三生制药
3SBIO INC.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1530)

(Convertible Bonds Code: 5241)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately RMB849.5 million or approximately 22.7% to approximately RMB4,583.9 million.
- Gross profit increased by approximately RMB648.5 million or approximately 21.2% to approximately RMB3,706.6 million, and gross profit margin was approximately 80.9%.
- EBITDA increased by approximately RMB416.0 million or approximately 28.2% to approximately RMB1,892.8 million. Normalized EBITDA[1] increased by approximately RMB336.3 million or approximately 23.3% to approximately RMB1,781.8 million.
- Net profit attributable to owners of the parent increased by approximately RMB341.8 million or approximately 36.5% to approximately RMB1,277.2 million. Normalized net profit attributable to owners of the parent[2] increased by approximately RMB262.1 million or approximately 29.0% to approximately RMB1,166.1 million.

Notes:

1. The normalized EBITDA is defined as the EBITDA for the period excluding, as applicable: (a) the expenses incurred in relation to the issuance of the Euro-denominated zero-coupon convertible bonds (the "**Bonds**") in an aggregate principal amount of €300,000,000 due 2022; (b) the option expenses associated with the options granted on 2 February 2017; (c) the fair value gain upon reclassification of an equity investment in Ascentage Pharma Group International ("**Ascentage Cayman**"); (d) the income associated with the disposal of the equity investments in the subsidiaries of Ascentage Cayman; and (e) the expenses incurred in relation to the terminated proposed acquisition of a contract development and manufacturing ("**CDMO**") business in Canada.

2. The normalized net profit attributable to owners of the parent is defined as the profit attributable to owners of the parent for the period excluding the same items as listed in Note 1 above.

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of 3SBio Inc. ("**3SBio**" or the "**Company**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018** ***RMB'000***	2017 *RMB'000*
REVENUE	5	**4,583,869**	3,734,334
Cost of sales	6	**(877,255)**	(676,235)
Gross profit		**3,706,614**	3,058,099
Other income and gains	5	**429,810**	195,793
Selling and distribution expenses		**(1,691,167)**	(1,332,703)
Administrative expenses		**(316,751)**	(315,105)
Other expenses	6	**(486,368)**	(348,275)
Finance costs	7	**(138,382)**	(141,350)
Share of losses of associates		**(8,245)**	(14,442)
PROFIT BEFORE TAX		**1,495,511**	1,102,017
Income tax expense	8	**(218,265)**	(177,613)
PROFIT FOR THE YEAR		**1,277,246**	924,404
Attributable to:			
Owners of the parent		**1,277,167**	935,389
Non-controlling interests		**79**	(10,985)
		1,277,246	924,404
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic (RMB)	10	**0.50**	0.37
— Diluted (RMB)	10	**0.49**	0.36

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**1,277,246**	924,404
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value, net of tax	**—**	(4,450)
Exchange differences:		
Exchange differences on translation of foreign operations	**93,539**	(124,896)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**93,539**	(129,346)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**16,740**	—
Income tax effect	**(6,394)**	—
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	**10,346**	—
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**103,885**	(129,346)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,381,131**	795,058
Attributable to:		
Owners of the parent	**1,381,052**	806,043
Non-controlling interests	**79**	(10,985)
	1,381,131	795,058

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018** ***RMB'000***	2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,791,961**	1,759,669
Prepaid land lease payments		**326,457**	306,557
Goodwill		**4,089,064**	3,923,598
Other intangible assets		**2,298,735**	2,253,516
Investments in a joint venture		**2,500**	—
Investments in associates		**385,850**	33,510
Available-for-sale investments		**—**	48,333
Equity investments designated at fair value through other comprehensive income		**313,246**	—
Long-term receivables		**28,758**	35,372
Prepayments, other receivables and other assets		**81,149**	39,837
Deferred tax assets		**84,402**	76,363
Total non-current assets		**9,402,122**	8,476,755
CURRENT ASSETS			
Inventories		**384,609**	376,529
Trade and notes receivables	11	**1,483,885**	1,324,084
Prepayments, other receivables and other assets		**693,997**	459,251
Available-for-sale investments		**—**	704,564
Equity investments designated at fair value through other comprehensive income		**32,872**	—
Financial assets at fair value through profit or loss		**35,260**	—
Derivative financial instruments		**16**	1,322
Cash and cash equivalents	12	**1,792,605**	2,398,621
Pledged deposits	12	**14,289**	11,845
Total current assets		**4,437,533**	5,276,216
CURRENT LIABILITIES			
Trade and bills payables	13	**112,915**	274,568
Other payables and accruals		**845,725**	695,898
Deferred income		**35,887**	26,671
Interest-bearing bank and other borrowings	14	**570,328**	1,087,466
Tax payable		**90,686**	111,206
Total current liabilities		**1,655,541**	2,195,809
NET CURRENT ASSETS		**2,781,992**	3,080,407
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,184,114**	11,557,162

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2018

	Note	**2018** ***RMB'000***	2017 *RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,184,114**	11,557,162
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	14	**425,022**	1,046,791
Convertible bonds		**2,299,321**	2,271,874
Deferred income		**275,337**	310,410
Deferred tax liabilities		**270,761**	280,268
Other non-current liabilities		**6,303**	18,173
Total non-current liabilities		**3,276,744**	3,927,516
Net assets		**8,907,370**	7,629,646
EQUITY			
Equity attributable to owners of the parent			
Share capital		**156**	156
Treasury shares		**(40,586)**	—
Share premium		**4,376,056**	4,372,460
Other reserves		**4,278,807**	3,024,172
		8,614,433	7,396,788
Non-controlling interests		**292,937**	232,858
Total equity		**8,907,370**	7,629,646

NOTES:

1. CORPORATE AND GROUP INFORMATION

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

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

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries, or the Group, for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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.

3 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 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	*Amendments to IFRS 1 and IAS 28*

Except for the Amendments to IFRS 4, Amendments to IAS 40 and Annual Improvements 2014–2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement			IFRS 9 measurement	
	Notes	Category	Amount *RMB'000*	Re-classification *RMB'000*	ECL *RMB'000*	Amount *RMB'000*	Category
Financial assets							
Equity investments designated at fair value through other comprehensive income		N/A	**—**	**81,143**	**—**	**81,143**	FVOCI[1] (equity)
From: Available-for-sale investments	(i)			**81,143**	**—**		
Available-for-sale investments		AFS[2]	**752,897**	**(752,897)**	**—**	**—**	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)			**(81,143)**	**—**		
To: Financial assets at fair value through profit or loss	(ii)			**(671,754)**	**—**		
Trade and notes receivables	(iii)	L&R[3]	**1,324,084**	**—**	**—**	**1,324,084**	AC[4]
Long-term receivables		L&R	**35,372**	**—**	**—**	**35,372**	AC
Financial assets included in prepayments, other receivables and other assets		L&R	**364,971**	**—**	**—**	**364,971**	AC
Financial assets at fair value through profit or loss		FVPL[5]	**—**	**671,754**	**—**	**671,754**	FVPL (mandatory)
From: Available-for-sale investments	(ii)			**671,754**	**—**		
Derivative financial instrument		FVPL	**1,322**	**—**	**—**	**1,322**	FVPL
Cash and cash equivalents		L&R	**2,398,621**	**—**	**—**	**2,398,621**	AC
Pledged deposits		L&R	**11,845**	**—**	**—**	**11,845**	AC
			4,889,112	**—**	**—**	**4,889,112**	

	Notes	IAS 39 measurement Category	Amount *RMB'000*	Re-classification *RMB'000*	ECL *RMB'000*	IFRS 9 measurement Amount *RMB'000*	Category
Financial liabilities							
Trade and bills payables		AC	**274,568**	**—**	**—**	**274,568**	AC
Convertible bonds		AC	**2,271,874**	**—**	**—**	**2,271,874**	AC
Financial liabilities included in other payables and accruals		AC	**188,542**	**—**	**—**	**188,542**	AC
Financial liabilities included in other non-current liabilities		AC	**12,350**	**—**	**—**	**12,350**	AC
Interest-bearing bank and other borrowings		AC	**2,134,257**	**—**	**—**	**2,134,257**	AC
			4,881,591	**—**	**—**	**4,881,591**	

[1] FVOCI: Financial assets at fair value through other comprehensive income

[2] AFS: Available-for-sale investments

[3] L&R: Loans and receivables

[4] AC: Financial assets or financial liabilities at amortised cost

[5] FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its treasury or cash management products previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these treasury or cash management products did not pass the contractual cash flow characteristics test in IFRS 9.

