent non-executive Director on 23 May 2015, with such appointment taking effect on 1 June 2015. He is responsible for participating in decision-making and advising on issues relating to the Company's significant events and corporate governance. Mr. Ma has served as the chief executive officer of Rong & De (Tianjin) Investment Partnership (Limited Partnership) (熔安德(天律)投資合夥企業(有限合夥)) since April 2011 in charge of fund raising and management. Mr. Ma was an attorney of Commerce & Finance Law Offices from January 2006 to April 2007.

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

Senior Management

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

Dr. ZHU Zhenping (朱禎平), aged 52, is the president of R&D and chief scientific officer of the Company. Prior to joining the Company in January 2017, he served as the executive vice president of Global Biopharmaceuticals at Kadmon Corporation, and the president of Kadmon China from 2010 to 2016. Prior to joining Kadmon, Dr. Zhu was the vice president and the global head, Protein Sciences and Design, at Novartis, and was responsible for the discovery, design and selection of novel biologics medicines that address various human diseases from 2009 to 2010. Prior to Novartis, Dr. Zhu worked for over 12 years at ImClone Systems as Vice President of Antibody Technology and Immunology, and had led multiple teams responsible for the successful discovery and early development of several U.S. FDA-approved novel antibodies for various oncology indications, including cetuximab (Erbitux®), ramucirumab (Cyramza®), necitumumab (Portrazza®), and olaratumab (Latruvo®). Dr. Zhu is the inventor of both ramucirumab and necitumumab, and one of the major contributors to cetuximab and olaratumab. He earned his medical degree from Jiangxi Medical College in 1985. He received his Master of Science in Pharmacology from the Institute of Hematology, Chinese Academy of Medical Sciences (CAMS) and Peking Union Medical College (PUMC) in 1988, and his Ph.D. in Immunology and Pathology from Dalhousie University in 1993. Dr. Zhu performed his postdoctoral work in antibody and protein engineering at Genentech Inc. from 1993 to 1996. From 1996 to 2006, Dr. Zhu held an adjunct professorship at the Institute of Hematology, CAMS & PUMC. Dr. Zhu has published over 190 peer-reviewed scientific papers, and is listed as the inventor or co-inventor of more than 50 U.S. and international patents and patent applications.

Mr. XIAO Weihong (肖衛紅), aged 48, is the chief operating officer of the Company. Prior to joining the Company in March 2016, Mr. Xiao served as the chief executive officer of Hisun-Pfizer Pharmaceutical Co. Ltd. (海正輝瑞製藥有限公司), from 2012 to 2015, where he oversaw the strategy and operations. From 2007 to 2012, Mr. Xiao served as a general manager of commercial and diversified business unit of Pfizer China. Mr. Xiao worked in Pfizer China's human resources department from 1999 to 2007 and served as the human resources director of Pfizer China from 2004 to 2007. Mr. Xiao graduated from the University of International Business & Economics with a Bachelor of Economics degree in 1991. He is currently a vice president of the Chinese Pharmaceutical Enterprises Association.

Mr. MA Xin (馬新), aged 51, is a vice president of the human resources department of the Company and Shenyang Sunshine. He is responsible for overseeing the human resources administration of the Group. Mr. Ma also currently serves as a director of Xing Sheng, as well as a director of Guojian. Before joining the Company in 2016, Mr. Ma worked in Hisun-Pfizer Pharmaceuticals Co., Ltd. (海正輝瑞製藥有限公司) from November 2012 to December 2015, first as a senior director of the human resources department, and then as the vice president of the human resources department. From June 2007 to October 2009, he worked as a national training and sales effectiveness manager in Pfizer Investment Co., Ltd. (輝瑞投資有限公司), and served as an associated director of training from October 2009 to October 2012. From 2005 to 2007, Mr. Ma served as a national sales training manager (Oncology business unit) of Beijing Novartis Pharma Co., Ltd. (北京諾華製藥有限公司). Mr. Ma worked in GlaxoSmithKline (China) Investment Co., Ltd. (葛蘭素史克投資有限公司) as a sales training manager (Pharma, North China) from December 2001 to July 2005. Mr. Ma obtained a Bachelor of Science in Pharmacy from Tianjin Second Medical College (天津第二醫學院) in 1989.

Mr. LIU Kevin (劉建榮), aged 47, is a vice president of the Company, in charge of finance, IT and purchase. Before joining the Company in 2016, from September 2011 to February 2016, Mr. Liu served as the chief financial officer in Fresenius-Kabi China, a leading international health care company focusing on products for the therapy and care of critically chronical disease patients, overseeing various departments including finance, IT, business development, supplies, legal affairs and sales performance. From January 2007 to September 2011, he worked in General Electric Renewable Energy as the chief financial officer for the Asia region. From March 2005 to January 2007, he worked in ITT Canon (Xiamen) Electronics Co., Ltd as the financial controller. Mr. Liu obtained a Bachelor degree in accounting from Jimei University (集美大學) in July 1991 and a MBA degree from Xiamen University (廈門大學) in July 2001.

Mr. CHEN Yongfu (陳永富), aged 60, is a vice president of the Company, in charge of administration, compliance and internal control. Mr. Chen has also served as a director of Hongkong Sansheng since November 2014. Mr. Chen served as a financial manager of Shenyang Sunshine from March 2003 to November 2010. Mr. Chen obtained a Bachelor's degree in Engineering and Accounting from Liaoning University (遼寧大學) in July 1983.

Ms. LIU Yanli (劉彥麗), aged 35, is the joint company secretary. She is responsible for overseeing the governance, legal and public relation matters of the Group. Ms. Liu has served as a director of Hongkong Sansheng since November 2014 and a director of Sirton since January 2015. She has also served as the supervisor of Shenzhen Baishitong since December 2014, and the supervisor of Sciprogen and Guangdong Sciprogen since December 2014. Ms. Liu joined Shenyang Sunshine as an international sales representative in January 2007. Ms. Liu served as an assistant to the chief executive officer and project manager of foreign drug registration of Shenyang Sunshine from 2008 to 2011. Ms. Liu obtained a Bachelor's degree in Biochemistry and Master's degree in Chemistry with Entrepreneurship from the University of Nottingham in July 2004 and December 2006, respectively.

Ms. YOU Fei (由飛), aged 38, is a director of the finance department of the Company. She is responsible for overseeing the accounting, financial reporting, financial analysis and capital market matters of the Group. Ms. You has also served as a director of Sciprogen and Guangdong Sciprogen since December 2014. Before joining the Group, Ms. You served as a manager at KPMG Huazhen LLP from August 2003 to January 2009 and a group accounting manager at Perlos (Beijing) Electronic and Telecommunication Component Co., Ltd. from February 2009 to February 2011. Ms. You has been a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since 2010. Ms. You obtained Bachelor's and Master's degrees in Economics from Renmin University of China (中國人民大學) in July 2000 and July 2003, respectively.

Dr. ZHANG James Ji (張繼), aged 56, is the general manager of Guojian. Prior to joining Guojian in November 2016, Dr. Zhang worked in various senior leadership roles with China Yuanda Group (中國遠大集團, "**Yuanda**") from 2008 to 2016, including as a vice president of Yuanda, the head of Yuanda Wuhan Pharmaceutical Research Institute, the chief science officer and an executive director on the board of directors of Huadong Pharmaceutical Company Limited (華東醫藥股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 000963), and an executive director on the board of directors of China Grand Pharmaceutical and Healthcare Holdings Limited (a company listed on the Stock Exchange with stock code 00512). From 1993 to 2008, Dr Zhang worked in Schering-Plough Pharmaceutical Research Institute (which is now part of Merck) as a senior scientist in the inflammation, infectious disease, and allergy and immunology areas. Dr. Zhang was selected as a member of the "Thousand Talents Program." He published many articles in leading scientific journals and is the co-inventor of a U.S. patent. Dr. Zhang received a Bachelor's degree in Microbiology in 1982, and a Master's degree in Virology in 1985, both from Wuhan University (武漢大學); and received a Ph.D. in Pharmacology and Molecular Biology from Chicago Medical School in 1992.

Mr. XU Yong (徐勇), aged 52, was appointed as a general manager and director of Sciprogen in 2015. From March 2006 to December 2012, he served as a deputy general manager of Liaoning Nuokang Pharmaceutical Limited (遼寧諾康醫藥股份有限公司). Before that, Mr. Xu served as the deputy general manager of Beijing Zhongguan Venture Science and Technology Co., Ltd. (北京中關創業科技發展有限公司) from January 2002 to March 2006. From June 1995 to December 2001, he worked first as a deputy director and then as a director in the second general department of Hebei Provincial Government General Office. (河北省政府辦公廳綜合二處). Mr. Xu obtained a Bachelor's degree in Precision Machinery from Zhejiang University (浙江大學) in August 1988.

Report of Directors

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

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 shares (the "**Shares**") were listed on the Stock Exchange on 11 June 2015 ("**Listing Date**").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the development, production, marketing and sale of pharmaceutical products in PRC. Analysis of the principal activities of the Group during the year ended 31 December 2016 is set out in the note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 74 of this annual report.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2016.

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 2016 using financial key performance indicators are provided in the section headed "Management Discussion and Analysis" on pages 7 to 24. 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 contained in the paragraph headed "Relationship with Stakeholders" and the paragraph headed "Compliance with Laws and Regulations" on pages 47 to 48 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 2016, the Group's sales to its five largest customers accounted for 24.1% (2015: 29.0%) of the Group's total revenue and the Group's single largest customer accounted for 9.6% (2015: 10.3%) of the Group's total revenue.

Major Suppliers

For the year ended 31 December 2016, the Group's five largest suppliers accounted for 20.0% (2015: 45.6%) of the Group's total purchases and the Group's single largest supplier accounted for 6.2% (2015: 17.9%) of the Group's total purchases.

During the year ended 31 December 2016, none of the Directors or any of their close associates or any 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 2016 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 2016 are set out in note 33 to the consolidated financial statements in this annual report.

PRE-EMPTIVE RIGHTS

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

EQUITY-LINKED AGREEMENTS

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

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

As at 31 December 2016, 50% of the Guojian Warrant had satisfied the relevant vesting conditions (in respect of which 10% of the Guojian Warrant remained subject to internal approval). 50% of the Guojian Warrant would entitle the Holder to 56,441,017 ordinary shares of the Company pursuant to the full exercise of 50% of the Guojian Warrant. On 29 June 2016, 17,000,000 ordinary shares of the Company were issued upon the partial exercise of the Guojiian Warrant by the Holder.

On 4 March 2016, the Company, CITIC Holdings (as defined below) and CITIC Pacific (as defined below) entered into an option deed ("**Option Deed**"), pursuant to which, the Company agreed to issue to CITIC Pacific options carrying rights to subscribe for up to a total of 125,765,500 ordinary shares of the Company at an exercise price of HK$9.10 per ordinary share, subject to certain exercise conditions (the "**Options**"). For details of the Options, please refer to the announcements of the Company dated 4 March 2016 and the circular of the Company dated 25 April 2016.

As at 31 December 2016, no Options had been exercised pursuant to the Option Deed.

Except as disclosed above, the Company has not entered into any equity-linked agreements for the year ended 31 December 2016.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2016 are set out on page 78 in the consolidated statement of changes in equity in this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Laws of Cayman Islands, amounted to approximately RMB4,833.8 million (as at 31 December 2015: RMB4,502.9 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2016 are set out in note 31 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2016 and up to the date of this annual report are:

Executive Director:

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

Non-executive Directors:

Mr. LIU Dong	(appointed on 27 November 2014)
Mr. LV Dong	(appointed on 27 November 2014)

Independent non-executive Directors:

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

In accordance with article 84(1) of the Articles of Association, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) will retire from office by rotation and will be eligible for re-election and re-appointment at every annual general meeting, provided that every Director shall be subject to retirement by rotation at least once every three years. Accordingly, Mr. HUANG Bin, Mr. LV Dong and Mr. MA Jun will retire, and Mr HUANG Bin and Mr. MA Jun, being eligible, have offered themselves for re-election as Directors at the upcoming annual general meeting (the "**AGM**"), while Mr. LV Dong has informed the Company that he will not seek re-election at the AGM due to his business engagement/re-arrangement. In addition, the Company proposes the appointment of Mr. Steven Wang as a non-executive Director subject to and with effect upon the approval by the Shareholders at the AGM.

Details of the Directors to be re-elected and elected at the AGM are set out in the circular to the Shareholders dated 26 April 2017.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 25 to 32 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' SERVICE CONTRACTS

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

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

Each of the non-executive Directors had entered into an appointment letter with the Company on 25 April 2016. The term of office of each of the non-executive Directors had commenced from the date of his appointment letters (being 25 April 2016) to the date of the second annual general meeting of the Company since the date of the appointment letters, subject to re-election and retirement as and when required by the Articles of Association.

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Other than those transactions disclosed in note 42 to the consolidated financial statements and in the section "Connected Transactions" below, no Director had a material interest, either directly or indirectly, in any transactions, arrangements and contracts of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2016.

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 2016.

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 2016 are set out in notes 8 and 9 to the consolidated financial statements.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

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

CHANGE TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules for the year ended 31 December 2016.

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

As at 31 December 2016, 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 have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

Interest in the Company

Name	Position	Nature of Interest	Number of Shares held	Approximate percentage of all Shares in Issue [1]
LOU Jing[2]	Executive Director	Interest of spouse	599,367,030(L)	23.67%
TAN Bo[3]	Executive Director	Interest in a controlled corporation	116,849,920(L)	4.61%
SU Dongmei[4]	Executive Director	Interest in a controlled corporation;	25,465,630(L)	1.01%
		Founder of a discretionary trust	20,000,000(L)	0.79%
			Total: 45,445,630(L)	Total: 1.79%
HUANG Bin[5]	Executive Director	Interest in a controlled corporation	32,197,350(L)	1.27%(L)

Notes:

(L): denotes long position

1. The calculation is based on the total number of 2,532,313,570 ordinary shares in issue as at 31 December 2016.

2. LOU Jing's spouse, XING Lily, is interested in 599,367,030 ordinary shares of the Company and therefore, LOU Jing is deemed to be interested in the same number of the ordinary shares of the Company.

3. TAN Bo directly holds the entire issued share capital of Triple Talent Enterprises Limited ("**TTE**") and therefore, is deemed to be interested in the same number of the ordinary shares in which TTE is interested (i.e. 116,849,920 ordinary shares of the Company).

4. SU Dongmei directly holds the entire issued share capital of Joint Palace Group Limited ("**JPG**") and therefore, is deemed to be interested in the same number of the ordinary shares in which JPG is interested (i.e. 25,465,630 ordinary shares of the Company); in addition, Ms. Su serves as the sole member of the advisory committee of The Empire Trust, and is thus deemed to be interested in the 20,000,000 share options (each entitling the holder to subscribe for one ordinary share of the Company) held by The Empire Trust. The Empire Trust is an employees benefit trust established by the Company.

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

Save as disclosed above, as at 31 December 2016, none of the Directors or the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate during the year ended 31 December 2016.

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

As at 31 December 2016, to the best knowledge of the Directors, the following persons (not being a Director or chief executives of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature of Interest	Number of Shares held	Approximate percentage of all Shares in Issue (1)
Decade Sunshine Limited ("**DSL**")	Beneficial owner	599,367,030(L)	23.67%
Century Sunshine Limited ("**CSL**")(2)	Interest in a controlled corporation	599,367,030(L)	23.67%
XING Lily(2)	Interest in a controlled corporation	599,367,030(L)	23.67%
Lambda International Limited(2)	Interest in a controlled corporation	599,367,030(L)	23.67%
LOU Dan(3)	Founder of a discretionary trust;	599,367,030(L)	23.67%
	Interest in a controlled corporation	6,200,010(L)	0.24%
		Total: 605,567,040(L)	Total: 23.91%
TMF (Cayman) Ltd.(4)	Trustee	675,856,160(L)	26.69%
CS Sunshine Investment Limited(5)	Beneficial owner	712,258,360(L)	28.13%
CPEChina Fund, L.P.(5)	Interest in a controlled corporation	712,258,360(L)	28.13%
CITIC PE Associates, L.P.(5)	Interest in a controlled corporation	712,258,360(L)	28.13%
CITIC PE Funds Limited(5)	Interest in a controlled corporation	712,258,360(L)	28.13%
CITICPE Holdings Limited(5)	Interest in a controlled corporation	712,258,360(L)	28.13%
CITIC Securities International Asset Management Limited(5)	Interest in a controlled corporation	712,258,360(L)	28.13%
CITIC Securities International Company Limited(5)	Interest in a controlled corporation	712,258,360(L)	28.13%
CITIC Securities Company Limited(5)	Interest in a controlled corporation	712,258,360(L)	28.13%
BlackRock, Inc.(6)	Interest in a controlled corporation	143,210,284(L)	5.66%
		1,407,000(S)	0.06%

Notes:

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

1. The calculation is based on the total number of 2,532,313,570 ordinary shares in issue as at 31 December 2016.

2. DSL is wholly-owned by CSL, and therefore CSL is deemed to be interested in 599,367,030 ordinary shares held by DSL; and, further, 42.60% and 35.65% of CSL are respectively controlled by XING Lily and Lambda International Limited, both of whom therefore are deemed to be interested in such 599,367,030 ordinary shares.

3. LOU Dan is the founder of a discretionary trust, and is therefore deemed to be interested in the 599,367,030 ordinary shares in which the trust is interested; further, LOU Dan exercises 100% control over Hero Grand Management Limited, and therefore is deemed to be interested in the 6,200,010 ordinary shares in which Hero Grand Management Limited is interested.

4. TMF (Cayman) Ltd. is the trustee with respect to three unnamed trusts, which respectively are interested in 599,367,030, 56,489,130 and 20,000,000 ordinary shares, and therefore TMF (Cayman) Ltd. is deemed to be interested in all such ordinary shares.

5. CS Sunshine Investment Limited is wholly-owned by CPEChina Fund, L.P. The general partner of CPEChina Fund, L.P. is CITIC PE Associates, L.P., an exempted limited partnership registered under the laws of the Cayman Islands whose general partner is CITIC PE Funds Limited, an exempted company incorporated in the Cayman Islands with limited liability. CITICPE Holdings Limited exercises 100% control over CITIC PE Funds Limited. 35% of CITICPE Holdings Limited is controlled by CITIC Securities International Asset Management Limited, which therefore is deemed to be interested in the ordinary shares in which CITICPE Holdings Limited is interested. CITIC Securities International Company Limited exercises 100% control over CITIC Securities International Asset Management Limited. CITIC Securities Company Limited exercises 100% control over CITIC Securities International Company Limited.

6. BlackRock, Inc. controls 42 entities and is therefore deemed to be interested in an aggregate of 143,210,284 ordinary shares in long position and 1,407,000 ordinary shares in short position held by those 42 entities.

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any persons (who were not Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

POST-IPO SHARE OPTION SCHEME

Pursuant to a written resolution passed by the then sole shareholder of the Company on 23 May 2015, the Company adopted a share option scheme pursuant to Chapter 17 of the Listing Rules (the "**Scheme**"). The details of the Scheme has been disclosed in the Company's prospectus dated 1 June 2015 in the section headed "Statutory and General Information — 5. Post-IPO Share Option Scheme" in Appendix IV. Under the Scheme, the Company is authorised to issue up to 242,439,857 ordinary shares (subject to possible adjustments), which represents approximately 9.57% of the issued shares as at 31 December 2016. The Scheme will continue to be in effect for a term of ten years unless terminated sooner, and has a remaining term of approximately 8 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. For details of the aforesaid amendments, please refer to the circular of the Company dated 13 June 2016.

The following share options were outstanding under the Scheme as of 31 December 2016:

	NUMBER OF SHARE OPTIONS										WEIGHTED AVERAGE PRICE OF THE COMPANY'S SHARES	
NAME OR CATEGORY OF PARTICIPANT	AS AT 1 JANUARY 2016	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	FORFEITED DURING THE YEAR	EXPIRED DURING THE YEAR	AS AT 31 DECEMBER 2016	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PERIOD OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS *(HK$ PER SHARE)*	PRICE OF THE COMPANY'S SHARES IMMEDIATELY BEFORE THE GRANT DATE OF OPTIONS *(HK$ PER SHARE)*	IMMEDIATELY BEFORE THE EXERCISE DATE *(HK$ PER SHARE)*	AT EXERCISE DATE OF THE OPTIONS *(HK$ PER SHARE)*
The Empire Trust*	0	20,000,000	0	–	–	20,000,000	26 September 2016**	–	9.10	8.69	–	–
	0	20,000,000	0	–	–	20,000,000						

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

** Pursuant to Board resolutions dated 22 September 2016.

To provide its employees, among others, more incentives or reward for their contribution to the Group, the Company decided to cancel certain share options granted to The Empire Trust (the "**Grantee**") and granted new share options to the Grantee at a more attractive exercise price for the benefit of its employees. On 2 February 2017, the Company and Grantee cancelled the 20,000,000 share options granted to the Grantee on 26 September 2016. On even date, the Company granted 20,000,000 share options to the Grantee held for and on behalf of the beneficiaries nominated by the advisory committee of the Grantee. Among the 20,000,000 share options granted, 2,640,000 share options were granted for the benefit of beneficiaries who are executive Directors, with 660,000 share options granted for the benefit of each of Mr. LOU Jing, Mr. TAN Bo, Ms. SU Dongmei and Mr. HUANG Bin. For details of the cancellation and grant of share options, please refer to the announcement of the Company dated 3 February 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

On 22 February 2016, Hongkong Sansheng, a wholly owned subsidiary of the Company, entered into a Hong Kong dollar equivalent RMB2,200,000,000 term loan facility (the "**Loan Facility**") with Ping An Bank Company Limited (平安銀行股份有限公司). The funds from the Loan Facility were to be used for the purposes of undertaking of equity interest in Guojian, the acquisition of which is discussed in the subsection headed "Acquisition of Further Equity Interests in Guojian" of this annual report.

