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In the United Kingdom (the “UK”), the attached offering circular is being distributed only to, and is only directed at: (i) persons who are outside the UK; or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”); and/or (iii) high net worth companies (or other persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons in (i), (ii) and (iii) above together being referred to as “relevant persons”). In the UK, any investment or investment activity to which the attached offering circular relates will only be available to and will only be engaged in with relevant persons. Any person who is not a relevant person should not act or rely on the attached offering circular or any of its contents.

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STRICTLY CONFIDENTIAL

Strategic International Group Limited

(incorporated in the British Virgin Islands with limited liability)

€320,000,000 Zero Coupon Convertible Bonds due 2025

Issue Price: 100%

unconditionally and irrevocably guaranteed by



(incorporated in the Cayman Islands with limited liability)

(Stock code: 1530)

The €320,000,000 Zero Coupon Guaranteed Convertible Bonds due 2025 (the “**Bonds**”) will be issued by Strategic International Group Limited (the “**Issuer**”) and will be unconditionally and irrevocably guaranteed (the “**Guarantee**”) by 3SBio Inc. (the “**Company**” or the “**Guarantor**”). The issue price of the Bonds shall be 100% of the aggregate principal amount of the Bonds.

The Bonds constitute direct, unsubordinated, unconditional, and subject to the Conditions (as defined in “*Terms and Conditions of the Bonds*”), unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to the Conditions, at all times rank at least equally with all of its other present and future direct, unsubordinated, unconditional and unsecured obligations. The Guarantee shall rank *pari passu* with all of the Company’s other existing and future unsecured and unsubordinated obligations and will be effectively subordinated to its secured obligations and the obligations of its subsidiaries, save for such exception as may be provided by mandatory provisions of applicable laws and subject to the Conditions.

Each Bond will, at the option of the holder, be convertible (unless previously redeemed or purchased and cancelled) at any time on and after 9 August 2020 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the seventh day prior to the Maturity Date (as defined in “*Terms and Conditions of the Bonds*”) (but, except as provided in the Conditions, in no event thereafter) or if such Bond shall have been called for redemption before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than seven days (at the place aforesaid) prior to the date fixed for redemption thereof or if notice requiring redemption has been given by the holder of such Bond, then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice into fully paid ordinary shares of the Company with a nominal value of US\$0.00001 (the “**Shares**”) at an initial conversion price of HK\$13.1750 per Share (the “**Initial Conversion Price**”). The conversion price is subject to adjustment in the circumstances described under “*Terms and Conditions of the Bonds — Conversion*”. The closing price of the Shares on The Stock Exchange of Hong Kong Limited (“**HKSE**”) on 17 June 2020 was HK\$10.54 per Share.

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at 107.76% of its principal amount on the Maturity Date. At any time the Issuer may, having given not less than 30 nor more than 60 days’ notice, redeem all and not some only of the Bonds at the Early Redemption Amount (as defined in “*Terms and Conditions of the Bonds*”), if the Issuer (or if the Guarantee was called, the Guarantor) has or will become obliged to pay additional amounts as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, the Cayman Islands, Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 17 June 2020, and such obligation cannot be avoided by the Issuer (or as the case may be, the Guarantor) taking reasonable measures available to it, subject to the non-redemption option of each Bondholder after the exercise by the Issuer of its tax redemption option as described herein. At any time after 29 June 2023 the Issuer may, having given not less than 30 nor more than 60 days’ notice, redeem all and not some only of the Bonds on the Optional Redemption Date (as defined in the “*Terms and Conditions of the Bonds*”) at the Early Redemption Amount if the Closing Price (as defined in the “*Terms and Conditions of the Bonds*”) of a Share (translated into Euros at the Prevailing Rate) for 20 out of 30 consecutive Trading Days, the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is given, was at least 130% of the applicable Early Redemption Amount for each Bond divided by the Conversion Ratio (as defined in the “*Terms and Conditions of the Bonds*”). If at any time the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued, the Issuer may redeem all and not some only of such outstanding Bonds at the Early Redemption Amount. Each holder of the Bonds shall have the right to require the Issuer to redeem all or some only of such holder’s Bonds on the Relevant Event Redemption Date at the Early Redemption Amount upon the occurrence of a Relevant Event (each as defined in “*Terms and Conditions of the Bonds*”). Each holder of the Bonds shall have the right to require the Issuer to redeem, all or some only of such holder’s Bonds on 29 June 2023 at 104.59% of their principal amount. See “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation*”.

Concurrent with the offering of the Bonds (the “**Offering**”), the Managers will assist the Issuer and the Company with the repurchase by the Issuer (the “**Concurrent Repurchase**”) of its existing 2017 Convertible Bonds (as defined herein) (of which €295 million remains outstanding as at the date of this Offering Circular) for cash at a repurchase price of €107,738.32 per €100,000 principal amount of the 2017 Convertible Bonds (i.e. 107.74%). The Concurrent Repurchase will be conducted concurrently with the offering of the Bonds, and is expected to close on or about the Issue Date.

A formal application will be made to the HKSE for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, “**Professional Investors**”) only. This document is for distribution to Professional Investors only. Investors should not purchase the Bonds in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Bonds are only suitable for Professional Investors.

The HKSE has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Bonds on HKSE is not to be taken as an indication of the commercial merits or credit quality of the Bonds or the Issuer and Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and HKSE take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this document.

Application will be made to the HKSE for the listing of, and permission to deal in, the Shares arising on conversion of the Bonds. The Bonds are not rated.

Investing in the Bonds and the Shares involves certain risks. See “*Risk Factors*” beginning on page 22 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Bonds, the Guarantee and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), and subject to certain exceptions, may not be offered or sold within the United States. The Bonds, the Guarantee and the Shares to be issued upon conversion of the Bonds may only be offered outside the United States in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Bonds and the Shares to be issued upon conversion of the Bonds and the distribution of this Offering Circular, see “*Subscription and Sale*”.

The Bonds will be initially represented by a global certificate (the “**Global Certificate**”) registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, S.A. (“**Clearstream**”) and together with Euroclear, the “**Clearing Systems**”). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described therein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

Joint Global Coordinators, Joint Bookrunners and Joint Managers

Deutsche Bank

J.P. Morgan

Offering Circular dated 17 June 2020

IMPORTANT NOTICE

The contents of this Offering Circular have not been reviewed by any regulatory authority in Hong Kong or elsewhere. Investors are advised to exercise caution in relation to the Offering described herein. If investors are in any doubt about any of the contents of this Offering Circular, they should obtain independent professional advice.

This Offering Circular includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Issuer and the Company. The Issuer and the Company accept full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Issuer and the Company, having made all reasonable enquiries, confirm that to their best knowledge and belief (i) this Offering Circular contains all information with respect to the Group and to the issue of the Bonds and the Shares, which is material in the context of the issue and the Offering (including all information which, according to the particular nature of the Issuer, the Company, the Group and of the Bonds and the Shares, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Company, the Group and of the rights attaching to the Bonds and the Shares), (ii) all statements of fact relating to the Issuer, the Company, the Group and to the Bonds and the Shares contained in this Offering Circular are in all material respects true and accurate and not misleading in any material respect, and that there are no other facts in relation to the Issuer, the Company, the Group and to the Bonds and the Shares the omission of which would in the context of the issue of the Bonds make any statement in this Offering Circular misleading in any material respect, (iii) the opinions and intentions expressed with regard to the Issuer, the Company and the Group contained in this Offering Circular are honestly made or held and have been reached after considering all relevant circumstances and have been based on reasonable assumptions and (iv) all reasonable enquiries have been made by the Issuer and the Company to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer and the Company accept full responsibility for the information contained in this Offering Circular.

This Offering Circular has been prepared by the Issuer and the Company solely for use in connection with the proposed Offering described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds, the Guarantee and the Shares deliverable upon conversion of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer the Managers, the Trustee and the Agents (each as defined in the “*Terms and Conditions of the Bonds*”) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the Shares deliverable upon conversion of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, the Guarantee, and the Shares deliverable upon conversion of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see “*Subscription and Sale*”.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Company, the Group, the Bonds or the Shares other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Company, the Managers, the Trustee or the Agents (as defined in “*Terms and Conditions of the Bonds*”). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Company, the Group or any of them since

the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Company, the Managers, the Trustee or the Agents to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful. This Offering Circular is not intended to invite offers to subscribe for or purchase Shares.

No representation or warranty, express or implied, is made or given by the Managers, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers, the Trustee or the Agents. None of the Managers, the Trustee or the Agents has independently verified any of the information contained in this Offering Circular and none of them can give any assurance that this information is accurate, truthful or complete. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Issuer, the Company, the Group, the Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds.

Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

This Offering Circular includes particulars given in compliance with the Hong Kong Listing Rules for the purposes of giving information with regard to the Company and the Issuer. The Securities and Futures Commission of Hong Kong, the Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the content of this Offering Circular.

In making an investment decision, investors must rely on their own examination of the Issuer, the Company, the Group and the terms of the Offering, including the merits and risks involved. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Bonds. Each person receiving this Offering Circular acknowledges that such person has not relied on any of the Managers, the Trustee or the Agents or any person affiliated with any of the Managers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision. To the fullest extent permitted by law, none of the Managers, the Trustee or the Agents accepts any responsibility for the contents of this Offering Circular. Each of the Managers, the Trustee and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Managers, the Trustee or the Agents undertakes to review the financial condition or affairs of the Issuer, the Company or the Group after the date of this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of any of the Managers, the Trustee or the Agents. Except as otherwise indicated in this Offering Circular, all non-company specific statistics and data relating to the industry or to the economic development of China have been extracted or derived from publicly available information and industry publications as disclosed herein. Such information has not been independently verified by the Issuer, the Company, the Group, the Trustee, the Agents or any of the Managers or by their respective directors and advisers, and none of the Issuer, the Company, the Trustee, the Agents, the Managers or their respective directors and advisers make any representation as to the correctness, accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

References to the “**Company**” and “**Guarantor**” are to 3SBio Inc. References to the “**Issuer**” are to Strategic International Group Limited. References to “**we**”, “**us**”, “**our**” or the “**Group**” are to Company and its subsidiaries, including the Issuer.

References to the “**PRC**” or “**China**” for the purposes of this Offering Circular are to the People’s Republic of China, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan.

Unless otherwise specified or the context requires, references herein to “**Hong Kong dollar**”, “**HK dollar**” and “**HK\$**” are to the lawful currency of Hong Kong, references herein to “**RMB**” and “**Renminbi**” are to Renminbi, the lawful currency of PRC, references herein to “**US dollar**” and “**US\$**” are to the lawful currency of the United States of America (the “**United States**” or the “**U.S.**”) and references herein to “**Euro**” and “**€**” are to the official currency of the Eurozone.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purpose only. In the event of any inconsistency, the Chinese names prevail.

PRESENTATION OF FINANCIAL INFORMATION

The Company's consolidated financial information (including the notes thereto) as at and for the years ended 31 December 2017, 2018 and 2019 have been extracted from the consolidated financial statements of the Company for the years ended 31 December 2017, 2018 and 2019, which have been audited by Ernst & Young, the independent auditors of the Company and are included elsewhere in this Offering Circular. The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

Certain amounts and percentages included in this Offering Circular have been rounded. Accordingly, in certain instances, the sum of the numbers in a column may not exactly equal the total figure for that column. You should not construe any exchange rate translations as representations that the relevant exchange and amounts could actually be converted into the amounts expressed.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular are not historical facts and are forward-looking statements. This Offering Circular may contain words such as "believe", "could", "may", "will", "target", "estimate", "project", "predict", "forecast", "guideline", "should", "plan", "expect" and "anticipate" and similar expressions that are intended to identify forward-looking statements, but are not the exclusive means of identifying these statements. Particularly, statements under the sections "*Summary*", "*Risk Factors*", "*Business*" and sections relating to the following matters may include forward-looking statements regarding:

- the financial position, business strategy, competitive environment, prospects, capital expenditure and investment plans of the Group;
- the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations);
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of the Group's business;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which the Group operates;
- general political and economic conditions, including those related to the PRC; and
- other factors, including those discussed in "*Risk Factors*".

Forward-looking statements involve inherent risks and uncertainties. Should one or more of these or other uncertainties or risks materialise, actual results may vary materially from those estimated, anticipated or projected. Specifically, but without limitation, capital costs could increase, projects could be delayed, and anticipated improvements in capacity, performance or profit levels might not be fully realised or may materially

differ from information contained in the forward-looking statements included herein as a result of a number of factors, including among others:

- the ability of the Group to successfully implement its business strategies and to successfully develop business opportunities that the Group might pursue;
- changes and volatility in interest rates;
- any legislative, accounting or regulatory changes in jurisdictions where the Group conducts its business;
- changes in the Group's competitive environment;
- the effect of adverse economic conditions on the economies where the Group conducts its business on the Group's industry;
- the financial position, business strategy, competitive environment, prospects, capital expenditure and investment plans of the Group;
- the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations);
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of the Group's business; and
- the risk factors discussed in this Offering Circular (see "*Risk Factors*" herein) and other factors beyond the Company's or the Issuer's control.

Although we believe that the expectations of our management as reflected by such forward-looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to have been correct or occur at all. Accordingly, investors are cautioned not to place undue reliance on the forward looking statements. Subject to compliance with applicable regulatory requirements, neither the Company nor the Issuer intend to update or otherwise revised the forward-looking statements in this Offering Circular, whether as a result of new information, future events or otherwise.

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SUMMARY

The following summary is qualified in its entirety by, and is subject to, the detailed information and the financial statements contained elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary.

BUSINESS OVERVIEW

The Group is a leading biotechnology company in China. As a pioneer in the PRC biotechnology industry, the Group has extensive expertise in researching and developing, manufacturing and marketing biopharmaceuticals. The core products of the Group include TPIAO, Yisaipu, and rhEPO products EPIAO and SEPO. According to IQVIA, all four products are market leaders in the PRC in terms of revenue and market share. TPIAO is the only commercialised rhTPO product in the world. According to IQVIA, the market share in the treatment of thrombocytopenia, in terms of sales value, of TPIAO in the PRC increased to 73.2% in 2019. Yisaipu is a TNF α inhibitor product with a continuing leading market share in the PRC of 60.9% in terms of sales value in 2019. With its two rhEPO products, the Group has been the premier market leader in the rhEPO market in the PRC for nearly two decades, holding a total market share of 41.6% in terms of sales value in 2019. The Group has been expanding its therapeutic coverage by adding products through internal research and development and various external strategic partnerships.

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

As at 31 December 2019, amongst the 32 product candidates within the Group's active pipeline, 22 were being developed as national new drugs (including registration Class I and Biologics Class II) in the PRC. The Group has 11 product candidates in oncology; 12 product candidates that target autoimmune diseases including RA, and other diseases including refractory gout and ophthalmological diseases such as 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 23 of the 32 product candidates are biologics, and the other nine are small molecules.

The Group believes that it is well positioned for global expansion. TPIAO, Yisaipu, EPIAO, SEPO and some of the Group's other products are exported to a number of countries. As at the date of this Offering Circular, outside of the PRC, TPIAO has been approved in eight countries; Yisaipu has been approved in 15 countries; and EPIAO has been approved in 22 countries. In the long term, the Group aims to market its products in developed countries. Furthermore, the Group is collaborating with international partners to develop and market the Group's product candidates, such as pegsiticase. The Group aims to focus its R&D to provide innovative therapeutics for patients in the PRC as well as globally.

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

The Group focuses its R&D efforts on researching and developing innovative biological products as well as small molecule therapeutics. Currently, the Group has several biological products in various stages of clinical development, including 302H (an anti-HER2 antibody to treat metastatic breast cancer), 304R (an anti-CD20 antibody to treat Non-Hodgkin lymphoma and other autoimmune diseases), 301S (the pre-filled aqueous injection solution of Yisaipu), SSS06 (NuPIAO, a second-generation rhEPO to treat anaemia), RD001 (a pegylated long-acting rhEPO to treat anaemia), SSS07 (an anti-TNF α antibody to treat RA and other inflammatory diseases), pegsiticase (a modified pegylated recombinant uricase from candidautilis to treat refractory gout), 601A (an anti-VEGF antibody to treat AMD and other ophthalmological diseases), 602 (an anti-EGFR antibody to treat cancer), 608 (an anti-IL-17A antibody to treat autoimmune and other inflammatory diseases), 609A (an anti-PD1 antibody to treat cancer) and 610 (an anti-IL-5 antibody to treat severe asthma). On the small molecule side, the Group is initiating clinical trials of two innovative products: nalfurafine hydrochloride (TRK-820, a highly selective kappa receptor agonist) to treat pruritus in haemodialysis patients, and HIF-117 capsule (SSS17, a selective small molecule inhibitor to hypoxia inducible factor proline hydroxylase) to treat anaemia. In addition, the Group is performing bio-equivalency studies of a number of generic small molecule products in the field of nephrology, autoimmune and dermatological diseases.

The Group continues to seek global strategic partnerships to enrich its existing product portfolio and pipeline to sustain long-term growth. The Group strategically collaborates with leading pharmaceutical companies, such as Verseau Therapeutic, Inc., Numab Therapeutics, Samsung Bioepis Co., Ltd., Taiwan Liposome Company, Ltd., GenSight Biologics, and MPM Oncology Innovations Fund. The Group believes its partnerships with these companies will serve as stepping stones for future strategic collaborations.

As at 31 December 2019, the Group had operation facilities in the PRC, including Shenyang (Liaoning Province), Shanghai, Hangzhou (Zhejiang Province) and Shenzhen, as well as in Como, Italy, with over 5,000 employees. The Group's pharmaceutical products are marketed and sold in all provinces, autonomous regions and special municipalities in the PRC, as well as a number of foreign countries and regions. For the year ended 31 December 2019, the Group's nationwide sales and distribution network enabled it to sell its products to over 17,000 hospitals and medical institutions in the PRC.

For the years ended 31 December 2017, 2018 and 2019, the Group's revenue amounted to RMB3,734.3 million, RMB4,583.9 million and RMB5,318.1 million, respectively, representing growth at a CAGR of 19.3% between 2017 and 2019.