(iii) The gross carrying amounts of the trade and notes receivables under the column "IAS 39 measurement — Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs.

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9.

	Impairment allowances under IAS 39 at 31 December 2017 *RMB'000*	Re-measurement *RMB'000*	**ECL allowances under IFRS 9 at 1 January 2018 *RMB'000***
Trade and notes receivables	27,007	—	**27,007**
Long-term receivables	1,845	—	**1,845**
Financial assets included in prepayments, other receivables and other assets	656	—	**656**
	29,508	—	**29,508**

Impact on other comprehensive income

A reconciliation between the amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement Amount *RMB'000*	**Re-classification** *RMB'000*	**IFRS 9 measurement Amount** *RMB'000*
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income	—	(4,450)	(4,450)
From: Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments	(4,450)	4,450	—

(c) IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. 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 Group has adopted IFRS 15 using the modified retrospective method of adoption. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

The adoption of the IFRS 15 has had no significant financial effect on these 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

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**4,430,024**	3,597,340
Others	**153,845**	136,994
	4,583,869	3,734,334

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

(b) Non-current assets

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**6,817,104**	6,513,978
Others	**2,158,612**	1,802,709
	8,975,716	8,316,687

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

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS

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

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of biopharmaceuticals	**4,569,565**	3,734,334
Technical service	**14,304**	—
	4,583,869	3,734,334

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	RMB'000
Type of goods or services	
Sale of biopharmaceuticals	**4,569,565**
Technical service	**14,304**
Total revenue from contracts with customers	**4,583,869**
Geographical markets	
Mainland China	**4,430,024**
Others	**153,845**
Total revenue from contracts with customers	**4,583,869**
Timing of revenue recognition	
Goods transferred at a point in time	**4,569,565**
Services transferred over time	**14,304**
Total revenue from contracts with customers	**4,583,869**

(ii) Performance obligations

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

Sale of biopharmaceuticals

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

Technical service

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

	2018	2017
	RMB'000	*RMB'000*
Other income		
Government grants related to		
— Assets	**35,350**	24,744
— Income	**26,786**	27,346
Interest income	**64,711**	21,769
Licensing income	**1,397**	—
Technical service income	**—**	9,121
Others	**16,396**	9,431
	144,700	92,411
Gains		
Gain on reclassification from investment in an associate to equity investment designated at fair value through other comprehensive income	**201,324**	—
Gain on disposal of investments in an associate	**—**	103,382
Foreign exchange differences, net	**83,786**	—
	285,110	103,382
	429,810	195,793

6. PROFIT BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**877,255**	676,235
Depreciation of items of property, plant and equipment	**165,248**	128,453
Amortisation of other intangible assets	**148,016**	115,242
Recognition of prepaid land lease payments	**8,480**	7,901
Amortisation of long-term deferred expenditures	**1,958**	3,622
Operating lease expenses	**9,137**	11,014
Auditors' remuneration	**7,813**	8,560
Employee benefit expenses (excluding Directors' and chief executive's remuneration):		
Wages, salaries and staff welfare	**878,758**	681,563
Equity-settled compensation expenses	**15,756**	18,324
Pension scheme contributions	**68,384**	52,284
Social welfare and other costs	**91,218**	68,050
	1,054,116	820,221
Other expenses and losses:		
Research and development costs	**362,706**	257,310
Donation	**36,224**	23,385
Foreign exchange differences, net	**—**	22,166
Loss on disposal of items of property, plant and equipment	**10,054**	14,257
Impairment of long-term receivables	**8,095**	—
Impairment of trade receivables	**36,622**	15,386
Impairment of other receivables	**23,299**	(485)
Fair value loss on a derivative financial instrument	**1,323**	1,177
Technical service costs	**—**	8,486
Loss on disposal of an investment in a joint venture	**—**	134
Others	**8,045**	6,459
	486,368	348,275

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	RMB'000	*RMB'000*
Interest on bank borrowings	**65,609**	109,959
Interest on convertible bonds	**72,773**	31,391
	138,382	141,350

8. INCOME TAX

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

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

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

Under the relevant PRC income tax law, except for Shenyang Sunshine Pharmaceutical Co., Ltd. ("**Shenyang Sunshine**"), Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. ("**Sunshine Guojian**"), National Engineering Research Center of Antibody Medicine ("**NERC**"), Shenzhen Sciprogen Bio-pharmaceutical Technology Co., Ltd. ("**Sciprogen**") and Zhejiang Wansheng Pharmaceutical Co., Ltd. ("**Zhejiang Wansheng**"), all of which enjoy certain preferential treatment, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% on their respective taxable income.

Shenyang Sunshine, Sciprogen, Zhejiang Wansheng, NERC and Sunshine Guojian are qualified as High and New Technology Enterprises and are entitled to a preferential income tax rate of 15%. In accordance with relevant Italian tax regulations, Sirton Pharmaceuticals S.p.A. ("**Sirton**") is subject to income tax at a rate of 27.9% (2017: 27.9%).

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement 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:

	2018	2017
	RMB'000	*RMB'000*
Current	**242,145**	202,143
Deferred	**(23,880)**	(24,530)
Total tax charge for the year	**218,265**	177,613

The effective tax rate of the Group for the year ended 31 December 2018 was 14.6% (2017: 16.1%).

9. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Proposed and declared dividend	**—**	140,308

The Company proposed and paid 2017 share dividends with an aggregate amount of approximately RMB140,308,000 in accordance to the resolution passed at the Company's annual general meeting held on 20 June 2018.

10. 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 2,540,646,747 (2017: 2,535,303,101) in issue during the year, as adjusted to reflect the issue of ordinary shares during the year.

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

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

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**1,277,167**	935,389
Interest on convertible bonds	**72,773**	31,391
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**1,349,940**	966,780

	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year	**2,540,646,747**	2,535,303,101
Effect of dilution — weighted average number of ordinary shares:		
Warrants	**23,600,245**	32,957,466
Share options	**1,428,049**	—
Convertible bonds	**188,363,445**	85,286,782
	2,754,038,486	2,653,547,349

11. TRADE AND NOTES RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**1,410,660**	1,212,782
Notes receivable	**136,854**	138,309
	1,547,514	1,351,091
Provision for impairment of trade receivables	**(63,629)**	(27,007)
	1,483,885	1,324,084

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

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

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**708,267**	662,643
1 to 3 months	**566,211**	436,021
3 to 6 months	**28,350**	25,366
6 months to 1 year	**44,203**	61,745
1 to 2 years	**38,939**	18,525
Over 2 years	**24,690**	8,482
	1,410,660	1,212,782

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018	2017
	RMB'000	*RMB'000*
Cash and bank balances	**1,791,104**	2,396,410
Restricted cash	**1,501**	2,211
Pledged deposits	**14,289**	11,845
	1,806,894	2,410,466
Less:		
Pledged deposits for letters of credit	**(248)**	(263)
Pledged deposits for bank acceptance bills	**(14,041)**	(11,582)
Cash and cash equivalents	**1,792,605**	2,398,621

13. TRADE AND BILLS PAYABLES

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**92,046**	88,458
3 to 6 months	**18,721**	179,505
Over 6 months	**2,148**	6,605
	112,915	274,568

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

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loans — unsecured	**—**	**—**	**—**	4.13	2018	100,000
Bank loans — secured	**3.71**	**2019**	**52,572**	4.13	2018	200,000
Current portion of long term bank loans — secured	**4.2**	**2019**	**517,756**	4.2	2018	787,466
			570,328			1,087,466
Non-current						
Other secured bank loans	**2.75–4.65**	**2021–2028**	**425,022**	4.2–4.65	2019–2021	1,046,791
			425,022			1,046,791
Convertible bonds	**2.5**	**2017–2022**	**2,299,321**	2.5	2017–2022	2,271,874
			2,299,321			2,271,874
			3,294,671			4,406,131

	2018 ***RMB'000***	2017 *RMB'000*
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**570,328**	1,087,466
In the second year	**—**	496,791
In the third to ten years, inclusive	**425,022**	550,000
	995,350	2,134,257

Notes:

(a) The bank borrowings bear interest at fixed interest rates ranging from 2.75% to 4.65% per annum.