The Loan Facility is to be repaid in five installments with the last instalment due on the date falling 36 months after the first utilization date. As at 31 December 2016, the outstanding amount owing by the Hongkong Sansheng under the Loan Facility was RMB1,867.1 million.

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

Pursuant to the terms of the Loan Facility, Hongkong Sansheng shall procure that Mr. LOU Jing, a controlling shareholder of the Company (as defined in the Listing Rules), will remain a controlling shareholder of the Company for as long as any amount is outstanding under the Loan Facility. As at 31 December 2016, the controlling shareholders of the Company (including DSL and Mr. LOU Jing through his associates and close relative) collectively control 836,549,070 ordinary shares of the Company (representing approximately 33.03% of the issued share capital of the Company).

Save as disclosed above, the Directors are not aware of any other circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December 2016.

ACQUISITION OF FURTHER EQUITY INTERESTS IN GUOJIAN

On 26 January 2016, Shanghai Hongshang Investment Co., Ltd. (上海翃熵投資有限公司, "**Shanghai Hongshang**"), Shanghai Lansheng Corporation (上海蘭生股份有限公司, "**Lansheng Corporation**") and Shanghai Lansheng (Group) Corporation (上海蘭生 (集團) 有限公司) ("**Lansheng Group**") entered into the equity transfer agreement ("**Agreement V**"). Pursuant to Agreement V, Shanghai Hongshang agreed to acquire and Lansheng Corporation agreed to sell approximately 34.65% equity interest in Xing Sheng at a cash consideration of approximately RMB890,094,000, and Shanghai Hongshang agreed to acquire and Lansheng Group agreed to sell approximately 3.85% equity interest in Xing Sheng at a cash consideration of approximately RMB98,899,000. Upon completion of the acquisition, Xing Sheng became a subsidiary of the Group with approximately 96.25% of its equity interest held by Shanghai Hongshang and holding approximately 41.69% equity interest in Guojian.

On 26 January 2016, Shanghai Hongshang and Lansheng Corporation entered into the equity transfer agreement ("**Agreement VI**"). Pursuant to Agreement VI, Shanghai Hongshang agreed to acquire and Lansheng Corporation agreed to sell approximately 0.73% equity interest in Guojian at a cash consideration of approximately RMB44,326,000. On 3 March 2016, the Company and CITIC Hong Kong (Holdings) Limited (中信 (香港集團) 有限公司, "**CITIC Holdings**") entered into the property transaction agreement ("**Agreement VII**"). Pursuant to Agreement VII, the Company conditionally agreed to acquire and CITIC Holdings conditionally agreed to sell (i) the entire issued share capital of Gains Prestige, which indirectly holds approximately 43.42% equity interest in Guojian, and (ii) CITIC Holdings' interest in the shareholder's loan owed by Gains Prestige to CITIC Holdings for an outstanding amount of approximately HKD1,085,230,000, at an aggregate cash consideration of RMB2,713,750,000, payable in Hong Kong dollars. In addition, the Company granted options to CITIC Pacific Limited (中信泰富有限公司), which entitle the holders of the option to subscribe for up to a total of 125,765,500 ordinary shares of the Company at an exercise price of HKD9.10 per ordinary share. The options shall become exercisable upon the fulfilment of certain exercise conditions.

On 3 March 2016, Shenyang Sunshine and Xizang Hongshang Capital Investment Company Limited (西藏鴻商資本投資有限公司) ("**Xizang Hongshang**") entered into the equity transfer agreement ("**Agreement VIII**"). Pursuant to Agreement VIII, Shenyang Sunshine agreed to acquire and Xizang Hongshang agreed to sell a 30% equity interest in Shanghai Hongshang at a cash consideration of approximately RMB1,217,994,000. Upon completion of the acquisition, Shanghai Hongshang became a wholly-owned subsidiary of Shenyang Sunshine and the Group acquired an approximate 12.04% equity interest in Guojian.

For details of the aforesaid acquisitions, please refer to the announcements of the Company dated 26 January 2016 and 4 March 2016 and the circular of the Company dated 25 April 2016.

The acquisitions were considered to be completed by 31 March 2016, when Shanghai Hongshang, Xing Sheng, Gains Prestige and Guojian became subsidiaries of the Group. The financial information of the aforesaid companies have been consolidated into the Group's financial statements since 1 April 2016. Following the completion of the aforesaid acquisitions, the Group collectively controls an approximate 97.78% equity interest in Guojian.

CONNECTED TRANSACTIONS

Connected transaction and major transaction in relation to the acquisition of further equity interests in Guojian

On 3 March 2016, the Company and CITIC Holdings entered into Agreement VII (the "**Acquisition VII**"). Pursuant to Agreement VII, the Company conditionally agreed to acquire and CITIC Holdings conditionally agreed to sell (i) the entire issued share capital of Gains Prestige, which indirectly holds approximately 43.42% equity interest in Guojian, and (ii) CITIC Holdings' interest in the shareholder's loan owed by Gains Prestige to CITIC Holdings for an outstanding amount of approximately HKD1,085,230,000, at an aggregate cash consideration of RMB2,713,750,000, payable in Hong Kong dollars. In addition, the Company granted options to CITIC Pacific Limited (中信泰富有限公司) ("**CITIC Pacific**"), which entitle the holders of the option to subscribe for up to a total of 125,765,500 ordinary shares of the Company at an exercise price of HKD9.10 per ordinary share. The options shall become exercisable upon the fulfilment of certain exercise conditions.

On even date, Shenyang Sunshine and Xizang Hongshang entered into Agreement VIII (the "**Acquisition VIII**"). Pursuant to Agreement VIII, Shenyang Sunshine agreed to acquire and Xizang Hongshang agreed to sell a 30% equity interest in Shanghai Hongshang at a cash consideration of approximately RMB1,217,994,000. Upon completion of the acquisition, Shanghai Hongshang became a wholly-owned subsidiary of Shenyang Sunshine and the Group acquired an approximate 12.04% equity interest in Guojian.

Gains Prestige is interested in more than 10% equity interest in the Guojian, which is an indirect non-wholly owned subsidiary of the Company. CITIC Pacific and CITIC Holdings are holding companies of Gains Prestige. Separately, Xizang Hongshang is interested in more than 10% equity interest in Shanghai Hongshang, which is an indirect non-wholly owned subsidiary of the Company. As such, each of CITIC Pacific, CITIC Holdings, Gains Prestige and Xizang Hongshang is considered a connected person of the Company at the subsidiary level under the Listing Rules and each of Acquisition VII and Acquisition VIII therefore constitutes a connected transaction under Chapter 14A of the Listing Rules.

For details of the connected transactions, please refer to the announcements of the Company dated 4 March 2016, 17 March 2016 and the circular of the Company dated 25 April 2016.

Connected transaction in relation to the convertible bond loan agreement

On 29 March 2016, Shenyang Sunshine entered into a convertible loan agreement with Zhejiang Sunshine pursuant to which Shenyang Sunshine agreed to make available to Zhejiang Sunshine the convertible loan in the principal amount of RMB75,000,000 at an interest rate of 8% per annum (the "**Convertible Loan**"), with an option (exercisable at the discretion of Shenyang Sunshine) to convert the Convertible Loan into equity interests in Zhejiang Sunshine.

Zhejiang Sunshine is a direct non-wholly owned subsidiary of Ningbo Meishan Bonded Port Zone Xinsheng Medical Investment Management Partnership (Limited Partnership) ("**Ningbo Meishan**"), following its disposal by the Group to Ningbo Meishan in December 2015. Mr. LOU Dan, one of the controlling shareholders of the Company and therefore a connected person of the Company (as defined in the Listing Rules), is interested in Ningbo Meishan as to approximately 52.1%. Zhejiang Sunshine is therefore regarded as an associate of Mr. LOU Dan and a connected person of the Company (as defined in the Listing Rules). As such, the convertible loan agreement and the transactions contemplated thereunder are considered connected transactions under Chapter 14A of the Listing Rules.

For details of the connected transactions, please refer to the announcements of the Company dated 29 March 2016.

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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2016, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DONATIONS

The Group leads and supports various medical charity projects. Please see Section 6.1 "Participating in the Charitable Activities" in "2016 Environmental, Social and Governance Report of 3SBio Inc."

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2016, 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 the Group's property, plant 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 2016, there were no material breaches of national and local environmental laws and regulations of the PRC.

RELATIONSHIP WITH STAKEHOLDERS

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

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

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with laws and regulatory requirements. The Group has been allocating corporate and staff resources to ensure ongoing compliance with rules and regulations, including retaining external counsels and advisors. During the year ended 31 December 2016, 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 2016, there were no material breaches of the Group's internal rules or PRC laws and regulations relating to the promotion and distribution of the Group's pharmaceutical products by its employees, distributors, sub-distributors or third-party promoters.

PERMITTED INDEMINTY PROVISION

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

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

POST BALANCE SHEET EVENTS

The Group has no material post balance sheet events.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") had, 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 2016. 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 50 to 64 of this annual report.

CLOSURE OF REGISTER OF SHAREHOLDERS

The register of shareholders of the Company will be closed from 23 June 2017 to 28 June 2017, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 22 June 2017.

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 2016 and as of the date of this annual report.

AUDITOR

Ernst & Young was appointed as the Auditor for the year ended 31 December 2016.

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
LOU Jing
Chairman

Hong Kong, 17 March 2017

Corporate Governance Report

The Board is pleased to present the corporate governance report of the Company for the year ended 31 December 2016.

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 and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 of the Listing Rules as its own code of corporate governance.

Save as disclosed in this annual report, the Company has complied with all applicable code provisions under the CG Code throughout the year ended 31 December 2016. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

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

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

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

Board Composition

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

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

Non-executive Directors:
Mr. LIU Dong
Mr. LV Dong

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

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

During the year ended 31 December 2016 and up to the date of this annual report, the Board has at all times met the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

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

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

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

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

Induction and Continuous Professional Development

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

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

A summary of training received by the Directors throughout the year ended 31 December 2016 is as follows:

Name of Directors	Nature of Continuous Professional Development Programmes
Executive Directors	
Mr. LOU Jing	A and B
Mr. TAN Bo	B
Ms. SU Dongmei	B
Mr. HUANG Bin	B
Non-Executive Directors	
Mr. LIU Dong	B
Mr. LV Dong	B
Independent Non-Executive Directors	
Mr. PU Tianruo	B
Mr. David Ross PARKINSON	B
Mr. MA Jun	B

Notes:

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

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

Chairman and Chief Executive Officer

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

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

Appointment and Re-election of Directors

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

Each of the non-executive Directors had entered into an appointment letter with the Company for the term commencing from the date of his appointment letter (being 25 April 2016) to the date of the second annual general meeting of the Company since the date of the appointment letter, subject to re-election and retirement as and when required by the Articles of Association.

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

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

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

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

Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days have been given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

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 2016, 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 meetings
Executive Directors		
Mr. LOU Jing	4/4	2/2
Mr. TAN Bo	4/4	2/2
Ms. SU Dongmei	4/4	2/2
Mr. HUANG Bin	4/4	2/2
Non-Executive Directors		
Mr. LIU Dong	4/4	2/2
Mr. LV Dong	4/4	2/2
Independent Non-Executive Directors		
Mr. PU Tianruo	4/4	2/2
Mr. David Ross PARKINSON	4/4	2/2
Mr. MA Jun	4/4	2/2

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she had complied with the Model Code during the year ended 31 December 2016.

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) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

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

Long Term Corporate Performance and Strategy

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

BOARD COMMITTEES

Audit Committee

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

The principal duties of the Audit Committee include the following:

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

2. to review the financial statements and reports and consider 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. to review 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 2016, three meetings of the Audit Committee were held to discuss and consider the following matters:

- reviewed final results of the Company and its subsidiaries for the fiscal year as well as the audit report prepared by the Auditor relating to accounting issues and major findings in course of audit;

- reviewed interim results of the Company and its subsidiaries for the six-month period ended 30 June 2016; and

- reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function) and risk management systems and processes, and the re-appointment of the Auditor, with respect to which the Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of the Auditor.

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

Directors	Attended/Eligible to attend
Mr. PU Tianruo *(Chairman)*	3/3
Mr. LV Dong	3/3
Mr. MA Jun	3/3

Nomination Committee

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

The principal duties of the Nomination Committee include the following:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to develop the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship

3. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

4. to assess the independence of independent non-executive Directors;

5. to make 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. to develop a policy concerning diversity of Board members, and shall disclose the policy or a summary of the policy in the corporate governance report.

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

During the year ended 31 December 2016, one meeting of the Nomination Committee was held. All three members of the Nomination Committee attended the meeting.

Remuneration Committee

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

The principal duties of the Remuneration Committee include the following:

1. to make 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. to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board;

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

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

5. to consider 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. to ensure that no Director or any of his/her associates is involved in deciding his or her own remuneration; and

7. to review and approve 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 to assess 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 2016, one meeting of the Remuneration Committee was held. All three members of the Committee attended the meeting.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 25 to 32 of this annual report, for the year ended 31 December 2016 are set out below:

Remuneration band	Number of individuals
Nil to RMB1,000,000	9
RMB1,000,001 to RMB1,500,000	5
RMB1,500,001 to RMB2,000,000	1
RMB2,500,001 to RMB3,000,000	1
Above RMB3,000,000	2

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 2016 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 page 65 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

Any internal control defects identified by the internal audit department will be communicated to the department in question with advice for correction and remediation. Before the end of year, the status will be reviewed. The compliance department will also assist in the correction and remediation. Any unresolved control defects at the end of the year will be informed to the management. For the year ended 31 December 2016, 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 2016, the audit committee conducted a review of the effectiveness of the risk management and internal control systems of the Group, including the abovementioned material controls. The review has covered various aspects of the Group's risk management and internal control systems. In the review, the audit committee reviewed the report from the management and the findings and recommendations from the internal audit department. The review results were reported to the Board. The Board is satisfied that such systems are effective and adequate.

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

AUDITOR'S REMUNERATION

Ernst & Young was appointed as the Auditor for the annual audit and other audit services for the year ended 31 December 2016.

The remuneration for the services provided by Ernst & Young to the Group for the year ended 31 December 2016 was as follows:

Type of Services	Amount (RMB '000)
Audit services	4,958
Services in relation to major acquisitions	1,997
Non-audit services	
— Review services	1,990
— Tax services	98
— Others	87
Total	9,130

JOINT COMPANY SECRETARIES

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

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

For the year ended 31 December 2016, Ms. LIU and Ms. LAI have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

SHAREHOLDERS' RIGHTS

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

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

Convening of extraordinary general meeting and putting forward proposals

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

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

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

Enquiries to the Board

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

There was no change in the Memorandum and Articles of Association of the Company for the year ended 31 December 2016.

Independent Auditors' Report

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To the shareholders of 3SBio Inc.

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

Opinion

We have audited the consolidated financial statements of 3SBio Inc. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 74 to 189, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**") issued by the International Auditing and Assurance Standards Board ("**IAASB**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the 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
Valuation of intangible assets	
As at 31 December 2016, intangible assets mainly comprising patents and technology know-how, and research and development amounting to RMB2,288,500,000. In accordance with IAS 38 *Intangible Assets*, an entity can only recognise an intangible asset if it is probable that expected future economic benefits that are attributable to the asset will flow to the entity. In recognising an intangible asset, management exercises judgment in assessing the probability of economic benefits expected to flow to the Group, the expected pattern of consumption of the economic benefits and assumptions in relation to the use of the intangible asset or with other assets of the respective cash-generating unit. In addition, management takes into account the forecasted revenue growth, profit margins and discount rate which are affected by the expected future markets or economic conditions, particularly those in Mainland China and the United States of America. Furthermore, management is required to review the amortisation period and method for those intangible assets with a finite useful life and perform an impairment assessment on those intangible assets with an indefinite useful life. The Group's disclosures on intangible assets are included in note 17 to the financial statements.	Our audit procedures included, among others, a review of the assumptions applied by management in assessing the forecasted revenue growth and profit margins, the expected useful lives of the intangible assets, the probability of expected future economic benefits attributable to the assets and the capitalisation policy adopted by the Group in respect of the the research and development costs. When evaluating the appropriateness of the useful lives, we have considered factors such as the expected usage of the assets by the Group, the typical product life cycle of the assets, the period of control over the assets and legal or similar limits on the use of the assets. We evaluated the assumptions and methodologies used by the Group for the impairment assessment of those intangible assets with an indefinite useful life. We also reviewed the Group's disclosures of the assumptions applied in assessing the impairment of those intangible assets.

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 2016, the carrying amount of goodwill amounted to RMB4,126,180,000. In accordance with IAS 36 Impairment of Assets, the Group is required to test goodwill for impairment annually. Management performed the impairment assessment using a value in use calculation based on the discounted cash flow method. This assessment is complex and judgemental and is based on assumptions, such as forecasted revenue growth, profit margins and the discount rate, which are affected by expected future market or economic conditions, particularly in Mainland China. The Group's disclosures of goodwill are included in Note 16 to the financial statements.	Our audit procedures included, among others, a review of the assumptions applied by management in assessing the forecasted revenue growth and profit margins. We evaluated the assumptions and methodologies used by the Group. We also reviewed the Group's disclosures of those assumptions to which the outcome of the impairment test is most sensitive and which have the most significant effect on the determination of the recoverable amount of goodwill.

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
Step acquisition for an investment in a subsidiary	
During 2016, the Group further acquired equity interests in Sunshine Guojian Pharmaceutical (Shanghai) Company Limited ("**Guojian**"). Upon the completion of the acquisition, the Group held approximately 96.22% of equity interests in Guojian. The Group had accounted for the step acquisition as a business combination achieved in stages. The determination of fair value of the identifiable net assets and liabilities of Guojian required management judgement. In addition, management judgement was required to determine when and whether the Group had acquired the controlling interests in Guojian, which was changed from an associate to a subsidiary. The Group's disclosures on the acquisition of Guojian are included in note 36 to the consolidated financial statements.	Our audit procedures included, among others, a review of the documents used by management in assessing the acquisition date, the assumptions applied by management in assessing the forecasted revenue growth and profit margins. We evaluated the assumptions and methodologies used by the Group. We also reviewed the Group's disclosures of the acquisition of Guojian.

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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, related safeguards.