RECENT DEVELOPMENTS

IND approval from the NMPA

On 25 February 2020, the Group received an IND approval from the NMPA to conduct clinical trials of an anti-interleukin ("IL")-5 (610) in patients with severe eosinophilic asthma. The Group is actively preparing to initiate patient enrolment. In 2019, the Group also received IND approvals for various new drugs, including 608 (an anti-IL-17A injection for psoriasis); TRK820 (REMITCH, a novel medicine in-licensed from Toray Industries, Inc. for pruritus in haemodialysis patients); SSS17 (a small molecule HIF-PH inhibitor for oral treatment for anemia in patients with CKD); and 609A (a humanized anti-PD1 antibody for the treatment of various cancers). As at the date of this Offering Circular, phase 1 trials for 609A are ongoing in both the United States and the PRC.

Business Development and Impact of COVID-19

Due to national holiday and the outbreak of COVID-19 in the PRC, the Group closed certain of its manufacturing plants in Shenyang, Shanghai, Hangzhou and Shenzhen in China for two to three weeks from late

January 2020 to mid-February 2020 as required by the local government authorities and as needed for precautionary reasons. All manufacturing plants have since resumed to their normal operations, and as at the date of this Offering Circular, there have not been any confirmed cases of infections at its manufacturing plants.

The Group is committed to the health and safety of its staff and has adopted internal control measures such as frequent sanitisation of its plants and premises, requirement to wear masks and protective clothing at the manufacturing plants and research and development labs. The Company's management has also been actively monitoring the COVID-19 situation and regularly communicating with the staff on the latest development and situation on site.

As at the date of this Offering Circular, outbreak of COVID-19 has had minimum impact on the Group's business. In fact, based on the Company's internal management accounts, the Group's revenue and profit grew during the first four months of 2020 as compared to the same period in 2019.

Repurchase of 2017 Convertible Bonds

On 16 April 2020, the Company repurchased an aggregate principal amount of €5,000,000 in face value of the 2017 Convertible Bonds through over-the-counter market in accordance with the terms and conditions of the 2017 Convertible Bonds (the "**Bond Repurchase**"). The aggregate purchase price paid for the Bond Repurchase was €5,255,000 (including agent fees). Immediately after the Bond Repurchase, there were outstanding 2017 Convertible Bonds in the aggregate principal amount of €295,000,000.

Concurrent Repurchase

Concurrent with the Offering, the Managers will assist the Issuer and the Company with the Concurrent Repurchase of its existing 2017 Convertible Bonds (of which €295 million remains outstanding as at the date of this Offering Circular) for cash at a repurchase price of €107,738.32 per €100,000 principal amount of the 2017 Convertible Bonds (i.e. 107.74%). The Concurrent Repurchase will be conducted concurrently with the Offering, and is expected to close on or about the Issue Date.

Appointment of New Chief Financial Officer

On 15 April 2020, the Company appointed Mr Wang Fei as its chief financial officer. For further details, please refer to the section headed "*Directors and Senior Management — Senior Management*" in this Offering Circular.

Proposed Spin-off of Sunshine Guojian

On 31 October 2019, the Shanghai Stock Exchange formally accepted the spin-off application by Sunshine Guojian for listing on its Science and Technology Innovation Board (the "**STAR Market**"). The Stock Exchange has also confirmed that the Company may proceed with the proposed spin-off. The proposed spin-off is conditional upon, among other things, the approval by the China Securities Regulatory Commission and the Shanghai Stock Exchange of the proposed listing and completion of the offering. As at the date of this Offering Circular, the spin-off has not been completed. For further details, please refer to the section headed "*Group Structure*" in this Offering Circular.

Please refer to the Company's announcements from time to time for any update on the progress of the spin-off that is available on the HKSE's website at <http://www.hkex.com.hk> and the investors relations section of the Company's website at www.3sbio.com.

COMPETITIVE STRENGTHS

The Group believes it has the following competitive strengths:

- A Market Leader in the Highly Attractive PRC Biotechnology Industry;
- Market-Leading Products with Significant Growth Potential;
- Robust Pipeline of Innovative Products Supported by Integrated Research and Development Capabilities;
- Strong Marketing Capabilities Supported by an Extensive Sales, Marketing and Distribution Network;
- Strong Manufacturing Expertise Ensuring High Product Quality and Efficiency; and
- An Experienced Visionary Management Team with Proven Ability to Lead the Group's Growth.

BUSINESS STRATEGIES

The Group's principal business strategies are to:

- Continue to Build the Strength in Commercial, R&D and Manufacturing Platforms;
- Continue to Seek Global Strategic Partnerships;
- Expand the Group's In-house Marketing Capabilities and Network of Distributors and Third-Party Promoters to Broaden the Group's Market Coverage; and
- Grow the Group's International Business Through Global Product Registration and Development.

RISK FACTORS

The Group's business and industry are subject to numerous risks and there are also risks relating to the Bonds. As different investors may have different interpretations and criteria when determining the significance of a risk, investors should read the Risk Factors section in its entirety before deciding to invest in the Bonds. The risks the Group primarily faces include its dependence on sales of its four core products, TPIAO, Yisaipu, EPIAO and SEPO. The Group operates in a highly competitive environment, and its products may not be able to compete effectively against current and future competitors. If the Group fails to develop and commercialise new pharmaceutical products, its business prospects could also be adversely affected. The Group is also subject to risks in relation to the NMIC or provincial medical insurance catalogues. If the Group's products are excluded or removed from the NMIC or provincial medical insurance catalogues, its sales, profitability and business prospects could be adversely affected. Further, if the Group is unable to win bids to sell the Group's products to PRC hospitals in the provincial tendering process, it may lose market share and the Group's revenue could be adversely affected. The Group may also pursue collaborations, licencing arrangements, partnerships, joint ventures, strategic alliances, acquisitions, or other strategic investments or arrangements, which may fail to produce anticipated benefits and adversely affect the Group's business. Moreover, if the Group's employees, distributors or third-party promoters engage in corrupt practices or inappropriate promotion of the Group's products, the Group's reputation could be harmed and the Group could be exposed to regulatory investigations, cost and liabilities. Finally, the Group faces the risk of changing PRC government regulations and policies applicable to the pharmaceutical industry.

For further details, please refer to the section headed "*Risk Factors*" in this Offering Circular.

THE OFFERING

The following summary contains basic information about the Bonds and is not intended to be complete. It does not contain all the information that is important to you. For a more complete description of the Bonds, please refer to the section of this Offering Circular entitled “Terms and Conditions of the Bonds”. Phrases used in this summary and not otherwise defined shall have the meaning given to them in the section entitled “Terms and Conditions of the Bonds”.

Issuer	Strategic International Group Limited
Guarantor	3SBio Inc.
Issue	€320,000,000 Zero Coupon Guaranteed Convertible Bonds due 2025
Guarantee	The due payment of all sums expressed to be payable by the Issuer and the due performance by the Issuer of its obligations under the Trust Deed and the Bonds will be unconditionally and irrevocably guaranteed by the Company.
Issue Price	100%
Issue Date	29 June 2020
Maturity Date	29 June 2025
Redemption at Maturity	Unless previously redeemed, converted or purchased and cancelled, the Issuer will redeem each Bond at 107.76 per cent of its principal amount on the Maturity Date.
Default Interest	The Bonds do not bear interest unless the Issuer fails to pay any sum in respect of the Bonds when the same becomes due and payable under the Conditions. In such event, such unpaid amount shall bear interest at the rate of two per cent. per annum. See “ <i>Terms and Conditions of the Bonds — Default Interest</i> ”.
Status of the Bonds	The Bonds constitute direct, unconditional, unsubordinated, and (subject to the negative pledge described herein) unsecured obligations of the Issuer and will at all times rank <i>pari passu</i> and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, subject to such exceptions as may be provided by mandatory provisions of applicable law and subject to the negative pledge described herein, at all times rank at least equally with all of the Issuer’s other present and future unsecured and unsubordinated obligations. The payment obligations of the Company under the Guarantee will, subject to such exceptions as may be provided by mandatory provisions of applicable law and subject to the negative pledge described herein, at all times rank at least equally with all of the Company’s other present and future unsecured and unsubordinated obligations.
Rating of the Bonds	The Bonds are not, and are not expected to be, rated by any rating agency.

Conversion Right	The Bonds are convertible by holders into Shares, at any time on and after 9 August 2020 and up to the close of business (at the place the Bonds are deposited for conversion) on the date falling seven days prior to the Maturity Date (both days inclusive), except as described in the Conditions. If the Bonds are called for redemption by the Issuer prior to the Maturity Date, pursuant to the Conditions, the conversion period will end at the close of business (at the place the Bond is deposited for conversion) on the seventh day (both days inclusive) before the date fixed for redemption.
Conversion Price	The Conversion Price will initially be HK\$13.1750 per Share but will be subject to adjustment as described in the Conditions. See “ <i>Terms and Conditions of the Bonds — Conversion</i> ”.
Negative Pledge	For so long as any Bond remains outstanding, neither the Issuer nor the Company will, and the Company will ensure that none of its Subsidiaries will, create or have outstanding any mortgage, charge, lien, pledge or other security interest (other than a security interest arising by operation of law) upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, unless at the same time or prior thereto according to the Bonds (a) the same security is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity; or (b) such other security as either (x) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (y) shall be approved by an Extraordinary Resolution of the Bondholders. See “ <i>Terms and Conditions of the Bonds — Negative Pledge</i> ”.
Redemption for Taxation Reasons	The Issuer may, on giving not less than 30 nor more than 60 days’ notice, redeem all and not some only of the Bonds, at its option, at any time at the Early Redemption Amount if (a) the Issuer satisfies the Trustee immediately prior to the giving of such notice that the Issuer (or if the Guarantee was called, the Guarantor) has or will become obliged to pay Additional Tax Amounts (as defined in the Conditions) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, the Cayman Islands or Hong Kong or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 17 June 2020, and (b) such obligation cannot be avoided by the Issuer (or as the case may be, the Guarantor) taking reasonable measures available to it. However, each Bondholder shall have the right to elect not to have such Bondholder’s Bonds redeemed, whereupon no additional amounts as a result of such changes affecting taxes in the British Virgin Islands, the Cayman Islands or Hong Kong will be payable and payment of all amounts shall be made subject to deduction or withholding of the taxation required to be deducted or withheld. See “ <i>Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Taxation Reasons</i> ”.
Redemption at the Option of the Issuer	At any time after 29 June 2023 the Issuer may, having given not less than 30 nor more than 60 days’ notice, redeem all and not some only

of the Bonds on the Optional Redemption Date (as defined in the “*Terms and Conditions of the Bonds*”) at the Early Redemption Amount if the Closing Price of a share (translated into Euros at the Prevailing Rate) for 20 out of 30 consecutive Trading Days, the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is given, was at least 130% of the applicable Early Redemption Amount for each Bond divided by the Conversion Ratio.

If at any time the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued, the Issuer may redeem all and not some only of such outstanding Bonds at the Early Redemption Amount. See “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Issuer*”.

Redemption for Delisting or Change of

Control Each Bondholder shall have the right, at such Bondholder’s option, upon the occurrence of a Relevant Event to require the Issuer to redeem all or some only of such Bondholder’s Bonds on the Relevant Event Redemption Date at the Early Redemption Amount.

A “**Relevant Event**” occurs:

- (i) when the Shares cease to be listed or admitted to trading or are suspended on the Main Board of the HKSE for a period equal to or exceeding 30 consecutive Trading Days; or
- (ii) when there is a Change of Control (as defined in the Terms and Conditions of the Bonds).

See “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Delisting or Change of Control*”.

Redemption at the Option of the

Bondholders On 29 June 2023, the Bondholders will have the right to require the Issuer to redeem all or some only of the Bonds of such Bondholder at 104.59% of their principal amount. See “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Bondholders*”.

Form and Denomination of the Bonds . .

The Bonds will be issued in registered form in the denomination of €100,000 and integral multiples of €1,000 in excess thereof. The Bonds will upon issue be initially represented by the Global Certificate which will, on the Closing Date, be deposited with and registered in the name of a nominee of a common depositary.

Events of Default

If any of the events set out in “*Terms and Conditions of the Bonds — Events of Default*” occurs, the Trustee may, and if so requested by Bondholders holding not less than 25 per cent. In aggregate principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed referred to in the Terms and Conditions of the Bonds) shall, (subject in either case to being indemnified and/or secured and/or pre-funded by the

Bondholders to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount. See “*Terms and Conditions of the Bonds — Events of Default*”.

Share Ranking	The Shares to be issued upon exercise of Conversion Rights will be fully paid and will in all respects rank <i>pari passu</i> with the fully paid Shares in issue on the relevant Registration Date except for any right excluded by mandatory provisions of applicable law and except that such Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record or other due date for the establishment of entitlement for which falls prior to the relevant Registration Date. See “ <i>Description of the Shares — Dividends</i> ” and “ <i>Terms and Conditions of the Bonds — Conversion</i> ”.
Further Issues	The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the date of issue and the timing for filing to the NDRC) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. See “ <i>Terms and Conditions of the Bonds — Further Issues</i> ”.
Clearance	The Bonds will be cleared through the Clearing Systems. The Clearing Systems each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders.
Global Certificate	So long as the Bonds are represented by the Global Certificate and the Global Certificate is held by or on behalf of a common depository, payments of principal and premium (if any) in respect of the Bonds represented by the Global Certificate will be made without presentation or, if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent for such purpose. The Bonds which are represented by the Global Certificate will be transferable only in accordance with the rules and procedures for the time being of the relevant Clearing System.
Selling Restrictions	There are restrictions on the offer, sale and/or transfer of the Bonds and the Guarantee in, among others, the British Virgin Islands, the Cayman Islands, Hong Kong, Singapore, the UK and the United States. For a description of the selling restrictions on offers, sales and deliveries of the Bonds, see “ <i>Subscription and Sale</i> ”.
Listing	<p>A formal application will be made to the HKSE for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only.</p> <p>Application will be made to the HKSE for the listing of, and permission to deal in, the Shares arising on conversion of the Bonds and the Company has undertaken to apply to have the Shares, issuable upon conversion of the Bonds, approved for listing on the HKSE and</p>

any Alternative Stock Exchange (as defined in the Conditions) on which its Shares are listed from time to time.

Trustee	DB Trustees (Hong Kong) Limited
Principal Agent	Deutsche Bank AG, Hong Kong Branch
Registrar	Deutsche Bank AG, Hong Kong Branch
Governing Law	The Bonds and any non-contractual obligations arising out of or in connection with the Bonds will be governed by, and construed in accordance with, the laws of England.
Use of Proceeds	For a description of the use of proceeds of this Offering, see “ <i>Use of Proceeds</i> ”.
Issuer and Company Lock-up	The Issuer and the Company have agreed to not (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Bonds or the Shares or any securities convertible into exchangeable for or which carry rights to subscribe or purchase the Bonds, the Shares or securities of the same class as the Bonds, the Shares or other instruments representing interests in the Bonds, the Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, or (d) announce or otherwise make public an intention to do any of the foregoing without the prior written consent of the Managers between the date of the Subscription Agreement (as defined in “ <i>Subscription and Sale</i> ”) and the day which is 90 days after the issue date of the Bonds except for in the circumstances provided in “ <i>Subscription and Sale</i> ”.
Shareholder Lock-up	Dr Lou Jing (“ Dr Lou ”), Ms Su Dongmei (“ Ms Su ”) and Mr Huang Bin have agreed not to (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares directly (or through nominees) or indirectly through companies by them or their subsidiaries (or through their nominees) (the “ Lock-up Shares ”) or securities of the same class as the Lock-up Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Lock-up Shares or securities of the same class as Lock-up Shares or other instruments representing interests in Lock-up Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of Lock-up Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, or (d) announce or otherwise make public an intention to do any of the foregoing without the prior written consent of the Managers between the date of their undertaking and the date which is 90 days after the issue date of the Bonds.

ISIN XS2183825681

Common Code 218382568

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The foregoing is a brief summary of the terms of this Offering and is qualified in its entirety by the remainder of this Offering Circular.

SUMMARY FINANCIAL INFORMATION

Summary Consolidated Statement of Profit or Loss and Comprehensive Income

The following table presents the Group's summary consolidated financial information and other data. The summary consolidated annual financial information as at and for each of the years ended 31 December 2017, 2018 and 2019, have been extracted from the Group's consolidated financial statements as at and for each of the years ended 31 December 2017, 2018 and 2019, as audited by Ernst & Young, independent auditors.

The Group's financial information has been prepared and presented in accordance with IFRS. The summary financial information below should be read in conjunction with the Group's consolidated financial statements as at and for each of the years ended 31 December 2017, 2018 and 2019 and the notes thereto. The Group's financial results for any past period are not and should not be taken as an indication of the Group's performance, financial position and results of operations in future years.