(b) The bank borrowings are secured by 31.76% of the equity interests in Sunshine Guojian held by Shanghai Xingsheng Pharmaceutical Company Limited, 100% of the equity interests in Shenyang Sunshine held by Hongkong Sansheng Medical Limited ("**Hongkong Sansheng**") and 43.42% of the equity interests in Sunshine Guojian held by Full Gain Limited and guaranteed by Sunshine Guojian with a bank guarantee amounting to HKD206,000,000.

(c) As at 31 December 2018, except for secured bank borrowings of RMB692,996,000 (2017: RMB1,284,257,000) which was denominated in HKD and RMB2,354,000 (2017: Nil) which was denominated in Euro, all the bank borrowings were denominated in RMB.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

3SBio is a leading biotechnology company in the PRC[1]. As a pioneer in the Chinese biotechnology industry, the Group has extensive expertise in researching and developing, manufacturing and marketing biopharmaceuticals. The core products of the Group include TPIAO (特比澳), Yisaipu (益賽普), and recombinant human erythropoietin ("**rhEPO**") products EPIAO (益比奧) and SEPO (賽博爾). All of these four products are market leaders in the PRC. TPIAO is the only commercialized recombinant human thrombopoietin ("**rhTPO**") product in the world. According to IMS Health Inc. ("**IMS**")[2], the market share of TPIAO in China increased to 65.3% for the treatment of thrombocytopenia in 2018. Yisaipu is a Tumour Necrosis Factor ("**TNF**") α inhibitor product with a continuing dominant market share in China of 64.0% in 2018. With its two rhEPO products, the Group has been the dominant market leader in the rhEPO market in China for nearly two decades, with a total market share of 41.0% in 2018. The Group has been expanding its therapeutic coverage by adding products through various strategic partnerships.

Key Events

As announced on 4 January 2018, one of the Group's in-licensed products, China's first glucagon-like peptide-1 ("**GLP-1**") receptor agonist weekly preparation Bydureon (generic name: exenatide microsphere for injection) had been approved by the PRC National Medical Products Administration[3] ("**NMPA**") as a new treatment option to improve glycemic control for patients with type 2 diabetes. As the first GLP-1 receptor agonist medicine in China that is administered once-weekly, it reduces the frequency of dosing, reduce gastrointestinal adverse effects, increase drug stability and improve patient compliance by continuing to provide steady-state levels of exenatide with sustained release microsphere technology. This product was licensed to the Group by AstraZeneca PLC ("**AstraZeneca**") in October 2016 and was launched in China on 25 May 2018.

As announced on 15 January 2018, 3SBio's wholly-owned subsidiary, Hongkong Sansheng and Toray Industries, Inc. ("**Toray**") entered into an exclusive licensing agreement (the "**Toray Agreement**") for the development and commercialization of certain oral disintegration tablet formulation of antipruritic drug TRK-820 (as under Toray development code, with the generic name

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1 Solely for purpose of this Announcement, "PRC" or "China" hereinafter, except where the context requires otherwise, excludes Hong Kong, Macau and Taiwan.

2 All market share information throughout this Announcement cites the IMS data, unless otherwise noted.

3 Formerly known as the China Food and Drug Administration.

as nalfurafine hydrochloride, also known as "REMITCH" as approved in Japan) that is developed and manufactured by Toray. Pursuant to the Toray Agreement, Toray agreed to grant Hongkong Sansheng the exclusive right to develop and commercialize this product in China, and Hongkong Sansheng agreed to pay Toray an upfront licensing fee as well as future milestone payments.

As announced on 22 February 2018, the Group received an approval from the NMPA to conduct clinical trials on TPIAO for pediatric immune thrombocytopenia ("**ITP**") indication.

On 30 April 2018, the Company announced a research collaboration with Menlo Park, California-based Refuge Biotechnologies, Inc. ("**Refuge**"), a company leveraging gene engineering technologies to develop intelligent cell therapeutics programmed to make decisions inside patients. The Company and Refuge will jointly design and carry out research programs focusing on developing programmed therapeutic cells that can produce therapeutic biologics agents in a disease micro environment inside a patient's body, using Refuge's platform technology. 3SBio will have an exclusive license to develop and commercialize the programmed therapeutic cells in Greater China, which included Mainland China, Taiwan, Hong Kong and Macau (the "**Territory**") under the research collaboration agreement entered into between the Company and Refuge. Concurrently, 3SBio and a co-lead investor Sequoia Capital China, as well as existing Series A investors, had completed a USD25 million Series B investment round into Refuge.

In May 2018, the Group received an approval from NMPA for Phase II and Phase III trials on NuPIAO (SSS06) in anemic patients.

In June 2018, the Group received three additional clinical trial approvals from the NMPA for an anti-vascular endothelial growth factor ("**VEGF**") antibody (601A) for the treatment of several ophthalmic diseases, including macular edema following retinal vein occlusion (RVO), myopic choroidal neovascularization (mCNV), and diabetic retinopathy with macular edema (DME).

In July 2018, the Group entered into an agreement with a Beijing-based pharmaceutical company to acquire a calcium acetate tablet product. This calcium acetate tablet treats hyperphosphatemia in patients with chronic kidney disease, and is included in the National Reimbursement Drug List ("**NRDL**") released by the Ministry of Human Resources and Social Security of the PRC as a Class B Drug (No. 149). A market survey conducted by the Company shows that this product is one of the primary treatments in hyperphosphatemia. The Company expects to market this product in the first half of 2019.

In August 2018, China Pharmaceutical Industry Information Center ("**CPIIC**") issued the "2017 China Pharma 100" List (the "**China Pharma List**"), which ranked the Group as the 67th out of the top 100 pharmaceutical companies in China, as compared to the 84th in 2016, making the Group being the company with the largest rise in ranking in the China Pharma List. CPIIC is an official pharmaceutical information platform of the PRC Ministry of Industry and Information Technology. The China Pharma 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 China Pharma List will be awarded points for the bidding. CPIIC also elected the Group as one of the "Best Pharmaceutical R&D Pipeline Companies in China".

Effective from 10 December 2018, the Company has been selected as a constituent of Hang Seng China (Hong Kong-listed) 100 Index.

Key Events after the Reporting Period

As announced on 7 January 2019, Hongkong Sansheng entered into a collaboration agreement (the "**Samsung Agreement**") with Samsung Bioepis Co., Ltd. ("**Samsung Bioepis**") for the clinical development and commercialization of multiple biosimilar candidates developed by Samsung Bioepis, including SB8 bevacizumab biosimilar candidate ("**SB8**") in China. Pursuant to the Samsung Agreement, Samsung Bioepis will be responsible for manufacturing and supply of the products and collaborate with 3SBio across a number of areas including clinical development, regulatory registration and commercialization in China. The indications of Bevacizumab biosimilar candidate in China will focus on metastatic colorectal cancer (mCRC) and non-small cell lung cancer (NSCLC).

On 11 January 2019, the Group received an investigation new drug ("**IND**") approval from the U.S. Food and Drug Administration for 609A, an anti-PD1 antibody, for clinical trials in patients with various cancers. Patient enrollment is expected to begin soon. The Group is currently submitting an IND application to the NMPA for clinical trial approval for 609A in China.

On 11 February 2019, the Group and Verseau Therapeutics, Inc. ("**Verseau**") announced a partnership agreement (the "**Partnership Agreement**") focused on the development and commercialization of novel monoclonal antibodies in the field of immuno-oncology for a broad range of cancers. Verseau's proprietary drug discovery platform generates first-in-class macrophage checkpoint modulators ("**MCM(s)**") to benefit patients with cancer, immune and inflammatory diseases. Under the terms of the Partnership Agreement, the Group will receive an exclusive license to develop and commercialize a selective number of MCM antibodies for all human oncology indications in the Territory. Verseau will be responsible for discovery and optimization of MCM antibodies for each program. The Group will fund and conduct antibody development, Good Manufacturing Practices ("**GMP**") manufacturing and commercialization in the Territory. Verseau and the Group will be eligible to receive certain milestone payments and royalties on product sales both in the Territory and globally. The Group will also purchase USD15 million of Verseau Series B preferred stock. This collaboration with Verseau provides the Group with access to novel and differentiated immune-modulating antibodies that will complement the Group's growing innovative oncology portfolio.