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
17 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**2,797,289**	1,673,126
Cost of sales	6	**(402,268)**	(241,911)
Gross profit		**2,395,021**	1,431,215
Other income and gains	5	**215,594**	208,618
Selling and distribution expenses		**(1,017,196)**	(585,585)
Administrative expenses		**(301,236)**	(301,044)
Other expenses	6	**(282,223)**	(142,651)
Finance costs	7	**(147,710)**	(26,545)
Share of profits and losses of associates	19	**(12,182)**	3,848
PROFIT BEFORE TAX		**850,068**	587,856
Income tax expense	11	**(135,814)**	(61,626)
PROFIT FOR THE YEAR		**714,254**	526,230
Attributable to:			
Owners of the parent		**712,564**	526,280
Non-controlling interests		**1,690**	(50)
		714,254	526,230
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic (RMB)	13	**0.28**	0.23
— Diluted (RMB)	13	**0.28**	0.23

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	714,254	526,230
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value, net of tax	19,858	(4,829)
Reclassification adjustments for gains included in the consolidated statement of profit or loss — gain on disposal, net of tax	(21,504)	—
Exchange differences:		
Exchange differences on translation of foreign operations	192,597	134,898
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	190,951	130,069
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	190,951	130,069
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	905,205	656,299
Attributable to:		
Owners of the parent	903,515	656,349
Non-controlling interests	1,690	(50)
	905,205	656,299

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,762,813**	450,254
Prepaid land lease payments	15	**298,632**	91,908
Goodwill	16	**4,126,180**	560,883
Other intangible assets	17	**2,288,500**	497,753
Investment in a joint venture	18	**134**	130
Investments in associates	19	**85,575**	1,729,219
Available-for-sale investments	20	**50,000**	—
Long-term receivables	21	**79,517**	—
Advance payments for property, plant and equipment		**37,971**	13,326
Advance payments for acquisitions		**—**	505,883
Deferred tax assets	22	**65,794**	15,411
Other non-current assets	23	**2,955**	2,698
Total non-current assets		**8,798,071**	3,867,465
CURRENT ASSETS			
Inventories	24	**262,438**	134,391
Trade and notes receivables	25	**785,543**	549,596
Prepaid expenses and other receivables	26	**140,981**	147,025
Available-for-sale investments	20	**362,172**	81,585
Derivative financial instrument		**2,613**	—
Cash and cash equivalents	27	**677,598**	1,299,398
Deposits	27	**—**	519,488
Pledged deposits	27	**9,386**	31,484
Total current assets		**2,240,731**	2,762,967
CURRENT LIABILITIES			
Trade payables	28	**58,792**	34,444
Other payables and accruals	29	**502,070**	309,992
Deferred income	30	**25,020**	12,959
Interest-bearing bank borrowings	31	**518,461**	405,000
Tax payable		**39,276**	10,215
Total current liabilities		**1,143,619**	772,610
NET CURRENT ASSETS		**1,097,112**	1,990,357
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,895,183**	5,857,822

Consolidated Statement of Financial Position (continued)

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,895,183**	5,857,822
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	31	**2,540,682**	—
Deferred income	30	**269,980**	122,567
Deferred tax liabilities	22	**294,396**	81,790
Other liabilities		**23,783**	18,000
Total non-current liabilities		**3,128,841**	222,357
Net assets		**6,766,342**	5,635,465
EQUITY			
Equity attributable to owners of the parent			
Share capital	33	**155**	154
Share premium	33	**4,367,719**	4,355,287
Other reserves		**2,154,625**	1,268,849
		6,522,499	5,624,290
Non-controlling interests		**243,843**	11,175
Total equity		**6,766,342**	5,635,465

Jing Lou
Director

Bo Tan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent									
	Share capital RMB'000 (note 33)	Share premium RMB'000 (note 33)	Contributed surplus* RMB'000 (note 34)	Statutory surplus reserves* RMB'000 (note 35)	Retained earnings* RMB'000	Available-for-sale investments revaluation reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	–	366,448	150,575	85,425	492,061	6,532	(168,674)	932,367	11,225	943,592
Profit for the year	–	–	–	–	526,280	–	–	526,280	(50)	526,230
Other comprehensive income for the year:										
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	(4,829)	–	(4,829)	–	(4,829)
Exchange differences related to foreign operations	–	–	–	–	–	–	134,898	134,898	–	134,898
Total comprehensive income for the year	–	–	–	–	526,280	(4,829)	134,898	656,349	(50)	656,299
Transfer to statutory reserves	–	–	–	39,953	(39,953)	–	–	–	–	–
Equity-settled warrants (note 34)	–	–	46,581	–	–	–	–	46,581	–	46,581
Transfer from share premium account to share capital (note 12)	119	(119)	–	–	–	–	–	–	–	–
Issue of shares	35	4,132,853	–	–	–	–	–	4,132,888	–	4,132,888
Share issue expenses	–	(143,895)	–	–	–	–	–	(143,895)	–	(143,895)
At 31 December 2015	154	4,355,287	197,156	125,378	978,388	1,703	(33,776)	5,624,290	11,175	5,635,465
At 1 January 2016	154	4,355,287	197,156	125,378	978,388	1,703	(33,776)	5,624,290	11,175	5,635,465
Profit for the year	–	–	–	–	712,564	–	–	712,564	1,690	714,254
Other comprehensive income for the year:										
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	(1,646)	–	(1,646)	–	(1,646)
Exchange differences related to foreign operations	–	–	–	–	–	–	192,597	192,597	–	192,597
Total comprehensive income for the year	–	–	–	–	712,564	(1,646)	192,597	903,515	1,690	905,205
Transfer to statutory reserves	–	–	–	81,469	(81,469)	–	–	–	–	–
Equity-settled warrants (note 34)	–	–	(5,307)	–	–	–	–	(5,307)	–	(5,307)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	230,978	230,978
Shares issued upon exercise of warrants	1	12,432	(12,432)	–	–	–	–	1	–	1
At 31 December 2016	155	4,367,719	179,417	206,847	1,609,483	57	158,821	6,522,499	243,843	6,766,342

* These reserve accounts comprised the consolidated other reserves of approximately RMB2,154,625,000 (2015: RMB1,268,849,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**850,068**	587,856
Adjustments for:			
Share of profits and losses of associates	19	**12,182**	(3,848)
Fair value gain on available-for-sale investments upon reclassification to investments in associates	5,19	**—**	(102,818)
Fair value gain on revaluation of investments in associates	5	**(6,117)**	—
Fair value loss on derivative financial instruments	6	**2,935**	—
Gain on deemed disposal of investments in associates	5,19	**(66,871)**	(13,093)
Bank interest income	5	**(23,957)**	(33,525)
Finance costs	7	**147,710**	26,545
Foreign exchange losses	5,6	**23,091**	23,022
Charge of/(reversal of) share-based compensation costs	34	**(5,307)**	46,581
Depreciation	14	**102,338**	49,863
Amortisation of other intangible assets		**58,662**	27,500
Recognition of prepaid land lease payments	15	**6,503**	2,466
Amortisation of long-term deferred expenditures	6	**3,059**	367
Recognition of deferred income	30	**(35,247)**	(8,917)
Reversal of provision for impairment of trade receivables	25	**(3,022)**	(437)
Reversal of impairment of other receivables	26	**(869)**	—
Provision/(reversal of provision) for impairment of inventories	24	**692**	(1,730)
Loss on disposal of items of property, plant and equipment	6	**1,273**	2,019
Gain on disposal of a subsidiary	5	**—**	(21,811)
Impairment of investments in associates	6	**1,355**	—
Distribution received from an associate	5	**(2,192)**	—
Gain on disposal of available-for-sale investments	5	**(21,504)**	—
Payment for service fees in relation to acquisition of subsidiaries		**78,275**	1,367
		1,123,057	581,407
Decrease in inventories		**15,460**	1,367
Decrease in pledged deposits		**824**	305
Increase in trade and notes receivables		**(125,715)**	(121,691)
Increase in prepaid expenses and other receivables		**(48,221)**	(86,823)
Decrease in long-term receivables		**—**	324
Increase in trade payables		**11,152**	3,029
Increase in other payables and accruals		**150,011**	144,258
Cash generated from operations		**1,126,568**	520,809
Income tax paid		**(122,244)**	(65,535)
Net cash flows from operating activities		**1,004,324**	455,274

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		19,485	33,369
Purchases of items of property, plant and equipment		(116,439)	(61,040)
Purchase of available-for-sale investments		(806,752)	(49,738)
Proceeds from disposal of available-for-sale investments		574,093	70,000
Purchase of a derivative financial instrument		(5,362)	—
Purchase of a related party's convertible loan	21	(75,000)	—
Purchase of deposits	27	—	(519,488)
Proceeds from disposal of deposits	27	519,488	—
Distribution received from an associate	5	2,192	—
Payment for service fees in relation to acquisition of subsidiaries		(78,275)	—
Loans to related parties		(30,000)	(3,500)
Repayment of loans by related parties		3,500	—
Acquisition of subsidiaries	36	(4,138,200)	(835,014)
Disposal of a subsidiary	37	100,000	21,754
Payment for investments in associates		(1,385)	(1,363,676)
Prepayment for acquisitions		—	(505,883)
Addition to other intangible assets		(349,596)	(36,483)
Proceeds from disposal of items of property, plant and equipment		1,242	1,456
Net cash flows used in investing activities		(4,381,009)	(3,248,243)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		—	4,132,888
Payment of listing fees		—	(179,011)
Decrease in pledged deposits for bank borrowings		24,448	222,769
Proceeds from bank borrowings		3,985,116	752,362
Loan from an associate		300,000	—
Repayments of bank borrowings		(1,467,552)	(1,034,791)
Interest paid		(131,805)	(25,919)
Net cash flows from financing activities		2,710,207	3,868,298
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(666,478)	1,075,329
Cash and cash equivalents at beginning of the year		1,299,398	107,612
Effect of foreign exchange rate changes on cash, net		44,678	116,457
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		677,598	1,299,398
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	674,380	1,298,372
Restricted cash	27	3,218	1,026
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		677,598	1,299,398

Notes to Financial Statements

31 December 2016

1. Corporate and group information

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

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

Information about subsidiaries

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

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Collected Mind Limited ("CM") (集思有限公司)	British Virgin Islands* 3 May 2006	USD1	100%	—	Investment holding
Hongkong Sansheng Medical Limited ("Hongkong Sansheng") (香港三生醫藥有限公司)	Hong Kong* 3 November 2009	HKD2	—	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	RMB2,185,000,000	—	100%	Manufacture and sale of biopharmaceutical drugs and research and development
Liaoning Sunshine Bio-Pharmaceutical Company Ltd. ("Liaoning Sunshine") (遼寧三生醫藥有限公司)	PRC/Mainland China* 1 February 2000	RMB15,000,000	—	100%	Distribution and sale of pharmaceutical drugs

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Taizhou Huan Sheng Investment Management Company Co., Ltd. (泰州環晟投資管理有限公司)	PRC/Mainland China* 29 December 2010	RMB1,000,000	—	100%	Project management and consultation
Taizhou Huan Sheng Healthcare Industry Investment Centre LLP ("Taizhou Centre") (泰州環晟健康產業投資中心)	PRC/ Mainland China* 30 May 2011	RMB250,000,000	—	80%	Investment holding
Excel Partner Holdings Limited ("Excel Partner") (特隆控股有限公司)	Hong Kong* 8 July 2010	HKD1	—	100%	Investment holding
Sirton Pharmaceuticals S.p.A. ("Sirton")	Italy 22 November 2010	Euro300,000	—	100%	Manufacture and sale of pharmaceutical drugs and research and development
Ample Harvest Investments Limited ("Ample Harvest") (溢豐投資有限公司)	British Virgin Islands* 2 January 2003	USD10	—	100%	Investment holding

1. Corporate and group information (continued)

Information about subsidiaries (continued)

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

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Full Gain Limited ("Full Gain") (富健藥業有限公司)	Hong Kong* 6 October 2014	HKD1	–	100%	Investment holding
Shanghai Aoxi Technology Information Consulting Co., Ltd. ("Shanghai Aoxi") (上海澳曦科技信息諮詢有限公司)	PRC/Mainland China* 18 December 2014	RMB29,100,000	–	100%	Project management and consultation
Shanghai Xingsheng Pharmaceutical Company Limited ("Xing Sheng") (上海興生藥業有限公司)	PRC/Mainland China* 23 December 1998	RMB410,000,000	–	96.25%	Investment holding
Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. ("Guojian") (三生國健藥業(上海)股份有限公司)	PRC/Mainland China 25 January 2002	RMB510,223,050	–	96.22%	Manufacture and sale of biopharmaceutical drugs and research and development
National Engineering Research Center of Antibody Medicine ("NERC") (上海抗體藥物國家工程研究中心有限公司)	PRC/Mainland China 15 January 2009	RMB260,000,000	–	61.54%	Manufacture and sale of biopharmaceutical drugs and research and development

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	HKD1,000,000	—	100%	Distribution and sale of pharmaceutical drugs
Sunshine CP Guojian (Suzhou) Co., Ltd. ("Guojian Suzhou") (三生國健藥業(蘇州)有限公司)	PRC/Mainland China* 25 November 2013	RMB150,000,000	—	100%	Manufacture and sale of biopharmaceutical drugs and research and development
Shanghai Shengguo Pharmaceutical Development Co., Ltd. ("Shanghai Shengguo") (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

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

1. Corporate and group information (continued)

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

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

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). They have been prepared under the historical cost convention, except for available-for-sale investments and certain financial assets which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. 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).

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

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.

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

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

2.2 Changes in accounting polices and disclosures

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

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs

Other than as explained below regarding the impact of amendments to IAS 1, IAS 16 and IAS 38, and certain amendments included in the *Annual Improvements to IFRSs 2012–2014 Cycle*, the adoption of the above new and revised standards has had no significant financial effect on the Group's financial statements.

(a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

2.2 Changes in accounting polices and disclosures (continued)

(b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to IFRSs 2012–2014 Cycle* issued in October 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 Issued but not yet effective international financial reporting standards

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

Amendments to IFRS 2	*Classification and Measurement of the Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Annual Improvements 2014–2016 Cycle	Amendments to a number of IFRSs[5]

1 Effective for annual periods beginning on or after 1 January 2017

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

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

4 No mandatory effective date yet determined but available for adoption

5 Annual Improvements 2014–2016 Cycle has amendments to three standards. Amendments to IFRS 12 will be effective for annual periods beginning on or after 1 January 2017. Amendments to IFRS 1 and Amendments to IAS 28 will be effective for annual periods beginning on or after 1 January 2018.

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

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

The IASB issued amendments to IFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2015, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

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

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

(b) Impairment

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

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in January 2016 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 application now.

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

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

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

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

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 Summary of significant accounting policies

Investments in associates and joint ventures

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

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

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

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

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

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.

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

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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.

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

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

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

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill 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);

2.4 Summary of significant accounting policies (continued)

Related parties (continued)

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

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

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

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill)

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill) (continued)

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.

Leases

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

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

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

2.4 Summary of significant accounting policies (continued)

Leases (continued)

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Loans and receivables

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

Available-for-sale financial investments

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

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

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

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

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

Derecognition of financial assets

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

2.4 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Loans and borrowings

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

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

Financial guarantee contracts

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

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)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

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

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

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

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

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

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

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

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

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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Revenue recognition

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

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

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

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

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

Contracts for services

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

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

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

2.4 Summary of significant accounting policies (continued)

Share-based payments

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

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

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Share-based payments (continued)

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

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

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

Other employee benefits

Defined benefit plan

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

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

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

- the date of the plan amendment or curtailment; and

- the date that the Group recognises restructuring-related costs

2.4 Summary of significant accounting policies (continued)

Other employee benefits (continued)

Defined benefit plan (continued)

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

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

Pension scheme

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

Termination benefits

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

Borrowing costs

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

2.4 Summary of significant accounting policies (continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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 Renminbi. 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.

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

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

2.4 Summary of significant accounting policies (continued)

Foreign currencies (continued)

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 Renminbi 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 Renminbi at the weighted average exchange rates for the year.

3. Significant accounting judgements and estimates

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

Judgements

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

Tax provisions

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

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was approximately RMB4,126,180,000 (2015: RMB560,883,000). Further details are given in note 16 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

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

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value of financial instruments

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

Impairment of available-for-sale investments

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

Impairment of trade and other receivables

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

Estimation of inventory provision

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

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Share-based payments

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

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

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

Fair value of investments in unlisted equity instruments

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

4. Operating segment information

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

Geographical information

(a) Revenue from external customers

	2016	2015
	RMB'000	RMB'000
Mainland China	**2,684,323**	1,582,588
Others	**112,966**	90,538
	2,797,289	1,673,126

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

(b) Non-current assets

	2016	2015
	RMB'000	RMB'000
Mainland China	**6,543,900**	3,637,066
Others	**2,058,260**	214,388
	8,602,160	3,851,454

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

Revenue of approximately RMB269,177,000 (2015: RMB172,907,000) for the year ended 31 December 2016 was derived from Shanghai Siful Medicine Co., Ltd., which individually accounted for 9.6% (2015: 10.3%) of the Group's revenue.

5. Revenue, other income and gains

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

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

	2016 RMB'000	2015 RMB'000
Revenue		
Sale of goods	2,810,622	1,683,018
Less: Business tax and government surcharges	(13,333)	(9,892)
	2,797,289	1,673,126
Other income		
Government grants related to		
— Assets (a)	18,897	6,046
— Income (b)	53,052	9,889
Bank interest income	23,957	33,525
Licensing income	13,285	3,114
Patents and technology know-how transfer income	—	11,491
Service income	6,233	670
Distribution received from an associate	2,192	—
Others	3,486	6,161
	121,102	70,896
Gains		
Gain on deemed disposal of investments in associates	66,871	13,093
Gain on disposal of available-for-sale investments	21,504	—
Fair value gain on revaluation of investments in associates	6,117	—
Fair value gain on available-for-sale investments upon reclassification to investments in associates	—	102,818
Gain on disposal of a subsidiary	—	21,811
	94,492	137,722
	215,594	208,618

5. Revenue, other income and gains (continued)

Notes:

(a) The Group has received certain government grants to purchase items of property, plant and equipment. The grants are initially recorded as deferred income and are amortised against the depreciation charge of the underlying property, plant and equipment in accordance with the assets' estimated useful lives (note 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	2016 RMB'000	2015 RMB'000
Cost of inventories sold		402,268	241,911
Depreciation of items of property, plant and equipment	14	102,338	49,863
Amortisation of other intangible assets		58,662	27,500
Recognition of prepaid land lease payments	15	6,503	2,466
Amortisation of long-term deferred expenditures		3,059	367
Operating lease expenses		9,586	6,744
Auditor's remuneration		9,130	7,211
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
Wages, salaries and staff welfare		439,712	236,986
Equity-settled compensation expenses		(5,307)	46,581
Pension scheme contributions		40,017	15,082
Social welfare and other costs		53,831	28,701
		528,253	327,350
Other expenses and losses:			
Research and development costs		243,006	111,324
Provision for impairment of investments in associates	19	1,355	—
Loss on disposal of items of property, plant and equipment		1,273	2,019
Reversal of provision for impairment of trade receivables	25	(3,022)	(437)
Reversal of provision for impairment of other receivables	26	(869)	—
Foreign exchange differences		23,091	23,022
Fair value loss on derivative financial instruments		2,935	—
Others		14,454	6,723
		282,223	142,651

7. Finance costs

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interests on bank borrowings	147,710	26,545

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:

	2016 RMB'000	2015 RMB'000
Fees	7,645	3,232
Other emoluments:		
Salaries, allowances, bonuses and other benefits	2,098	1,865
Pension scheme contributions	582	557
	10,325	5,654

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:

	Fees RMB'000	Total remuneration RMB'000
2016		
Mr. David Ross Parkinson	**257**	**257**
Mr. Jun Ma	**257**	**257**
Mr. Tianruo Pu	**257**	**257**
	771	**771**

	Fees RMB'000	Total remuneration RMB'000
2015		
Mr. David Ross Parkinson*	140	140
Mr. Jun Ma*	140	140
Mr. Tianruo Pu*	140	140
	420	420

* The three independent non-executive directors were appointed on 23 May 2015.

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil.).

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

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

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

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

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

	Fees RMB'000	Salaries, allowances, bonuses and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2015				
Executive directors				
Mr. Bo Tan	897	460	159	1,516
Mr. Bin Huang	649	476	82	1,207
Dr. Dongmei Su	487	497	82	1,066
Non-executive directors				
Mr. Dong Liu	—	—	—	—
Mr. Dong Lv	—	—	—	—
Chief executive				
Dr. Jing Lou*	779	432	234	1,445
	2,812	1,865	557	5,234

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

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

9. Five highest paid employees

The five highest paid employees during the year included one director and the chief executive (2015: three directors and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2015: one) highest paid employees who are neither directors nor chief executives of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances, bonuses and other benefits	6,251	1,744
Pension scheme contributions	240	83
	6,491	1,827

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	
	2016	2015
Nil to HKD1,000,000	—	—
HKD1,000,001 to HKD1,500,000	—	—
HKD1,500,001 to HKD2,000,000	1	—
HKD2,000,001 to HKD2,500,000	—	1
HKD2,500,001 to HKD3,000,000	1	—
HKD3,000,001 to HKD3,500,000	1	—
	3	1

10. Pension schemes

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

The Group's contributions to the retirement benefit scheme for the year ended 31 December 2016 amounted to approximately RMB40,599,000 (2015: RMB15,639,000).

11. Income tax

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

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

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

Under the relevant PRC income tax law, except for Shenyang Sunshine, Sciprogen, Zhejiang Wansheng and 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 and 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 31.4%.

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

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

	2016	2015
	RMB'000	RMB'000
Current	**145,674**	69,480
Deferred (note 22)	**(9,860)**	(7,854)
Total tax charge for the year	**135,814**	61,626

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:

	2016 RMB'000	2015 RMB'000
Profit before tax	**850,068**	587,856
At the PRC's statutory income tax rate of 25%	**212,517**	146,964
Preferential income tax rates applicable to subsidiaries	**(92,611)**	(42,060)
Additional deductible allowance for research and development expenses	**(28,446)**	(12,446)
Income not subject to tax	**(31,473)**	(43,504)
Effect of non-deductible expenses	**57,746**	20,521
Reversal of provision for withholding tax	**—**	(3,676)
Tax losses utilised from previous periods	**(29)**	(6,144)
Tax losses not recognised	**18,100**	1,284
Others	**10**	687
Tax charge at the Group's effective rate	**135,814**	61,626

The effective tax rate of the Group for the year ended 31 December 2016 was 16.0% (2015: 10.5%).

12. Dividends

	2016 RMB'000	2015 RMB'000
Proposed and declared dividend	**—**	119

No dividends were declared or paid by the Company during the year ended 31 December 2016.

Pursuant to the Board's resolutions dated 6 February 2015, the Company proposed 2015 share dividends with the aggregate amount of approximately United States Dollar ("**USD**") 19,000, which was approved by Decade Sunshine Limited ("**Decade Sunshine**"), the then sole shareholder of the Company on the same date.