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
REVENUE	3,734,334	4,583,869	5,318,091
Cost of sales	(676,235)	(877,255)	(925,347)
Gross profit	3,058,099	3,706,614	4,392,744
Other income and gains	195,793	429,810	218,107
Selling and distribution expenses	(1,332,703)	(1,691,167)	(1,950,733)
Administrative expenses	(315,105)	(316,751)	(676,009)
Research and development costs	(257,310)	(362,706)	(526,565)
Other expenses	(90,965)	(123,662)	(114,024)
Finance costs	(141,350)	(138,382)	(109,476)
Share profits/(losses) of a joint venture	—	—	4,970
Share of profits/(losses) of associates	(14,442)	(8,245)	(16,001)
PROFIT BEFORE TAX	1,102,017	1,495,511	1,223,013
Income tax expense	(117,613)	(218,265)	(242,785)
PROFIT FOR THE YEAR	924,404	1,277,246	980,228
Attributable to:			
Owners of the parent	935,389	1,277,167	973,717
Non-controlling interests	(10,985)	79	6,511
	924,404	1,277,246	980,228
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (RMB)	0.37	0.50	0.38
– Diluted (RMB)	0.36	0.49	0.38
PROFIT FOR THE YEAR	924,404	1,277,246	980,228
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to 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	(124,896)	93,539	27,732
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	(129,346)	93,539	27,732
Other comprehensive (loss)/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	(2,801)
Income tax effect	—	(6,394)	3,660

Net other comprehensive income that will not be reclassified to profit or less in subsequent periods	—	10,346	859
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	(129,346)	103,885	28,591
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	795,058	1,381,131	1,008,819
Attributable to:			
Owners of the parent	806,043	1,381,052	1,002,308
Non-controlling interests	(10,985)	79	6,511
	<u>795,058</u>	<u>1,381,131</u>	<u>1,008,819</u>

Summary Consolidated Statement of Financial Position

	2017	2018	2019
	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	1,759,669	1,791,961	1,988,793
Right-of-use-assets	—	—	335,936
Prepaid land lease payments	306,557	326,457	—
Goodwill	3,923,598	4,089,064	4,145,896
Other intangible assets	2,253,516	2,298,735	2,165,139
Investments in a joint venture	—	2,500	7,470
Investments in associates	33,510	385,850	593,414
Equity investments designated at fair value through other comprehensive income	—	313,246	676,989
Available-for-sale investments	48,333	—	—
Long-term receivables	35,372	28,758	6,555
Prepayments, other receivables and other assets	39,837	81,149	163,909
Deferred tax assets	76,363	84,402	129,024
Total non-current assets	8,476,755	9,402,122	10,213,125
CURRENT ASSETS			
Inventories	376,529	384,609	528,473
Trade and notes receivables	1,324,084	1,483,885	1,018,265
Prepayments, other receivables and other assets	459,251	693,997	472,360
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	472,163
Derivative financial instruments	1,322	16	—
Cash and cash equivalents	2,398,621	1,792,605	2,082,847
Pledged deposits	11,845	14,289	22,073
Total current assets	5,276,216	4,437,533	4,596,181
CURRENT LIABILITIES			
Trade and bills payables	274,568	112,915	149,763
Other payables and accruals	695,898	845,725	913,990
Deferred income	26,671	35,887	37,217
Interest-bearing bank and other borrowings	1,087,466	570,328	483,957
Lease liabilities	—	—	5,467
Tax payable	111,206	90,686	21,335
Total current liabilities	2,195,809	1,655,541	1,611,729
NET CURRENT ASSETS	3,080,407	2,781,992	2,984,452
TOTAL ASSETS LESS CURRENT LIABILITIES	11,557,162	12,184,114	13,197,577
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	1,046,791	425,022	13,286
Lease liabilities	—	—	3,964
Convertible bonds	2,271,874	2,299,321	2,304,750
Deferred income	310,410	275,337	242,314
Deferred tax liabilities	280,268	270,761	268,077
Other non-current liabilities	18,173	6,303	5,867
Total non-current liabilities	3,927,516	3,276,744	2,838,258
Net assets	7,629,646	8,907,370	10,359,319
EQUITY			
Equity attributable to owners of the parent			
Share capital	156	156	155
Treasury shares	—	(40,586)	—
Share premium	4,372,460	4,376,056	4,307,795
Other reserves	3,024,172	4,278,807	5,317,091
Non-controlling interests	232,858	292,937	734,278
Total equity	7,629,646	8,907,370	10,359,319

DEFINITIONS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below.

“2017 Convertible Bonds”	€300,000,000 Zero Coupon Convertible Bonds due 2022 issued by the Issuer on 21 July 2017
“2019 NRDL”	the 2019 amendments to the NRDL, which came into effect on 1 January 2020
“Ample Harvest”	Ample Harvest Investments Limited (溢豐投資有限公司), a company incorporated in the British Virgin Islands on 2 January 2003, and a wholly-owned subsidiary of the Company
“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“AstraZeneca”	AstraZeneca PLC
“Board”	the board of Directors
“CAGR”	compound annual growth rate
“CMP”	the All-China Federation Of Industry & Commerce, Medical and Pharmaceutical Chamber (中華全國工商業聯合會)
“CNPIIC”	the China National Pharmaceutical Industry Information Centre (中國醫藥工業信息中心)
“Collected Mind”	Collected Mind Limited (集思有限公司), a company incorporated in the British Virgin Islands on 3 May 2006 and a wholly-owned subsidiary of the Company
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“COVID-19”	the novel coronavirus
“Director(s)”	the director(s) of the Company
“DTC”	direct-to-customer
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“Excel Partner”	Excel Partner Holdings Limited (特隆控股有限公司), a company incorporated in Hong Kong on 8 July 2010 and a wholly-owned subsidiary of the Company
“EU”	the European Union
“Gains Prestige”	Gains Prestige Limited (澤威有限公司), a wholly-owned subsidiary of the Company

“Group”	the Company, its holding companies, and its subsidiaries, or where the context so requires, in respect of the period before the Company became the holding company of the present subsidiaries, the business operated by such subsidiaries
“Grand Path”	Grand Path Holdings Limited, a wholly-owned subsidiary of the Company
“Guangdong Sciprogen”	Guangdong Sciprogen Bio-pharmaceutical Technology Co., Ltd. (廣東賽保爾生物醫藥技術有限公司), a company incorporated in the PRC on 30 June 2011 and a wholly-owned subsidiary of the Company
“HKSE” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Hongkong Sansheng”	Hongkong Sansheng Medical Limited (香港三生醫藥有限公司), formerly known as China Sansheng Medical Limited (中國三生醫療有限公司), a company incorporated in Hong Kong on 3 November 2009 and a wholly-owned subsidiary of the Company
“Independent Third Party(ies)”	any entity or person who is not a connected person of the Company
“IQVIA”	IQVIA Holdings, Inc., (formerly known as Quintiles and IMS Health, Inc.) a global provider of market intelligence to the pharmaceutical and healthcare industries, and an Independent Third Party of the Company
“Liaoning Sunshine”	Liaoning Sunshine Bio-Pharmaceutical Company Limited (遼寧三生醫藥有限公司), a limited liability company incorporated in the PRC on 1 February 2020 and a wholly-owned subsidiary of the Company
“Liaoning Sunshine Technology”	Liaoning Sunshine Science Technology Development Company Limited (遼寧三生科技發展有限公司), a limited liability company incorporated in the PRC on 3 February 2010
“Lilly”	Eli Lilly and Company, a U.S. pharmaceutical enterprise listed on the New York Stock Exchange (NYSE: LLY)
“Lilly China”	Eli Lilly Trading (Shanghai) Co., Ltd. (禮來國際貿易(上海)有限公司), and Lilly Suzhou Pharmaceutical Co., Ltd. (禮來蘇州製藥有限公司), both being wholly-owned subsidiaries of Lilly incorporated in the PRC
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部門)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOH”	the Ministry of Health of People’s Republic of China (中華人民共和國衛生部)

“MOHRSS”	the Ministry of Human Resources and Social Security (人力資源和社會保障部)
“MST”	the Ministry of Science and Technology (中華人民共和國科學技術部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NERC”	the National Engineering Research Centre of Antibody Medicine (上海抗體藥物國家工程研究中心有限公司), a company incorporated in the PRC on 15 January 2009 and a non wholly-owned subsidiary of the Company
“NHC”	the National Health Commission (中華人民共和國國家衛生健康委員會)
“NHFPC”	the National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會), formerly known as Ministry of Health
“NMIC”	the National Medical Insurance Catalogue (國家醫療保險藥品目錄), issued by the MOHRSS of the PRC
“NMPA”	the National Medical Products Administration (國家藥品監督管理局), formerly known as the China Food and Drug Administration (中華人民共和國食品藥品監督管理總局)
“NRDL”	the PRC’s National Reimbursement Drug List
“PBOC”	The People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC”	the People’s Republic of China
“SAFE”	The State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAT”	The State Administration of Taxation (國家稅務總局)
“Sciprogen”	Shenzhen Sciprogen Bio-pharmaceutical Co., Ltd. (深圳賽保爾生物藥業有限公司), a company incorporated in the PRC on 22 March 1999 and a wholly-owned subsidiary of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Aoxi”	Shanghai Aoxi Technology Information Consulting Co., Ltd. (上海澳曦科技信息諮詢有限公司), a limited liability company incorporated in the PRC on 18 December 2014 and a wholly-owned subsidiary of the Company
“Shareholder(s)”	registered holder(s) of the Share(s)
“Shenyang Sunshine”	Shenyang Sunshine Pharmaceutical Company Limited (瀋陽三生製藥有限責任公司), a limited liability company incorporated in the PRC on 3 January 1993 and a wholly-owned subsidiary of the Company

“Shenzhen Baishitong Limited”	Shenzhen Baishitong Technology Development Company (深圳市百士通科技發展有限公司), a limited liability company incorporated in the PRC on 8 March 2002 and wholly-owned subsidiary of the Company
“Sirton”	Sirton Pharmaceuticals S.p.A., a company with limited liability incorporated in Italy on 22 November 2010 and a wholly-owned subsidiary of the Company
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“Sunshine Guojian”	Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. (三生國健藥業(上海)股份有限公司), formerly known as Shanghai CP Guojian Pharmaceutical Co., Ltd. (上海中信國健藥業股份有限公司), a company incorporated in the PRC on 25 January 2002 and a non-wholly-owned subsidiary of the Company
“Taizhou Huan Sheng Investment”	Taizhou Huan Sheng Healthcare Industry Investment Centre (Limited Partnership) (泰州環晟健康產業投資中心(有限合夥)), a limited liability partnership established in the PRC on 30 May 2011 to which the Group contributed 80% of its capital and controlled by its general partner
“The Sun Shine Trust”	The Sun Shine Trust is a trust established by Mr. Huang Bin, Mr. Tan Bo, Ms. Su Dongmei and Mr. Li Ke (as the settlors), with TMF (Cayman) Ltd. acting as the trustee and the beneficiaries of which are employees of the Company and other persons declared by the advisory committee of the trust and/or TMF (Cayman) Ltd.
“United States” or “U.S.”	The United States of America
“USFDA”	the United States Food and Drug Administration
“WHO”	World Health Organisation
“Xing Sheng”	Shanghai Xingsheng Pharmaceutical Company Limited (上海興生藥業有限公司), a limited liability company incorporated in the PRC on 23 December 1998, in which the Company holds approximately 96.25% equity interest
“Zhejiang Wansheng”	Zhejiang Wansheng Pharmaceutical Co., Ltd. (浙江萬晟藥業有限公司), a company incorporated in the PRC on 27 October 1997 and a wholly-owned subsidiary of the Company
“%”	per cent

TECHNICAL GLOSSARY

This glossary contains certain definitions of technical terms used in this Offering Circular. Some of these definitions may not correspond to standard industry definitions.

“anaemia”	a condition characterised by a deficiency of red cells or haemoglobin in the blood, resulting in pallor, weariness and even more serious conditions such as multiple organ failure
“age-related macular degeneration” or “AMD”	a condition characterised by damage to the macula of the retina, resulting in blurred or no vision in the centre of the visual field
“ankylosing spondylitis” or “AS”	a form of arthritis that primarily affects the spine
“anticoagulant”	a class of drugs that work to prevent the coagulation (clotting) of blood and can be used in vivo as a medication for thrombotic disorders or in medical equipment which contact blood, such as test tubes, blood transfusion bags, and renal dialysis equipment
“anti-epidermal growth factor receptor” or “anti-EGFR”	a class of drugs that work to prevent mutations that lead to EGFR overexpression and can be used in the treatment of certain cancers, such as squamous-cell carcinoma of the lung, anal cancers, glioblastoma and epithelial tumours of the head and neck
“anti-human epidermal growth receptor 2 antibody-drug conjugate” or “anti-Her2 ADC”	a class of highly potent biopharmaceutical drugs designed as a targeted therapy for the treatment of people with cancer composed of a bispecific antibody against the extracellular domain of human epidermal growth factor receptor 2
“anti-vascular endothelial growth factor” or “anti-VEGF”	a class of drugs that work to block vascular endothelial growth factor and can be used in the treatment of certain cancers and in age-related macular degeneration
“arthritis”	inflammation of the joints in one or more areas of the body
“autoimmune diseases”	diseases such as rheumatoid arthritis and lupus which arise from an abnormal immune response of the body against substances and tissues normally present in the body
“AXa”	a common measurement of LMWH levels to monitor anticoagulant therapy
“biosimilar”	a follow-on version of innovator biopharmaceuticals which are separately developed after patents protecting the innovator biopharmaceuticals have expired and have similar quality, safety and efficacy as the innovator biopharmaceuticals
“chemotherapy”	treatment of cancer with chemical substances, chosen based on the type or stage of cancer
“chemotherapy-induced anaemia” or “CIA”	a condition characterised by a deficiency of red cells or haemoglobin in the blood which is caused by chemotherapy
“chemotherapy-induced thrombocytopenia” or “CIT”	a condition characterised by abnormally low levels of platelets which is caused by chemotherapy

“chronic kidney disease” or “CKD”	a condition characterised by a gradual loss of kidney function over time
“epidermal growth factor receptor” or “EGFR”	a transmembrane protein that is a receptor for members of the epidermal growth factor family of extracellular protein ligands, mutations affecting whose expression or activity could result in cancer
“erythropoietin” or “EPO”	human erythropoietin synthesised by methods of genetic recombination
“GMP”	abbreviation of “Good Manufacturing Practice”, guidelines and regulations from time to time issued pursuant to the PRC Law on the Administration of Pharmaceuticals (中華人民共和國藥品管理法) as part of quality assurance which aims to minimise the risks of contamination, cross contamination, confusion and errors during the manufacture process of pharmaceutical products and to ensure that pharmaceutical products subject to these guidelines and regulations are consistently produced and controlled in conformity to quality and standards appropriate for their intended use
“gout”	a type of inflammatory arthritis caused by crystallisation of high concentrations of uric acid in the blood
“Grade I hospitals”	the smaller local hospitals designated as Grade I hospitals by the NHFPC hospital classification system, typically having fewer than 100 beds and primarily providing more basic healthcare services limited to the surrounding community
“Grade II hospitals”	the regional hospitals designated as Grade II hospitals by the NHFPC hospital classification system, typically having 100 to 500 beds, providing multiple communities with integrated healthcare services and undertaking certain academic and scientific research missions
“Grade III hospitals”	the largest and best regional hospitals in China designated as Class III hospitals by the NHFPC hospital classification system, typically having more than 500 beds, providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives
“GSP”	abbreviation of “Good Supply Practice for Pharmaceutical Products” (藥品經營質量管理規範) published by CDFA on 30 June 2016 in relation to the management procedures and standards regulating the supply chain of pharmaceutical products in China which stipulates that companies should take effective quality control measures during the process of purchase, storage, sale and transportation of pharmaceutical products to ensure the quality of pharmaceutical products
“heparin”	used to prevent blood clots from forming in people who have certain medical conditions or who are undergoing certain medical procedures that increase the chance that clots will form; also used to stop the growth of clots that have already formed in the blood vessels
“hepatitis B”	an infectious disease affecting the liver, caused by the hepatitis B virus (HBV) and differs from hepatitis C in symptoms, prevalence, and prognosis

“hepatitis C”	an infectious disease affecting primarily the liver, caused by the hepatitis C virus (HCV) and differs from hepatitis B in symptoms, prevalence, and prognosis
“HIF-PH”	abbreviation of “hypoxia-inducible factor prolyl hydroxylase”, an enzyme that is the primary regulator of the production of red blood cells and may be a novel treatment for anaemia
“Humulin”	an insulin product of Lilly
“hydrochloride”	a type of salt resulting from the reaction of hydrochloric acid with an organic base
“interleukin 2” or “IL-2”	a type of cytokine that regulates the activities of white blood cells (leukocytes, often lymphocytes) which are responsible for immunity; its human recombinant forms are used to treat certain cancers
“immune thrombocytopenia” or “ITP”	a bleeding disorder in which the immune system destroys platelets, which are necessary for normal blood clotting
“IND”	investigational new drug
“interferon alpha-2a”	a recombinant human protein which boosts immune system function and prevents tumour cells or viruses from growing inside the body; used as a treatment of viral diseases and certain types of cancer
“iron sucrose”	an intravenously administered iron product indicated in the treatment of iron deficiency anaemia, frequently used in patients undergoing haemodialysis or erythropoietin therapy, and/or patients who have chronic kidney disease
“IU”	abbreviation of “international unit per vial”
“low-molecular-weight heparin calcium” or “LMWH-Ca”	“low-molecular-weight heparin calcium” or “LMWH-Ca”
“mAb” or “monoclonal antibody”	a monospecific antibody against a specific epitope on an antigen made by identical immune cells that are all clones of a unique parent cell, in contrast to polyclonal antibodies which are made from hundreds of different immune cells
“MIU”	abbreviation of “million international unit per vial”
“ml”	abbreviation of “millilitre”
“PD1”	programmed cell death protein 1, is a protein on the surface of cells that has a role in regulating the immune system’s response to the cells of the human body
“PIC/S”	the Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme
“platelet(s)”	blood cells whose function along with the coagulation factors is to stop bleeding
“proteins”	large biological molecules or macromolecules, consisting of one or more long chains of amino acid residues

“psoriasis”	a common, chronic, relapsing/remitting, immune-mediated systemic disease characterised by skin lesions including red, scaly patches, papules and plaques, which usually itch
“rheumatoid arthritis” or “RA”	a long-term autoimmune disorder that primarily affects joints
“rhEPO” or “recombinant human erythropoietin”	human erythropoietin synthesised by methods of genetic recombination
“rhTPO” or “recombinant human thrombopoietin”	human thrombopoietin synthesised by methods of genetic recombination
“R&D”	abbreviation of “research and development”
“thrombocytopenia”	a disorder characterised by a decrease of platelets present in the blood which can lead to abnormal bleeding
“thrombopoietin” or “TPO”	a glycoprotein hormone largely produced by liver which regulates the production of platelets
“tumour necrosis factor” or “TNF”	A cell signalling protein(cytokine) involved in systemic inflammation, being one of the cytokines that make up the acute phase reaction

RISK FACTORS

An investment in the Bonds involves risks. Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group, the value of the Bonds and the value of the Shares could be adversely affected by any of these risks. The following factors may affect its ability to fulfil its obligations under the Bonds. Additional considerations and uncertainties not presently known to the Group or which the Group currently deems immaterial may also have an adverse effect on an investment in the Bonds. All of these factors are contingencies, which may or may not occur and the Group is not in a position to express a view on the likelihood of any such contingency occurring.