On 4 March 2019, the Company and Taiwan Liposome Company, Ltd. (Nasdaq: TLC, TWO: 4152) ("**TLC**") announced an exclusive partnership to commercialize in China two liposomal products utilizing TLC's proprietary NanoX™ technology platform in the therapeutic areas of oncology and severe infectious diseases. Under this partnership, TLC and 3SBio will cooperate to obtain regulatory approvals in China, and TLC will utilize its commercial-scale manufacturing capabilities to supply the two liposomal products for 3SBio to commercialize in China. The two companies also agreed to further collaborate in researching and developing other novel liposomal products in the therapeutic areas of osteoarthritis, pain management, ophthalmology and oncology. NanoX™ active drug loading technology is designed to alter the systemic exposure of the drug, potentially reducing dosing frequency and enhancing distribution of liposome-encapsulated active agents to the desired site. Under the terms of the relevant agreement, TLC is eligible to receive up to USD25 million as upfront payment for each product and regulatory and sales milestone payments. TLC is also eligible for a share of the potential profits from the product sales.

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 NMPA for two indications: the treatment of chemotherapy-induced thrombocytopenia ("**CIT**") and ITP. TPIAO has the advantages of higher efficacy, faster platelet recovery and fewer side effects as compared to alternative treatments for CIT and ITP. TPIAO is included in the 2017 NRDL as a Class B Drug (No. 214) for the treatment of severe CIT in patients with solid tumors or ITP. In "The Consensus of China Experts on Diagnosis and Treatment of Adult Primary Immune Thrombocytopenia" (2016 Version), rhTPO products are included as the first choice recommendation for the second line treatments list, and are recommended among the medicines to boost platelet production in certain emergencies cases. In "The Chinese Guidelines for Treatment of Adult Primary Immune Thrombocytopenia", published in International Journal of Hematology in April 2018, rhTPO is included as the first choice recommendation for the second line treatments list. In "The Guidelines of Chinese Society of Clinical Oncology (CSCO) — Conventional Osteosarcoma", issued in April 2018, TPIAO is recommended as one of the primary treatments in the CIT context. In "China Experts Consensus on Diagnosis and Treatment of Multiple Organ Dysfunction Syndrome Induced by Infection in The Elderly", published in Chinese Journal of Practical Internal Medicine (Issue 2018-8), TPIAO is recommended for patients with thrombocyte less than $50x10^9$/L. In "Consensus on Clinical Diagnosis, Treatment and Prevention Management of Chemotherapy-Induced Thrombocytopenia in China", published in Chinese Journal of Oncology (Issue 2018-9), TPIAO is recommended for patients with thrombocyte less than $75*10^9$/L. TPIAO has experienced significant sales growth due to increasing physician awareness of its safety and efficacy as a treatment for CIT and ITP and its quick adoption in China. The inclusion in the 2017 NRDL also led to accelerated growth for TPIAO since the fourth quarter of 2017, as the 2017 NRDL was implemented from September 2017 onwards. The Group believes that TPIAO is still at an early stage of its product life cycle. The Group estimates that the penetration rates for both CIT and ITP indications in China may be approximately 20% to 24%. 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. In 2018, TPIAO was one of the top 50 best-selling pharmaceutical products in terms of sales value in the China market; and the China market share, in terms of volume, of TPIAO for the treatment of thrombocytopenia was 19.4%. TPIAO was approved by the NMPA to enter clinical trials for pediatric ITP indication in February 2018. Outside of China, TPIAO has been approved in seven countries, including Ukraine, Philippines and Thailand.

Yisaipu, generically known as etanercept, is a TNF α inhibitor product. It was first launched in 2005 in China for rheumatoid arthritis ("**RA**"). Its indications were expanded to ankylosing spondylitis ("**AS**") and psoriasis in 2007. The Group actively participated in the works related to "The 2018 China Rheumatoid Arthritis Treatment Guidance" (the "**Guidance**"), an authoritative document issued by the China Medical Association. Yisaipu is adopted in the Guidance under 'TNF α inhibitors' as one of the RA treatment options, and the Guidance deems TNF α inhibitors as a group of biological agents with relatively sufficient evidence and relatively wide adoption in treating RA. Yisaipu is included in the 2017 NRDL as a Class B Drug (No. 846) for the treatment of patients with confirmed diagnosis of RA, and for the treatment of patients with confirmed diagnosis of AS (not including pre-radiographic axial spondyloarthritis), each subject to certain medical prerequisites. Yisaipu has experienced significant growth as the first-to-market etanercept product in China, with a dominant market share in China of 64.0% by sales in 2018. The sales coverage of Yisaipu extends to more than 2,700 hospitals in China, including over 1,000 Grade III hospitals.

The inclusion of Yisaipu in the 2017 NRDL also led to accelerated growth of Yisaipu since the fourth quarter of 2017, as the 2017 NRDL was implemented from September 2017 onwards. The Group believes that Yisaipu is still at an early stage of its product life cycle. The Group estimates that the penetration rates for RA and AS in China are each less than 5%. Currently, the majority of the Group's sales of Yisaipu is generated from approximately 7% of the hospitals covered by the Group's sales team. The Group has completed the Phase III trial for pre-filled syringe of Yisaipu and expects to apply for manufacturing approval in the first half of 2019. If approved, it will potentially be the only TNF α inhibitor product in pre-filled format among Chinese peers. The Group is of the view that the pre-filled syringe of Yisaipu will improve convenience and compliance for patients, and contribute to further growth of Yisaipu. Outside of China, Yisaipu had been approved in 14 countries. In March 2018, the Group received the marketing authorization for Yisaipu from Thailand. Thailand is a member of the Pharmaceutical Inspection Co-operation Scheme (the "**PIC/S**"). 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 presently comprises 52 participating authorities from Europe, Africa, America, Asia and Australia. The marketing authorization received from a PIC/S member will facilitate the review process by other PIC/S members and benefit the Group's international registration in PIC/S countries and its further expansion into the highly regulated markets. In July 2018, the Group received the marketing authorization for Yisaipu from the Philippines which has a population over 100 million, which could potentially benefit the Group's export sales. In November 2017, the Group's manufacturing facility for Yisaipu received a *"Qualified Person's Declaration Equivalence to European Union Good Manufacturing Practice for Investigation Medicinal Products manufactured in Third Countries"*. This declaration attests to the high quality of Yisaipu as assessed under the European Union ("**EU**") standards and the good adherence of the Yisaipu manufacturing facility to the EU standards.

EPIAO is still the only rhEPO product approved by the NMPA for the following three indications: the treatment of anemia associated with chronic kidney disease ("**CKD**"), the treatment of chemotherapy-induced anemia ("**CIA**") and the reduction of allogeneic blood transfusion in surgery patients. EPIAO is included in the NRDL as a category B drug in China since 2000 and is included in the 2018 National Essential Drug List. EPIAO has consistently been the dominant market leader in the China rhEPO market since 2002 in terms of both volume and value. EPIAO is the only rhEPO product in China available at 36,000 IU (international unit per vial) dosage, and together with SEPO, claims the majority of the China rhEPO market share at 10,000 IU dosage. Future growth for EPIAO may be driven by: (1) the increase of the dialysis penetration rate among stages IV and V CKD patients, which the Group believes is substantially lower in China as compared with other countries; and (2) the increase in the applications of EPIAO in reducing allogeneic blood transfusion and in CIA oncology indication in China, which the Group believes is at a very early stage of growth. With contributions from the second brand of the Group's rhEPO products, SEPO, market coverage of the Group's rhEPO products has expanded in Grade II and Grade I hospitals in China, where sales of its rhEPO products have been experiencing significant growth. The Group expects that SEPO will continue to gain market share in the China rhEPO market. Outside of China, EPIAO has been approved in 22 countries. The multi-center biosimilar clinical trials for EPIAO in Russia and Thailand have made good progress, with patient recruitment for the maintenance period to be completed by the end of 2019. The trials are expected to be completed by 2020. The Group intends to include Ukraine in the multi-center clinical trials in 2019 to expedite patient enrollment.