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 2,524,049,681 (2015: 2,255,271,762) 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, the weighted average number of ordinary shares used in the calculation of the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have issued at the exercise price on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	2016 **RMB'000**	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**712,564**	526,280

	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year	**2,524,049,681**	2,255,271,762
Effect of dilution-weighted average number of ordinary shares:		
Warrants	**39,440,661**	43,462,623
	2,563,490,342	2,298,734,385

14. Property, plant and equipment

2016

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

A freehold land with a carrying amount of approximately RMB3,721,000 as at 31 December 2016 (2015: RMB3,613,000) is situated in Italy.

The Group is in the process of applying for the title certificates of certain of its buildings with an aggregate book value of approximately RMB8,738,000 as at 31 December 2016 (2015: RMB8,679,000). The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter does not have any significant impact on the Group's financial position as at 31 December 2016.

Certain of the Group's property, plant and equipment with a net book value of RMB39,552,000 as at 31 December 2016 (2015: RMB49,538,000) have been pledged as security for the Group's interest-bearing bank borrowings (note 31).

14. Property, plant and equipment (continued)

2015

	Land and buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2015:						
Cost	251,453	200,831	56,053	6,831	12,849	528,017
Accumulated depreciation	(49,498)	(68,023)	(32,116)	(4,390)	—	(154,027)
Net carrying amount	201,955	132,808	23,937	2,441	12,849	373,990
At 1 January 2015, net of accumulated depreciation	201,955	132,808	23,937	2,441	12,849	373,990
Additions	1,378	10,381	5,338	106	26,417	43,620
Acquisition of a subsidiary (note 36)	112,800	19,314	3,388	803	1,508	137,813
Disposals	(1,224)	(1,914)	(201)	(136)	—	(3,475)
Disposal of a subsidiary (note 37)	(39,787)	(4,927)	(986)	(147)	(3,968)	(49,815)
Depreciation provided during the year	(17,358)	(25,085)	(6,649)	(771)	—	(49,863)
Transfers	—	3,237	279	—	(3,516)	—
Exchange realignment	(988)	(1,004)	(21)	(3)	—	(2,016)
At 31 December 2015, net of accumulated depreciation	256,776	132,810	25,085	2,293	33,290	450,254
At 31 December 2015:						
Cost	342,678	222,327	65,344	8,333	33,290	671,972
Accumulated depreciation	(85,902)	(89,517)	(40,259)	(6,040)	—	(221,718)
Net carrying amount	256,776	132,810	25,085	2,293	33,290	450,254

15. Prepaid land lease payments

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**94,382**	88,670
Disposal of a subsidiary (note 37)	**—**	(10,022)
Acquisition of subsidiaries (note 36)	**218,600**	18,200
Recognised during the year	**(6,503)**	(2,466)
Carrying amount at 31 December	**306,479**	94,382
Current portion included in prepaid expenses and other receivables (note 26)	**(7,847)**	(2,474)
Non-current portion	**298,632**	91,908

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

As at 31 December 2016, certain of the Group's prepaid land lease payments with a net book value of approximately RMB6,442,000 (2015: RMB6,775,000) have been pledged as security for the Group's interest-bearing bank borrowings (note 31).

16. Goodwill

	RMB'000
Cost at 1 January 2015	230,597
Acquisition of a subsidiary (note 36)	330,286
Cost and net carrying amount at 31 December 2015	560,883
Cost at 1 January 2016	**560,883**
Acquisition of subsidiaries (note 36)	**3,327,399**
Exchange realignment	**237,898**
Cost and net carrying amount at 31 December 2016	**4,126,180**
At 31 December 2016:	
Cost	**4,126,180**
Accumulated impairment	**—**
Net carrying amount	**4,126,180**

16. Goodwill (continued)

Impairment testing of goodwill

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

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

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

Assumptions were used in the value in use calculation of the group of CGUs as at 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

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

17. Other intangible assets

2016

	Exclusive distribution right RMB'000	IP rights RMB'000	Patents and technology know-how RMB'000	IPR&Ds RMB'000	Others RMB'000	Total RMB'000
Cost at 1 January 2016, net of accumulated amortisation	–	39,510	384,144	35,229	38,870	497,753
Additions	335,490	–	–	12,791	1,316	349,597
Acquisition of subsidiaries (note 36)	–	1,430,641	–	69,775	17,300	1,517,716
Amortisation provided during the year	(3,321)	(53,405)	(21,227)	–	(9,813)	(87,766)
Exchange realignment	11,213	–	–	–	(13)	11,200
At 31 December 2016	343,382	1,416,746	362,917	117,795	47,660	2,288,500
At 31 December 2016						
Cost	352,203	1,714,403	422,897	117,795	65,178	2,672,476
Accumulated amortisation	(8,821)	(297,657)	(59,980)	–	(17,518)	(383,976)
Net carrying amount	343,382	1,416,746	362,917	117,795	47,660	2,288,500

17. Other intangible assets (continued)

2015

	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 2015,						
net of accumulated amortisation	—	4,317	336,884	35,229	29,115	405,545
Additions	—	36,483	—	—	—	36,483
Acquisition of a subsidiary (note 36)	—	—	66,100	—	17,152	83,252
Disposal of a subsidiary (note 37)	—	—	—	—	(13)	(13)
Amortisation provided during the year	—	(1,290)	(18,840)	—	(7,370)	(27,500)
Exchange realignment	—	—	—	—	(14)	(14)
At 31 December 2015	—	39,510	384,144	35,229	38,870	497,753
At 31 December 2015						
Cost	5,500	42,312	422,897	35,229	46,444	552,382
Accumulated amortisation	(5,500)	(2,802)	(38,753)	—	(7,574)	(54,629)
Net carrying amount	—	39,510	384,144	35,229	38,870	497,753

Impairment testing of IPR&Ds

IPR&Ds were either acquired from a third party or capitalised in accordance with the accounting policies for the research and development costs in note 2.4 to the financial statements. The useful life of IPR&Ds are 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 amount of IPR & DS have been determined based on a value in use calculation using cash flow projections which is based on financial forecast approved by the Company's directors. The discount rates applied to the cash flow projections are 26.0%, 18.0% and 19.0%, which is determined by reference to the average rates for in progress research and development projects with similar business risk and after taking into account the risk premium in connection with the related research and development efforts.

17. Other intangible assets (continued)

Impairment testing of IPR&Ds (continued)

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

Assumptions were used in the value in use calculation of IPR&Ds as at 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of IPR&Ds:

Discount rate — The discount rate used is before tax and reflects specific risks in respect of the related research and development efforts.

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

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

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

18. Investment in a joint venture

	2016 **RMB'000**	2015 RMB'000
Unlisted shares, at cost	**130**	130
At 1 January	**130**	103
Additions	**—**	27
Exchange realignment	**4**	—
At 31 December	**134**	130

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

			Percentage of			
Name	**Registered capital**	**Place of registration and business**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
Injenerics Srl. ("Injenerics")	Euro10,000	Italy	50	50	50	Research and development

18. Investment in a joint venture (continued)

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

	2016 RMB'000	2015 RMB'000
Aggregate carrying amount of the Group's investments in the joint venture	134	130

19. Investments in associates

	2016 RMB'000	2015 RMB'000
Share of net assets	86,930	938,118
Goodwill on acquisition	—	791,101
	86,930	1,729,219
Provision for impairment	(1,355)	—
	85,575	1,729,219

19. Investments in associates (continued)

Particulars of the Group's associates are as follows:

Name	Paid-up capital	Place of registration and business	Percentage of ownership interest attributable to the Group %	Principal activities
Ascentage Pharma Group Co., Ltd. (a) (b) ("Ascentage Pharma")	USD2,142	Hong Kong	27.04	Research and development
Ascentage Jiangsu Pharmaceutical Group Co., Ltd. (a) (c) ("Ascentage Jiangsu")	USD10,873,796	PRC/ Mainland China	14.5	Research and development
Ascentage Shanghai Pharmaceutical Co., Ltd. (a) (d) ("Ascentage Shanghai")	RMB5,000,000	PRC/ Mainland China	40	Research and development

Notes:

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

(b) As at 31 December 2011, the share of losses of Ascentage Pharma had exceeded the Group's investment costs in Ascentage Pharma. Therefore, the Group had discontinued the recognition of its share of losses. As at 31 December 2016, the Group had accumulative unrecognised share of losses of Ascentage Pharma of RMB5,285,000 (31 December 2015: RMB6,857,000). For the year ended 31 December 2016, the Group had no unrecognised share of losses of Ascentage Pharma (2015: RMB1,283,000). Pursuant to the sale and purchase agreement dated 8 January 2016. Collected Mind transferred 32.4% of its equity interests in Ascentage Pharma at a cash consideration of HKD2,160 and accordingly the Group's equity holding in Ascentage Pharma had decreased to 27.04%.

(c) Pursuant to a sale and purchase agreement dated 1 December 2015, Hongkong Sansheng acquired approximately 27.041% of equity interests in Ascentage Jiangsu from Ascentage Pharma at a consideration of USD1,676,000. Pursuant to an agreement entered into with other shareholders of Ascentage Jiangsu dated 25 December 2015, the Group's equity interests in Ascentage Jiangsu were diluted to approximately 18.86%. Pursuant to an agreement entered into with other shareholders of Ascentage Jiangsu dated 5 December 2016, the Group's equity interests in Ascentage Jiangsu were further diluted to approximately 14.5%. As at 31 December 2016, the Group retained one seat on the board of directors of Ascentage Jiangsu and can exercise significant influence over Ascentage Jiangsu.

(d) Ascentage Shanghai was dissolved and liquidated with nil distributable assets on 31 January 2016. The Group made a full provision for its interests in Ascentage Shanghai.

19. Investments in associates (continued)

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

	2016 RMB'000	2015 RMB'000
Share of the associates' results:		
Net income/(losses)	**(12,182)**	3,848
Total comprehensive income/(losses)	**(12,182)**	3,848

	2016 RMB'000	2015 RMB'000
Aggregate carrying amounts of the Group's investments in the associates	**85,575**	1,729,219

20. Available-for-sale investments

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

	2016 RMB'000	2015 RMB'000
Current		
Investments in bank financial products (i)	361,517	70,690
Listed equity investments, at fair value (ii)	655	10,895
	362,172	81,585
Non-current		
Unlisted equity investments, at fair value (iii)	50,000	—

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

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

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

21. Long-term receivables

	2016 RMB'000	2015 RMB'000
Long-term receivables	**81,362**	1,845
Provision for impairment of long-term receivables	**(1,845)**	(1,845)
	79,517	—

On 29 March 2016, Shenyang Sunshine lent to Zhejiang Sunshine Pharmaceutical Co., Ltd. ("**Zhejiang Sunshine**"), a related party whose equity interests of approximately 52.1% were owned by one of the controlling shareholders of the Company, a convertible loan with a principal amount of RMB75,000,000 at an annual interest rate of 8%. The convertible loan can be converted into equity interests in Zhejiang Sunshine at the discretion of Shenyang Sunshine. The accrued interest for the year ended 31 December 2016 was RMB4,517,000 (2015: nil).

Included in long-term receivables of RMB1,845,000 are amounts due from third-party customers, which are to be repaid in monthly instalments over 3 to 5 years.

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group does not obtain collateral from customers. Long-term receivables are unsecured and non-interest-bearing.

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

	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	**1,845**	2,119
Disposal of a subsidiary	**—**	(274)
Balance at end of the year	**1,845**	1,845

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

22. Deferred tax

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

	Accruals RMB'000	Impairment of inventories RMB'000	Decelerated depreciation for tax purposes RMB'000	Provision for trade and other receivables RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2015	8,500	310	871	626	1,244	11,551
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 11)	1,366	(259)	(899)	(148)	935	995
Acquisition of a subsidiary (note 36)	—	212	—	1,641	1,012	2,865
Gross deferred tax assets at 31 December 2015	9,866	263	(28)	2,119	3,191	15,411
Gross deferred tax assets at 1 January 2016	**9,866**	**263**	**(28)**	**2,119**	**3,191**	**15,411**
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 11)	**3,885**	**33**	**527**	**(104)**	**(4,743)**	**(402)**
Acquisition of subsidiaries (note 36)	**14,083**	**—**	**—**	**301**	**36,349**	**50,733**
Exchange realignment	**—**	**—**	**—**	**—**	**52**	**52**
Gross deferred tax assets at 31 December 2016	**27,834**	**296**	**499**	**2,316**	**34,849**	**65,794**

22. Deferred tax (continued)

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

	2016 RMB'000	2015 RMB'000
Tax losses arising in Mainland China (a)	**77,697**	5,412
Tax losses arising in Hong Kong and other countries (b)	**65,013**	55,011
Deductible temporary differences	**—**	2,916
	142,710	63,339

Notes:

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

(b) Except the tax losses incurred by Hongkong Sansheng which are available indefinitely for offsetting against its future taxable profits, the tax losses arising in the tax exempted entities in other countries could not be utilised to offset against future profits.

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

22. Deferred tax (continued)

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

	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Withholding taxes on the distributable profits of the Group's subsidiaries in Mainland China RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2015	69,945	3,676	73,621
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	(3,183)	(3,676)	(6,859)
Acquisition of a subsidiary (note 36)	15,028	—	15,028
Gross deferred tax liabilities at 31 December 2015	81,790	—	81,790
Gross deferred tax liabilities at 1 January 2016	**81,790**	**—**	**81,790**
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	**(10,262)**	**—**	**(10,262)**
Acquisition of subsidiaries (note 36)	**222,868**	**—**	**222,868**
Gross deferred tax liabilities at 31 December 2016	**294,396**	**—**	**294,396**

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.

22. Deferred tax (continued)

At 31 December 2016, 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 and joint ventures established in Mainland China (2015: nil). In the opinion of the directors, it is not probable that these subsidiaries and joint ventures will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB2,136,319,000 (2015: RMB985,640,000).

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

23. Other non-current assets

	2016 RMB'000	2015 RMB'000
Other deposits	600	600
Long-term deferred expenditures	2,355	2,098
	2,955	2,698

24. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	50,479	20,859
Work in progress	160,001	77,880
Finished goods	43,199	26,664
Consumables and packaging materials	10,434	9,971
	264,113	135,374
Provision for impairment of inventories	(1,675)	(983)
	262,438	134,391

The amounts of write-down of inventories recognised as an expense were approximately RMB692,000 for the year ended 31 December 2016 (2015: write-back of RMB1,730,000).

25. Trade and notes receivables

	2016 RMB'000	2015 RMB'000
Trade receivables	688,396	425,922
Notes receivable	108,767	138,305
	797,163	564,227
Provision for impairment of trade receivables	(11,620)	(14,631)
	785,543	549,596

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

	2016 RMB'000	2015 RMB'000
Within 1 month	286,241	200,802
1 to 3 months	356,288	188,335
4 to 6 months	20,392	12,127
6 months to 1 year	13,855	9,992
1 to 2 years	4,547	12,483
Over 2 years	7,073	2,183
	688,396	425,922

25. Trade and notes receivables (continued)

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

	2016 RMB'000	2015 RMB'000
Balances at beginning of the year	14,631	4,722
Charge for the year	653	3,332
Reversal	(3,675)	(3,769)
Acquisition of a subsidiary	—	10,939
Disposal of a subsidiary	—	(645)
Exchange realignment	11	52
Balances at end of the year	11,620	14,631

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

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	642,529	389,137
Less than 3 months past due	20,392	12,127
Over 3 months past due	13,855	10,027
	676,776	411,291

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

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

26. Prepaid expenses and other receivables

	2016 RMB'000	2015 RMB'000
Prepaid expenses and other receivables:		
Interest receivables	**114**	159
Prepayments	**14,456**	9,110
Prepaid land lease payments — current portion	**7,847**	2,474
Other deposits and other receivables	**54,468**	19,654
Deductible input VAT	**26,651**	—
Due from related parties — current portion (note 42(b))	**38,586**	115,628
	142,122	147,025
Provision for impairment of other receivables	**(1,141)**	—
	140,981	147,025

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

	2016 RMB'000	2015 RMB'000
Balances at beginning of the year	**—**	5,692
Charge for the year	**(1,141)**	—
Reversal	**2,010**	—
Acquisition of subsidiaries	**(2,010)**	—
Disposal of a subsidiary	**—**	(5,692)
Balances at end of the year	**(1,141)**	—

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

27. Cash and cash equivalents and deposits

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**674,380**	1,298,372
Restricted cash	**3,218**	1,026
Deposits	**9,386**	550,972
	686,984	1,850,370
Less:		
Pledged deposits for letters of credit	**(3,499)**	(1,149)
Pledged deposits for short-term bank borrowings (note 31)	**(5,887)**	(30,335)
Non-pledged time deposits with original maturity of more than three months when acquired	**—**	(519,488)
Cash and cash equivalents	**677,598**	1,299,398

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 2016 are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
Denominated in:		
— RMB	**276,303**	716,420
— Hong Kong Dollar ("**HKD**")	**38,567**	241,522
— USD	**362,863**	882,297
— Euro	**9,249**	10,128
— Great Britain Pound ("**GBP**")	**2**	3
	686,984	1,850,370

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. Pledged deposits of approximately RMB9,386,000 (2015: RMB31,484,000) have been pledged to secure letters of credit and short-term bank borrowings as at 31 December 2016 (note 31).

28. Trade payables

An aged analysis of the trade payables as at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**44,154**	23,262
3 to 6 months	**6,833**	3,442
Over 6 months	**7,805**	7,740
	58,792	34,444

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

29. Other payables and accruals

	2016 RMB'000	2015 RMB'000
Accrued selling and marketing expenses	**144,056**	78,694
Accrued salaries, bonuses and welfare expenses	**141,177**	51,523
Due to related parties (note 42 (b))	**118,946**	113,324
Taxes payable (other than income tax)	**31,245**	19,608
Interest payables	**18,420**	2,515
Receipts in advance from customers	**6,330**	15,557
Payable to vendors of property, plant and equipment	**3,927**	6,084
Payable to vendors of technology know-how	**2,709**	1,709
Payable to advisors for acquisition transactions	**—**	7,082
Others	**35,260**	13,896
	502,070	309,992

Other payables are non-interest-bearing.

30. Deferred income

	2016 RMB'000	2015 RMB'000
At beginning of the year	**135,526**	18,734
Received during the year		
— Government grants (a)	**26,053**	—
Acquisition of subsidiaries (note 36)	**170,878**	134,847
Disposal of a subsidiary (note 37)	**—**	(9,138)
Reclassified to other payables and accruals	**(2,210)**	—
Less: Recognition during the year		
— Government grants (a)	**(35,247)**	(8,247)
— Consultation service (b)	**—**	(670)
	295,000	135,526
Less: Deferred income — current portion		
— Government grants	**(25,020)**	(12,959)
	269,980	122,567

Notes:

(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.

(b) In August 2012, the Group received a consultation service fee of approximately RMB4,822,700 from DaVita China Pte. Ltd. ("**DaVita China**") for consultation services to be provided by the Group over a period of three years. The consultation service income is recognised on the straight-line basis over three years.

31. Interest-bearing bank borrowings

	31 December 2016 RMB'000	31 December 2015 RMB'000
Current		
Short-term bank borrowings, secured	518,461	405,000
Non-current		
Long-term bank borrowings, secured	2,540,682	–
Total	3,059,143	405,000

	31 December 2016 RMB'000	31 December 2015 RMB'000
Interest-bearing bank borrowings denominated in:		
– RMB	1,192,000	405,000
– HKD	1,867,143	–
Total	3,059,143	405,000

	31 December 2016 RMB'000	31 December 2015 RMB'000
Analysed into:		
Bank borrowings:		
Within one year or on demand	518,461	405,000
In the second year	845,709	–
In the third to fifth years, inclusive	1,694,973	–
Total	3,059,143	405,000

Notes:

(a) The bank borrowings bear interest at fixed interest rates ranging from 2.5% to 6.72% per annum and are secured by:

(i) mortgages over the Group's land and buildings situated in Shenyang and Shenzhen, which had an aggregate carrying value of RMB45,994,000 as at 31 December 2016 (2015: RMB56,313,000);

(ii) the pledge of deposits amounting to RMB5,887,000 as at 31 December 2016 (2015: RMB30,335,000);

(iii) the pledge of notes receivable amounting to RMB30,940,000 as at 31 December 2016 (2015: RMB32,854,000); and

(iv) 31.76% of the equity interests in Guojian held by Xing Sheng, 100% of the equity interests in Shenyang Sunshine held by Hongkong Sansheng and 43.42% of the equity interests in Guojian held by Full Gain.

(b) As at 31 December 2016, except for the 2.50% secured bank borrowing which was denominated in HKD, all the bank borrowings were denominated in RMB (2015: all bank borrowings were denominated in RMB).

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

32. Retirement benefit obligations

The Italian subsidiary of the Group operates an unfunded defined benefit plan, namely the Italian staff leaving indemnity (the "**TFR**"). The TFR is classified as a defined benefit pension plan, which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

In 2007, with the Italian labour law reform, it was decided that the TFR accrued each month starting from January 2008 would be paid monthly to a private external fund or social institution, transforming the contribution to the pension plan into a defined contribution plan. It was also decided that the remaining TFR balances by the end of 2007 would be recorded as non-current liabilities to be paid to employees upon retirement. Such TFR balances are subject to actuarial valuation in accordance with IAS 19.