Factors that the Group believes may be material for the purpose of assessing the market risks associated with the Bonds are described below. Factors described below represent the principal risks inherent in investing in the Bonds, but the Group's inability to repay principal, pay interest (if any) or other amounts or fulfil other obligations on or in connection with the Bonds may occur for other reasons and the Group does not claim that the statements below regarding the risks of holding the Bonds are exhaustive.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties that prospective investors should consider together with the disclaimer regarding forward-looking statements at the beginning of this Offering Circular. See "Forward-looking Statements". The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Offering Circular.

Risks Relating to the Group's Business and Industry

The Group is largely dependent on the sales of its four core products: TPIAO, Yisaipu, EPIAO and SEPO

The Group derives most of its revenue from sales of its four core products, TPIAO, Yisaipu, EPIAO and SEPO. If the Group is unable to maintain the sales volumes, pricing levels and profit margins of these core products, its revenue and profitability could be adversely affected. Sales of TPIAO accounted for approximately 26.0%, 36.3% and 43.5% of the Group's total sales of goods in 2017, 2018 and 2019, respectively; sales of Yisaipu accounted for approximately 27.0%, 24.1% and 21.4% of the Group's total sales of goods in 2017, 2018 and 2019, respectively; and sales of EPIAO and SEPO collectively accounted for 22.8%, 19.5% and 14.0% of the Group's total sales of goods in 2017, 2018 and 2019, respectively. The Group expects that sales of these four core products will continue to comprise a substantial portion of its total sales of goods in the near future. Any decrease in sales or profit margins will thus have a direct negative impact on the Group's business, financial condition and results of operations.

Many of the factors discussed in this section below could adversely affect sales of these products, including, but not limited to, their inclusion or removal from the NMIC and provincial medical insurance catalogues; pricing pressure caused by government policies and competition; market acceptance among the medical community; disruptions in manufacturing or distribution; issues with product quality or side effects; and disputes over intellectual property. Moreover, despite its efforts, the Group may be unable to develop or acquire new products that would diversify its business and reduce its dependence on these products, or to do so in a competitive manner.

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

The Group operates in a highly competitive market. The Group faces competition from both biotechnology and chemical pharmaceutical companies. The Group may not be able to compete effectively against current and

future competitors. The Group's products compete with other products or treatments for diseases for which the Group's products may be indicated. The biotechnology and pharmaceutical industries are characterised by rapid changes in technology, constant enhancement of industrial know-how and frequent emergence of new products. Many of the Group's competitors, including foreign pharmaceutical companies and large state-owned pharmaceutical companies, may have substantially greater clinical, research, regulatory, manufacturing, marketing, financial and human resources than the Group has.

The Group relies on suppliers and other third parties with respect to the in-licensed products, and it may lose exclusive rights of distribution.

The Group also generates revenue by acting as the exclusive distributor of certain products. AstraZeneca granted an exclusive licence to the Group for the commercialisation of the Byetta, Bydureon single dose tray, Bydureon dual chamber pen and Bydureon auto-injector in the PRC. The Group has also been granted the exclusive right of distribution and promotion of Humulin by Lilly China in the PRC. However, the Group's exclusive rights of distribution are subject to termination, expiration, non-renewal or other limitations under specific contractual conditions. The Group may in the future be unable to maintain its distributorship exclusivity in its current selling regions upon the renewal of distribution agreements with its suppliers or their sales agents. If the Group does not perform as required under the agreements with certain suppliers or their sales agents, such as by failing to preserve product quality, maintain proper marketing practices, reach mutual agreement on purchase prices or achieve desired sales volumes, such suppliers or their sales agents may terminate their agreements with the Group, cease to offer the Group rights on certain products or in certain territories or appoint additional distributors in provinces, municipalities or autonomous regions where the Group currently act as their exclusive distributor.

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

Under the national medical insurance programme in the PRC, patients are entitled to full or partial reimbursement of costs for pharmaceutical products listed in the NMIC or provincial medical insurance catalogues. According to the statistics conducted by the National Healthcare Security Administration (國家醫療保障局), approximately 1.35 billion people in China were enrolled in the national medical insurance programme as at 31 December 2019. Consequently, a pharmaceutical product's inclusion in, or exclusion from the NMIC or provincial medical insurance catalogues significantly affects the demand for such product in the PRC.

As at the date of this Offering Circular, the Group's core products, TPIAO, Yisaipu, EPIAO and SEPO, as well as certain other products including Humulin, Byetta and Qiming Keli, were listed in the 2019 NRDL. The selection of pharmaceutical products for listing in the NMIC or provincial medical insurance catalogues is based on a variety of factors, including clinical needs, use frequency, efficacy and price, many of which are outside of the Group's control. Moreover, the relevant PRC government authorities may also, from time to time, review and revise the scope of reimbursement for the products that are already listed in the NMIC or provincial medical insurance catalogues. There can be no assurance that any of the Group's products currently listed in the NMIC or provincial medical insurance catalogues will remain listed, or that changes in the scope of reimbursement will not negatively affect the Group's products. If any of the Group's products are removed from the NMIC or provincial medical insurance catalogues, or if the scope of reimbursement is reduced, demand for the Group's products may decrease and the Group's revenue and profitability could be adversely affected. Furthermore, if the Group is unable to list new products in the NMIC or provincial medical insurance catalogues, or add new indications to the Group's currently listed products, the Group's business prospects could be adversely affected.

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

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

The Group may fail to win bids in a provincial tendering process due to various factors, including but not limited to, reduced demand for the relevant product, uncompetitive bidding price or local protectionism. The Group may also fail the tendering process because the relevant product is perceived to be less clinically effective than competing products or its services or other aspects of its operations are perceived to be less competitive. The Group may also win bids at low prices that will limit its profit margins. There can be no assurance that the Group's bids will enable it to win the tendering process and maintain its market share without compromising its profitability.

The retail prices of certain of the Group's products are subject to price controls, including periodic downward adjustments, by PRC government authorities.

Pharmaceutical products included in the NMIC or provincial medical insurance catalogues are subject to price controls by the NDRC, either at the national level or the provincial level. Price controls are mainly in the form of fixed retail prices or maximum retail prices. These retail prices are determined by the NDRC based on a variety of factors, including the profit margins that the relevant government authorities deem reasonable, the product type, quality and production costs, as well as the prices of substitute pharmaceutical products. Control over and downward adjustments to retail prices of the Group's products could increase pricing pressure in subsequent provincial tendering processes and indirectly limit the wholesale prices at which it can sell the relevant products to distributors.

All of the Group's core products are currently included in the NMIC and/or certain provincial medical insurance catalogues. In the future, the Group's new products may be included in the NMIC or provincial medical insurance catalogues, likely causing downward pricing pressure on these products. Additionally, the Group's products may be subject to government price controls on an exceptional basis whether or not they are included in the NMIC or provincial medical insurance catalogues.

If PRC government authorities continue to make downward adjustments to the maximum retail prices of the Group's products, its wholesale prices, its revenue and profitability could be adversely affected. Furthermore, PRC government authorities may reform the current schemes of pricing control and provincial tendering for pharmaceutical products or revise other policies affecting pharmaceutical prices. See *"Business — Sales, Marketing and Distribution — Product Pricing"* for more details. Any changes in price control policies, which the Group may not be able to anticipate or control, could create uncertainties affecting its product prices, revenue and profitability.

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

The Group does not fully control the interactions its employees, distributors and third-party promoters have with hospitals, medical institutions and doctors, and they may try to increase sales volumes of its products through means that constitute violations of the PRC anti-corruption and other related laws. If the Group's employees, distributors or third-party promoters engage in corrupt or other improper conduct that results in violation of applicable anti-corruption laws in the PRC or other jurisdictions, its reputation could be harmed. Furthermore, the Group could be held vicariously liable for actions taken by its employees, distributors or third-party promoters, which could expose it to regulatory investigations and penalties. Pursuant to the Provisions on the Establishment of Adverse Records of Commercial Briberies in the Medicine Purchase and Sales Industry (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》), if the Group is involved in criminal, investigational or administrative procedures for commercial bribery, it will be listed in the Adverse Records of Commercial Briberies by the relevant government authorities. Consequently, its products would no longer be available for purchase by public medical institutions or medical and health institutions receiving financial subsidies within a specific territory within two years; and if the Group were listed in the Adverse Records of Commercial Briberies twice within five years, its products could not be purchased by public medical institutions or medical and health institutions receiving financial subsidies throughout China within two years.

The Group's high gross margin in recent years may not be sustainable in the future.

The Group's gross margin was 81.9%, 80.9% and 82.6% for the three years ended 31 December 2017, 2018 and 2019, respectively. However, historical results may not be reliable indications of future results of the Group which may not be able to sustain this relatively high level of gross margin. Various factors may affect its gross margin, many of which are beyond its control. For example, new procedures used in the provincial tendering processes may further decrease the average selling prices of the Group's products, which would have a negative effect on its gross margin. In addition, the Group may face increasing competition from new entrants to the PRC rhEPO and rhTPO markets due to its lack of any commercially significant patent covering EPIAO. As a result, the Group's gross margin may decrease in the future.

Failure to attain market acceptance for the Group's products among the medical community would have an adverse impact on its operations and profitability.

The commercial success of the Group's products, including in-licensed products, depends upon the degree of market acceptance they achieve among the medical community, particularly physicians and hospitals. The acceptance of any of the Group's products among the medical community will depend upon several factors, including:

- the actual or perceived safety and efficacy of the product;
- the effectiveness of the Group's efforts to market the product to hospitals and physicians;
- the cost of the product;
- the prevalence and severity of actual or perceived side effects of the product; and
- actual or perceived advantages and disadvantages of the product relative to competing products or treatments.

If the Group's products fail to attain market acceptance among the medical community, its business and profitability would be adversely affected.

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

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

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

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

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

The Group may pursue collaborations, in-licencing arrangements, joint ventures, strategic alliances, partnerships or other strategic investment or arrangements, which may fail to produce anticipated benefits and adversely affect its business.

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

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

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

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

If the Group is unable to conduct effective academic marketing or maintain a qualified sales force, its sales and business prospects could be adversely affected.

Successful sales and marketing are crucial for the Group to increase the market penetration of its existing products, expand its coverage of hospitals and other medical institutions and promote new products in the future. If the Group is unable to increase or maintain the effectiveness and efficiency of its sales and marketing activities, its sales and business prospects could be adversely affected.

In particular, the Group's sales and marketing efforts are anchored by academic marketing, through which the Group promotes its products to medical professionals and hospitals. Therefore, the Group's sales and marketing force, whether in-house sales representatives or third-party promoters, must possess a relatively high level of technical knowledge, up-to-date understanding of industry trends, necessary expertise in the relevant therapeutic areas and products, as well as sufficient promotion and communication skills. If the Group is unable to effectively train its in-house sales representatives and third-party promoters or monitor and evaluate their academic marketing performances, its sales and marketing may be less successful than desired.

Moreover, the Group's ability to attract, motivate and retain a qualified and professional sales force is especially important because the Group primarily relies on its in-house sales force to market and sell its core products. Competition for experienced marketing, promotion and sales personnel is intense. If the Group is unable to attract, motivate and retain a sufficient number of qualified and professional marketing, promotion and sales personnel, sales volumes of its products may be adversely affected and the Group may be unable to expand its hospital coverage or increase its market penetration as contemplated.

The Group may be subject to product liability claims, which could expose it to costs and liabilities and adversely affect its reputation, revenue and profitability.

The development and commercialisation of pharmaceutical products entail inherent risks of harm to patients and the Group is therefore exposed to risks associated with product liability claims as a result of developing, producing, marketing, promoting and selling pharmaceutical products in the PRC and other jurisdictions in which its products are marketed and sold. Such claims may arise if any of the Group's products are deemed or proven to be unsafe, ineffective, defective or contaminated or if the Group is alleged to have engaged in practices such as improper, insufficient or improper labelling of products or providing inadequate warnings or insufficient or misleading disclosures of side effects. There can be no assurance that the Group will not become subject to product liabilities claims or that the Group will be able to successfully defend itself against any such claims.

If a product liability claim is brought against the Group, it may, regardless of merit or outcome, result in damage to its reputation, breach of contract with its customers, decreased demand for its products, costly litigation, product recalls and loss of revenue and capability to commercialise its products. If the Group is unable to defend itself against such claims in the PRC, among other things, the Group may be subject to civil liability for physical injury, death or other losses caused by its products and to criminal liability and the revocation of its business licences if its products are found to be defective. In addition, the Group may be required to recall the relevant products, suspend sales or cease sales. Other jurisdictions in which the Group's products are, or in the future could be, sold, in particular in developed markets including the United States, may have similar or more onerous product liability and pharmaceutical product regulatory regimes, as well as more litigious environments that may further expose it to the risk of product liability claims. Even if the Group is able to successfully defend itself against any such product liability claims, doing so may require significant financial resources and the time and attention of its management.

Existing PRC laws and regulations do not require the Group to maintain liability insurance to cover product liability claims. Any product liability insurance for clinical trials, when obtained, may be prohibitively expensive, or may not fully cover the Group's potential liabilities. The inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialisation of products that the Group or its collaborators develop.

If the Group's products are not produced up to the necessary quality standards, its business and reputation could be harmed, and its revenue and profitability could be adversely affected.

The Group's products and manufacturing processes are required to meet certain quality standards. The Group has established a quality control management system and standard operating procedures to help prevent quality issues in respect of its products. Despite the Group's quality control system and procedures, the Group cannot eliminate the risk of errors, defects or failure. Quality defects may fail to be detected or cured as a result of a number of factors, many of which are outside its control, including:

- manufacturing errors;
- technical or mechanical malfunctions in the manufacturing process;
- human error or malfeasance by the Group's personnel;
- tampering by third parties; and
- quality issues with raw materials the Group purchases or produces.

In addition, when the Group expands its manufacturing capacity in the future, it may not be able to ensure consistent quality for all its products manufactured in its existing and new facilities, or it may need to incur substantial costs for doing so. Furthermore, if the Group acquires other biotechnology or pharmaceutical companies, it may not be able to immediately ensure that their manufacturing facilities and processes will meet its own quality standards.

Moreover, IV Iron Sucrose, one of the Group's chemical pharmaceutical products, is currently produced by a third-party manufacturer. Despite the Group's guidelines and binding agreements with such third-party manufacturer, such manufacturer may fail to meet the necessary quality standards and the Group may fail to prevent the defective products from being delivered to end-users. In addition, if such third-party manufacturer fails to produce any of its other products in accordance with the necessary quality standards, its reputation could be harmed, which will in turn adversely affect the Group's reputation and sales of its products produced by such manufacturer.

Failure to detect quality defects in the Group's products or to prevent such defective products from being delivered to end-users could result in patient injury or death, product recalls or withdrawals, licence revocation or regulatory fines, product liabilities or other problems that could seriously harm its reputation and business, expose the Group to liability, and adversely affect its revenue and profitability.

If the Group's products cause, or are perceived to cause, severe side effects, its revenue and profitability could be adversely affected.

The Group's products may cause undesirable or unintended side effects as a result of a number of factors, many of which are outside its control. These factors include potential side effects not revealed in clinical testing, unusual but severe side effects in isolated cases, defective products not detected by the Group's quality management system or misuse of its products by end-users. The Group's products may also be perceived to cause severe side effects when a conclusive determination as to the cause of the severe side effects is not obtained or is unobtainable.

In addition, the Group's products may be perceived to cause severe side effects if other pharmaceutical companies' products containing the same or similar active pharmaceutical ingredients, raw materials or delivery technologies as its products cause or are perceived to have caused severe side effects, or if one or more regulators, such as the NMPA or the USFDA, or an international institution, such as the WHO, determines that products containing the same or similar pharmaceutical ingredients as the Group's products could cause severe side effects. For example, in March 2007, the USFDA issued a warning that aggressive use of EPO-stimulating agents to raise haemoglobin to a target of 12 g/dL or higher may be associated with severe side effects. At the request of the USFDA, the manufacturers of rhEPO products in the United States added a black-box safety warning to their package labels.

If the Group's products cause, or are perceived to cause, severe side effects, the Group may face a number of consequences, including:

- injury or death of patients;
- a severe decrease in the demand for, and sales of, the relevant products;
- the recall or withdrawal of the relevant products;
- revocation of regulatory approvals for the relevant products or the relevant production facilities;

- damage to the brand name of the Group's products and the reputation of the Company;
- removal of relevant products from PRC medical insurance catalogues; and
- exposure to lawsuits and regulatory investigation relating to the relevant products that result in liabilities, fines or penalties.

As a result of any of the foregoing consequences, the Group's sales and profitability could be adversely affected.

If the Group's brands fail to maintain a positive reputation, many aspects of its business and its business prospects could be adversely affected.

The Group believes that market awareness and recognition of its brands, particularly Shenyang Sunshine, TPIAO, Yisaipu, EPIAO and SEPO, have contributed significantly to the success of its business. The Group also believes that maintaining and enhancing these brands is critical to maintaining its competitive advantage.

While the Group will continue to promote its brands to remain competitive, it may not be successful in doing so. In addition, the Group may expand its network of third-party promoters to increase its marketing efforts. The Group may find it difficult to effectively manage its brand reputation as the Group has relatively limited control over these third-party promoters.

If the Group is unable to maintain or enhance its brand recognition and increase awareness of its products, or if the Group incurs excessive marketing and promotion expenses to do so, its business and results of operations may be materially and adversely affected.

If its third-party promoters fail to effectively market and promote its products, the Group may not be able to effectively penetrate the lower-tier markets in the PRC, and its future business growth may be adversely affected.

The Group intends to expand its network of third-party promoters to further penetrate lower-tier markets in China. The Group plans to primarily rely on third-party promoters to market certain products. If the Group fails to expand or effectively manage its third-party promotion network, it may be unable to extend its coverage and increase its market penetration as contemplated by its strategies, or enjoy the benefits of operational flexibility and resource allocation as expected or desired.

The Group has relatively limited control over third-party promoters, some of which may fail to effectively promote its products, causing an adverse effect on sales volumes of the relevant products, as well as its brand reputation. Moreover, the Group's agreements with its third-party promoters are typically for a fixed period. The Group's third-party promoters may elect not to renew their promotion agreements with it or otherwise to terminate their business relationships with it for a number of reasons, many of which could be outside its control, including promoting competing products. In the event that the Group's third-party promoters fail to effectively promote its products or terminate their business relationship with it, there can be no assurance that it will be able to enter into similar relationships with other third-party promoters in time, or at all. As a result, the Group's sales for the relevant products, especially the penetration rate of these products and its business growth in the lower-markets, could be adversely affected.