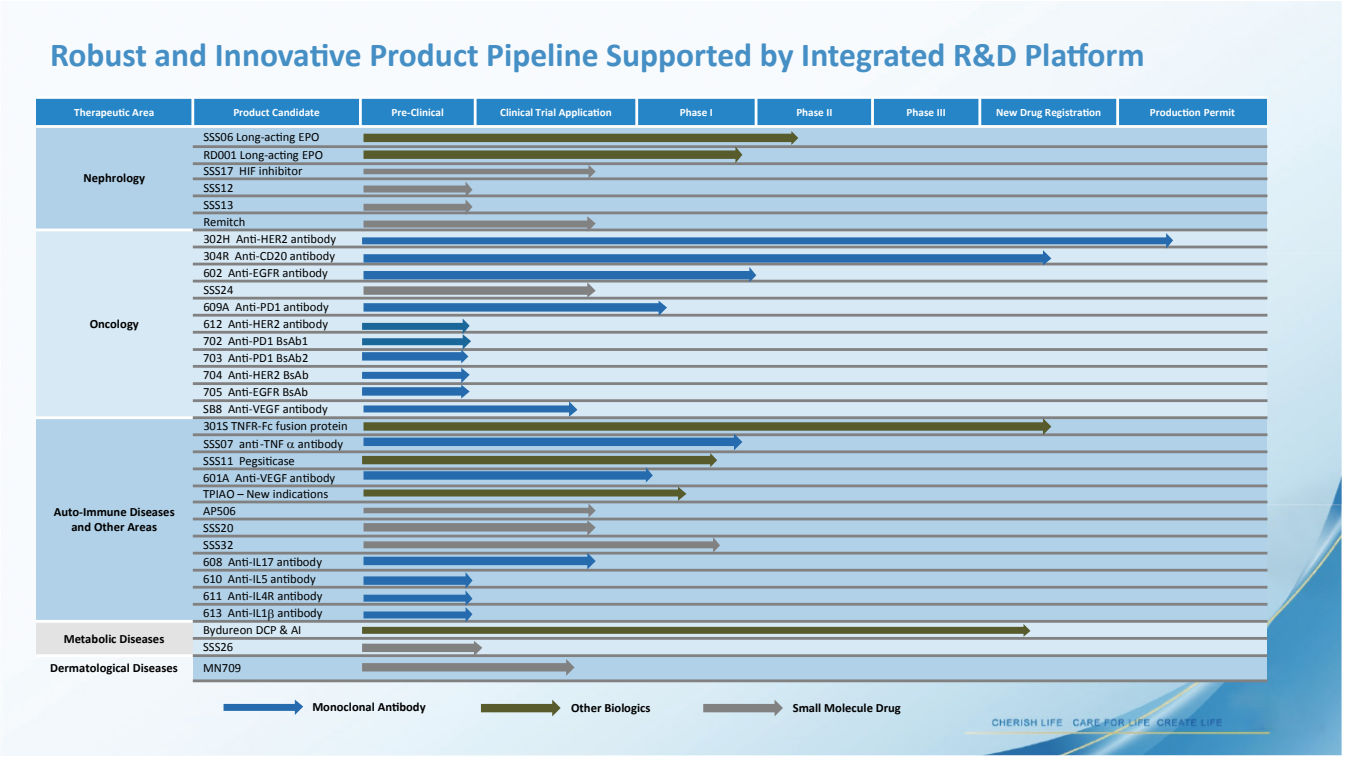
Humulin was the first bio-synthetic human insulin product and was also the first medical product for human therapeutic use produced by recombinant DNA technology in the world. Humulin is licensed from Eli Lilly and Company (NYSE: LLY) ("**Lilly**"), and the Group started to consolidate the revenue of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

Byetta, generically known as "exenatide injection", is an injectable GLP-1 receptor agonist, administered twice daily as an adjunct to diet and exercise to improve glycemic control in adults with type 2 diabetes mellitus, which is indicated for treatment of patients who have not achieved adequate glycaemic control on metformin, sulphonylureas, or metformin plus sulphonylureas. Byetta is licensed from AstraZeneca, and the Group started to record the revenue of Byetta from October 2016. Bydureon, the weekly administered GLP-1 receptor agonist product licensed from AstraZeneca, was launched on 25 May 2018, and the Group started to record its revenue since the launch date. In "The Clinical Application of GLP-1 receptor agonists — Experts Guidance" (the "**Experts Guidance**") published in Chinese Journal of Diabetes (May 2018, Vol. 26, No. 5), the experts are of the opinion that GLP-1 receptor agonists are an important class of novel hypoglycemic drug in the treatment of type 2 diabetes mellitus, with increasingly wider clinical application; that they have reliable and safe hypoglycemic efficacy, and have additional benefits outside blood glucose reduction including body weight reduction, systolic pressure reduction and blood lipid profile improvement. The Experts Guidance recommends that GLP-1 receptor agonists can be used in mono-therapy, or in combination therapy when other multiple oral hypoglycemic drug and basal insulin fail to achieve desired glycemic control. In "Standards of Medical Care in Diabetes 2019" (the "**Standards**"), issued by American Diabetes Association, GLP-1 receptor agonists is recommended in various type 2 diabetes comorbidities scenarios as pharmacologic therapy, and the Standards stated that in most patients who need the greater glucose-lowering effect of an injectable medication, GLP-1 receptor agonists are preferred over insulin; and GLP-1 receptor agonists is also recommended as the best choice for a second agent in combination therapy for patients in whom certain comorbidities predominates.

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

Product Pipeline

As at 31 December 2018, amongst the 32 product candidates within the Group's active pipeline, 22 were being developed as National Class I New Drugs (國家一類新藥) in China. The Group has 11 product candidates in oncology; 12 product candidates that target auto-immune diseases including RA, and other diseases such as refractory gout and ophthalmological diseases such as age-related macular degeneration (the "**AMD**"); six product candidates in nephrology; two product candidates in the metabolic area that target type 2 diabetes; and one product candidate in dermatology. A total of 22 of the 32 product candidates are biologics, and the other 10 are small molecules.



Research and Development ("R&D")

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

The Group focuses its R&D efforts on researching and developing innovative biological products. Currently, the Group has several leading biological products in various stages of clinical development, including SSS06 (NuPIAO, the second-generation rhEPO to treat anemia), RD001 (pegylated long-acting EPO to treat anemia), SSS07 (the anti-TNF α antibody to treat RA and other inflammatory diseases), pegsiticase (a modified pegylated recombinant uricase from candida utilis to treat refractory gout), 602 (an anti-epidermal growth factor receptor antibody to treat cancer), 601A (an anti-VEGF antibody to treat AMD and other ophthalmological diseases), 609A (an anti-PD1 antibody to treat cancer) and 301S (pre-filled syringe dosage form of Yisaipu). On the

research front, the Group is developing a panel of novel biological products, including monoclonal antibodies ("**mAb**"), bispecific antibodies and fusion proteins, and a number of small molecule drugs, both innovative and generic, in the areas of oncology, autoimmune and inflammatory diseases, nephrology, metabolic and dermatological diseases.

The Group has completed the phase III trial on the pre-filled syringe dosage form of Yisaipu (301S) and is preparing to apply for the manufacturing approval from the NMPA in the first half of 2019.

The Group has completed multiple phase I trials on NuPIAO (SSS06) in anemic patients, and has obtained an approval from the NMPA in May 2018 for phase II and phase III clinical trials. Patient enrollment is expected to begin soon.

The Group has completed a dose-escalating phase I safety and pharmacokinetics study on RD001 in healthy volunteers, and is currently planning for phase II trials in anemic patients.

The Group has completed the phase I clinical trial of a humanized anti-TNF α antibody (SSS07) in both healthy volunteers and RA patients, and is currently preparing for phase II trials in patients with RA and other inflammatory diseases.

The Group has completed a phase I trial of an anti-epidermal growth factor receptor antibody (602) in patients with various cancers, and is currently planning advanced clinical trials of the product in patients with colorectal cancer.