The TFR benefit liability represents the present value of the defined benefit obligations at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligations are calculated annually by an independent actuary using the project unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows. Actuarial gains and losses arising from the changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past service costs are recognised immediately in profit or loss.

The plan is exposed to inflation risk and the risk of changes in the life expectancy of the plan members.

32. Retirement benefit obligations (continued)

The principal actuarial assumptions used at the end of the reporting period are as follows:

	2016	2015
Discount rate (%)	1.2	1.7
Expected rate of future pension cost increases (%)	2.2	3.0

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Increase in rate %	Net decrease in defined benefit obligations RMB'000	Decrease in rate %	Net increase in defined benefit obligations RMB'000
2016				
Discount rate	0.5	231	0.5	251
2015				
Discount rate	0.5	242	0.5	261

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.

32. Retirement benefit obligations (continued)

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2016 RMB'000	2015 RMB'000
Current service cost	—	—
Interest cost	103	69
Net benefit expenses	103	69
Recognised in finance costs	103	69

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

	2016 RMB'000	2015 RMB'000
At 1 January	5,727	6,600
Current service cost	—	—
Interest cost	103	69
Benefit paid	(457)	(473)
Actuarial loss/(gain)	127	(135)
Exchange realignment	172	(334)
At 31 December	5,672	5,727

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 (2015: 15 years).

33. Share capital

Shares

	2016 RMB'000	2015 RMB'000
Issued and fully paid:		
2,532,313,570 (2015: 2,515,313,570) ordinary shares	155	154

	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 2015 and 1 January 2016	2,515,313,570	154	4,355,287	4,355,441
Shares issued upon exercise of warrants	17,000,000	1	12,432	12,433
Ordinary shares of USD0.00001 each at 31 December 2016	2,532,313,570	155	4,367,719	4,367,874

34. Share incentive scheme

Warrants granted by the Company

On 1 January 2015, the Company issued warrants to Shanghai Junling Investment Partnership (Limited Partnership), which is beneficially owned by certain management members of Guojian (the "**Guojian Warrants**"), in which the Group held an approximately 6.96% equity interest. The Guojian Warrants entitle the holders to purchase 1,128.82033 ordinary shares of the Company at an exercise price of USD1.00 for each warrant. Pursuant to the subdivision of the par value of the Company's authorised shares from USD1.00 per share to USD0.00001 per share on 4 February 2015, the number of shares has been changed to 112,882,033 ordinary shares of the Company exercisable by the Guojian Warrants and the exercise price from USD1.00 per share to USD0.00001 per share.

The Guojian Warrants will vest and become exercisable upon meeting certain vesting and non-vesting conditions. If the vesting conditions are not met, the warrants will lapse.

34. Share incentive scheme (continued)

Warrants granted by the Company (continued)

The fair value at grant date is estimated using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the warrants were granted. The contractual life of each option granted is three and a half years. There is no cash settlement of the warrants. The fair value of warrants granted on 1 January 2015 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	—
Expected volatility (%)	37.50
Risk-free interest rate (%)	1.10
Contractual life of share options (years)	3.50
Underlying share price (RMB)	70.50
Exercise price of each warrant (RMB)	0.00006

On the date of grant, the fair values of each of the Guojian Warrants with the probability of meeting the non-vesting conditions of 30% and 50% were RMB19.37 and RMB32.26, respectively.

The Group reversed share-based payment expenses of RMB5,307,000 in the statement of profit or loss during the year (2015: recognised expenses of RMB46,581,000) due to the anticipated failure to meet certain vesting conditions by the warrant holders.

At the end of the reporting period, the Company had warrants exercisable on 39,441,017 ordinary shares outstanding. Under the present capital structure of the Company, the exercise in full of the outstanding warrants would result in the issue of 39,441,017 additional ordinary shares of the Company and additional share capital of RMB3,000 (before issue expenses).

There was no new grant of warrants during the year (2015: newly granted warrants exercisable on 112,882,033 ordinary shares).

Warrants exercisable on 11,288,203 ordinary shares were vested during the year (2015: warrants exercisable on 45,152,812 ordinary shares). Warrants exercisable on 17,000,000 ordinary shares were exercised at an exercise price of USD0.00001 per share during the year, resulting in the issue of 17,000,000 ordinary shares of the Company and new share capital and share premium of RMB1,000 and RMB12,432,000, respectively (before issue expenses), as further detailed in note 33 to the financial statements (2015: nil).

There was no forfeiture or expiry of warrants for the years ended 31 December 2016 and 2015.

The share price at the date of exercise of warrants during the year was HKD7.77 per share (2015: no warrants were exercised).

34. Share incentive scheme (continued)

Share option scheme adopted by the Company

On 26 September 2016, a total of 20,000,000 share options, which entitle the holders to subscribe for one ordinary share of the Company at an exercise price of HKD9.10 for each share option, under post-IPO share option schemes 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.

None of the share options granted to TMF had been designated to any beneficiary and thus the Group did not recognise any share-based payment expenses during the year (2015: nil).

Subsequent to the end of the reporting period, pursuant to the approval by the board of directors of the Company on 2 February 2017, the Company and the Grantee had agreed that the grant of 20,000,000 share options on 26 September 2016 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 20,000,000 of share options, which entitle the holders to subscribe for one ordinary share of the Company at an exercise price of HKD7.30 for each share option, 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.

At the date of approval of the financial statements, the Company had 20,000,000 share options outstanding under the Share Option Scheme, which represented approximately 1.0% of the Company's shares in issue as at that date.

35. Reserves

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

Statutory surplus reserves

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations and their respective articles of association, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the dividend distribution to shareholders.

36. Business combinations

Guojian

As at 31 December 2015, the Group held approximately 28.8% of the equity interests in Guojian. During the year, the Group further acquired equity interests in Guojian through the following transactions. Upon the completion of the acquisitions, the Group held approximately 96.22% of equity interests in Guojian.

Pursuant to the sale and purchase agreement between Shanghai Hongshang, Shanghai Lansheng Corporation ("**Lansheng Corporation**") and Shanghai Lansheng (Group) Corporation ("**Lansheng Group**") dated 26 January 2016, Shanghai Hongshang acquired 34.65% and 3.85% of equity interests in Xing Sheng at cash considerations of approximately RMB890,094,000 and RMB98,899,000 from Lansheng Corporation and Lansheng Group, respectively. Xing Sheng became a subsidiary with 96.25% of its equity interests owned by Shanghai Hongshang and held approximately 41.69% of equity interests in Guojian.

Pursuant to the sale and purchase agreement between Shanghai Hongshang and Lansheng Corporation dated 26 January 2016, Shanghai Hongshang acquired 0.73% of the equity interests in Guojian at a cash consideration of approximately RMB44,326,000.

Pursuant to the sale and purchase agreement between Shenyang Sunshine and Xizang Hongshang Capital Equity Investment Co., Ltd. dated 3 March 2016, Shenyang Sunshine acquired 30% of equity interests in Shanghai Hongshang at a cash consideration of RMB1,217,994,000. Shanghai Hongshang became a wholly-owned subsidiary of Shenyang Sunshine.

36. Business combinations (continued)

Guojian (continued)

Pursuant to the sale and purchase agreement between the Company and CITIC Hong Kong (Holdings) Limited ("**CITIC Holdings**") dated 3 March 2016, the Company acquired (i) the entire equity interests of Gains Prestige, which indirectly holds approximately 43.42% of equity interests in Guojian, from CITIC Holdings, and (ii) the interests of CITIC Holdings in a shareholder's loan of HKD1,085,230,000 owed by Gains Prestige, at an aggregate cash consideration of HKD3,229,501,000 (equivalent to approximately RMB2,713,750,000). In addition, the Company granted options to CITIC Pacific Limited, which entitle the holders to subscribe for up to a total of 125,765,500 ordinary shares of the Company at an exercise price of HKD9.1 per share. The options will vest and become exercisable by the holders upon meeting certain vesting and exercise conditions.

The details of the above transactions are set out in the circular to shareholders of the Company dated 25 April 2016. The acquisitions were considered to be completed by 31 March 2016, when Shanghai Hongshang, Xing Sheng, Gains Prestige and Guojian became subsidiaries of the Group.

36. Business combinations (continued)

The fair values of the aggregated identifiable assets and liabilities of Gains Prestige, Shanghai Hongshang, Xing Sheng and Guojian (collectively,"**Guojian Group**") as at the date of acquisition were as follows:

Guojian Group

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	1,296,355
Prepaid land lease payments	218,600
Other intangible assets	1,517,716
Deferred tax assets	50,733
Other non-current assets	28,398
Inventories	114,938
Trade and notes receivables	106,925
Prepaid expenses and other receivables	313,885
Available-for-sale investments	77,735
Cash and cash equivalents	320,981
Pledged deposits	3,174
Trade payables	(12,994)
Accrued expenses and other payables	(55,606)
Interest-bearing bank borrowings	(8,900)
Tax payable	(5,551)
Deferred income	(170,878)
Deferred tax liabilities	(222,868)
Total identifiable net assets at fair value	3,572,643
Non-controlling interests	(230,978)
Goodwill on acquisition	3,327,399
	6,669,064
Satisfied by cash	4,459,181
Advance payments made as at 31 December 2015	505,883
Fair value of the 28.8% of equity interests in Guojian Group as at the date of acquisition	1,704,000
	6,669,064

36. Business combinations (continued)

Guojian Group (continued)

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'000
Cash consideration paid	**4,459,181**
Less: Cash and cash equivalents acquired	**(320,981)**
Net outflow of cash and cash equivalents included in cash flows used in investing activities	**4,138,200**

Since the acquisition, the contributions of Guojian Group to the Group's consolidated revenue and consolidated profit for the year ended 31 December 2016 amounted to RMB797,101,000 and RMB270,064,000, respectively.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year ended 31 December 2016 would have been RMB2,936,312,000 and RMB687,592,000, respectively.

36. Business combinations (continued)

Zhejiang Wansheng

On 24 July 2015, the Group acquired a 100% equity interest in Zhejiang Wansheng from independent third parties. Zhejiang Wansheng is primarily engaged in the research and development, production and sale of chemically synthesised pharmaceuticals. The purchase consideration for the acquisition of Zhejiang Wansheng was in the form of cash amounting to approximately RMB520,000,000, which was paid on 24 July 2015, the acquisition date. In addition, in accordance with the acquisition agreement, the Group assumed the outstanding debt of RMB8,000,000 owed by the vendor to Zhejiang Wansheng.

The fair values of the identifiable assets and liabilities of Zhejiang Wansheng as at the date of acquisition were as follows:

	2015 Fair value recognised on acquisition RMB'000
Property, plant and equipment	137,813
Prepaid land lease payments	18,200
Other intangible assets	83,252
Other non-current assets	928
Deferred tax assets	2,865
Inventories	34,127
Trade and notes receivables	80,226
Prepaid expenses and other receivables	11,953
Available-for-sale investments	30,000
Cash and cash equivalents	62,167
Trade payables	(6,144)
Other payables and accruals	(36,892)
Interest-bearing bank borrowings	(70,000)
Tax payable	(906)
Deferred income	(134,847)
Deferred tax liabilities	(15,028)
Total identifiable net assets at fair value	197,714
Goodwill on acquisition (note 16)	330,286
Satisfied by cash	520,000
Assumption of outstanding debt	8,000
	528,000

36. Business combinations (continued)

Zhejiang Wansheng (continued)

An analysis of the cash flows in respect of the acquisition of Zhejiang Wansheng is as follows:

	RMB'000
Cash consideration paid	520,000
Less: Cash and cash equivalents acquired	(62,167)
Net outflow of cash and cash equivalents in cash flows from investing activities	457,833

Since the acquisition, the contributions of Zhejiang Wansheng to the Group's consolidated revenue and consolidated profit for the year ended 31 December 2015 amounted to RMB103,267,000 and RMB15,075,000, respectively.

Had the combination taken place at the beginning of 2015, the revenue and the profit of the Group for 2015 would have been RMB1,812,731,000 and RMB507,200,000, respectively.

37. Disposal of subsidiaries

Liaoning Sunshine Science and Technology Development Co., Ltd. ("Liaoning Sunshine Technology")

On 22 December 2015, Liaoning Sunshine (the "**Seller**"), a wholly-owned subsidiary of the Company, and Beijing Huansheng Medical Investment Co., Ltd. ("**Beijing Huansheng**", the "**Purchaser**"), a related party of the Group, entered into an equity transfer agreement to sell a 100% of equity interest in Liaoning Sunshine Technology, a wholly-owned subsidiary of Liaoning Sunshine, for nil consideration. Upon the disposal, Beijing Huansheng agreed to assume the balance owed by Liaoning Sunshine Technology to Shenyang Sunshine amounting to RMB100,000,000. In March 2016, the Group received the settlement of RMB100,000,000 by Beijing Huansheng during the year.

The book values of assets and liabilities of Liaoning Sunshine Technology on the date of disposal were as follows:

	2015 RMB'000
Net assets disposed of:	
Property, plant and equipment	49,815
Prepaid land lease payment	10,022
Other intangible assets	13
Cash and bank balances	10,471
Long-term receivable	25
Prepayments and other receivables	17,195
Inventories	270
Interest receivable	1,589
Other current assets	328
Tax payable	1,749
Deferred income	(9,138)
Other payables and accruals	(4,150)
Long-term payable	(100,000)
	(21,811)
Gain on disposal	21,811
Satisfied by cash	—

37. Disposal of subsidiaries (continued)

Liaoning Sunshine Science and Technology Development Co., Ltd. ("Liaoning Sunshine Technology") (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of Liaoning Sunshine Technology is as follows:

	2015 RMB'000
Cash consideration	—
Cash and bank balances disposed of	(10,471)
Net outflow of cash and cash equivalents in respect of the disposal	(10,471)

38. Contingent Liabilities

As at 31 December 2016, neither the Group nor the Company had any significant contingent liabilities (2015: Nil).

39. Pledge of assets

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

40. Operating lease arrangements

Operating lease commitments — As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	4,685	1,717
In the second to fifth years, inclusive	3,533	5,055
	8,218	6,772

41. Commitments

In addition to the operating lease commitments detailed in note 40 above, the Group had the following capital commitments as at the end of the year:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Plant and machinery	110,130	24,182
Capital contribution payable to a joint venture	69,370	—
Other intangible assets — online marketing platform	800	3,200
	180,300	27,382

42. Related party transactions

Details of the Group's principal related parties are as follows:

Company	Relationship
Century Sunshine Limited ("Century Sunshine")	Ultimate shareholder of the Company
Decade Sunshine	Immediate shareholder of the Company
Injenerics	Joint venture
Ascentage Shanghai	Associate
Ascentage Pharma	Associate
Ascentage Jiangsu	Associate
Beijing Huansheng	Under significant influence of a director of the Company and owned by certain middle management personnel of the Group
Jiangsu Sunshine	Subsidiary of Beijing Huansheng
Liaoning Sunshine Technology	Subsidiary of Beijing Huansheng
DaVita-3SBio Healthcare Management (Liaoning) Co., Ltd. ("DaVita JV")	Associate of Beijing Huansheng
Zhejiang Sunshine	Owned by one of the controlling shareholders of the Company

42. Related party transactions (continued)

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

	Notes	2016 RMB'000	2015 RMB'000
Service fee paid to Ascentage Jiangsu and Beijing Huansheng	(i)	**1,761**	4,500
Convertible loan including the annual interest for the year to Zhejiang Sunshine	21	**79,517**	—
Loans to Liaoning Sunshine Technology	(ii)	**30,000**	—
Loans to Beijing Huansheng		**—**	3,500
Prepayment to Beijing Huansheng for consulting services		**—**	1,000
Proceeds from disposal of Liaoning Sunshine Technology to Beijing Huansheng	(iii)	**—**	100,000
Loan including interests expenses from an associate	(iv)	**300,128**	—
Guarantee provided to Beijing Huansheng	(v)	**5,000**	—

Notes:

(i) The Group engaged Ascentage Jiangsu to perform certain ongoing research and product development. The Group recognised research and development expenses of RMB761,000 for the year ended 31 December 2016 (2015: RMB4,000,000) according to the progress achieved. The Group engaged Beijing Huansheng to provide consulting services. The Group recognised a service fee of RMB1,000,000 for the year ended 31 December 2016 (2015: RMB500,000).

(ii) On 7 December 2016 and 23 December 2016, Guojian extended loans, the principal amounts of which are RMB200,000,000 and RMB10,000,000, to Liaoning Sunshine Technology at an annual interest rate of 3.85% with the maturity dates on 7 March 2017 and 23 March 2017, respectively. Pursuant to supplemental agreements dated on 6 March 2017 and 22 March 2017, the maturity dates were extended to 6 March 2018 and 22 March 2018, respectively.

(iii) On 31 December 2015, the Group entered into a sale and purchase agreement to dispose of its entire interest in Liaoning Sunshine Technology to Beijing Huansheng at a total consideration of approximately RMB100,000,000 (note 37);and

(iv) On 28 March 2016, Guojian extended a loan, the principal amount of which is RMB300,000,000, to Shenyang Sunshine at an annual interest rate of 3.85% with the maturity date on 27 March 2017.

(v) On 18 November 2016, the Group provided a financial guarantee to Beijing Huansheng in favour of bank borrowings amounted to RMB5,000,000 on a term of six months.

42. Related party transactions (continued)

(b) Outstanding balances with related parties:

The Group had the following significant balances with its related parties at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Due from related parties		
Current portion		
Liaoning Sunshine Technology	**30,000**	—
Beijing Huansheng	**—**	104,500
Injenerics	**475**	805
Directors and senior management	**7,921**	10,323
DaVita JV	**190**	—
	38,586	115,628
Non-current portion		
Zhejiang Sunshine	**79,517**	—

	2016 RMB'000	2015 RMB'000
Due to related parties		
Current portion		
Ascentage Pharma	**9,341**	10,726
Century Sunshine	**109,605**	102,598
	118,946	113,324

None of the amounts due from related parties is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default. The carrying amounts of the balances with related parties approximate to their fair values.

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

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

43. Financial instruments by category

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

2016

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Long-term receivables	79,517	—	79,517
Available-for-sale investments — non-current	—	50,000	50,000
Financial assets included in other non-current assets	600	—	600
Trade and notes receivables	785,543	—	785,543
Financial assets included in prepaid expenses and other receivables	63,428	—	63,428
Available-for-sale investments — current	—	362,172	362,172
Derivative financial instruments	—	2,613	2,613
Cash and cash equivalents	677,598	—	677,598
Pledged deposits	9,386	—	9,386
	1,616,072	414,785	2,030,857

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	58,792
Financial liabilities included in other payables and accruals	179,262
Financial liabilities included in other liabilities	18,111
Interest-bearing bank borrowings	3,059,143
	3,315,308

43. Financial instruments by category (continued)

2015

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets included in other non-current assets	600	—	600
Trade and notes receivables	549,596	—	549,596
Financial assets included in prepaid expenses and other receivables	135,441	—	135,441
Available-for-sale investments — current	—	81,585	81,585
Cash and cash equivalents	1,299,398	—	1,299,398
Deposits	519,488	—	519,488
Pledged deposits	31,484	—	31,484
	2,536,007	81,585	2,617,592

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	34,444
Financial liabilities included in other payables and accruals	141,546
Financial liabilities included in other liabilities	12,273
Interest-bearing bank borrowings	405,000
	593,263

44. Transfers of financial assets

As at 31 December 2016, the Group endorsed certain notes receivable (the "**Derecognised Bills**") accepted by major banks in Mainland China (the "**PRC banks**") to certain of its suppliers in order to settle the trade payables due to such suppliers with carrying amounts totalling approximately RMB67,765,000 (2015: RMB38,583,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvements in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2016, the Group had not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsements had been made evenly throughout the year.

45. Fair value and fair value hierarchy of financial instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	31 December 2016 RMB'000	31 December 2015 RMB'000	**31 December 2016 RMB'000**	31 December 2015 RMB'000
Financial assets				
Available-for-sale investments	**412,172**	81,585	**412,172**	81,585
Derivative financial instruments	**2,613**	—	**2,613**	—
Long-term receivables	**79,517**	—	**79,517**	—
	494,302	81,585	**494,302**	81,585
Financial liabilities				
Interest-bearing bank borrowings	**2,540,682**	—	**2,540,682**	—
Financial liabilities included in other liabilities	**5,000**	—	**4,729**	—
	2,545,682	—	**2,545,411**	—

Management has determined that the fair values of cash and cash equivalents, pledged deposits, deposits, trade and notes receivables, financial assets included in prepaid expenses and other receivables, trade payables and financial liabilities included in other payables and accruals are reasonably approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer and then reported to the chief executive officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

The following methods and assumptions were used to estimate the fair values:

The fair values of the long-term receivables, interest-bearing bank borrowings and financial liabilities included in other liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings and financial liabilities included in other liabilities as at 31 December 2016 was assessed to be insignificant.

The fair values of listed equity investments are based on quoted prices in an active market.

The fair values of the investments in bank financial products approximate to their acquisition costs plus accrued interests.