If the Group fails to maintain an effective distribution network for its products, its business and sales of the relevant products could be adversely affected.

The Group relies on its network of distributors to distribute its products. The Group's ability to maintain and grow its business will depend on its ability to maintain and manage a distribution network that delivers its

products in a timely manner in all of the provinces, municipalities and autonomous regions in China where the Group generates market demand through its sales and marketing activities. However, the Group's distributors are third parties over whom it has relatively limited control. The Group's distributors may fail to distribute its products in the manner the Group contemplates, impairing the effectiveness of its distribution network or negatively impacting the qualities of its products. Since the Group's distributors do not sell its products on an exclusive basis, its products also compete with similar products from its competitors sold by its distributors.

While the Group has long-standing business relationships with most of its distributors, it does not have long-term contracts with any distributor except those for its export sales. The Group typically enters into agreements with its distributors for a term of one year, which requires it to continually renew distribution agreements across its distribution network to maintain such business relationships. The Group's distributors might elect not to renew their agreements with it or otherwise terminate their business relationships with it for various reasons. For example, if PRC price controls or other factors substantially reduce the margins they can obtain through the resale of the Group's products to hospitals, medical institutions and sub-distributors, they may terminate their agreements with the Group. If any of the Group's significant distributors (or a significant number of its distributors) voluntarily or involuntarily suspend or terminate their relationships with the Group, or the Group is otherwise unable to maintain and expand its distribution network effectively, its sales volumes and business prospects could be adversely affected.

The Group is dependent on its production facilities in Shenyang, Shanghai, Shenzhen and Hangzhou to manufacture a substantial majority of its products.

Substantially all of the Group's revenue has been, and in the near future will continue to be, generated by sales of products manufactured at its Shenyang, Shanghai, Shenzhen and Hangzhou production facilities. The continued operation of the Group's production facilities could be substantially interrupted due to a number of factors, many of which are outside of its control, including labour shortages (including, but not limited to, cases where personnel are unable to reach production facilities due to the occurrence of an outbreak of contagious disease such as COVID-19 or due to restrictions and containment measures implemented to limit the consequences of such outbreak), fire, flood, earthquakes, power outages, fuel shortages, mechanical breakdowns, pandemics, terrorist attacks and wars, or other natural disasters, as well as loss of permits, licences and certificates, changes in governmental planning for the land underlying these facilities and regulatory changes. If the Group suffers substantial disruption to the operation of its Shenyang, Shanghai, Shenzhen or Hangzhou facilities, its business could be adversely affected.

If the operation of any of the Group's production facilities is substantially disrupted, the Group may not be able to replace the equipment or inventories at such facility, or use a different facility or a third-party contractor to continue its production in a legal, timely and cost-effective manner or at all. Although the Group maintains property insurance for its production facilities and equipment, it does not maintain business interruption insurance and the amount of its insurance coverage may not be sufficient to cover its losses in the event of a significant disruption to any of its production facilities. In addition, there are certain types of losses, such as losses from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters for which the Group cannot obtain insurance at a reasonable cost or at all. As a result of disruption to any of its facilities, the Group may all fail to fulfil contract obligations or meet market demand for its products, and its business, revenue and profitability could be adversely affected.

Certain raw materials, medical devices and components of the Group are single-sourced from third parties; third-party supply failures could adversely affect its ability to supply its products.

Certain raw materials and devices necessary for the manufacturing and formulation of the Group's products are provided by single-source unaffiliated third-party suppliers, some of which are the proprietary products of these

unaffiliated third-party suppliers. The Group may not be able to obtain these raw materials, medical devices or components for an indeterminate period of time if these third-party single-source suppliers were to cease or interrupt production or otherwise fail to supply these materials or products to it for any reason, including regulatory requirements or actions, adverse financial developments of the suppliers, and/or unexpected demand, labour shortages or disputes. Furthermore, the Group may not be able to identify suitable replacement for these materials, devices and components on reasonable terms or at all if such supply was subsequently found to not be in compliance with its quality standards or resulted in quality failures or product contamination and/or recall when used to manufacture, formulate, fill or finish its products. These events could adversely affect the Group's ability to satisfy demand for its products, which could materially and adversely affect its product sales and operating results.

The Group's operations may be adversely affected by an outbreak of an infectious disease, such as COVID-19 or other epidemics.

An outbreak of any severe infectious disease such as COVID-19, Severe Acute Respiratory Syndrome (SARS), Middle East Respiratory Syndrome (MERS), the H5N1 avian flu or the human swine flu (H1N1) or similar communicable diseases, if uncontrolled, could have a material adverse effect on the overall business operations in the PRC and in economies in which the Group carries out its business.

As at the date of this Offering Circular, there have been clear indications that the COVID-19 outbreak has had a significant impact on international economies, including the PRC, and may cause a global downturn. Despite the growth of the Group's business in the three months ended 31 March 2020, if the COVID-19 outbreak continues to develop and persist, customers may delay, suspend or decrease orders for the Group's products, and demand for certain products may decrease. The Group's clinical trials, production facilities, third-party suppliers and distribution networks may also experience significant disruption due to lockdowns, delay in logistics, physical distancing measures and other containment measures. Regardless of enhanced hygiene and precautionary measures to safeguard the safety and health of The Group's employees, the Group could be subject to labour shortage or suspension of work if certain personnel were to become infected with the disease or restrictions and containment measures mentioned above were to affect their ability to reach the offices and facilities. The Group's operations may also be significantly and adversely affected if government-imposed restrictions or other containment measures require the Group to suspend its operations, partially or entirely.

Finally, the negative impact of the outbreak on the global economy may increase counterparty risks, and increased difficulties in collecting fees, which may negatively impact the Group's cash flows, delay certain projects, and reduce its ability to access capital or increase financing costs.

The Group may grow its business through acquisitions; if the Group fails to identify suitable targets and complete planned acquisitions, or fails to successfully integrate acquired or future targets into its own operations, its business prospects may be adversely affected.

The Group intends to accelerate its business growth through selective acquisitions of suitable pharmaceutical companies. However, the Group's ability to consummate acquisitions is subject to a number of risks and uncertainties, including the following:

- the Group may not be able to identify suitable acquisition targets and reach agreement on acceptable terms;
- the Group may not have access to financing for acquisitions on commercially acceptable terms, or at all;
- the Group may fail to obtain governmental approvals and third party consents necessary to consummate any proposed acquisition; and

- the Group may have to engage in intense competition for attractive acquisition targets, which may make it difficult to consummate acquisitions on commercially acceptable terms.

Moreover, the process of seeking and consummating acquisitions, whether or not they are successful, may divert the Group's resources and management attention from its existing businesses and impair its ability to successfully manage and grow its business organically.

As part of its acquisition strategy, the Group may seek to acquire overseas pharmaceutical companies. The Group has limited experience in evaluating and completing acquisitions of overseas pharmaceutical companies. Consequently, any acquisitions the Group seeks to consummate overseas may expose it to greater execution risks and higher transaction costs than the domestic PRC acquisitions the Group may pursue.

In addition, there can be no assurance that the Group will be able to integrate acquired or future targets into its own operations to achieve the expected synergies with its existing operations and to fulfil the contemplated purposes of these acquisitions. Acquired or future targets may not provide the Group with the intellectual property rights, technology, research and development capability, production capacity or sales and marketing infrastructure the Group had anticipated, or they may be subject to unforeseen liabilities. The Group may be unable to successfully increase the efficiencies of the acquired businesses in the manner the Group contemplated or devote more resources and management attention than desirable to the integration and management of acquired businesses. Hence, there can be no guarantee that the Group will be able to enhance its post-acquisition performance or grow its business through its recent or future acquisitions.

If the Group fails to effectively expand its international business, its business prospects may be adversely affected.

In 2017, 2018 and 2019, the Group exported its products to countries such as Colombia, India, Pakistan, Philippines, Sri Lanka, Thailand, South Korea and People's Republic of Bangladesh, and the Group plans to further expand its international business. However, the Group's limited experience in overseas markets may expose it to risks and uncertainties, including:

- risks associated with dealing with regulatory regimes, regulatory bodies and government policies that may differ materially from those in the PRC or with which the Group may be unfamiliar;
- risks associated with the substantial time that may be required for the Group to obtain approval for registering and selling its products in additional countries, especially in developed countries.
- risks associated with commercialising the Group's products in new markets where the Group has limited experience with the dynamics and no sales and marketing infrastructure;
- risks associated with higher costs for new product development and reliance on overseas partners for the development, commercialisation and marketing of the Group's products; and
- increased risk of product liability litigation and regulatory scrutiny arising from the marketing and sale of products in overseas markets and the costs incurred dealing with such procedures, as well as the Group's ability to obtain insurance to adequately protect it from any resulting liabilities.

For instance, the Group's continuous operation of Sirton will expose it to risks associated with dealing with regulatory regimes and regulatory bodies in Italy and Europe, including stringent labour laws and product liability laws, as well as unfamiliar corporate and bankruptcy laws, medicine manufacturing regulation and standards, and laws and regulations on environment, real property, intellectual property, dispute resolution and tax.

The Group's plans of international expansion may require significant investment but may fail to generate the level of returns the Group expected. If the Group is unable to expand its international business effectively or at all, its business prospects may be adversely affected.

The Group's business depends on its key senior management members and research and development personnel; if it loses any of them and is unable to find proper replacements in a timely fashion, its business prospects could be adversely affected.

The Group is highly dependent on its senior management to manage its business and operations, and on its key research and development personnel to develop new products, technologies and applications and to enhance its existing products. In particular, the Group relies substantially on its president, chairman of the Board and chief executive officer, Dr. Lou, to manage its operations. The Group also depends on its key research and development personnel such as Ms. Su, who co-invented four of its patents and leads its research and development team. The loss of any one of them, in particular Dr. Lou, would have a material adverse effect on the Group's business and operations.

The success and growth of the Group's business also depend on its ability to identify, hire, train and retain suitable employees with capable skills and qualifications, including management personnel with relevant professional skills. The Group relies on them to continue to develop its business. The Group competes for qualified personnel with other pharmaceutical and biotechnology companies, universities and research institutions. The Group provides incentives to attract and retain management and experienced personnel to meet its future development needs. The pool of suitable candidates is limited, and the Group may be unable to locate a suitable replacement for any senior management or key research and development personnel that the Group loses. In addition, if any of the Group's directors, or any member of its senior management team or any of its other key personnel joins a competitor or carries out a competing business, the Group may lose customers and additional key staff members. Intense competition for these personnel could cause the Group's compensation costs to increase significantly, which could have a material adverse effect on its results of operations. The Group's future success and ability to grow its business will depend in part on the continued service of these individuals and its ability to identify, hire and retain additional qualified personnel. If the Group is unable to attract and retain qualified employees, the Group may be unable to meet its business and financial goals.

If the Group experiences delays in collecting payments from distributors, its cash flows and operations could be adversely affected.

The Group generally grants credit terms between 60 and 90 days to its distributors, but longer terms to certain creditworthy distributors. If the Group's distributors' cash flows, working capital, financial condition or results of operations deteriorate, they may be unable, or they may otherwise be unwilling, to pay trade receivables owed to it promptly or at all. Any substantial defaults or delays could materially and adversely affect the Group's cash flows, and the Group could be required to terminate its relationships with distributors in a manner that will impair the effective distribution of its products.

Counterfeits of the Group's products could negatively affect its sales, damage its reputation and the brand names for the relevant products and expose it to liability claims.

Certain products distributed or sold in the pharmaceutical market may be manufactured without proper licences or approvals, or are fraudulently mislabelled with respect to their content or manufacturers. These products are generally referred to as counterfeit pharmaceutical products. The counterfeit pharmaceutical product control and enforcement system, particularly in developing markets such as the PRC, may be inadequate to discourage or eliminate the manufacturing and sale of counterfeit pharmaceutical products imitating the Group's products. Since counterfeit pharmaceutical products in many cases have very similar appearances to the authentic pharmaceutical products but are generally sold at lower prices, counterfeits of the Group's products can quickly erode its sales volume of the relevant products.

Moreover, counterfeit products may or may not have the same chemical composition as the Group's products do, which may make them less effective than its products, entirely ineffective or more likely to cause severe adverse

side effects. This could expose it to negative publicity, reputational damage, fines and other administrative penalties, and may even result in litigation against it. The existence and prevalence of counterfeit pharmaceutical products, products of inferior quality and other unqualified products in the healthcare markets from time to time in recent years may reinforce the negative image in general of all pharmaceutical products manufactured in the PRC or other relevant markets among consumers, and may harm the reputation and brand names of companies like the Group, particularly in overseas markets. As a result of these factors, the continued proliferation of counterfeit pharmaceutical products in the market could affect the Group's sales, damage its reputation and the brand names for the relevant products and expose it to liability claims.

Failure to adequately protect the Group's intellectual property rights may have a material adverse impact on its business, prospects and results of operations.

The Group's intellectual property, including but not limited to its patents, trademarks, trade secrets and know-how, is critical to its success. The Group's business depends, in part, on its ability to protect its products from competition by establishing, maintaining and enforcing intellectual property rights. The Group protects its intellectual property rights by filing patent applications, securing pharmaceutical regulatory protection, establishing and enforcing confidentiality contractual obligations, relying on trade secrets, or employing a combination of these methods. However, the measures the Group takes may not be adequate for a number of factors, including those described below, some of which are beyond its control.

The process of seeking patent protection can be lengthy and expensive, and there can be no assurance that any of the Group's pending patent applications, or any patent applications the Group may make in the future in respect of new products, will mature into issued patents, or that such patents, if issued, will be able to provide it with meaningful protection or commercial advantage. Any patent issued to it may be challenged, invalidated or circumvented. There are a number of factors that could cause the Group's existing patents or other intellectual property to become invalid or unenforceable, including known or unknown prior art, deficiencies in patent applications and lack of originality in the underlying technologies. Furthermore, the patents that the Group holds are for a finite duration. Following the expiration of the relevant patents, the Group's existing or future competitors may be able to develop and introduce direct substitute products to its key products which may be identical in formulation.

Intellectual property rights and confidentiality protection in China may not be as effective as in the United States or other developed countries, due to, among other causes, lack of procedural rules for discovery and evidence, low damage awards and lack of judicial independence. Policing unauthorised use of proprietary technology is difficult and expensive, and the Group might need to resort to litigation to enforce or defend patents issued to it or to determine the enforceability, scope and validity of its proprietary rights or those of others. The experience and capabilities of PRC courts in handling intellectual property litigation vary, and outcomes may be unpredictable. Furthermore, such litigation may require significant cash expenditure and management efforts. An unfavourable determination in any such litigation could materially impair the Group's intellectual property rights and may harm its business, prospects and reputation.

If for any of the above or other reasons the Group fails to adequately protect its intellectual property, competitors may be able to imitate its products, use its technologies and erode or negate any competitive advantages the Group may have, which could harm its business and profitability.

The Group may become subject to intellectual property infringement claims, which could divert its management's attention, impair its ability to sell its products and expose it to costs and liabilities.

The Group's commercial success depends significantly on its ability to operate without infringing the patents and other proprietary rights of third parties. The risk of being subject to intellectual property infringement claims will

increase as the Group continues to expand its operations and diversify its product offerings. Under the PRC Patent Law (中華人民共和國專利法), patent applications are maintained in confidence until their publication at the end of 18 months from the filing date (although they may be published earlier at the request of the applicant). The publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries are made and the date on which patent applications are filed. China adopts the first-to-file system under which the party who files a patent application first (instead of who makes the first actual discoveries) will be awarded the patent. Under the first-to-file system, even after reasonable investigation the Group may still be unable to determine with certainty whether any of its products, processes, technologies, inventions, improvement and other related matters have infringed upon the intellectual property rights of others, because such third party may have filed a patent application without its knowledge while the Group was still developing that product, and the term of patent protection starts from the date when the patent was filed, instead of the date when it was issued. Therefore, the validity of issued patents, patentability of pending patent applications and applicability of any of them to the Group's programmes may be lower in priority than third-party patents issued on a later date if the application for such patents was filed prior to the Group's and the technologies underlying such patents are the same or substantially similar to the Group's. If any intellectual property claims are asserted against the Group, its ability to commercialise its products could be adversely affected.

In Europe, patents are protected under a range of legislations, including the European Patent Convention of 1973, European Union directives and regulations and the national patent laws enforced by individual European nations. As the Group continues to expand its footprint in Europe, it may be exposed to greater risks of infringement claims, because it is challenging to navigate through the complex and unfamiliar legislative regime of patent protection, and difficult to predict and adapt to the uncertainties associated with the different standards and procedures enforced by individual European nations.

If a third party claims that the Group infringes its proprietary rights, one or more of the following may occur:

- the Group may become involved in time-consuming litigation, which could divert its management's attention, consume significant management resources, and result in significant legal costs;
- the Group may become liable for substantial damages for past infringement if a court decides that its technology infringes upon a third party's patent;
- if such claims are successful, a court may prohibit the Group from selling or licencing its product without a licence from the patent holder, which may not be available on commercially acceptable terms, if at all, or which may require the Group to pay substantial royalties or grant cross licences to its patents;
- the Group may have to reformulate its product so that it does not infringe patent rights of others, which may not be possible or could be very expensive and time-consuming;
- the Group may be forced to discontinue production and sales of the affected products and may be required to compensate the claimant for any alleged infringement.

If the Group experiences any of the circumstances listed above, its business, prospects and results of operations may be adversely affected.

If the Group or parties on whom the Group relies fail to comply with the laws and regulations related to, or maintain the necessary licences for, the development, production, sales and distribution of its products, its ability to conduct its business could be materially impaired.

The pharmaceutical industry is subject to extensive government regulation and supervision. The Group is governed by various local, regional and national regulatory regimes in various aspects of its operations, including

licencing and certification requirements and procedures for manufacturers of pharmaceutical products, operating and safety standards, as well as environmental protection regulations. There can be no assurance that the legal framework, licencing and certification requirements or enforcement trends in the Group's industry will not change in a manner that may result in increased costs of compliance, or that the Group will be successful in responding to such changes. In addition, the Group is subject to the risk of adverse changes to favourable policies from which the Group currently benefits, and the introduction of unfavourable policies. The costs the Group incurred to comply with these laws and regulations, including those related to environmental protection, may materially increase its total costs and decrease its profit. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of the Group's production facilities and obligations to take corrective measures.