The Group has started patient enrollment for the phase I clinical trials for pegsiticase (SSS11) in refractory gout patients with high uric acid level. In the United States, the Group's business partner, Selecta Biosciences, Inc. (NASDAQ: SELB) ("**Selecta**") is actively pursuing phase II clinical development for SEL-212 (consisting of pegsiticase, co-administered with SVP-Rapamycin to prevent the formation of anti-drug antibodies) as its lead program. Selecta has recently presented interim data from its phase II trial at the 2018 annual meeting of the American College of Rheumatology (ACR) showing sustained serum uric acid (SUA) control over a five-month combination period.

In February 2018, the Group was granted a new IND approval from the NMPA for clinical trials of TPIAO in pediatric ITP indication. Patient enrollment is expected to begin soon. Clinical trials for TPIAO in surgery patients with hepatic dysfunction at the risk of thrombocytopenia is ongoing.

In June 2018, the Group received three clinical trial approvals from the NMPA for an anti-VEGF antibody (601A) for the treatment of several ophthalmological diseases, including macular edema following retinal vein occlusion (RVO), myopic choroidal neovascularization (mCNV), and diabetic retinopathy with macular edema (DME). Phase I trial in DME patients is expected to begin soon. Patient enrollment for 601A in neovascular AMD trials is currently ongoing.

As announced on 4 January 2018, one of the Group's in-licensed products, a GLP-1 receptor agonist weekly preparation, Bydureon (generic name: exenatide microsphere for injection), was approved by the NMPA as a new treatment option to improve glycemic control for patients with type 2 diabetes. The Group has launched the product, the first long-acting weekly-dosing GLP-1 receptor agonist, in the China market in May 2018.

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

On 1 February 2018, the Group received a supplemental marketing approval from the NMPA for Tacrolimus Ointment (0.03%) for pediatric indications in children aged 2–15 years old with moderate to severe atopic dermatitis. The product was launched in May 2018.

During the period from 2009 to 2013, the Group conducted an open label, multi-center, perspective phase III trial in China with 302H (賽普汀), a humanized anti-HER2 antibody for injection, in patients with HER2 over-expressing metastatic breast cancer. During the years of 2017–2018, the Group completed a thorough inspection and audition of all the clinical sites involved in the trial and the associated clinical data, with the assistance of a retained third-party clinical study audit firm. In September 2018, the Group resubmitted a New Drug Application (NDA) to the NMPA for the approval of 302H (賽普汀) for the treatment of patients with HER2 over-expressing metastatic breast cancer. The application was granted a priority review status by the NMPA.

The Group's R&D team consisting of over 330 experienced scientists under the leadership of Dr. ZHU Zhenping, the chief scientific officer of the Company, is working diligently to research and discover new medicines, to accelerate the progress of clinical development, and to bring breakthrough therapies to fulfill the unmet medical needs of patients.

Sales, Marketing and Distribution

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

As at 31 December 2018, the Group's extensive sales and distribution network in China was supported by approximately 3,224 sales and marketing employees, 478 distributors and 1,927 third-party promoters. As at 31 December 2018, the Group's sales team covered over 2,000 Grade III hospitals and over 14,000 Grade II or lower hospitals and medical institutions, reaching all provinces, autonomous regions and special municipalities in China. In addition, TPIAO, Yisaipu, EPIAO, SEPO and some of the Group's other products are exported to a number of countries through international promoters.

Outlook

With the deepening of the healthcare reform in China, the Group is of the view that the pharmaceutical landscape will reshape in the coming years. The healthcare reform will favor companies with focus on innovation, manufacturing quality and market access. The preferential policies towards the innovative drugs impact on the full pharmaceutical life cycle, from R&D, regulatory review, manufacturing to payment. More government support is expected for innovative drugs and drugs with urgent clinical needs, indicating accelerated approval timeline and greater chance to be included on the NRDL. The R&D standard is raised with the aim to improve drug quality. The acceptance of overseas clinical trial data will bring in more innovative drugs to address the unmet medical needs in China. The improved living standards and an aging population demand high quality healthcare products.

The mission of the Group has been to provide innovative and affordable medicines with international quality standard to the public. The Group aims to become a China-based, leading global biopharmaceutical company by leveraging its integrated R&D, commercial and manufacturing platforms.

According to IMS, in 2018, the Group ranked the 27th in the China hospital sales market, in terms of sales value, among all the pharmaceutical companies. The Group plans to grow the sales volume of its marketed products by further penetrating into the hospitals currently covered by the Group's sales and marketing team and new hospitals to be reached and brought under coverage, through continuous reaching out to the medical profession. The current market penetration rates of the Group's core products are still relatively low, promising significant growth potentials.

The Group has consistently pursued innovation and technology excellence. Its rich pipeline now includes 32 candidates, with 22 candidates being developed as National Class I New Drugs. The Group continues to allocate resources with focus on its core therepeutical areas including oncology, autoimmune disease, nephrology and other sectors. The Group is developing a series of innovative biopharmaceutical drugs, including bi-specific antibody, fusion protein and cellular therapy. The Group will continue to build up its in-house clinical development capacity and capability on a high priority basis.

The Group continues to build up a comprehensive quality system and voluntarily adheres to global standards. The Group has proven in its track record the efficacy and safety profile of Group's products, and the Group's manufacturing facilities have passed numerous inspections conducted by the NMPA and local authorities in the past years. With the Group's approximately 38,000-liter capacity mAb facility, as well as mammalian cell-based, bacteria cell-based and small molecule manufacturing facilities and over 26 years of experience in the biological medicine manufacturing field, the Group is able to manufacture high quality pharmaceutical products with scalable manufacturing capacity at competitive cost. The Group continues to build its CDMO business by leveraging its mAb manufacturing capacity. The Group is actively and selectively seeking opportunities to bring in clinical trial stage biological products in order to provide commercial manufacturing service.

The Group continues to seek selective merger and acquisition and collaboration opportunities to enrich its existing product portfolio and pipeline to sustain long-term growth. The strategic collaborations with AstraZeneca, Lilly, Toray, Samsung Bioepis and TLC are affirmations of the Group being a partner of choice to leading pharmaceutical companies around the world, and serve as stepstones for future strategic collaborations. The Group is growing its international sales through registration of existing products in new countries and registration of new products in highly regulated markets.

Financial Review

Revenue

For the year ended 31 December 2018, the Group's revenue amounted to approximately RMB4,583.9 million, as compared to approximately RMB3,734.3 million for the year ended 31 December 2017, representing an increase of approximately RMB849.5 million, or approximately 22.7%. The increase was mainly attributable to the sales growth of the Group's key products.

For the year ended 31 December 2018, the Group's sales of TPIAO increased to approximately RMB1,669.5 million, as compared to approximately RMB974.8 million for the year ended 31 December 2017, representing an increase of approximately RMB694.7 million, or approximately 71.3%. Under the IMS methodology, the hospital consumption of TPIAO grew approximately 80.2% in 2018, as compared to 2017. The increase was primarily attributable to an increase in sales volume, which in turn was primarily driven by the increase in recognition of TPIAO within the medical profession and the accelerated growth due to the implementation of NRDL beginning from September 2017. For the year ended 31 December 2018, the sales of TPIAO accounted for approximately 36.3% of the Group's total sales of goods.

For the year ended 31 December 2018, the Group's sales of Yisaipu increased to approximately RMB1,111.4 million, as compared to approximately RMB1,012.9 million for the year ended 31 December 2017, representing an increase of approximately RMB98.5 million, or approximately 9.7%. Under the IMS methodology, the hospital consumption of Yisaipu grew approximately 24.1% in 2018, as compared to 2017. The increase was primarily attributable to an increase in sales volume, which in turn was driven by the accelerated growth due to the implementation of NRDL beginning from September 2017. The slower growth of the Group's reported sales of Yisaipu as compared to the hospital consumption is primarily due to the Group's improvement of its commercial policy. The new policy requires a lower level of channel stock, and as a result, the Group was able to negotiate more favorable commercial terms with the distributors. For the year ended 31 December 2018, the sales of Yisaipu accounted for approximately 24.1% of the Group's total sales of goods.