The fair values of derivative financial instruments are measured using Black-Scholes option pricing model which incorporates various markets observable inputs including risk-free interest rate, quoted market price of the underlying stock and dividend ratio.

For the fair values of the unlisted available-for-sale equity investments, the potential effect of using reasonably possible alternatives as inputs to the valuation model is quantified to be insignificant to their fair values.

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted available-for-sale equity investments	Market approach	Discount for lack of marketability	2016: 10%	10% increase(decrease) in discount would result in decrease(increase)in fair value of RMB70,000

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

Fair value hierarchy:

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

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

Assets measured at fair value:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Listed equity investments	655	—	—	655
Unlisted equity investments	—	—	50,000	50,000
Bank financial products	—	361,517	—	361,517
Derivative financial instrument	—	2,613	—	2,613
	655	364,130	50,000	414,785

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Listed equity investments	10,895	—	—	10,895
Bank financial products	—	70,690	—	70,690
	10,895	70,690	—	81,585

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

The Group did not have any financial liabilities measured at fair value as at 31 December 2016 and 31 December 2015.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2015:nil).

Assets for which fair values are disclosed:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Long-term receivables	—	79,517	—	79,517

The Group had no assets for which fair values are disclosed as at 31 December 2015.

Liabilities for which fair values are disclosed:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	2,540,682	—	2,540,682
Other borrowing included in other liabilities	—	4,729	—	4,729
	—	2,545,411	—	2,545,411

The Group had no liabilities for which fair values are disclosed as at 31 December 2015.

46. Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits, non-pledged time deposits, trade receivables and payables, notes receivable, other receivables and payables, balances with related parties and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade 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 Euro as disclosed in note 27 to the financial statements.

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

46. Financial risk management objectives and policies (continued)

Credit risk

As at 31 December 2016, all pledged deposits, non-pledged deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise amounts due from related parties, prepaid expenses and other receivables, trade and notes receivables and long-term receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 25 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds based on the maturity of its financial assets and financial liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and issue of new debts or equity instruments. The directors have reviewed the Group's profitability, working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

46. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2016			
	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Financial liabilities:				
Trade payables	44,154	14,638	—	58,792
Financial liabilities included in other payables and accruals	23,176	156,086	—	179,262
Financial liabilities included in other liabilities	—	—	18,111	18,111
Interest-bearing bank borrowings	35,000	483,461	2,540,682	3,059,143
	102,330	654,185	2,558,793	3,315,308

	2015			
	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Financial liabilities:				
Trade payables	23,262	8,323	2,859	34,444
Financial liabilities included in other payables and accruals	39,156	18,952	83,438	141,546
Financial liabilities included in other liabilities	—	—	12,273	12,273
Interest-bearing bank borrowings	400,000	5,000	—	405,000
	462,418	32,275	98,570	593,263

46. Financial risk management objectives and policies (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale investments at the end of the reporting period. The Group's major listed equity investment during the year ended 31 December 2016 was listed on the Toronto Stock Exchange ("**TSX**") and was valued at quoted market price at the end of the reporting period.

The market equity indices of the Toronto Stock Exchange, at the close of business of the nearest trading day in the reporting period to the end of the reporting period, and their respective highest and lowest points during the year were as follows:

	31 December 2016	High/low 2016	31 December 2015	High/low 2015
Toronto Stock Exchange — TSX Composite Index	15,288	15,422/11,843	13,010	15,451/12,696
Toronto Stock Exchange — TSX Venture Composite Index	762	839/474	526	707/496

46. Financial risk management objectives and policies (continued)

Equity price risk (continued)

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the consolidated statement of profit or loss.

	Carrying amount of equity investments RMB'000	Increase/ (decrease) in equity RMB'000
2016		
Investment listed in:		
Toronto — Available-for-sale	—	—
2015		
Investment listed in:		
Toronto — Available-for-sale	10,014	1,001/(1,001)

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 2016.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the total equity.

46. Financial risk management objectives and policies (continued)

Capital management (continued)

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

	2016 RMB'000	2015 RMB'000
Interest-bearing bank borrowings	**3,059,143**	405,000
Total equity	**6,766,342**	5,635,465
Gearing ratio	**45.2%**	7.2%

47. Statement of financial position of the company

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**1,619**	1,619
Investments in subsidiaries	**2,973,736**	92,183
Available-for-sale investments	**76,934**	67,783
Total non-current assets	**3,052,289**	161,585
CURRENT ASSETS		
Available-for-sale investments	**—**	10,014
Prepaid expenses and other receivables	**13,896**	2
Due from subsidiaries	**1,681,351**	4,165,490
Cash and cash equivalents	**110,501**	189,591
Total current assets	**1,805,748**	4,365,097
CURRENT LIABILITIES		
Other payables and accruals	**10,961**	11,396
Total current liabilities	**10,961**	11,396
NET CURRENT ASSETS	**1,794,787**	4,353,701
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,847,076**	4,515,286
NON-CURRENT LIABILITIES		
Other liabilities	**13,111**	12,273
Total non-current liabilities	**13,111**	12,273
Net assets	**4,833,965**	4,503,013
EQUITY		
Share capital	**155**	154
Share premium (note)	**4,296,431**	4,283,999
Other reserves (note)	**537,379**	218,860
Total equity	**4,833,965**	4,503,013

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	Available-for-sale investments revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1January 2015	295,160	—	6,532	(220,265)	191,549	272,976
Total comprehensive income/(loss) for the year	—	—	(5,129)	255,344	(9,171)	241,044
Transfer from share premium account to share capital	(119)	—	—	—	—	(119)
Equity-settled warrants (note 34)	—	46,581	—	—	(46,581)	—
Issue of shares	4,132,853	—	—	—	—	4,132,853
Share issue expenses	(143,895)	—	—	—	—	(143,895)
At 31 December 2015	4,283,999	46,581	1,403	35,079	135,797	4,502,859
Total comprehensive income/(loss) for the year	**—**	**—**	**(1,403)**	**310,006**	**27,655**	**336,258**
Equity-settled warrants (note 34)	**—**	**(5,307)**	**—**	**—**	**—**	**(5,307)**
Share issued upon exercise of warrants	**12,432**	**(12,432)**	**—**	**—**	**—**	**—**
At 31 December 2016	**4,296,431**	**28,842**	**—**	**345,085**	**163,452**	**4,833,810**

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

48. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 17 March 2017.

2016 Environmental, Social and Governance Report of 3SBio Inc.

— Honoring commitments and delivering hope

1. Corporate Social Responsibility Management of 3SBio Inc.

1.1 Responsibility Philosophy

The Group firmly upholds its mission of "improving the qualities of life of patients and bringing health benefits to the human race by developing and manufacturing high quality drugs", and incorporates its social responsibility philosophy of "honoring commitments and delivering hope" as part of the Group's strategy and daily operations. Apart from managing and controlling the financial risks in its business operations, the Group also considers the social benefits of its projects and use its best endeavor to protect the environment, so as to achieve a balance between the economy, the environment and the society, as well as the sustainable development of the Group and the society.

As biotechnology gradually matures in the global pharmaceutical industry, the safety and effectiveness of biopharmaceutical products have been increasingly recognized by different stakeholders of the society. With the vision of becoming a leading global PRC-based biopharmaceutical company and assuming the role as a global corporate citizen, the Group has enhanced the level of disclosure in the 2016 Environmental, Social and Governance Report (the "**ESG Report**"), and gradually established a corporate social responsibility management system for contributing to the society continuously.

Mission	Improving the qualities of life of patients by providing high quality drugs and bringing health benefits to the human race
Vision	Becoming a leading global PRC-based biopharmaceutical company
Value	Innovation, excellence, focus, perseverance, coordination and sharing

As 3SBio Inc. has been actively making breakthroughs through integrated transformation and upgrade of the Group during the recent two years, there are currently numerous domestic and overseas subsidiaries under the Group, including Shenyang Sunshine Pharmaceutical Company Limited ("**Shenyang Sunshine**"), Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. ("**Guojian**"), Zhejiang Wansheng Pharmaceutical Co., Ltd. ("**Zhejiang Wansheng**"), Shenzhen Sciprogen Bio-pharmaceutical Co., Ltd. ("**Sciprogen**") and Sirton Pharmaceuticals S.p.A. (Italy). With respect to social responsibility, by formulating various unified principles and standards at the Group level, the Group has effectively established social responsibility management systems for its subsidiaries in various regions to actively fulfill their social responsibilities according to relevant laws and regulations at their respective operating regions and based on their particular business types.

1.2 Responsibility model

- **Stakeholders' participation**

The Group strongly believes that the communication with and the participation of different stakeholders are the keys to success. Therefore, the Group sets up a communication platform for key stakeholders, such as shareholders, partners, suppliers, customers (i.e. hospitals and other medical institutions) and consumers (i.e. patients), government and regulatory authorities, employees, as well as the public and the community, to understand and respond to their demands. The Group strives to achieve sustainable development by communicating and cooperating with them seamlessly and building a solid relationship.

Table of Key Stakeholders of 3SBio Inc. and Issues Discussed

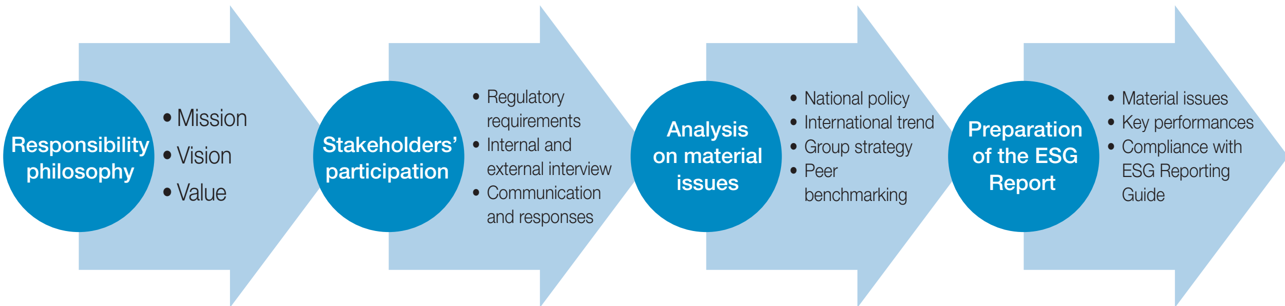
Major stakeholders	Issues concerned	Communication and responses
Shareholders	Corporate governance Risk control Investment return	Disclosure of information by the listed company Shareholders' meetings Investors' meetings
Partners and joint ventures	Experience sharing Ethical code	Strategic cooperation Internal audit
Suppliers	Fair competition Promoting technical improvement	Standardized supplier management system Transparent and fair procurement Synergetic development
Customers and consumers	Safe and effective products Authentic and scientific product information Customer information protection	Quality management system Standardized training of medication use SFE management system

Major stakeholders	Issues concerned	Communication and responses
Government and regulatory authorities	Compliance with the national and local laws and regulations Biopharmaceutical technology development	Compliance operations Participation in the formulation and recommendation of policies Scientific innovation Protection of intellectual property rights
Employees	Protection of interests and benefits Healthy and safe working environment Capability improvement and career development	Labor union and workers' congress EHS management system Regular training, examination and promotion
Public and the community	Participation in the community development Reducing the life cycles of products to minimize the impact to the environment	Public welfare projects Environmental impact analysis and planning control The right to veto over any non-environmental friendly projects

- **Preparation of the ESG Report**

In order to better disclose the Group's practices in corporate social responsibility to the stakeholders, the Group has prepared and published the ESG Report since 2016, aiming to disclose its social responsibility performance and responsibility philosophy to investors, and to make it to be an important tool for the Group to enhance its transparence and strengthen its social responsibility management.

In preparing this ESG Report, the Group has taken a comprehensive consideration of internal and external factors, including its strategic direction and operational focus, requirements and expectations of stakeholders, domestic and international standards and policies required to be followed. The Group has also identified the key material issues to be the core contents of this ESG Report based on the relevant social responsibility issues identified, assessed and filtered in accordance with the Environmental, Social and Governance Reporting Guide published by The Stock Exchange of Hong Kong Limited.



Preparation Process of the ESG Report

2. Responsibility of Environmental Protection

With reference to the domestic and overseas environmental protection laws and regulations, the Group continuously optimizes the production process, improves the environmental facilities, enhances the utilization of recycled materials, reduces the energy consumption, and increases its investment in environmental protection through ongoing exploration and practices, so as to effectively control and reduce the discharge of pollutants, minimize the impact on the natural environment and protect the people and sensitive objects in the surrounding areas from the direct or indirect harm caused by the source of the pollution.

2.1 Environmental Management System

The Group has established an environmental management system in accordance with the requirements under domestic and overseas Good Manufacturing Practices ("**GMP**"). The Group has identified the environmental risk faced by the country, industry and the Group. The Group makes persistent efforts to improve the environment. In addition, the Group requires all environmental-protection related work to be in compliance with the requirements under relevant PRC laws and regulations. There is a right to veto over any non-environmental friendly projects in the Group's operations.

To prevent and control pollution, reduce the discharge of pollution, provide a satisfactory factory environment for the Group and also create a clean, comfortable and safe working and living environment for employees, the Group has formulated the Environmental Management Measures in 2014 in accordance with the relevant laws and regulations including the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on Promoting Clean Production, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste and the Water Pollution Prevention Law of the People's Republic of China. The system is applicable to all departments and employees within the Group, including contractors and interns. It serves as a reference for the formulation and implementation of the Environment Management Measures of the subsidiaries.

The Group established a focused group on environmental protection in 2014, which is responsible for deciding on environmental protection matters, as well as the approval and management of environmental protection measures. The focused group is comprised of the competent department and the executive department of environmental protection. The respective department managers and persons-in-charge are the first persons responsible for the environmental protection.

2.2 Energy Saving

As a biopharmaceutical company, water, electricity and gas are the main resources consumed in the Group's production process. Non-renewable resources are not utilized. Therefore, the Group mainly focuses on energy saving, sets energy-saving targets and formulates energy-saving project plans consisting of three aspects, i.e. technological improvement of equipment, LED lamps energy-saving project and recycling of excessive heat. Each of the Group's subsidiaries actively implements and formulates measures in its production base to save energy and reduce consumption based on their operation conditions. Currently, the Group has not experienced any difficulties in locating appropriate water resources.

The Group also actively advocates the concept of "green office" and implements a series of measures to save energy in the office, including cultivating the energy-saving awareness of employees and encouraging them to save water and electricity voluntarily through acts such as turning off the power after work and setting a reasonable temperature of air conditioner.

Energy-saving Project Plans of 3SBio Inc.

Energy-saving targets	To reduce the electricity consumption from 0.6KWh per injection to 0.03KWh per injection of unit product To reduce the steam consumption from 1.14KWh per injection to 0.091KWh per injection of unit product
Technological improvement of equipment	The Group will use imported environmental-friendly equipment with lower energy consumption, such as air conditioning refrigeration, energy power equipment, water pump motor, air compressor and steaming equipment, etc.
LED lamps energy-saving project	The Group plans to gradually replace all the existing lamps with LED energy-saving ones in two years. It is expected to save approximately 50% of the total electricity consumption per year, which would save over RMB100,000.
Waste heat recycling project	Currently, excessive heat is recycled through two ways which include recovery of condensed steam water and flash steam. The Group plans to use excessive heat recycling equipment to supply the saved heat to the public bathing pool in summer and to the equipment set in winter.

Upgrade and transformation of steam boilers to save energy

In 2016, Sciprogen has upgraded its steam boilers and replaced the fuel from diesel to natural gas to increase the utilization rate of the boilers and steam. As a result, the costs of energy decreased from RMB1,210,000 in 2015 to RMB530,000, representing a decrease of approximately 56%. Meanwhile, the replacement of fuel has also contributed to the significant decrease in carbon dioxide emission from 774 tons in 2015 to 249 tons, representing a decrease of approximately 68%.

Statistics of Performance Indicators Related to Energy Use

Indicators		Unit	2016 Shenyang Sunshine	2016 Sciprogen
Energy use in production	Total water consumption	ton	83,824	26,075
	Water consumption per unit output	ton per injection	0.0061	0.0016
	Total electricity consumption	KWh	6,358,107	3,745,990
	Electricity consumption per unit output	KWh per injection	0.46	0.23
	Total gas consumption	m^3	N/A	115,189
	Gas consumption per unit output	m^3 per injection	N/A	0.0072
Energy use in office	Total water consumption	ton	20,956	14,895
	Water consumption per unit output	ton per injection	0.0015	0.0010
	Total electricity consumption	KWh	707,250	416,221
	Electricity consumption per unit output	KWh per injection	0.0500	0.0260
	Total gas consumption	m^3	N/A	N/A
	Gas consumption per unit output	m^3 per injection	N/A	N/A
Total amount of packaging materials of finished products		ton	175.94	240.00
Packaging materials usage per unit output		ton	0.000013	0.000015

2.3 Control on the Discharge of Pollutants

Adhering to the principle of emphasizing on prevention and combining it with treatment, the Group implements clean production in the workshops, advocates recycling and minimizes the discharge of pollutants from the sources. In addition, the Group classifies the wastes produced during the production and operation processes in accordance with the requirements under the PRC environmental protection laws and regulations, such as the Environmental Protection Law of the People's Republic of China, the Water Pollution Prevention Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste.

Currently, main wastes produced during the Group's production and operation processes include waste water and solid wastes. No waste gas is emitted. Waste water includes household waste water, industrial waste liquid and industrial waste water. Industrial waste liquid is of a small quantity and non-toxic, and will be discharged according to relevant requirements after being collected and inactivated through soda. The household waste water and industrial waste water will be processed in the sewage plant located within the factory or the industrial park, and the recyclable water will be reused and the remaining wastewater will be discharged after reaching relative emission standards. Furthermore, solid wastes include general solid wastes, such as household garbage, and hazardous wastes, such as waste organic solution and waste medicine residue, which will be handled by the

Group in strict compliance with the solid waste management requirements in the PRC, such as the Standards for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes. The general solid wastes will be uniformly collected and disposed by the property management department and the sanitation department. Hazardous wastes will be disposed by local bodies with relevant qualification, Therefore, standardization, minimization and harmlessness of wastes treatment is achieved.

To comprehensively implement measures for environmental emergency required under the PRC laws and regulations, and to ensure that the Group is able to respond quickly, conduct efficient treatment, reduce the harm, protect the health and safety of employees furthest and prevent environmental pollution in the occurrences of environmental pollution incidents related to hazardous wastes, the Group formulated the Preventive Measures and Emergency Plans for Accidents Related to Hazardous Wastes in 2014.

Prevent producing poisonous and harmful materials

To prevent the equipment from producing poisonous and harmful materials, Shenyang Sunshine has replaced the materials to reduce the production of poisonous and harmful materials. At the early stage, the coat material of the cold-chain incubator used for product transportation by Shenyang Sunshine was KT board, which was a board formed by PS particles foaming and covered on both sides with films. Poisonous and harmful materials were produced during the production and recycling of the material. Since 2014, Shenyang Sunshine has replaced the coat material of the cold-chain incubator with corrugated box in domestic trade, which significantly reduced the pollution caused by poisonous and harmful materials. As at the end of 2016, Shenyang Sunshine's environmental investment in this project is approximately RMB56,000

Reducing sewage discharge

In 2016, Zhejiang Wansheng effectively reduced the sewage discharge through different levels of control from the front and back end. On one hand, Zhejiang Wansheng controlled the source of sewage in the workshop, which reduced water consumption and improved the recycling utilization rate. On the other hand, the sewage will be processed in the back-end sewage plant which further reduced the discharge of pollutants and on the basis of meeting the discharge standard.

Statistics of Performance Indicators Related to Pollutant Discharge

Indicators	Unit	2016 Shenyang Sunshine	2016 Sciprogen
Greenhouse gas emissions	ton	No statistics	219.35
Greenhouse gas emissions per unit output value	ton per unit output value	No statistics	0.000014
Hazardous waste discharge volume	ton	2.21	14.9
Total volume of hazardous wastes	ton	2.21	0
Volume of hazardous wastes produced per unit output value	ton per unit output value	0.00000016	0
Total volume of harmless wastes	ton	0.72	40.1
Volume of harmless wastes produced per unit output value	ton per unit output value	0.00000005	0.0000025

3. Product and Customer Service Liability

The Group's products are mainly sold to hospitals and other medical institutions (i.e. customers). As at the end of 2016, the Group's sales team covered approximately 2,000 Grade III hospitals and approximately 5,900 Grade II or lower hospitals and medical institutions. The scope of coverage includes all provinces, autonomous regions and municipalities in the PRC. Meanwhile, the Group strives to provide high quality products to patients, who are the end users of our products (i.e. consumers). Main products of the Group include TPIAO (the treatment of chemotherapy-induced thrombocytopenia and the treatment of immune thrombocytopenia), Yisaipu (the treatment of rheumatoid arthritis, ankylosing spondylitis and psoriasis) and EPIAO (the treatment of anemia associated with chronic kidney disease, the treatment of chemotherapy-induced anemia and the reduction of allogeneic blood transfusion in surgery patients).