The Group is also required to obtain, maintain and renew various permits, licences and certificates to develop, produce, promote and sell its products. Third parties, such as distributors, third-party promoters and third-party manufacturers, on whom the Group may rely to develop, produce, promote, sell and distribute its products may be subject to similar requirements. The Group and third parties on whom the Group relies may be also subject to regular inspections, examinations, inquiries or audits by the regulatory authorities, and an adverse outcome of such inspections, examinations, inquiries or audits may result in the loss or non-renewal of the relevant permits, licences and certificates. Moreover, the criteria used in reviewing applications for, or renewals of permits, licences and certificates may change from time to time, and there can be no assurance that the Group or the parties on whom the Group relies will be able to meet new criteria that may be imposed to obtain or renew the necessary permits, licences and certificates. Many of such permits, licences and certificates are material to the Group's business, and if the Group or parties on whom it relies fail to maintain or renew material permits, licences and certificates, the Group's ability to conduct its business could be materially impaired. Furthermore, if the interpretation or implementation of existing laws and regulations change, or new regulations come into effect, requiring it or parties on whom the Group relies to obtain any additional permits, licences or certificates that were previously not required to operate the Group's business, there can be no assurance that the Group or parties on whom the Group relies will successfully obtain such permits, licences or certificates. Failure to obtain such permits, licences or certificates could have a negative and material impact on the Group's business, prospects and results of operations.

The Group is subject to environmental regulations and may be exposed to liability and potential costs relating to environmental compliance.

The Group is subject to national and local environmental laws and regulations of the PRC. During its manufacturing processes, the Group must comply with PRC laws and regulations concerning the discharge of air, water and solid waste as well as noise control. In addition, manufacturers engaging in any new construction project must prepare an environmental impact study report setting forth the potential environmental impact of the proposed construction project and proposing measures to prevent or mitigate such impact for approval by the government authority prior to the commencement of the new construction project.

The Group must at all times comply fully with environmental regulations. Any violation of these regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of the Group's facilities and obligation to take corrective measures. Costs of complying with current and future environmental protection laws and regulations and liabilities that may potentially arise from the discharge of effluent water and solid waste may adversely affect the Group's business, financial condition and results of operations.

The Group is subject to extensive governmental approvals and compliance requirements for its land and properties.

For its production facilities and other premises, the Group must obtain various permits, certificates and other approvals from the relevant administrative authorities at various stages of property development, including, for

example, planning permits, construction permits, land use rights certificates, certificates for passing environmental assessments, certificates for passing fire control assessments, certificates for passing construction completion inspections and ownership certificates. The Group has encountered, and may in the future encounter, problems with fulfilling the conditions precedent to the receipt of certain permits, certificates and approvals, and the Group may not always be able to obtain them in a timely manner, or at all.

If the Group is not able to obtain the above certificates and registrations in a timely manner, it may become subject to administrative fines and other penalties, which could disrupt its business and cause it to incur additional expenses, which in turn could materially and negatively impact its business, prospects and results of operations.

The Group's debt levels and negative covenants and other restrictions in its financing agreements may limit its liquidity and flexibility in obtaining additional financing and in pursuing other business opportunities.

Additional indebtedness or equity financing may not be available to the Group in the future for the refinancing or repayment of existing indebtedness, or if available, such additional indebtedness or equity financing may not be available on a timely basis, or on terms acceptable to the Group and within the limitations specified in its then-existing debt instruments. In addition, in the event the Group decides to sell assets, it can provide no assurance as to the timing of any asset sales or the proceeds that could be realised from any such asset sale. The Group's ability to generate sufficient cash flows from operating activities to pay the principal of and interest on its indebtedness is subject to certain market conditions and other factors that are beyond its control.

Increases in the level of the Group's debt and restrictions and restrictive covenants contained in the instruments governing its debt could have important consequences to its ability to develop its business and implement its strategy, which in turn could have a material adverse effect on its business, prospects and results of operations. For example, they could:

- make it more difficult for the Group to obtain additional financing on acceptable terms;
- require the Group to dedicate a substantial portion of its cash flows from operating activities to the repayment of its debt and the interest associated with its debt;
- limit the Group's operating flexibility due to financial and other restrictive covenants, including restrictions on incurring additional debt, and create liens on its properties;
- place the Group at a competitive disadvantage compared with its competitors that have less debt; or
- make the Group more vulnerable to downturns in its business.

If the Group becomes a party to litigations, legal disputes, claims or administrative proceedings, such involvement may divert its management's attention and result in costs and liabilities.

The Group may from time to time become a party to various litigations, legal disputes, claims or administrative or arbitral proceedings arising in the ordinary course of its business. On-going litigations, legal disputes, claims or administrative or arbitral proceedings may divert the Group's management's attention and consume their time and its other resources. Furthermore, any litigations, legal disputes, claims, administrative or arbitral proceedings that are initially not of material importance may escalate and become important to it, due to a variety of factors, such as the facts and circumstances of the cases, the likelihood of loss, the monetary amount at stake and the parties involved.

Negative publicity arising from litigations, legal disputes, claims or administrative proceedings may damage the Group's reputation and adversely affect the image of its brands and products. In addition, if any verdict or award is rendered against it, the Group could be required to pay significant monetary damages, assume other liabilities and even to suspend or terminate the related business ventures or projects. Consequently, the Group's business, financial condition and results of operations may be materially and adversely affected.

If the Group suffers a failure or disruption in its information systems, its ability to effectively manage its business operations could be adversely affected.

The Group makes use of information systems to obtain, process, analyse and manage data. The Group uses these systems to, among other things, monitor the daily operations of its business, maintain operating and financial data, manage its distribution network and third-party promoters as well as manage its production operations and quality control systems. Any system damage or failure that interrupts data input, retrieval or transmission or increases service time could disrupt the Group's normal operations. There can be no assurance that the Group will be able to effectively handle a failure of its information systems, or that the Group will be able to restore its operational capacity in a timely manner to avoid disruption to its business. The occurrence of any of these events could adversely affect the Group's ability to effectively manage its business operations. In addition, if the capacity of the Group's information systems fails to meet the increasing needs of its expanding operations, its ability to expand may be constrained, which could materially and adversely affect its business, prospects and results of operations.

If the Group does not have access to sufficient funding for the implementation of its strategies and other aspects of its business, its business prospects could be affected.

The implementation of many aspects of the Group's strategies will require significant funding, including:

- the expenses associated with expanding the Group's sales and distribution network;
- the costs of drug development programmes for the expansion and diversification of the Group's portfolio;
- the funding required to consummate acquisitions and integrate acquired businesses;
- the costs and expenditures required to grow the Group's business internationally through drug development programmes for overseas markets; and
- the capital expenditure required to increase the Group's production capacity and to upgrade and enhance its facilities.

In addition, many aspects of the Group's general business operations have on-going funding requirements that may increase over time.

The Group expects that the implementation of its strategies and business plans will require it to rely in part on external financing sources. However, the Group's ability to obtain external financing on commercially reasonable terms will depend on a number of factors, many of which are outside of its control, including its financial condition, results of operations and cash flows, the economic conditions in the PRC, industry and competitive conditions, interest rates, prevailing conditions in the credit markets and government policies on lending. If the Group cannot obtain sufficient external financing on commercially acceptable terms to implement its strategies and business plans as currently contemplated, it could be required to revise its strategies and business plans, which could adversely affect its business prospects and results of operations.

The Group's business benefits from certain preferential tax and financial incentives, the expiration of or changes to which could adversely affect its profitability.

The Group currently benefits from certain preferential tax treatments, as well as tax concessions in relation to its research and development costs. In 2017, 2018 and 2019, NERC, Sunshine Guojian, Shenyang Sunshine, Sciprogen and Zhejiang Wansheng were qualified as High and New Technology Enterprises and were entitled to a preferential income tax rate of 15% compared with the 25% income tax rate generally applicable to PRC tax resident enterprises under the EIT Law. The Group plans to renew these enterprises' qualification as High and New Technology Enterprises in due course. However, if the Group fails to renew such qualifications, its applicable enterprise income tax rate will increase to 25%, which may have a material adverse effect on its financial condition and results of operations.

In addition, the current or future preferential tax treatments, tax concessions, tax allowances and financial incentives applicable to the Group may be changed, terminated, or otherwise become unavailable due to many factors, including changes in government policy or administrative decisions by relevant government authorities. In 2017, 2018 and 2019, the Group recorded government grants income in the amounts of RMB52.1 million, RMB62.1 million and RMB68.1 million, respectively. Due to potential changes in government policies, the Group cannot be certain of the level of government grants the Group will receive in the future. The Group's post-tax profitability, cash flows and results of operations may be adversely affected as a result of one or more of these factors.

The Group's business may be materially and adversely affected by trade tensions between the United States and China and their impact on the global economy, and in general by fluctuations in the global economy.

In recent years, trade tensions between the U.S. and China intensified. Since 2018, the U.S. government imposed several rounds of tariffs on Chinese products and the Chinese government retaliated with tariffs on U.S. products. In addition, in 2019, the U.S. government restricted certain Chinese technology firms from exporting certain sensitive U.S. goods. The Chinese government lodged a complaint in the World Trade Organisation against the U.S. over the import tariffs in the same year. The trade dispute created substantial uncertainties and volatilities in global markets. Despite a reprieve since January 2020 when the United States and Chinese governments signed the U.S.-China Economic and Trade Agreement, pursuant to which the United States agreed to cancel a portion of tariffs imposed on Chinese products and China promised to increase purchases of U.S. goods and services, it is still unclear whether both governments will successfully resolve their trade dispute.

Global growth, the global economy and financial markets are subject to other significant risks. In Europe, several member states may face difficulties in refinancing sovereign debt. The UK officially left the EU on 31 January 2020 ("**Brexit**"). During a transition period scheduled to end on 31 December 2020 (with the possibility of extension), the UK and the EU will negotiate, among others, trade agreements and their future relationship in various domains, without certainty on the outcome of this negotiation. Brexit has and may continue to create negative economic impact and increase volatility in the global markets. Moreover, as at the date hereof, there are early indications that several major economies are and will be significantly and negatively impacted by impacted by the COVID-19 outbreak. These and other issues may result in a global economic downturn, financial market turmoil and a further tightening of liquidity in the global financial markets.

The Company cannot assure you that trade tensions will not escalate and political and macro-economic events such as the ones described above may not cause an accelerating decrease in global trade and growth, leading to further restrictions on global trade and negatively impacting the global economy, the customers' businesses and spending behaviours. As a result, the Group's business, prospects, financial condition and results of operations could be materially and adversely affected.

Risks Relating to Doing Business in China

Adverse changes in political, economic and other policies of the Chinese government could have a material adverse effect on the overall economic growth of the PRC, which could reduce the demand for the Group's products and could otherwise materially and adversely affect its business, operations or competitive position.

The Group's operations are mainly located in the PRC, and its sales are mainly made in China. Accordingly, the Group's business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China.

The Chinese economy differs from the economies of most developed countries in many respects, including, but not limited to:

- the extent of government involvement;
- the level of development;
- the growth rate;
- the control of foreign exchange;
- the evolving regulatory system; and
- the level of transparency in the regulatory process.

While the Chinese economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically, among various sectors of the economy, and during different periods. The Chinese economy may not continue to grow, and if there is growth, such growth may not be steady and uniform. If there is a slowdown, such a slowdown may have a material negative effect on the Group.

The Chinese government implements various measures intended to encourage economic growth and guide the allocation of resources. These measures may include differential policies towards specific groups of pharmaceutical companies, such as the promotion of traditional medicines or state-owned companies, or investments in biopharmaceutical companies competing against the Group, which may have an adverse effect on it. The Group's financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to it. Further, any adverse change in the economic conditions or government policies in China could have a material adverse effect on overall economic growth and the level of healthcare investments and expenditures in the PRC, which in turn could lead to a reduction in demand for the Group's products and consequently have a material adverse effect on its businesses.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although the Chinese government has implemented reform measures allowing more free play of market forces, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the Chinese government. The continued control of these assets and other aspects of the national economy by the Chinese government could materially and adversely affect the Group's business. The Chinese government also exercises significant control over Chinese economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Changes and developments in the PRC's economic, political and social conditions could adversely affect the Group's financial condition and the results of operations. For example, the pharmaceutical market may grow at a slower pace than expected and an outbreak of avian flu, SARS, swine influenza or other epidemics in the PRC could adversely affect the Group's business, financial condition or results of operations.

Future changes in laws, regulations or enforcement policies in the PRC could adversely affect the Group's business.

Laws, regulations or enforcement policies in the PRC, including those regulating healthcare and the pharmaceutical industry, are evolving and subject to frequent changes. Further, regulatory agencies in China may periodically, and sometimes abruptly, change their enforcement practices. Therefore, prior enforcement activity, or lack of enforcement activity, is not necessarily predictive of future actions. Any enforcement actions against the Group could have a material adverse effect on it. Any litigation or governmental investigation or enforcement proceedings in the PRC may be protracted and may result in the substantial cost and diversion of resources and management attention, negative publicity, and damage to reputation. In addition, such changes may be applied retroactively and thus subject the Group's business and operations to increased uncertainties and risks.

There are significant uncertainties under the EIT Law of the PRC, with respect to the Group's PRC enterprise income tax liabilities, and with respect to possible PRC withholding tax upon its shareholders.

There are significant uncertainties under the EIT Law, which came into effect on 1 January 2008 and were amended on 24 February 2017 and 29 December 2018, and its implementation rules.

Under the EIT Law and its implementation rules, enterprises organised under the laws of jurisdictions outside the PRC with their "de facto management bodies" located within the PRC may be considered "PRC resident enterprises" and subject to a uniform 25% PRC income tax on their worldwide income. The implementation rules to the EIT Law define the term "de facto management body" as a "body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise". The Notice on Identifying Chinese-Controlled Offshore Enterprises as Chinese Resident Enterprises in accordance with Criteria for Determining Place of Effective Management (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) and the Administrative Measures on the Corporate Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (《境外註冊中資控股居民企業所得稅管理辦法(試行)》) issued in April 2009 and July 2011, respectively, set out certain criteria for what constitutes a "de facto management body" in respect of enterprises that are established offshore by PRC enterprises, which could be applied in determining the tax resident status of non-PRC enterprises, regardless of whether they are established by PRC enterprises.

As substantially all of the operational management of the Company is currently based in the PRC, the Group, its Hong Kong subsidiary and other offshore subsidiaries may be deemed to be "PRC resident enterprises" for the purpose of the EIT Law. If the Group, its Hong Kong subsidiary or other offshore subsidiaries are deemed PRC resident enterprises, the Group could be subject to the EIT at 25% on its global income, except that the dividends the Group receives from its PRC subsidiaries may be exempt from the EIT to the extent such dividend income constitutes "dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise". It is, however, unclear what type of enterprise would be deemed a "PRC resident enterprise" for such purposes. If the Group is deemed a PRC resident enterprise and earns significant income other than exempted dividends from its PRC subsidiaries, the EIT on its global income could significantly increase its tax burden and adversely affect its cash flows and profitability.

Further, pursuant to the EIT Law and its implementation rules, PRC income tax at the rate of 10% is generally applicable to PRC source dividends paid by "PRC resident enterprises" to investors that are "non-PRC

residents”. Similarly, any gain realised on the transfer of the shares of “PRC resident enterprises” by such investors is also subject to PRC income tax, usually at the rate of 10% unless otherwise reduced or exempted by relevant tax treaties or similar arrangements, if such gain is regarded as income derived from sources within the PRC. If the Group is deemed a PRC resident enterprise, dividends payable to its foreign investors or gains its foreign investors may realise from the transfer of the Shares may be treated as income sourced within the PRC and be subject to PRC income tax. Accordingly, if the Group is deemed a PRC resident enterprise under the EIT Law, its shareholders that are “non-PRC resident enterprises” could be subject to the withholding income tax upon the dividends payable by it or upon any gains realised from the transfer of its ordinary shares at the rate of 10% unless otherwise reduced or exempted. Such dividends or gains received by non-PRC resident individuals may be subject to PRC individual income tax at a rate of 20%.

It is unclear whether, if the Group, its Hong Kong subsidiary and other offshore subsidiaries, are deemed a PRC resident enterprise, its shareholders would be able to claim the benefit of income tax treaties entered into between China and other countries or regions. If dividends payable to the Group’s shareholders that are “non-PRC residents”, or gains from the transfer of its Shares are subject to PRC tax, the value of such shareholders’ investment in its Shares may be materially and adversely affected.

The Group’s Hong Kong subsidiary may not be entitled to the reduced withholding tax rate under the Double Taxation Arrangement between the PRC and Hong Kong

The Group is a holding company incorporated under the laws of the Cayman Islands. The Group conducts substantially all of its business through its PRC subsidiaries and the Group derived the majority of its income from them.

Pursuant to the Notice of the SAT on Issuing the Table of Tax Rates on Dividends in Treaties, or Notice 112, which was issued on 29 January 2008, the Arrangement between the PRC and Hong Kong on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, or the Double Taxation Arrangement (Hong Kong), which was signed on 21 August 2006 and effective in the PRC from 1 January 2007, such withholding tax may be lowered to 5% if the PRC enterprise is at least 25% directly held by a Hong Kong enterprise. On 3 February 2018, the SAT issued the Announcement of the State Administration of Taxation on Issues Concerning “Beneficial Owners” in Tax Treaties (Announcement No. 9) (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》). The Announcement was effected on 1 April 2018. According to Announcement No. 9, non-resident enterprises that cannot provide valid supporting documents as “beneficial owners”, who are generally individuals, companies or other organisations that are normally engaged in substantive operations, may not be approved to enjoy tax treaty benefits. These rules also set forth certain criteria for determining whether, for treaty purposes, a person is a “beneficial owner”. As a result, the Group may not be able to enjoy the preferential withholding tax rate of 5% under the tax arrangement and may therefore be subject to withholding tax at a rate of 10% with respect to dividends to be paid by its PRC subsidiaries to it through its Hong Kong subsidiary.