For the year ended 31 December 2018, the Group's sales of EPIAO and SEPO increased to approximately RMB896.6 million, as compared to approximately RMB855.3 million for the year ended 31 December 2017, representing an increase of approximately RMB41.3 million, or approximately 4.8%. The increase was primarily attributable to an increase in sales volume which in turn was primarily driven by the surging demand for rhEPO products in China. For the year ended 31 December 2018, the Group's sales of SEPO increased to approximately RMB192.5 million, as compared to approximately RMB150.7 million for the year ended 31 December 2017, representing an increase of approximately RMB41.7 million, or approximately 27.7%. For the year ended 31 December 2018, the Group's sales of EPIAO decreased to approximately RMB704.1 million, as compared to approximately RMB704.6 million for the year ended 31 December 2017, representing a slight decrease of approximately RMB0.5 million, or approximately 0.1%. The decrease was primarily attributable to a decrease in the ex-factory price. The second brand of the Group's rhEPO product, SEPO, performed strongly and expanded the market coverage. For the year ended 31 December 2018, the sales of EPIAO and SEPO accounted for a total of approximately 19.5% of the Group's total sales of goods.

For the year ended 31 December 2018, the Group's sales of chemical products were approximately RMB379.0 million, as compared to approximately RMB340.6 million for the year ended 2017, representing an increase of approximately RMB38.3 million, or approximately 11.3%. The increase was mainly attributable to the increased sales volume of Sparin and dermatology products which was in turn driven by surging demand.

For the year ended 31 December 2018, the Group's export sales increased to approximately RMB84.2 million, as compared to approximately RMB64.5 million for the year ended 2017,

representing an increase of approximately RMB19.7 million, or approximately 30.6%. The increase was mainly attributable to an increase in export sales of EPIAO.

For the year ended 31 December 2018, the Group's other sales, primarily consisted of sales from license-in products and contract manufacturing income from Sirton and other subsidiaries of the Group, decreased to approximately RMB463.7 million, as compared to approximately RMB501.4 million for the year ended 31 December 2017, representing a decrease of approximately RMB37.7 million, or approximately 7.5%. The decrease is primarily attributable to the implementation of the two-invoice government policy, in which case the revenue is calculated by net sales instead of gross sales.

Cost of Sales

The Group's cost of sales increased from approximately RMB676.2 million for the year ended 31 December 2017 to approximately RMB877.3 million for the year ended 31 December 2018, which accounted for approximately 19.1% of the Group's total revenue for the same period. The primary reasons for the increase in the Group's cost of sales were due to the increased sales volume for the year ended 31 December 2018, as compared to the corresponding period in 2017, and the consolidation of the costs of sales of Humulin into the Group's consolidated financial statements since 1 July 2017.

Gross Profit

For the year ended 31 December 2018, the Group's gross profit increased to approximately RMB3,706.6 million, as compared to approximately RMB3,058.1 million for the year ended 31 December 2017, representing an increase of approximately RMB648.5 million, or approximately 21.2%. The increase in the Group's gross profit was broadly in line with its revenue growth during the period. The Group's gross profit margin decreased to approximately 80.9% for the year ended 31 December 2018 from approximately 81.9% for the corresponding period in 2017. The decrease was mainly attributable to the Group's consolidation of the service income associated with the promotion of Humulin since 1 July 2017, which had a lower gross profit margin than the Group's other businesses.

Other Income and Gains

The Group's other income and gains mainly comprised income associated with the fair value gain upon reclassification of an equity investment, government grants, interest income, foreign exchange gain and other miscellaneous income. For the year ended 31 December 2018, the Group's other income and gains increased to approximately RMB429.8 million, as compared to approximately RMB195.8 million for the year ended 31 December 2017, representing an increase of approximately RMB234.0 million, or approximately 119.5%. The increase was mainly attributable to the increase in fair value gain upon reclassification of an equity investment in Ascentage Cayman as well as foreign exchange gains and interest income derived from treasury or cash management products and other investments.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consisted of marketing and promotion expenses, staff costs, transportation expenses, consulting fees and other miscellaneous selling and distribution expenses. For the year ended 31 December 2018, the Group's selling and distribution expenses amounted to approximately RMB1,691.2 million, as compared to approximately RMB1,332.7 million for the year ended 31 December 2017, representing an increase of approximately RMB358.5 million, or approximately 26.9%. The increase was mainly attributable to the increased promotional activities for the Group's key products and the marketing expenses associated with the launch of Bydureon. In terms of the percentage of revenue, the Group's selling and distribution expenses was 36.9% for the year ended 31 December 2018 as compared to approximately 35.7% for the year ended 31 December 2017.

Administrative Expenses

The Group's administrative expenses consisted of staff costs, professional fees, depreciation and amortization, property expenses, share-based compensation, and other miscellaneous administrative expenses. For the year ended 31 December 2018, the Group's administrative expenses amounted to approximately RMB316.8 million, as compared to approximately RMB315.1 million for the year ended 31 December 2017, representing a slight increase of approximately RMB1.6 million, or approximately 0.5%. The increase was mainly attributable to the increase in staff costs due to the expansion of business of the Group, which was partially offset by the decrease in one-off expenses. The one-off expenses include: (a) the expenses incurred in relation to the issuance of the Bonds; (b) the option expenses associated with the options granted on 2 February 2017; (c) the expenses incurred in relation to the terminated proposed acquisition of a CDMO business in Canada. Had the effects of the non-recurring items been excluded, the administrative expenses for the year ended 31 December 2018 would have been approximately RMB299.3 million, as compared to approximately RMB274.5 million for the year ended 31 December 2017, representing an increase of approximately RMB24.8 million, or approximately 9.0%. The administrative expenses (excluding the aforementioned non-recurring items) as a percentage of revenue was approximately 6.5% for the year ended 31 December 2018, as compared to approximately 7.4% for the corresponding period in 2017.

Other Expenses and Losses

The Group's other expenses and losses primarily consisted of its R&D costs. For the year ended 31 December 2018, the Group's other expenses and losses amounted to approximately RMB486.4 million, as compared to approximately RMB348.3 million for the year ended 31 December 2017, representing an increase of approximately RMB138.1 million, or approximately 39.7%. The increase was mainly due to the increase in R&D expenses which increased from approximately RMB257.3 million for the year ended 31 December 2017 to approximately RMB362.7 million for the year ended 31 December 2018.

Finance Costs

For the year ended 31 December 2018, the Group's finance costs amounted to approximately RMB138.4 million, as compared to approximately RMB141.4 million for the year ended 31 December 2017, representing a decrease of approximately RMB3.0 million, or approximately 2.1%. The decrease was mainly due to the decrease in interest expenses with the repayment of bank borrowings, which was partially offset by increase in non-cash interest expenses of the Bonds. Excluding the non-cash interest expenses of the Bonds, the finance cost decreased from approximately RMB110.0 million for the year ended 31 December 2017 to approximately RMB65.6 million for the year ended 31 December 2018, representing a significant decrease of approximately RMB44.4 million, or approximately 40.3%.

Income Tax Expense

For the year ended 31 December 2018, the Group's income tax expense amounted to approximately RMB218.3 million, as compared to approximately RMB177.6 million for the year ended 31 December 2017, representing an increase of approximately RMB40.6 million, or approximately 22.9%. The increase was mainly due to the increase of taxable income during the year ended 31 December 2018, as compared to the corresponding period in 2017. The effective tax rates for the year ended 31 December 2018 and the corresponding period in 2017 were 14.6% and 16.1% respectively. The decrease in effective tax rate was mainly attributable to the increase in tax-deductible R&D expenses and offshore income for the year ended 31 December 2018, as compared to the year ended 31 December 2017.

EBITDA and Net Profit attributable to owners of the parent

The EBITDA for the year ended 31 December 2018 increased by approximately RMB416.0 million or approximately 28.2% to approximately RMB1,892.8 million, as compared to approximately RMB1,476.8 million for the year ended 31 December 2017. The normalized EBITDA is defined as the EBITDA for the period excluding, as applicable: (a) the expenses incurred in relation to the issuance of the Bonds in an aggregate principal amount of €300,000,000 due 2022; (b) the option expenses associated with the options granted on 2 February 2017; (c) the fair value gain upon reclassification of an equity investment in Ascentage Cayman; (d) the income associated with the disposal of the equity investments in the subsidiaries of Ascentage Cayman; and (e) the expenses incurred in relation to the terminated proposed acquisition of a CDMO business in Canada. The Group's normalized EBITDA for the year ended 31 December 2018 increased by approximately RMB336.3 million or approximately 23.3% to approximately RMB1,781.8 million, as compared to approximately RMB1,445.5 million for the year ended 31 December 2017.