As a biopharmaceutical company developed in the mainland China, the Group adheres to providing high quality products to patients in order to improve their life qualities, provides high standard of services to customers and establishes long-term and stable cooperation relationships. After years of research and development, pilot production and industrialization, the Group has established a research and development platform with its own intellectual property rights. As the Group's long-term target and strategic development principle, the Group focuses on the development of Chinese biopharmaceutical policies by participating in the formulation of relevant policies in the PRC proactively and persistently promoting the industry development based on technological innovation.

3.1 Quality Products with Continuous Innovation

- **Quality control**

Production and quality control of products is one of the Group's core competitiveness. To ensure a high quality of products, the Group adheres to the principle of "quality originates from design". The Group has established a quality control system which covers the research and development, production, inspection, circulation and use of the products, and has also formulated detailed guidelines on the quality control process. The process will be continuously monitored. In recent three years, the Group has not experienced any incidents of non-compliance concerning the quality of products.

The Group formulated the Quality Inspection Management Regulations in 2009, which expressly set out the provisions to be followed by quality inspection and other related personnel during their inspection of materials, raw solutions, semi-finished products, unpackaged products and finished products. The regulations are revised annually according to the latest domestic and foreign pharmacopoeias. The Group has revised it with reference to the Pharmacopoeia of the People's Republic of China (2015 Version), European Pharmacopoeia (2014 Version) and the Good Manufacturing Practices (2010 Version, which is new version of the GMP) to continuously enhance its quality inspection management.

According to the China Food and Drug Administration (CFDA), manufacturers of pharmaceutical products shall pass the certification of the new GMP (i.e. Good Manufacturing Practice) by 31 December 2015, and if failing to do so, production shall be suspended thereafter. As at the end of 2016, all the pharmaceutical subsidiaries of the Group had passed the certification under the new version of the GMP.

- **Technological innovation**

To constantly meet patients' demands, provide high quality drugs for them and improve their qualities of life, the Group benchmarks with the international level of advanced technology and treats technological innovation as its long-term target and strategic development principle. In a research concerning various recombinant human erythropoietin products in the world conducted by Amgen, a leading global biopharmaceutical company in 2008, Amgen stated that the technology standard of the Group's EPIAO was closest to that of its products among the similar types of products[1].

1 Amgen (2008) Biochemical Assessment of Erythropoietin Products From Asia Versus US Epoetin alfa Manufactured by Amgen, available at www.interscience.wiley.com

Under the "13th Five Year Plan for the Pharmaceutical Industry", innovative biopharmaceuticals become China's strategic development focus during the 13th Five Year Plan period. Major projects of innovative pharmaceutical products would depend more on the core bottleneck technology. The Group focuses on the policy development in China's biopharmaceutical industry and the research and development of innovative drugs. The Group's strong research and development capabilities and comprehensive research and development platform (for biopharmaceuticals and chemical drugs) provide strong support for the research and development of innovative drugs. In 2016, the Group applied for over 30 government funds and applied for the inspection and acceptance of 17 government funds, including four projects on major national new drug development, a project under the national "863 Plan" and a national special project related to proteins.

In order to translate the technological and innovative achievements into productivity, the Group puts great emphasis in establishing its own technological innovation system. In 2008, Guojian took the lead in organizing the only National Engineering Research Center of Antibodies Medicine in China, which was approved by the National Development and Reform Commission of the People's Republic of China. In 2016, Guojian's association for science and technology was officially established. A license was granted by the Shanghai Association for Science and Technology. This would further promote the development and growth of the Group's scientific and technological talents, and safeguard the legal interests of scientific and technological workers. In addition, Guojian was awarded the "Staff Technology Innovation Base in Pudong New Area for 2016" (二零一六年度浦東新區職工科技創新基地) owing to the Group's enhancement of employees' skills, diversified technology innovation activities and contributions to the social development.

- **Management and protection of intellectual property right**

The Group regards its intellectual property rights as an important asset, which include patent, trademark, confidential information, product research and development, manufacturing process, know-how and technology. These intellectual property rights enable the Group to maintain its competitive advantages, reputation and brand. As such, the Group has formulated various measures and policies, such as the Administrative Measures of Intellectual Property Right, the Administrative Measures of Trade Secrets and the Management Manual of Corporate Intellectual Property Rights in compliance with the Trademark Law of the People's Republic of China, the Patent Law of the People's Republic of China and other relevant laws and regulations. The purposes of such measures and policies are to effectively manage and protect the Group's intellectual property rights and avoid infringing others of the same. As of the end of 2016, the Group had made 21 patent applications, of which 5 applications were approved. In addition, the Group places great importance to the protection of trademarks and has applied for corresponding trademarks for its key products. As of the end of 2016, the Group had applied for 60 trademarks. The Group has not experienced any infringements of its intellectual property right, nor has the Group experienced any incidents of non-compliance in research and development, and drug application and registration in recent three years.

Key points in reviewing intellectual property rights during the project approval process

Prior to the project approval	• Patent application and authorization of project product or key technologies
	• The legal status of the patent or authorization
	• Its stability (if approved)
	• Its authorization prospects (if not approved)
After the project approval	• Follow-up search on the patents of project products or key technologies

26 April 2016 was the 16th World Intellectual Property Day. On that day, Guojian successfully held the intellectual property training and communication conference cum the high-end salon of medical intellectual property of the State Intellectual Property Office in the national patent navigation Zhangjiang experimental area, attracting over 100 pharmaceutical research and development experts, intellectual property experts, patent examination experts and corporate representatives from approximately 50 corporations. It was the first campaign held by Guojian as the promoter of Shanghai Antibodies Industry Intellectual Property Alliance, which demonstrated its achievements in undertaking various national patent navigation projects in recent years. The high-end intellectual property salon aimed to provide a communication platform for domestic famous experts to discuss the key intellectual property issues and difficulties in the pharmaceutical industry, and share the practical experience of innovative development of the pharmaceutical industry and intellectual property. It also showed the Group's emphasis on intellectual property and professionalism in maintaining its achievements in innovation.

3.2 Providing Quality Service to Customers and Patients

- **Compliance in marketing**

  As a model biopharmaceutical company in China, the Group is committed to operate business in utmost integrity and comply with all the laws and corporate policies. The Group persistently adheres to the basic principles of integrity, compliance, transparence and fairness during the business operation. It also conducts medical promotion in an ethical, scientific and objective way, and ensures that regulatory authorities, medical professionals and patients would have access to scientific and precise product information and academic information in a timely manner. The Group aims to improve patients' qualities of lives and bring benefits to human health by providing high quality drugs, and realizes its vision of becoming the leading PRC biopharmaceutical company in the world.

The Group strictly complies with the Drug Administration Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, the Criminal Law of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery and the Advertisement Law of the People's Republic of China. The Group has formulated the Interaction Behavior Red Book in 2016 as the guidelines to regulate the employees' behavior in accordance with relevant PRC laws and regulations and the compliance policies of the Group, which expressly specified the requirements for the behavior in the interaction and provides detailed guidance for employees in their daily behavior. The Group has not experienced any incidents of non-compliance related to the information and identification of products and services, nor has the Group experienced any violations of any marketing and promotion regulations.

- **Managing customers' complaints**

The Group places importance in dealing with the complaints from customers including the distributors and medical institutions. It has formulated measures to respond to such complaints and arranges designated employees to deal with the complaints. In addition, the Group communicates with the relevant authorities about the issue at the first instance and jointly responds to the customers with proper solutions with the relevant authorities. The Group's response and handling rate of customers' complaints has reached 100% in recent three years.

Issues of adverse drug reaction
The first person who receives complaints notifies the medical department within 24 hours and assists clinical staff with filling in the adverse reaction checklist for the medical department to advise on. The first person who receives the complaints then communicates with the clinical staff for any corresponding follow-up issues.

Issues of product quality or damaged package during the transportation
The first person who receives complaints notifies his or her direct supervisor. Once confirmed, he or she communicates with the business department or manufacturing department, and follows up with product exchange or recall.

Methods of dealing with complaints

To ensure the marketed drugs of the Group which have potential safety hazards would be recalled in a legal, accurate and quick manner, the Group formulated the Management Regulations on Product Recall in 2001 with reference to domestic and foreign laws and regulations, such as the Administrative Measures for Drug Recalls (No. 29 order of the CFDA), new version of the Chinese GMP and European Union cGMP. The Group has updated the Regulations in 2016 in order to continuously standardize the operation procedures.

In addition, the Group collects information about adverse drug reactions and reports according to the requirements of the Administrative Measures on Reporting and Monitoring the Adverse Drug Reaction by the CFDA. The Group has not experienced any incidents of adverse reaction in groups due to quality defects of drugs, nor has the Group experienced any incident of product recalls in recent three years.

- **Protection of customers' data privacy**

The Group places considerable emphasis on the protection of customers' data privacy and protects the non-public information of customers, employees, agents and other third parties in accordance with the relevant laws and regulations and agreements. The Group has formulated the Code of Conduct and Ethics of Employees which is applicable to all employees and specifies the principle of confidentiality in detail to be followed by the employees. In addition, prior to joining the Group, each employee must sign a confidential agreement with the Group and strictly complies with the agreement.

The Group had established the SFE (Sales Force Effectiveness) management system since 2012 with the purpose of protecting customers' data privacy and better managing the sales team with on-going improvement and update. Only necessary information of the customers will be collected during the use of the system. No other information about the patients will be collected. In addition, any information about business companies and hospitals can only be read and used within the system and any form of export is strictly prohibited. Meanwhile, the system is equipped with stringent authority management so that users with different levels of authority would have access to different data. The Group has not experienced any complaints or incidents of non-compliance due to the infringement of customers' data privacy and loss of customers' information in recent three years.

4. Supply Chain Synergetic Development Responsibility

The Group has established a standard management system for the selection, approval, appraisal and termination of suppliers, which enables the Company and its subsidiaries to enhance their standardized management of suppliers in procurement, continuously strengthen the compliance in procurement of GMP supplies and other materials, and increase procurement efficiency. On the premises of high quality and competitive price of products, the Group has carried out businesses and promoted mutual beneficial relationship with quality suppliers based on the principles of openness, fairness and justice.

4.1 Setting Up Sustainable Supply Chain

- **Green supply chain**

  In order to ensure compliance, quality and safety, the Group has incorporated the environmental protection concepts into each stage and level of procurement management. A green procurement chain was set up from the source of goods to the delivery by adopting a series of management rules, such as the Management Manual of Procurement, the Management Rules of Suppliers of Production Supplies, the Quality Audit Rules of Supplier and the Management Regulations on Production Supplies, which allow the Group to meet the social, environmental, health and safety responsibilities requirements in the sustainable development of the society.

  Compliance with supply chain management, quality and safety, environmental protection philosophy

Compliance	To realize "sunshine purchase", the procurement business shall strictly comply with the requirements of GMP, Sarbanes-Oxley Act, and the Contract Law of the People's Republic of China and other relevant laws.
Quality and safety	Suppliers must share the Group's commitment to quality, obtain authorized certification and pass the review by the professional employees of the Group, so as to ensure drug safety.
Environmental protection	On the premises of ensuring production of satisfactory drug, the Group also pays more attention to the environmental protection and communicates this philosophy to suppliers so as to facilitate the production, packaging and logistics processes and to carry out such matters in a more environmental-friendly manner.

- **Sustainability scoring system of suppliers**

  The Group classified its suppliers into four categories, selected and assessed suppliers by using the quantitative rating approach based on the sustainability and issued assessment report of suppliers annually. Contracts with suppliers which were assessed to be non-compliant will be revoked. The standard operation procedures (SOP) of the Group, including the Management Rules of Suppliers of Production Supplies and the Management Manual of Procurement, stipulated the scoring system and auditing principles for Class I, II, III and IV suppliers respectively. In 2016, the Group amended the Management Manual of Procurement and supplemented the requirements for suppliers in the aspects of environmental protection and social responsibility in order to consider the environmental and social risks related to the suppliers. In 2016, the Group was not aware of any key suppliers having any significant actual and potential negative impact on the business ethics, environmental protection and labor practices.

  Categories of suppliers

Class I suppliers	Suppliers of raw materials, auxiliary materials, packaging materials and consumable materials related to the production
Class II suppliers	Suppliers of large-sized equipment and bulk non-production materials
Class III suppliers	Suppliers of small and medium-sized equipment and general non-production materials
Class IV suppliers	Suppliers other than Class I, II and III suppliers.

4.2 Giving Support to Suppliers

The Group strives to establish a long-term technology cooperation relationship with suppliers to provide technical support to them. According to the Management Manual of Procurement of the Group, Class I and II qualified suppliers could establish a long-term supply agreement with the Group for at least a year based on mutually agreed cooperation intention. The long-term agreement with Class I suppliers related to GMP system also includes the Quality Guarantee Agreement and the Quality Standard.

In addition, the Group focuses on supporting domestic suppliers by establishing a long-term cooperation relationship with them, which saves the procurement costs and promotes the development of the biopharmaceutical industry chain in China.

Sciprogen plays an active role in supporting the local enterprises. It has started to locate suppliers of penicillin bottles since 2015, and selected Cangzhou Four Stars Glass Co., Ltd. in the first half of 2016 to further promote the development of technology in domestic penicillin bottles.

The support in packaging materials provided by Shenyang Sunshine to the local enterprises has also achieved satisfactory results. Shengyang Sunshine has given support to the local enterprises in pre-filled syringes. It has cooperated with Shandong Wego and provided support in the market research and project approval to the company. In addition, Shenyang Sunshine gradually increased the amount of purchases from Shandong Wego since 2008 to assist the company to capture the domestic market. Shandong Wego has become the leading manufacturer of pre-filled syringes in China.

Statistics of Performance Indicators Related to the Supply Chain Management

Indicators		Unit	2016
Total number of suppliers	Total number of suppliers	companies	849
By category	Raw and auxiliary materials	companies	178
	Packaging materials	companies	84
	Consumable materials	companies	117
	Spares and components	companies	248
	Labor protection and office appliance	companies	91
	Low-value consumables	companies	34
	Machinery and equipment	companies	44
	Project reconstruction	companies	4
	Marketing service	companies	49
By area	Domestic suppliers	companies	832
	Overseas suppliers	companies	17
Supplier inspection	Annual inspection coverage rate of suppliers	%	100

Note: the location of the supplier is determined by its place of registration.

5. Staff Development Responsibility

The Group has established the human resources management system, occupational health and safety management system, and staff training and development plan to comply with the Labor Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China, the Law of the People's Republic of China on Labor-Dispute Mediation and Arbitration and other relevant laws and regulations. These systems are constantly updated and amended to safeguard the employees' legal interests in the labor employment and democratic management aspects, which effectively promote and protect a harmonious and stable labor relationship.

5.1 Safeguarding Employees' Interests

- **Staff employment**

  The Group has formulated the Staff Manual and recruited excellent and qualified talents based on its actual demand for labor in accordance with the principle of equal employment opportunity. The Group provides equal rights to employees in terms of employment, training, promotion and remuneration to avoid any discrimination in any person's race, religion, gender, age, marital status, disability or nationality. The Group strives to hire in a legal manner. There is no child labor being hired or forced labor. The Group will also take into considerations of the suppliers' labor employment in selecting and assessing its suppliers. In recent three years, the Group has not experienced any incidents of non-compliance or any claims related to employees and labor practices that would have a significant impact on the Group.

Statistics of Performance Indicators Related to Staff Employment

Indicators		Unit	2016
Total number of employees	Total number of employees	person	3,465
By gender	Male	person	1,646
	Female	person	1,662
By employment type	Labor contract	person	3,290
	Labor dispatch	person	18
By age group	>50	person	74
	30 to 50	person	2,280
	<30	person	954
By region	Employees in mainland China	person	3,302
	Overseas employees	person	6
Staff turnover rate	Staff turnover rate	%	14
By gender	Male	%	17
	Female	%	12
By age group	>50	%	21
	30 to 50	%	12
	<30	%	18
By region	Employees in mainland China	%	14
	Overseas employees	%	33

Note 1: The total number of employees include the management and sales team of the Group, Shenyang Sunshine, Guojian, Zhejiang Wansheng, Sciprogen, Sirton and Shanghai Aoxi while the other figures exclude Sirton and Shanghai Aoxi.

Note 2: Staff turnover rate is calculated based on the following formula: staff turnover rate = the number of staff of that type lost during the reporting period/(the number of staff of that type at the beginning of the reporting period + the number of newly employed staff of that type during the reporting period) x 100%.

- **Remuneration and benefits policy**

The Group has formulated an overall remuneration and benefits strategy to provide competitive remuneration for its employees. The Group has regularly participated in the studies on the remuneration and benefits of the pharmaceutical industry and other industries to adjust the remuneration based on the prevailing market condition and maintain its competitiveness in remuneration. The Group pays full statutory social insurance, including medical insurance, pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and housing provident fund for employees in accordance with relevant PRC laws and regulations. Further, the Group also provides various additional benefits for employees based on its development strategy and prevailing market conditions to improve the living standards and skills of employees, while employees retain discretions to increase, change or cancel certain benefit items.

- **Communication and care**

  The Group makes continuous efforts in building and maintaining a harmonious relationship with its employees, and creates a broad development space for employees to bring their talents into full play. The Group also strives to establish a management mechanism with participation by all the employees, which serves as an opportunity for every employee to participate in the Company's management and demonstrate their talents. Labor union and workers' congress are established in all subsidiaries and production bases of 3SBio Inc.. Collective contracts were also entered into.

  Meanwhile, in order to enrich the spare time of employees and provide them with a comfortable working environment to achieve a work-life balance, 3SBio Inc. and its subsidiaries adhere to the people-oriented philosophy and actively organize various activities to rejuvenate the cultural life of employees and promote the building of corporate culture based on the employees' demands.

The Group organized various staff communication and care activities in different areas
Communicating with the employees As the department mainly responsible for employees' relationship and communication, the human resource department and the council of trade union of Guojian provide support for employees in various aspects such as enhancing work satisfaction, labor protection, occupational psychological counseling and complaints handling. Employees could raise their opinion through written opinion poll or by interview conducted from time to time or alternatively, they could also proactively express their views through correspondences or during the employee representatives' symposium and worker's congress. Their opinions will be considering factors in the operation and management decision-making process of the Company. Zhejiang Wansheng has set up the general manager reception day, which provides a communication platform between its employees and the senior management. In addition, in order to actively prevent and properly handle labor disputes of the company, timely resolve uncertainties, maintain normal production and operation order, safeguard the legal interests of corporate and employees and build a harmonious labor relationship, Zhejiang Wansheng has established the labor-dispute meditation committee of the company according to the Regulations of the People's Republic of China on Settlement of Labor Disputes in Enterprises.

Supporting the employees Shenyang Sunshine has established a long-term employee support mechanism and caring fund for its employees to promote corporate culture and mutual assistance among employees, and to provide timely support to employees with special difficulties. The company has also formulated the Management Measures on the Caring Fund, and set up a fund management committee to overall manage the fund. Guojian has established an employee relief mechanism and purchased group commercial insurances for its employees, including group accident insurance, group critical illness insurance and group medical compensation insurance, which provide a comprehensive protection for employees in addition to the statutory social insurance. Zhejiang Wansheng set up a special fund for the poor in 2016 to create a healthy corporate culture, to promote the harmonious development of the company, to systemize and standardize the efforts in alleviating poverty, and to organize such activities continuously.
Care for female employees Guojian is committed to improving the health and living standard of female employees. In 2016, Guojian organized a series of activities themed "Meeting A Better Self" to care for female employees, and built the "Mom's Home" to provide an intimate, clean, comfortable and safe resting place for female employees during their pregnancy and breastfeeding period. It also serves as a place for female employees to interact with each other.
Diversifying employees' activities In order to enrich employees' life after their eight hours of work, the labor union of Zhejiang Wansheng created the "Cultural Home for Newcomers in Hangzhou" in 2014. In addition, Zhejiang Wansheng built employee service rooms, including psychological counseling room, employee service reception room, employees' club, employees' library, employees' training center, self-service laundry and photocopy room, etc to provide comprehensive services for employees with the assistance of volunteers.

Statistics of Performance Indicators Related to Employee Communication and Care

Indicators	Unit	2016
Coverage of employees under the protection of collective consultative agreements	%	100
Employee consolation	RMB ten thousand	385.85
Employee support funds	RMB ten thousand	43.18
Number of employees benefited	Person	1,222

Note: The above figures include Shenyang Sunshine, Guojian, Zhejiang Wansheng and Sciprogen.

5.2 Healthy and Safe Working Environment

- **Occupational health**

The Group strives to create a healthy and safe working environment for its employees. Each of its subsidiaries has formulated the Occupational Health Management System according to the requirements under the Law of Manufacturing Safety of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases and other relevant laws and regulations. They have set up employee health management departments to strengthen the prevention and control of occupational diseases, to effectively prevent, control and eliminate the harm of occupational diseases and to practically protect the health and safety of employees during the work.

The Group adheres to the policy of "focusing on preventing, combining it with control" to prevent and control occupational diseases. It regularly identifies occupational hazards, and persists in implementing the pre-employment, on-duty and off-post medical check-ups for employees to ensure their health and to create occupational health monitoring records.

In 2016, the Group and its subsidiaries continued to improve the occupational health management system, strengthen the occupational health training and provide protective facilities and equipment against occupational diseases to employees according to relevant PRC laws and regulations, so as to minimize the hazardous factors in the production process and the adverse impact on the health of employees.