A failure by the beneficial owners of the Group’s Shares who are PRC residents to comply with certain PRC foreign exchange regulations could restrict its ability to distribute profits, restrict its overseas and cross-border investment activities and subject it to liability under PRC laws.

The SAFE has promulgated several regulations requiring PRC residents to register with PRC government authorities before engaging in direct or indirect offshore investment activities, including Circular of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Roundtrip Investment through Special Purpose Vehicles Conducted by domestic Residents in China via Special-Purpose Companies (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“Circular 37”) issued and effective on 4 July 2014, Circular on Promulgation of

Administrative Measures on Foreign Exchange of Direct Investment by Foreign Investors and Ancillary Documents (《關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的通知》) issued on 10 May 2013, and Notice on Further Improving and Adjusting Foreign Administration Policies in Respect of Foreign Direct Investment (《關於進一步改進和調整直接投資外匯管理政策的通知》), issued on 19 November 2012, effective on 17 December 2012, and amended on 4 May 2015. SAFE Circular 37 requires PRC residents to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with assets or equity interests of onshore companies or offshore assets or interests held by the PRC residents, referred to in SAFE Circular 37 as a “special purpose vehicle”. SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle.

Subsequent regulations further clarified that PRC subsidiaries of a special purpose vehicle are required to urge the Group’s PRC resident shareholders and beneficial owners to update their registrations with local branches of the SAFE. If the Shareholders or beneficial owners who are PRC citizens or residents do not complete their registration with the local SAFE branches, the Group’s PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to it, and the Group may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liabilities for the Group’s PRC subsidiaries under PRC laws for evasion of applicable foreign exchange restrictions, including (1) the requirement by the SAFE to return the foreign exchange remitted overseas within a period specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas and deemed to have been evasive and (2) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive. Furthermore, the persons-in-charge and other persons at the Group’s PRC subsidiaries who are held directly liable for the violations may be subject to criminal sanctions.

The Group is committed to complying with and to ensuring that its Shareholders who are subject to the regulations will comply with the relevant rules. However, the Group may not always be able to compel them to comply with Circular 37 or other related regulations. As a result, there can be no assurance that all of the Group’s current or future Shareholders or beneficial owners who are PRC residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by, Circular 37 or other related regulations. Failure by any such Shareholders or beneficial owners to comply with Circular 37 or other related regulations could subject it to fines or legal sanctions, restrict the Group’s overseas or cross-border investment activities, limit its subsidiaries’ ability to make distributions, pay dividends or other payments to it or affect its ownership structure, which could adversely affect its business and prospects.

Fluctuations in exchange rates may result in foreign currency exchange losses and may have a material adverse effect on your investment.

The change in the value of Renminbi against the Hong Kong dollar and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions. For instance, in the PRC from 1995 until July 2005, the conversion of the Renminbi into foreign currencies, including the Hong Kong dollar and U.S. dollar, has been based on fixed rates set by the PBOC. However, the PRC government has, with effect from 21 July 2005, reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On 21 July 2005, this revaluation resulted in the Renminbi appreciating against the U.S. dollar and the Hong Kong dollar by approximately 2% on that date. On 23 September 2005, the PRC government widened the daily trading band for the Renminbi against non-U.S. dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. As a consequence, Renminbi has fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. On 19 June 2010, the PBOC announced that it intended to further

reform the Renminbi exchange rate regime by enhancing the flexibility of the Renminbi exchange rate. On 17 March 2014, the PBOC enlarged the previous floating band of the trading prices of the Renminbi against the U.S. dollar in the inter-bank spot foreign exchange market from 1% to 2% in order to further improve the managed floating Renminbi exchange rate regime based on market supply and demand with reference to a basket of currencies. However, it remains unclear how this flexibility might be implemented. Further, there remains significant international pressure on the PRC government to adopt a substantial liberalisation of its currency policy, which could result in a further and more significant appreciation in the value of Renminbi against the Hong Kong dollar.

Historically, the Group's revenues and expenditures were mainly denominated in Renminbi, and its financial assets are also mainly denominated in Renminbi. Any significant change in the exchange rates of the Hong Kong dollar against Renminbi may materially and adversely affect the Group's cash flows, earnings and financial position, and the value of, and any dividends payable on, its Shares in Hong Kong dollars. For example, a further appreciation of Renminbi against the Hong Kong dollar would make any new Renminbi-denominated investments or expenditures more costly to it, to the extent that the Group needs to convert Hong Kong dollars into Renminbi for such purposes. An appreciation of Renminbi against the Hong Kong dollar would also result in foreign currency translation losses for financial reporting purposes when the Group translates its Hong Kong dollar denominated financial assets into Renminbi, as Renminbi is the functional currency of its subsidiaries inside China. Conversely, if the Group decides to convert its Renminbi into Hong Kong dollars for the purpose of making payments for dividends on its Shares or for other business purposes, appreciation of the Hong Kong dollar against the Renminbi would have a negative effect on the Hong Kong dollar amount available to it.

Restrictions on currency exchange may limit the Group's ability to receive and use its revenue effectively.

The Group receives nearly all of its revenue in Renminbi, which currently is not a freely convertible currency. A portion of the Group's revenue may be converted into other currencies to meet its foreign currency obligations, including, among others, payment of dividends declared, if any, in respect of its ordinary shares and to service its debts. Under China's existing foreign exchange regulations, the Group is able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange, or the SAFE, by complying with certain procedural requirements. However, the PRC government may take measures to restrict access to foreign currencies for current account transactions.

The Group's ability to obtain foreign exchange is subject to significant foreign exchange controls, which in the case of amounts under the capital account requires the approval of and/or registration with PRC government authorities, including the SAFE. In particular, if Shenyang Sunshine obtains foreign currency loans from foreign lenders, it must do according to certain requirements. Further, such loans must be registered with the SAFE. These limitations could affect the ability of Shenyang Sunshine to obtain capital through offshore debt or equity financing.

The Group's operations are subject to the uncertainties and particularities associated with the legal system in the PRC, which could adversely affect its business or limit the legal protection available to it or to existing or potential investors.

The Group conducts its business through its operating subsidiaries in the PRC, which are governed by PRC law. The PRC is a civil law jurisdiction based on written codes and statutes. Unlike common law jurisdictions, prior court decisions may be cited as persuasive authority but do not have legally binding force. The PRC government has promulgated laws and regulations in relation to economic matters in general, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to establishing a comprehensive legal system conducive to investment activities. However, the implementation, interpretation and enforcement of these laws and regulations may cause greater uncertainty compared to those in the common law

jurisdictions due to a relatively short legislative history, limited volume of court cases and their non-binding nature. Furthermore, many laws, regulations and legal requirements have only recently been adopted by the central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for guidance.

PRC administrative and court authorities also have significant discretion in interpreting and enforcing statutory and contractual terms. Thus, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection available than in more developed legal systems. These uncertainties may also impede the Group's ability to enforce the contracts it has entered into with its business partners, customers and suppliers. Vis-à-vis the Group's competitors, depending on the government agency or how an application or a case is presented to such agency or other factors, the Group may receive less favourable application of law. In addition, any litigation or legal proceeding in the PRC may be protracted and result in substantial legal costs and diversion of resources and management attention. The Group cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the pre-emption of local rules and regulations by national law, the overturn or modification of the lower-level authority's decisions at the higher level, or the changes in judiciary and administrative practices. As a result, there is substantial uncertainty as to the legal protection available to the Group or to its investors.

There may be difficulties in effecting services of process and seeking recognition and enforcement of foreign judgements in the PRC.

Substantially all of the Group's assets are located in the PRC, and most of its senior management members and directors reside in China. However, the PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgements made by the courts of the United States or many other jurisdictions. As a result, it may be difficult or impossible for investors to effect service of process or enforce court judgements against the Group's PRC subsidiaries, its assets, senior management members or directors in the PRC.

On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Pursuant to Choice of Court Agreements Between Parties Concerned) (the "**Arrangement**"), pursuant to which a party with a final court judgement rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgement in the PRC. Similarly, a party with a final judgement rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgement in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgement rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the Arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain. In addition, on 18 January 2019, the Supreme People's Court and Department of Justice of the Hong Kong Special Administrative Region entered into the Arrangement for Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Cases by the Courts of the Mainland and of the Hong Kong Special Administrative Region. According to the effective judgements in civil and commercial cases and in criminal cases involving civil compensation, except for some exceptions prescribed in the arrangement, if eligible and in compliance with the due procedures, the courts in the PRC or Hong Kong can apply to the competent courts in other places for recognition and enforcement. As at the date of this Offering Circular, the arrangement has not come into force.

The PRC legal system has inherent uncertainties that could materially and adversely affect the Group.

The PRC legal system is based upon written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited value as precedents. Since 1979, the PRC legislative bodies have promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, the PRC has not developed a fully integrated legal system and the array of new laws and regulations may not be sufficient to cover all aspects of economic activities in the PRC. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, published government policies and internal rules may have a retroactive effect. As a result, the Company may be unaware of its violation of these policies and rules until sometime later.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent the Group from using the proceeds of this Offering to make loans or additional capital contributions to its PRC subsidiaries, which could materially and adversely affect its liquidity and its ability to fund and expand its business.

As an offshore holding company, the Group may extend loans to its PRC subsidiaries, establish new subsidiaries, make additional capital contributions to its PRC subsidiaries or acquire, in offshore transactions, offshore entities with business operations inside China. Any loans to the Group's PRC subsidiaries are subject to PRC regulations and approvals. For example, loans the Group extended to its PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart.

On 30 March 2015, the SAFE promulgated Circular 19 (Notice of the State Administration of Foreign Exchange on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises), which became effective on 1 June 2015 to reform the administration of conversion of foreign currency registered capitals of foreign-invested enterprises. Circular 19 adopts a concept of "discretionary settlement", which is defined in Circular 19 as the settlement of a foreign-invested enterprise's foreign currency registered capital in accordance with the enterprise's actual business needs. No review of the purpose of the funds is required at the time of settlement under Circular 19. However, use of any Renminbi funds converted from the Group's registered capital shall be based on true transactions, and the Renminbi funds obtained by foreign-invested enterprises from the discretionary settlement of foreign currency registered capitals shall be managed under the accounts pending for foreign currency settlement payment. In addition, equity investments using converted registered capital are no longer prohibited under Circular 19.

On 6 September 2016, the SAFE promulgated Circular 16 (Notice of the State Administration of Foreign Exchange on Reforming and Regulating the Policies for the Administration of Foreign Exchange Settlement under the Capital Account), which was effected on the same date. Circular 16 continues to stipulate that the use of foreign exchange receipts under capital accounts of a domestic institution and the RMB funds obtained thereby from foreign exchange settlement shall be subject to the following provisions: (1) they shall not, directly or indirectly, be used for expenditure beyond the enterprise's business scope or expenditure prohibited by laws and regulations of the State; (2) unless otherwise specified, they shall not, directly or indirectly, be used for investments in securities or other investments than banks' principal-secured products; (3) they shall not be used for the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business licence; and (4) they shall not be used for the construction or purchase of real estate for purposes other than self-use (except for real estate enterprises). Where there is any contractual stipulation on the use scope of revenue under capital accounts between a domestic institution and other parties concerned, the relevant funds shall not be used beyond such scope. Unless otherwise specified, such stipulation shall not conflict with Circular 16.

Failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or the Group to fines and other legal or administrative sanctions.

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (“**Stock Option Rules**”), which replaced the earlier rules promulgated by the SAFE in March 2007. Under the Stock Option Rules, PRC residents who participate in stock incentive plans in an overseas publicly listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with the SAFE and complete certain other procedures. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or if there are other material changes.

The Group and its PRC resident employees who have been granted stock options are subject to the Stock Option Rules. Failure of the PRC resident holders of the Group’s share options to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit its ability to contribute additional capital into its PRC subsidiaries, limited its PRC subsidiaries’ ability to distribute dividends to it, or otherwise materially adversely affect its business.

The Group relies on dividends paid by its subsidiaries for its cash needs, and limitations under the PRC laws on the ability of its PRC subsidiaries to distribute dividends to it could adversely affect its ability to utilise such funds.

As a holding company, the Group conducts substantially all of its business through its consolidated subsidiaries incorporated in China. The Group relies on dividends paid by these PRC subsidiaries for its cash needs, including the funds necessary to pay any dividends and other cash distributions to its Shareholders, to service any foreign currency debt the Group may incur and to make any offshore acquisitions. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of the Group’s PRC subsidiaries is required to set aside: (i) at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve funds until the aggregate amount of such reserves reaches 50% of its respective registered capital; and (ii) discretionary reserve funds as approved by its shareholders meeting. As a result, the Group’s PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to it in the form of dividends, loans or advances. The Group anticipates that in the foreseeable future its PRC subsidiaries will need to continue to set aside 10% of their respective after-tax profits to their statutory reserves. In addition, certain loan agreements signed by the Group’s PRC subsidiaries may contain covenants that restrict their ability to pay out dividends. These limitations on the ability of the Group’s PRC subsidiaries to transfer funds to it limit its ability to receive and utilise such funds.

Inflation in China could negatively affect the Group’s profitability and growth.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for the Group’s products and services rise at a rate that is insufficient to compensate for the rise in its costs, its business may be materially and adversely affected. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austere policy can lead to a slowing of economic growth and could materially and adversely affect the Group’s business and prospects.

Risks Relating to the Bonds and Shares

The Bonds may not be a suitable investment for all investors.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolio. A potential investor should not invest in the Bonds that are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of the Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Bonds are legal investments for it; (ii) the Bonds can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

Securities law restrictions on the resale and conversion of the Bonds and the resale of Shares issuable upon their conversion may impact Bondholders' ability to sell the Bonds and the Shares to be issued upon conversion.

The Bonds and the Shares into which the Bonds are convertible have not been registered under the Securities Act, any state securities laws or the securities laws of any other jurisdiction. Unless and until they are registered, the Bonds and the Shares issuable upon conversion may not be offered, sold or resold except pursuant to an

exemption from registration under the Securities Act and applicable state laws or in a transaction not subject to such laws. The Bonds are being offered and sold only outside the United States in reliance on Regulation S. It is not required to register the Bonds and the Shares into which the Bonds are convertible under the terms of the Bonds. Hence, future resales of the Bonds and the Shares into which Bonds are convertible may only be made pursuant to an exemption from registration under the Securities Act and applicable state laws or in a transaction not subject to such laws.

The Bonds are unsecured obligations.

The Bonds constitute direct, unconditional, unsubordinated and (subject to “*Terms and Conditions of the Bonds — Negative Pledge*”) unsecured obligations of the Issuer ranking *pari passu* and rateably, without any preference among themselves. The payment obligations of the Issuer under the Bonds rank equally with all its other existing and future unsecured and unsubordinated obligations, save for such obligations that may be preferred by provisions of law that are mandatory and of general application. The payment obligations of the Company under the Guarantee rank equally with all its other existing and future unsecured and unsubordinated obligations, save for such obligations that may be preferred by provisions of law that are mandatory and of general application. The repayment of the Bonds may be compromised if:

- the Group enters into bankruptcy, liquidation, rehabilitation or other winding-up proceedings;
- there is default in payment under the Group’s future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Group’s indebtedness.

If any of the above events occurs, the Group’s assets may not be sufficient to pay the amounts due on the Bonds.

Changes in market interest rates may adversely affect the value of the Bonds.

Investment in the Bonds, which carry a fixed rate of interest, involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Holders of the Bonds are not entitled to rights with respect to the Shares, but are subject to changes made with respect to the Shares.

Holders of the Bonds are not entitled to any rights with respect to the Shares (including, without limitation, voting rights and rights to receive any dividends or other distributions on the Shares) prior to the time such Bondholders convert the Bonds for Shares and are themselves registered as holders thereof. However, such Bondholders are subject to all changes affecting the Shares. For example, in the event that an amendment is proposed to the Company’s articles of association requiring shareholders’ approval, and the record date for determining the registered shareholders entitled to vote on the amendment occurs prior to the date of conversion of the Bonds for such Shares and (as applicable) the date of registration by the relevant Bondholder as the holder thereof, that Bondholder would not be entitled to vote on the amendment but would nevertheless be subject to any resulting changes in the powers, preferences or special rights that affect the Shares after conversion.

Short selling of the Shares by purchasers of the Bonds could materially and adversely affect the market price of the Shares.

The issuance of the Bonds may result in downward pressure on the market price of the Shares. Many investors in convertible bonds seek to hedge their exposure in the underlying equity securities, often through short selling the

underlying equity securities or similar transactions. Any short selling or similar hedging activity could place significant downward pressure on the market price of the Shares, thereby having a material adverse effect on the market value of the Shares as well as on the trading price of the Bonds.

Future issuances of Shares or equity-related securities may depress the trading price of the Shares.

Any issuance of the Company's equity securities after this Offering could dilute the interest of the existing shareholders and could substantially decrease the trading price of the Shares. The Company may issue equity securities in the future for a number of reasons, including to finance its operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions), to adjust its ratio of debt-to-equity, to satisfy its obligations upon the exercise of outstanding warrants, options or other convertible bonds or for other reasons. Sales of a substantial number of Shares or other equity-related securities in the public market (or the perception that such sales may occur) could depress the market price of the Shares, and impair the Company's ability to raise capital through the sale of additional equity securities. There is no restriction on the Company's ability to issue bonds or the ability of any of the Company's shareholders to dispose of, encumber or pledge the Shares, and there can be no assurance that the Company will not issue bonds or that the Company's shareholders will not dispose of, encumber or pledge the Shares. The Company cannot predict the effect that future sales of the Shares or other equity-related securities would have on the market price of the Shares. In addition, the price of the Shares could be affected by possible sales of the Shares by investors who view the Bonds as a more attractive means of obtaining equity participation in the Company and by hedging or engaging in arbitrage trading activity involving the Bonds.

The Company's results of operations, financial condition, future prospects and business strategy could also affect the value of the Shares.

The trading price of the Shares will be influenced by the Company's operational results (which in turn are subject to the various risks to which its businesses and operations are subject) and by other factors such as changes in the regulatory environment that may affect the markets in which the Company operates and capital markets in general. Corporate events such as share sales, reorganisations, takeovers or share buy-backs may also adversely affect the value of the Shares. Any decline in the price of the Shares would adversely affect the market price of the Bonds.