The net profit attributable to owners of the parent for the year ended 31 December 2018 was approximately RMB1,277.2 million, as compared to approximately RMB935.4 million for the year ended 31 December 2017, representing an increase of approximately RMB341.8 million, or approximately 36.5%. The normalized net profit attributable to owners of the parent is defined as the profit attributable to owners of the parent for the period excluding, as applicable: (a) the expenses incurred in relation to the issuance of the Bonds in an aggregate principal amount of €300,000,000 due 2022; (b) the option expenses associated with options granted on 2 February 2017; (c) the fair value gain upon reclassification of an equity investment in Ascentage Cayman; (d) the income associated with the disposal of the equity investments in the subsidiaries of Ascentage

Cayman; and (e) the expenses incurred in relation to the terminated proposed acquisition of a CDMO business in Canada. The Group's normalized net profit attributable to owners of the parent for the year ended 31 December 2018 was approximately RMB1,166.1 million, as compared to approximately RMB904.0 million for the year ended 31 December 2017, representing an increase of approximately RMB262.1 million, or approximately 29.0%.

Financial Assets measured at fair value

As at 31 December 2018, other financial assets primarily comprised the equity investment in Ascentage Cayman, the investment in treasury or cash management products issued by certain banks, the investment in a listed company and the investments in private equity funds which focus on healthcare industry, which were recognised as available-for-sale investments under IAS 39 in previous years.

Liquidity, Financial and Capital Resources

The Group's liquidity remained strong. For the year ended 31 December 2018, the Group's operating activities generated a net cash inflow of approximately RMB1,150.3 million. As at 31 December 2018, the Group's cash and cash equivalents and pledged deposits were approximately RMB1,806.9 million.

Net Current Assets

As at 31 December 2018, the Group had net current assets of approximately RMB2,782.0 million, as compared to net current assets of approximately RMB3,080.4 million as at 31 December 2017. The current ratio of the Group increased from approximately 2.4 as at 31 December 2017 to approximately 2.7 as at 31 December 2018. The decrease in net current assets and the increase in current ratio was mainly due to the repayment of interest-bearing bank borrowings.

Funding and Treasury Policies, Borrowing and Pledge of Assets

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

As at 31 December 2018, the Group had an aggregate interest-bearing bank borrowings of approximately RMB995.4 million, as compared to approximately RMB2,134.3 million as at 31 December 2017. The decrease in bank borrowings primarily reflected the repayment of loans of RMB1,588.2 million, which was partially offset by the additional short-term bank loans of RMB399.3 million obtained in 2018. The short-term bank borrowings were obtained to replace long-term bank borrowings so as to lower interest expenses. Among the short-term deposits, none was pledged to secure bank loans as at 31 December 2018.

As at 31 December 2018, the Group had convertible bonds outstanding of approximately RMB2,299.3 million.

Gearing Ratio

The gearing ratio of the Group, which was calculated by dividing the total borrowings (excluding the Bonds) by the total equity, decreased to approximately 11.2% as at 31 December 2018 from approximately 28.0% as at 31 December 2017. The decrease was primarily due to repayment of loans.

Contingent Liabilities

As at 31 December 2018, the Group had no significant contingent liabilities.

Contractual Obligations

The Group's capital commitment amounted to approximately RMB952.8 million as at 31 December 2018, as compared to approximately RMB93.5 million as at 31 December 2017.

Foreign Exchange and Exchange Rate Risk

The Group mainly operates in China, with all material aspects of its regular business conducted in Renminbi other than: (1) the operations of Sirton; and (2) the Group's exports, which amounted to approximately RMB84.2 million, or approximately 1.8% of the Group's revenue, for the year ended 31 December 2018. Except for the operations of Sirton, the Group's exports, potential international deal-making expenditures (such as related to international licensing and acquisitions), foreign currency denominated bank deposits and the Euro-dominated Bonds, the Group believes that it does not have any other material direct exposure to foreign exchange fluctuations. As at 31 December 2018, the Group's foreign currency denominated bank deposits primarily comprised: (1) approximately USD44.9 million (equivalent to approximately RMB308.2 million) denominated in USD; (2) approximately HKD162.1 million (equivalent to approximately RMB142.1 million) denominated in Hong Kong dollars; and (3) approximately Euro87.0 million (equivalent to approximately RMB682.6 million) denominated in Euro. The Group expects that the fluctuation of the Renminbi exchange rate will not have a material adverse effect on the operations of the Group in the foreseeable future.

Significant Investments Held

During the year ended 31 December 2018, the Group did not have any significant investments.

Future Plans for Material Investments or Capital Assets

The Group estimates that the total capital expenditure of the Group for the next three years will be in the range of RMB1,200 million to RMB1,400 million. These expected capital expenditures will primarily be incurred for the maintenance of the Group's existing facilities and the expansion of the Group's production capabilities. The Group expects to finance its capital expenditures through a combination of internally generated funds and bank borrowings.

EMPLOYEES AND EMOLUMENTS POLICY

As at 31 December 2018, the Group employed a total of 5,047 employees, as compared to a total of 4,051 employees as at 31 December 2017. The staff costs, including Directors' emoluments but excluding any contributions to pension scheme, were approximately RMB1,000.7 million for the year ended 31 December 2018, as compared to approximately RMB781.0 million for the corresponding period in 2017. The Group generally formulated its employees' remuneration package to include salary, bonus and allowance elements. The compensation programs were designed to remunerate the employees based on their performance, measured against specified objective criteria. The Group also provided the employees with welfare benefits in accordance with applicable regulations and the Group's internal policies. The Company has adopted a share option scheme and other incentive initiatives such as share and cash awards for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

FINAL DIVIDEND

The Board does not recommend any dividend for the year ended 31 December 2018.

CLOSURE OF REGISTER OF SHAREHOLDERS

The annual general meeting of the Company is scheduled to be held on 20 June 2019. For determining the entitlement to attend and vote at the annual general meeting, the register of shareholders of the Company will be closed from 17 June 2019 to 20 June 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 14 June 2019.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders of the Company and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code of corporate governance.

Except as expressly described below, the Company complied with all applicable code provisions set out in the CG Code during the year ended 31 December 2018.

Separation of the Roles of the Chairman of the Board and Chief Executive Officer

Pursuant to code provision A.2.1 of the CG Code, companies listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") are expected to comply with, but may choose to deviate from, the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive officer. Dr. LOU Jing currently performs these two roles. The Board believes that vesting both the roles of chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and facilitating a more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively.

The Board will from time to time review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company at an appropriate time, taking into account the circumstances of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuer" as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with the Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2018, the Company had repurchased a total of 4,730,000 ordinary shares of the Company on the Stock Exchange at an aggregate cash consideration of HKD46,273,054.51 (excluding expenses). On 3 January 2019, the Company had further repurchased a total of 5,000,000 ordinary shares of the Company on the Stock Exchange at an aggregate cash consideration of HKD45,348,633.90 (excluding expenses). All the shares repurchased by the Company during the year ended 31 December 2018 and on 3 January 2019 had been cancelled by the Company by the date of this announcement. Save as the aforesaid repurchases of shares, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2018.

AUDIT COMMITTEE

The Board has established an audit committee (the "**Audit Committee**") which comprises of one non-executive Director and two independent non-executive Directors, namely Mr. PU Tianruo (chairman), Mr. WANG Steven Dasong, and Mr. MA Jun.

The Audit Committee has, together with the Board, reviewed and approved the accounting standards and practices adopted by the Group and the annual results for the year ended 31 December 2018. 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.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the preliminary results announcement of the Group for the year ended 31 December 2018 have been agreed to by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS AND 2018 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.3sbio.com).

The Company's 2018 annual report containing all the information required under the Listing Rules will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
3SBio Inc.
Dr. LOU Jing
Chairman

Shenyang, The PRC
20 March 2019

As at the date of this announcement, the Board comprises Dr. LOU Jing, Mr. TAN Bo, Ms. SU Dongmei and Mr. HUANG Bin as executive directors; Mr. LIU Dong and Mr. WANG Steven Dasong as non-executive directors; and Mr. PU Tianruo, Mr. David Ross PARKINSON and Mr. MA Jun as independent non-executive directors.