- **Safe production**

The Group continuously adheres to the policy of "safety as priority, focusing on prevention, and combining it with treatment" for its production. The Group has strictly complied with the Law of Manufacturing Safety of the People's Republic of China and other laws and regulations associated with safety production, established a series of safety production systems, including the Safety Production Management System, the Safety Inspection Management System, the Identification and Treatment Management System for Hidden Safety Perils and the Emergency Rescue Management System. The Group has also set up a safety production management committee.

In 2016, the Group and its subsidiaries continued to enhance the on-site safety management, actively organized "Safety Production Month" themed activities, conducted routine identification and treatment of hidden safety perils, and arranged safety production trainings for frontline employees to vigorously develop the safety culture, comprehensively increase safety awareness and continuously strengthen the underlying work for safety. The Group did not experience any incidents of non-compliance related to health and safety in 2016.

Statistics of Performance Indicators Related to the Health and Safety of Employees

Indicators	Units	2016
Safety trainings	persons	5,934
Days of absence from work due to work-related injury	days	0
Number of major accidents occurred		0
Number of fatalities caused by accidents	persons	0
The percentage of employees participating in the occupational health check-ups	%	100

Note: The above figures include Shenyang Sunshine, Guojian, Zhejiang Wansheng and Sciprogen.

5.3 Establishing the Code of Conduct for Employees

As the healthcare industry is undergoing a rapid transformation in China, the political and regulatory environment provides a strong support for the Group in the long run. As a model biopharmaceutical company in China, the Group is committed to operate business in utmost integrity, comply with all the laws and corporate policies, and persistently adhere to the basic principles of integrity, compliance, transparence and fairness during the business operation, which is crucial for the Group to fulfill its business targets and commitment to social responsibility.

- **Culture of compliance**

  The Group formulated a series of Compliance Management System at the group level in 2016, which expressly sets out the compliance responsibility of each level to facilitate the Company and its subsidiaries in strengthening their internal compliance management, enhance self-discipline, raise the compliance awareness of all the employees, cultivate the culture of compliance, clarify compliance responsibility, establish effective management system of compliance risks, protect the legal compliance operation, effectively identify and actively manage, prevent compliance risk and promote the stable operation and continuous standardized development of the Group. The effectiveness of compliance management and the compliance practices are also included in the scope of the employees' performance assessment. The risk compliance department assists other departments in assessing the compliance of the employees' practices which would be taken into account in the employees' performance assessments.

  Aiming to operate its business in an ethical and legal way, the Group has formulated the Anti-corruption and Anti-bribery Policies, and complied with the Anti-Unfair Competition Law of the People's Republic of China, the Criminal Law of the People's Republic of China, Interim Provisions on Banning Commercial Bribery and other relevant anti-corruption regulations. The Policies help employees and third parties who act on behalf of the Group to identify and understand the scope of risks, and conform to the rules established by the Group, so as to prevent any anti-corruption and anti-bribery acts. The Group has not experienced any established incidents related to bribery, fraud and money laundering or public lawsuits involving corruption against its employees in recent three years.

  In order to ensure the effectiveness, standard, transparence and compliance of employees' behavior, the Group formulated the Code of Conduct and Ethics of Employees which is applicable to all employees and continuously updated. It ensures that all interactions will not influence the decision of other parties (including medical personnel, government officials and patients) by respecting their independence.

  In order to enable employees to better understand the Group's culture of compliance, and to enable the management to understand their responsibilities in managing risk compliance as persons–in-charge, the Group organized a series of compliance trainings in 2016. With the participation of employees from frontline salespersons to senior management of the Group, the total number of employees who participated reached 1,442.

- **Supervision and reporting system**

  The Code of Conduct and Ethics of Employees expressly encourages the employees to report any illegal act, disciplinary offence and non-compliance behavior, and to notify the risk compliance department and compliance committee. The Group undertakes to protect the whistleblower and to ensure the independence of the management personnel who receives the reporting information and the safety of the reporting channels. The Group did not receive any reports or complaints in 2016.

  The compliance committee is also responsible for supervising and formulating control measures, and ensuring employees are complying with relevant policies and all applicable laws and regulations during operating businesses. The risk compliance department will regularly supervise and review the employees' compliance of codes, relevant regulations and laws.

5.4 Career Training and Development

The Group regards employees as its most valuable asset. It pays continuous attention to the development and growth of employees and provides an open platform and diversified trainings for them to achieve their personal values and career development goals on the expanding platform of the Group. The Group has established a complete training system for employees at different seniorities, positions and departments. The Group has also formulated the induction training for new employees, internal system for quarterly and annual training, training activities covering topics such as the laws and regulations, the Group's policies, corporate culture and skills of respective positions.

The Group has complied with the above training policies and have conducted different types of training activities. Further, the Group managed to understand its employees' views on the training received and their recent training demands through regular summaries and feedbacks collected from employees, feedbacks from lecturers and satisfaction analysis, in order to continuously meet employees' demand and improve the training system.

Zhejiang Wansheng collects various aspects of information and analyzes them in detail by establishing a training demand survey in order to organize trainings according to employees' demands. The training manager of the human resources department of the company is responsible for conducting the training demands survey and distributing the questionnaire to each department annually. After each department identifies the training demands of employees based on factors such as the position qualification and competence model, as well as the reservation of talents, they submit the results to the training manager of the human resources department, who will collect all the information and prepare an analysis on training demands according to the strategic objectives of the company, which serves as the most important basis to formulate the training schedule and training plans in future years.

Statistics of Performance Indicators Related to Employee training

Indicators	Unit	2016 Shenyang Sunshine	2016 Zhejiang Wansheng
Employee trainings	person	1,106	1,217
Investment in employee training	RMB ten thousand	26.79	7.04
Training participation rate of employees	%	100	100
Among which: Training participation rate of male employees	%	100	100
Training participation rate of female employees	%	100	100
Training participation rate of general employees	%	100	100
Training participation rate of mid-level employees	%	100	100
Training participation rate of employees at the management level	%	100	100
Annual average per capita hours of training participation by all employees	hour	73.00	3.55

6. Community Contribution Responsibility

The Group firmly upholds the social responsibility philosophy of honoring commitments and delivering hope, focuses on its major products and the corresponding patients groups, and contributes to the medical healthcare industry. On one hand, the Group actively organizes drug donation charity activities to help indigent patients. On the other hand, the Group has paid continuous attention to the development of Chinese medical industry by setting up communication platforms between doctors and patients, promoting new medical philosophy and supporting the advancement in medical science research.

6.1 Participating in the Charitable Activities

As a leading biopharmaceutical company in China, the Group owns a range of self-developed innovative products, such as TPIAO, Yisaipu and EPIAO. Through organizing drug donation charitable activities to particular patients groups, the Group aims to further improve the treatment of relevant diseases, finance more distressed patients and help more patients to regain their health in China.

List of Charitable Donation Projects of the Group

Project name	People concerned	Cooperation institutions	Initiation time	Value
"Guard the Happiness" (守望幸福) Bethune TPIAO charity donation project	ITP patients in need of rhTPO injections	Beijing Bethune Charitable Foundation	2013	Donating over 60,000 injections of drug, valued approximately RMB80 million Benefiting over 12,000 patients
"Guard the Happiness" (守望幸福) China Charities Aid Foundation for Children TPIAO charity donation project	CIT child patients in need of rhTPO injections	China Charities Aid Foundation for Children	2015	Donating over 2,000 injections of drug, valued approximately RMB1.7 million Benefiting over 300 patients
"Yi+Hope" (益+希望) Bethune Yisaipu charity donation project	Patients with rheumatoid arthritis and ankylosing spondylitis	Beijing Bethune Charitable Foundation	2015	Donating over 60,000 injections of drug, valued approximately RMB50 million Benefiting over 15,000 rheumatic immunologic patients
Rh-negative blood donation charity project	Full donation of erythropoietin for patients with a rare blood type in the artificial joint replacement in China	The National Health and Family Planning Commission of the People's Republic of China, People's Medical Publishing House	2016	Not yet commence donating drugs

Free iron detection project for hemodialysis patients

Patients with nephropathy, particularly hemodialysis patients, usually cannot receive timely and precise rectification and treatment of iron deficiency. In order to keep doctors well informed of the iron deficiency of hemodialysis patients during clinical treatments, use iron supplements, adjust treatment protocols and indirectly manage the anemia at the clinical level based on the iron detection results and actual clinical performance, Shenyang Sunshine launched charitable iron detection projects covering 3 hospitals in 12 provinces and cities across China from March to October 2016, benefiting a total of 3,229 patients.

During the implementation of the project, Shenyang Sunshine found that approximately 36.5% Grade II hospitals in China were not equipped with professional iron detection equipment and the iron deficiency rate of all patients in the project reached 60.74%. Shenyang Sunshine will launch more free iron detection projects to facilitate multidisciplinary doctors to have a quick and complete understanding of patients' iron deficiency, thereby providing timely and effective treatment to patients.

"Yi+Hope" (益+希望) Bethune Yisaipu charity donation project

Rheumatoid arthritis and ankylosing spondylitis are rheumatic diseases which seriously endanger the patients' health, and will result in joint deformity, malfunction and even disability, which are also called as "non-lethal cancer". Currently, approximately 10 million people are suffering from such diseases in China. Biopharmaceuticals can significant improve the patients' qualities of life. However, under the current treatment situation of patients in China, the biotherapy expenses are generally quite high with a overall treatment rate less than 10%, which imposes a huge burden on patients and even the country.

Since 2015, Guojian launched"Yi+Hope" (益+希望) Bethune Yisaipu charity donation project with Beijing Bethune Charitable Foundation through its self-developed innovative product, namely, Yisaipu, which was the first charitable donation project organized by domestic biopharmaceutical company with a foundation in the industry. It aims to reduce the economic burdens of patients, improve their living quality and give them better treatment. As at the end of 2016, through Yi+Hope" (益+希望) Bethune Yisaipu charity donation project, the Group donated over 60,000 injections of drugs valued approximately RMB50 million, which has benefitted 15,000 rheumatic immunologic patients.

6.2 Promoting the Advancement of the Medical Industry

- **Setting up communication platforms between doctors and patients**

The ineffective communication between doctors and patients is a main cause of medical disputes. In order to help doctors and patients to maintain an effective communication, the Group initiated and set up particular communication platforms between doctors and patients based on patients groups using its main products. These platforms help easing the tension between doctors and patients, and enable patients to receive timely and effective treatment. As at the end of 2016, the communication platforms between doctors and patients initiated and set up by the Group covered over 7,301 doctors and 47,219 patients in total.

List of Communication Platform Between Doctors and Patients

Name of platform	Main functions	Launch time
Popular in China (紅遍中國) — networking management project of hemodialysis patients anemia information	• for hemodialysis patients • assists doctors in hemodialysis center to dynamically manage and monitor the anemia status of hemodialysis patients • increases the hemoglobin standard rate of patients	17 April 2015
Zhejiang Diseases Control ITP Platform	• for ITP patients • promotes communication among patients • maintains personal records of patients • provides rehabilitation counseling	16 October 2015
E Doctor	• for patients with rheumatoid arthritis and ankylosing spondylitis • patients have access to the schedule of their doctors and obtain one-on-one doctor's consultation • patients are informed of the updates about charitable donation of drugs and educational activities for patients • patients can record and summarize experimental indicators and self-assessment information related to diseases conveniently and effectively	12 November 2015

Popular in China (紅遍中國)— networking management project of hemodialysis patients anemia information

Anemia is a common complication of maintenance hemodialysis suffered by patients. Effective anemia detection and treatment for hemodialysis patients enables to improve dialysis prognosis, improve the patients' qualities of life and reduce the risk of cardiovascular death. However, due to limited energy and the lack of effective management tools, clinical doctors cannot achieve standardized diagnosis and treat hemodialysis patients based on the hemoglobin indicators.

As such, the Group launched the Popular in China (紅遍中國), a networking management project of hemodialysis patients anemia information in July 2015, to assist doctors in hemodialysis center to dynamically manage and monitor the anemia status of hemodialysis patients and increase the hemoglobin standard rate of patients. A third party was commissioned by the Group to develop a data platform, and the Group's employees input data and regularly submitted anemia management report to various centers. As of the end of 2016, the project covered 290 hemodialysis centers covering over 30,000 patients. According to the data analysis, the detection rate of hemoglobin was less than 50% and the hemoglobin standard rate of patients was only 60%. In the future, the project plans to include more hemodialysis centers and improve the completeness and quality of inputs so that clinical doctors can more effectively monitor the anemia status of patients and give them timely and effective treatment.

- **Medical academic promotion**

According to the Safety Assessment of Joint Replacement database of National Health and Family Planning Commission of the People's Republic of China's study on 13,380 patients, the incidence rate of anemia during the perioperative period of hip and knee joint replacement operations reaches 24%; the incidence rate of anemia due to operative blood loss ranges from 50% to 80%; and patients with anemia are usually inclined to suffer surgical site infection and pulmonary infection, resulting in the extension of the discharging time and increase in the incidence of complication and mortality risk of patients. Therefore, paying attention to and treating anemia during the orthopedics perioperative period are important for the treatment and rehabilitation of patients, which can significantly improve patients' satisfaction to the treatment and their qualities of life.

3SBio Inc. jointly promoted the Diagnosis and Treatment Guidelines on Anemia during Joint Replacement Perioperative Period in China with the project team of the Safety Assessment of Joint Replacement of NHFPC and the editorial department of Chinese Journal of Bone and Joint Surgery throughout China, and organized 18 promotion campaigns with the participation of national and regional experts, covering 820 medical personnel in relevant divisions and departments, greatly benefiting patients with anemia during the orthopedics perioperative period.

- **Supporting the development of medical scientific research**

  In order to raise concerns about TCP and to promote the scientific research development of TCP in the medical industry, to enhance the scientific research level of TCP of domestic young and middle-aged medicine and pharmacology practitioners, and to strengthen the clinical management of TCP while also benefit patients, Shenyang Sunshine invested and established "3SBio Inc. TCP Scientific Research Fund for Youth and Middle-aged" in August 2015 which is administrated by Shenyang Pharmaceutical University.

  The fund aims to encourage domestic young and middle-aged doctors to conduct relevant basic and clinical researches on TCP. It supports TCP basic research, TCP clinical research, reasonable use of medication for TCP and the study on pharma-economics. Its funding targets include young and middle-aged scientific workers aged 45 or below engaged in the aforementioned scientific researches.

6.3 Promoting the Development of the Biopharmaceutical Industry

With the vision of becoming the leading PRC biopharmaceutical company in the world, the Group strives to improve its own technology and attaches importance to the communication and interaction in the industry, so as to promote the overall biopharmaceutical industry in China and the enhancement of competitiveness. The Group maintains a smooth communication with the regulatory authority, and pays close attention to the standardized development of the industry and global development issues and Chinese development strategy, aiming to encourage biopharmaceutical companies in China to actively fulfill their social responsibility and make more contributions to the social development.

The Group strives to become the leading PRC biopharmaceutical company at the international level and promote the overall biopharmaceutical industry standard in China. In 2016, the Group completed the construction of a monoclonal antibodies production line with the capacity of 30,000 liters, while its design, construction, commissioning, test, trial production and mass production were implemented in strict compliance with domestic and foreign GMP. Currently, the production line is the largest antibodies production line in terms of scale in China, It is one of the most complete production line of cell line, growth medium, raw solution and preparations (including various dosages of form and specifications) in the world, lay a solid foundation on the internationalization of the Group in the future.

2016 Environmental, Social and Governance Report of 3SBio Inc.

— Honoring commitments and delivering hope

With the rapid development of the biopharmaceutical industry in China, the increasingly improving pharmaceutical legal system and the building of a sound regulatory mechanism play a key role in the sustainable development of the industry. The Group keeps maintaining good communication with the regulatory authorities of the industry and participating in the formulation of various industry standards. In 2016, the Group participated in the opinion collection for the Comparability Study Design Appendix of WHO Monoclonal Antibody Biosimilars (Draft Framework) organized by the National Institutes for Food and Drug Control, the opinion collection for Measures for the Administration of Drug Registration (revised) organized by China Pharmaceutical Innovation Research Development Association and the topic research of biological products registration and classification and registration procedures organized by a third party as delegated by the CDFA, and put forward a series of advice for the registration and regulation reform.

On 30 October 2016, the Summit Forum of the Development of Chinese Biopharmaceutical Industry was successfully held by the Group in Beijing. At the forum, the Beijing Declaration on the Development of Chinese Biopharmaceutical Industry was initiated with the theme of “Opportunity and Responsibility”, which reaches a resonance among CFDA (as government representative), Chinese Pharmaceutical Enterprises Association (as industry representative) and the Group (as enterprise representative), and forms the conclusion of the “world leading biopharmaceutical industry in China”.

Beijing Declaration on the Development of Chinese Biopharmaceutical Industry:

We promise to play a proactive role in the development and production of more affordable and reliable biopharmaceuticals for patients to solve the issues of high expenses in medical care in China and contribute to the construction of Healthy China. Although biopharmaceuticals have become an important treatment for diseases in developed countries, in China, biopharmaceuticals are mainly imported from other countries with high costs for a long time and are hardly affordable for patients. We will strive to provide high quality biopharmaceuticals for patients through biosimilar pathway, innovation and technological transformation, set economically reasonable price and improve the availability and affordability of biopharmaceuticals to patients in China.

6.4 Social Recognition

Honors	Issued by
Shenyang Sunshine	
"Top 10 Charity Enterprises" of Chinese Charity Star in Health of 2016 (2016年度中國健康公益星「十大公益企業」)	Chinese Medical Doctor Association, Doctor Newspaper (醫師報社)
"Best Industrial Enterprise" of Chinese Pharmaceuticals Research and Development Line of 2016 (2016年度中國醫藥研發產品線「最佳工業企業」)	China Pharmaceutical Industry Information Center
Top 100 Enterprises in the PRC Pharmaceutical Industry of 2015 (2015年度中國醫藥工業百強企業)	China Pharmaceutical Industry Information Center
Most Innovative Pharmaceutical Enterprise of 2015 (2015年「最具創新力醫藥企業」)	China Pharmaceutical Innovation and Research Development Association, Editorial Policy Committee of People.cn of People's Daily
National Advanced Technology Enterprise	The Science and Technology Department, Finance Department, State Administration of Taxation Branch and Local Taxation Bureau of Liaoning Province
Guojian	
Medal of the "Best Industrial Enterprise" of Chinese Pharmaceuticals Research and Development Line of 2014 (2014年度中國醫藥研發產品線最佳工業企業獎牌)	China Pharmaceutical Industry Information Center
Medal of CHIP Nomination Award of 2014 for the "Imitation, Creation and Innovation Mode" Project (「仿製、仿創、創新三步走的創新模式」項目2014奇璞提名獎獎牌)	China Healthcare Innovation Platform (CHIP)

Honors	Issued by
Trophy of the First CHIP Award of 2014 (2014首屆中國健康產業創新奇璞獎獎杯)	China Healthcare Innovation Platform (CHIP)
China Enterprises with Reliable Quality of 2014 (2014年全國質量信得過班組)	China Association for Quality Shanghai Branch
Zhejiang Wansheng	
National Protected Traditional Chinese Medicines in Class II (Qiming Keli芪明顆粒)	China Food and Drug Administration
National Key New Products (Qiming Keli芪明顆粒)	Ministry of Science and Technology of the People's Republic of China
"The Industrialization Demonstration Project Under National Torch Plan (國家火炬計劃產業化示範項目)	Torch High Technology Industry Development Center, Ministry of Science & Technology
Sciprogen	
Excellent Enterprises in the Pharmaceutical Industry in Guangdong Province of 2016 (2016年廣東省醫藥行業優秀企業)	Guangdong Medical Industry Association
Excellent Enterprises with Growth Potentials in the Pharmaceutical Industry in Guangdong Province of 2015 (2015年廣東省醫藥行業成長型優秀企業)	Guangdong Medical Industry Association
Advanced Technology Enterprise	Shenzhen Science Technology and Innovation Commission, Finance Commission of Shenzhen Municipality, Shenzhen Municipal Office, SAT, Shenzhen Local Taxation Bureau

7. About this Report

This report is the first ESG Report published by 3SBio Inc., which aims to disclose to the stakeholders the efforts and achievements made by the Group in the sustainable development of economy, environment and the society.

- ## Basis of preparation

This report is prepared with reference to the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange of Hong Kong Limited.

- ## Scope of Report

Organisations: this report involves Shenyang Sunshine, Guojian, Zhejiang Wansheng and Sciprogen, which are major subsidiaries of the Group.

Reporting period: from 1 January 2016 to 31 December 2016.

Publication cycle: this ESG Report forms part of the annual report of 3SBio Inc..

- ## Data descriptions

Data and cases in this ESG Report are originated from the Group's original records in its daily operation or the Group's financial reports. Financial information is denominated in RMB.

According to the environmental databases of Institute of Public & Environmental Affairs (IPE) and Qingyue Environment Protection (青悦環保), there were no negative records which are related to the environmental protection of 3SBio Inc. or its subsidiaries.