Conversion of the Bonds would dilute the ownership interest of existing shareholders and could also adversely affect the market price of the Shares.

The conversion of some or all of the Bonds would dilute the ownership interests of existing shareholders. Any sales in the public market of the Shares issuable upon such conversion could adversely affect prevailing market prices for the Shares. In addition, the conversion of the Bonds might encourage short selling of the Shares by market participants.

Uncertainty regarding the effects of Brexit could adversely affect the price of the Bonds.

The UK left the EU on 31 January 2020. At that time, the EU treaties automatically ceased to apply to the UK. However, as part of the withdrawal agreement between the UK and the EU, an implementation period has been agreed which will extend the application of EU law and provide for continuing membership of the EU single market until the end of 2020 (with the possibility of extension). The withdrawal agreement does not in general address the future relationship between the UK and the EU, which will be the subject of a separate negotiation and agreement between the UK and the EU.

As such, the ongoing negotiations surrounding Brexit have yet to provide clarity on what the final outcome will be for the UK or the EU. The unavoidable uncertainties related to Brexit and the new relationship between the UK and EU, which continues to be defined, could cause volatility in currency exchange rates, interest rates and in EU, UK or worldwide political, regulatory, economic or market conditions. This could contribute to instability in political institutions, regulatory agencies, and financial markets. Any of these effects of Brexit, and other effects that cannot be anticipated, could adversely affect the value of the Euro and the price of the Bonds.

The Trustee may request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity and/or security and/or prefunding to it, in breach of the terms of the Trust Deed or in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the Trust Deed and the Conditions and applicable laws and regulations, it will be for the Bondholders to take such actions directly.

There may not be a liquid market for the Bonds and Bondholders may not be able to sell their Bonds at an attractive price or at all.

The Bonds are a new issue of securities for which there is currently no established trading market when issued, and one may never develop. Although an eligibility letter was received from the Stock Exchange for the listing and quotation of the Bonds, it is uncertain that the Company will obtain or be able to maintain a listing on the Stock Exchange, or that, if listed, a liquid trading market will develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of Bonds.

If an active trading market were to develop, the Bonds could trade at a price that may be lower than the issue price of the Bonds. Whether or not the Bonds will trade at lower prices depends on many factors, including:

- prevailing interest rates and the market for similar securities;
- general economic, market and political conditions;
- the Group's financial condition, financial performance and future prospects;
- the publication of earnings estimates or other research reports and speculation in the press or investment community in relation to the Group; and
- changes in the industry and competition affecting the Group.

The risks described above do not necessarily comprise all those faced by the Group and are not intended to be presented in any assumed order of priority.

The investment referred to in this Offering Circular may not be suitable for all of its recipients. Investors are accordingly advised to consult an investment advisor before making a decision to subscribe for the Bonds.

The insolvency laws of the British Virgin Islands and the Cayman Islands and other local insolvency laws may differ from those of any other jurisdiction with which holders of the Bonds are familiar.

Because the Issuer and the Company are incorporated under the laws of the British Virgin Islands and the Cayman Islands, respectively, any insolvency proceeding relating to the Issuer or the Company, even if brought in other jurisdictions, would likely involve British Virgin Islands or Cayman Islands insolvency laws, as the case may be, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law in other jurisdictions. The Group conducts substantially all of its business operations through PRC incorporated subsidiaries in the PRC. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of other jurisdictions with which the holders of the Bonds are familiar. Investors should analyse the risks and uncertainties carefully before investing in the Bonds.

If the Issuer or the Company is unable to comply with the restrictions and covenants in its debt agreements, there could be a default under the terms of these agreements, which could cause repayment of its debt to be accelerated.

If the Issuer or the Company is unable to comply with the restrictions and covenants or its current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer or the Company, as the case may be, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements. As a result, the Issuer's or the Company's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Bonds, or result in a default under its other debt agreements. If any of these events occur, the Issuer and the Company cannot assure investors that its assets and cash flows would be sufficient to repay in full all of their indebtedness, or that they would be able to find alternative financing. Even if the Issuer or the Company could obtain alternative financing, they cannot assure investors that it would be on terms that are favourable or acceptable to them.

The Company's subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to the Company.

As a holding company, the Company depends on the receipt of dividends and the interest and principal payments on intercompany loans or advances from its subsidiaries to satisfy its obligations, including its obligations under the Bonds. The ability of the Company's subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the Articles of Association of these companies, applicable laws and restrictions contained in the debt instruments of such companies. The Company cannot assure you that its subsidiaries will have distributable earnings or will be permitted to distribute their distributable earnings to it as it anticipates, or at all. In addition, dividends payable to the Company by these companies are limited by the percentage of its equity ownership in these companies. Furthermore, if any of these companies raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Company to make payments on the Bonds. These factors could reduce the payments that the Company receives from its subsidiaries, which would restrict the Company's ability to meet its payment obligations under the Bonds.

The Company may be unable to obtain and remit foreign exchange.

The Company's ability to satisfy its obligations under the Bonds primarily depend upon the ability of its PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to it and, if applicable, to repay shareholder loans. The Company's PRC subsidiaries must present certain documents to SAFE, its authorised

branch, or the designated foreign exchange bank, for approval or registration before they can obtain and remit foreign currencies out of the PRC, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. Prior to payment of interest and principal on any shareholder loan the Company makes to its PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or not more than 7% if the interest is paid to a Hong Kong resident) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay the dividends or interest and principal on shareholder loans to the Company, which may affect its ability to satisfy its debt obligations including the Bonds.

Bondholders may be subject to tax.

Prospective investors of the Bonds are advised to consult their own tax advisors concerning the overall tax consequences of the purchase, ownership, disposition or conversion of the Bonds or the Shares. See “*Taxation*” for a discussion of tax consequences in certain jurisdictions.

The Company may not have the ability to redeem the Bonds.

Bondholders may require the Company, subject to certain conditions, to redeem for cash some or all of their Bonds on a certain date or upon a transaction or event constituting a change of control, a delisting or a change in law as described under “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Bondholders*” and “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Delisting or Change of Control*”. The Company may not have sufficient funds or other financial resources to make the required redemption in cash at such time or the ability to arrange necessary financing on acceptable terms, or at all. The Company’s ability to redeem the Bonds in such an event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by the Company would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness held by the Company.

Bondholders will bear the risk of fluctuations in the price of Shares.

The market price of the Bonds at any time will be affected by fluctuations in the price of the Shares. The Shares are currently listed on the Stock Exchange. There can be no certainty as to the effect, if any, that future issues or sales of Shares, or the availability of such Shares for future issue or sale, will have on the market price of the Shares prevailing from time to time and therefore on the market price of the Bonds.

Sales of substantial numbers of Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Shares and the Bonds. The Group’s financial condition, results of operation, future prospects and business strategy could also affect the value of the Shares. The market price of the Shares will be influenced by the Group’s operational results (which in turn are subject to the various risks to which its businesses and operations are subject to) and by other factors such as changes in the regulatory environment that may affect the markets in which the Group operates and the capital markets in general. Corporate events such as share sales, reorganisations, takeovers or share buy-backs may also adversely affect the market price of the Shares. Any decline the market price of the Shares could adversely affect the market price of the Bonds.

Bondholders will have no rights as holders of the Shares prior to conversion of the Bonds.

Unless and until the Bondholders acquire the Shares upon conversion of the Bonds, they will have no rights with respect to the Shares, including any voting rights or rights to receive any regular dividends or other distributions

with respect to the Shares. Upon conversion of the Bonds, these holders will be entitled to exercise the rights of holders of the Shares only as to actions for which the applicable record date occurs after the date of conversion.

Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds, the Trust Deed and the Agency Agreement by the Trustee or less than all of the Bondholders.

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds will provide that the Trustee may (but shall not be obliged to), without the consent of the Bondholders, agree: (i) to any modification of the Trust Deed, the Terms and Conditions of the Bonds and/or the Agency Agreement which in the opinion of the Trustee will not be materially prejudicial to the interests of the Bondholders (save as provided in the Trust Deed or the Terms and Conditions of the Bonds); and (ii) to any modification of the Trust Deed, the Terms and Conditions of the Bonds and/or the Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of applicable law. Any such modification, authorisation or waiver shall be binding on the Bondholders.

The Bonds are subject to the risk of change of law.

The Terms and Conditions of the Bonds are based on English law in effect as of the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular, and any such change could materially and adversely impact the value of any Bonds affected by it.

Transfers of interests in the Bonds will be subject to certain restrictions and interests in the Global Certificate can only be held through a clearing system.

The Bonds have not been and are not expected to be registered: (i) under the Securities Act or any applicable state or other jurisdiction's securities laws; or (ii) with the U.S. Securities and Exchange Commission or any other applicable state or other jurisdiction's regulatory authorities. The Offering will be made pursuant to exemptions from the registration requirements of the Securities Act and from other securities laws. Prospective investors may not offer or sell any Bonds, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Similar restrictions will apply in other jurisdictions. Reoffers, resales, pledges and other transfers of interests in the Bonds may be subject to certain transfer restrictions. Each investor is advised to consult its legal advisers in connection with any such reoffer, resale, pledge or other transfer. See "*Subscription and Sale*".

As transfers of interests in the Global Certificate can be effected only through book entries at Clearstream and/or Euroclear (as applicable) for the accounts of their respective participants, the liquidity of any secondary market for interests in the Bonds represented by the Global Certificate may be reduced to the extent that some investors are unwilling to invest in bonds held in book-entry form in the name of a participant in Clearstream or Euroclear, as applicable. The ability to pledge interests in the Bonds may be limited due to the lack of a physical certificate. Beneficial owners of interests in the Bonds represented by the Global Certificate may, in certain cases, experience a delay in the receipt of payments of principal or interest since such payments will be forwarded by the paying agent to Clearstream or Euroclear, as applicable, who will then forward payment to their respective participants, who (if not themselves, the beneficial owners) will thereafter forward the payments to the beneficial

owners of the interests in the Bonds represented by the Global Certificate. In the event of the insolvency of Euroclear or Clearstream or any of their respective participants in whose name interests in the Bonds are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on the Bonds may be impaired.

The Bonds will initially be held in book entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Bonds will be represented on issue by the Global Certificate which will be deposited with a common depositary for Euroclear and Clearstream. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Each of Euroclear and Clearstream and their respective direct and indirect participants will maintain records of the interests in the Global Certificate held through it. While the Bonds are represented by the Global Certificate, investors will be able to trade their interests only through the relevant clearing systems and their respective participants.

While the Bonds are represented by the Global Certificate, the Issuer will discharge its payment obligation under the Bonds by making payments through the relevant clearing systems. A holder of an interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, interests in the Global Certificate.

Holders of interests in the Global Certificate will not have a direct right to vote in respect of the Bonds so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies. Owners of book entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from the Bondholders. Instead, such holders will be permitted to act only to the extent that they have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable such holders to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Terms and Conditions of the Bonds and/or the Trust Deed, unless and until definitive Certificates are issued in respect of all book entry interests, if an investor owns a book entry interest, such investor will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Bonds.

USE OF PROCEEDS

The net proceeds from the Bonds are proposed to be used for the payments needed for the Concurrent Repurchase and/or the redemption of the Existing Convertible Bonds upon exercise of the put option by the holders of the Existing Convertible Bonds, research and development, purchase of operation facilities and other general corporate purposes.

MARKET PRICE INFORMATION

The principal trading market for the Company's Shares is the HKSE. The Shares are listed on the HKSE (Stock Code: 1530).

The table below sets forth, for the periods indicated therein, the high and low closing prices per Share in Hong Kong Dollars, as reported on the HKSE.

	HKSE Price Per Share (HK\$)	
	High	Low
Yearly		
2016	11.14	7.16
2017	15.86	7.28
2018	22.50	9.32
2019	16.08	8.40
2020 (from 1 January to 16 June)	10.42	7.61
Quarterly		
2016		
First Quarter 2016	11.14	8.83
Second Quarter 2016	10.80	7.16
Third Quarter 2016	8.80	7.25
Fourth Quarter 2016	8.90	7.20
2017		
First Quarter 2017	9.93	7.28
Second Quarter 2017	11.08	9.59
Third Quarter 2017	12.90	9.38
Fourth Quarter 2017	15.86	12.82
2018		
First Quarter 2018	18.16	13.98
Second Quarter 2018	22.50	16.98
Third Quarter 2018	18.50	12.56
Fourth Quarter 2018	13.32	9.32
2019		
First Quarter 2019	15.44	8.40
Second Quarter 2019	16.08	11.92
Third Quarter 2019	14.24	11.66
Fourth Quarter 2019	15.18	9.58
2020		
First Quarter 2020	12.02	6.81
Second Quarter 2020 (from 1 April to 16 June)	10.42	7.61

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Company's actual audited consolidated capitalisation and indebtedness as at 31 December 2019 as and adjusted to give effect to the issue of the Bonds without taking into account the application of any of the proceeds from this Offering (before deducting the underwriting commission and estimated offering expenses payable). This table should be read in conjunction with "Use of Proceeds", "Summary Financial Information" and the audited consolidated financial statements and the notes thereto in this Offering Circular.

	31 December 2019			
	Actual		Adjusted	
	RMB'000	€'000 ⁽²⁾	RMB'000	€'000 ⁽²⁾
Current portion of borrowings	483,957	61,923	483,957	61,923
Interest-bearing bank borrowings	483,957	61,923	483,957	61,923
Non-current portion of borrowings	2,318,036	296,595	4,818,996	616,595
Interest-bearing bank borrowings	13,286	1,700	13,286	1,700
Convertible bonds ⁽³⁾	2,304,750	294,895	2,304,750	294,895
Bonds to be issued	—	—	2,500,960	320,000
Equity	10,359,319	1,325,484	10,359,319	1,325,484
Equity attributable to owners of the parent	9,625,041	1,231,532	9,625,041	1,231,532
Non-controlling interests	734,278	93,952	734,278	93,952
Total capitalisation⁽¹⁾	12,677,355	1,622,079	15,178,315	1,942,079

Note:

- (1) Total capitalisation represents the sum of total long-term indebtedness and total equity.
- (2) Based on the middle exchange rate of €1.00 to RMB7.8155, as at 31 December 2019 as set forth in the statistical release of the SAFE.
- (3) Concurrent with the Offering, the Managers will assist the Issuer and the Company with the Concurrent Repurchase of its existing 2017 Convertible Bonds (of which €295 million remains outstanding as at the date of this Offering Circular) for cash at a repurchase price of €107,738.32 per €100,000 principal amount of the 2017 Convertible Bonds (i.e. 107.74%). The Concurrent Repurchase will be conducted concurrently with the Offering, and is expected to close on or about the Issue Date.

Save as otherwise disclosed in this Offering Circular, there has been no material adverse change in the consolidated capitalisation and indebtedness of the Company since 31 December 2019.

EXCHANGE RATE INFORMATION

CHINA

PBOC, the central bank of the PRC, sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets.

On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2 per cent. against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, the PBOC enlarged effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3 per cent to 0.5 per cent around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0 per cent on 16 April 2012. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.9 per cent from 21 July 2005 to 31 December 2013. On 14 March 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0 per cent.

On 11 August 2015, the PBOC announced to improve the central parity quotations of Renminbi against the U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on 11 August 2015, Renminbi depreciated significantly against the U.S. dollar. On 11 December 2015, the PBOC, published a Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. In January and February 2016, Renminbi experienced further fluctuations in value against the U.S. dollar. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated therein:

Period	Renmibi per U.S. Dollar Noon Buying Rate ⁽¹⁾			
	Period end	Average ⁽²⁾	High	Low
		(RMB per US\$1.00)		
2015	6.4778	6.2827	6.4896	6.1870
2016	6.9430	6.6400	6.9580	6.4480
2017	6.5063	6.7569	6.9575	6.4773
2018	6.8755	6.6090	6.9737	6.2649
2019	6.9618	6.9081	7.1786	6.6822
2020				
January	6.9161	6.9184	6.9749	6.8589
February	6.9906	6.9967	7.0286	6.9650
March	7.0808	7.0205	7.1099	6.9244
April	7.0622	7.0708	7.0989	7.0341
May	7.1348	7.1016	7.1681	7.0622
June (from 1 June to 12 June)	7.0825	7.0878	7.1263	7.0599

Notes:

- (1) Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

- (2) Annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

EURO

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Euro as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated therein:

Period	U.S. Dollar per Euro Noon Buying Rate ⁽¹⁾			
	Period end	Average ⁽²⁾ (US\$ per €1.00)	High	Low
2015	1.0859	1.1096	1.2015	1.0524
2016	1.0552	1.1072	1.1516	1.0375
2017	1.2022	1.1301	1.2041	1.0416
2018	1.1456	1.1817	1.2488	1.1281
2019	1.1227	1.1194	1.1524	1.0905
2020				
January	1.1082	1.1098	1.1187	1.1004
February	1.1001	1.0911	1.1062	1.0794
March	1.1016	1.1046	1.1420	1.0682
April	1.0934	1.0871	1.0971	1.0797
May	1.1107	1.0907	1.1107	1.0800
June (from 1 June to 12 June)	1.1253	1.1278	1.1378	1.1123

Notes:

- (1) Exchange rates between Euro and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.
- (2) Annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

THE ISSUER

FORMATION

Strategic International Group Limited is a business company incorporated under the BVI Business Companies Act of the British Virgin Islands, as amend, (British Virgin Islands company number 1947856). It was incorporated in the British Virgin Islands on 14 June 2017 and is a direct wholly-owned subsidiary of the Company. The Issuer's registered office is at Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands, VG1110.

BUSINESS ACTIVITY

The Issuer was established with unrestricted objects and powers as set out in its memorandum of association. The Issuer does not sell any products or provide any services and has undertaken no business activities since the date of its incorporation, other than those incidental to its incorporation and establishment as a direct wholly-owned subsidiary of the Company and those incidental to the issue of the Bonds.

FINANCIAL STATEMENTS

Under the laws of the British Virgin Islands, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep records and underlying documentation, including accounts, as are sufficient to show and explain the Issuer's transactions and will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

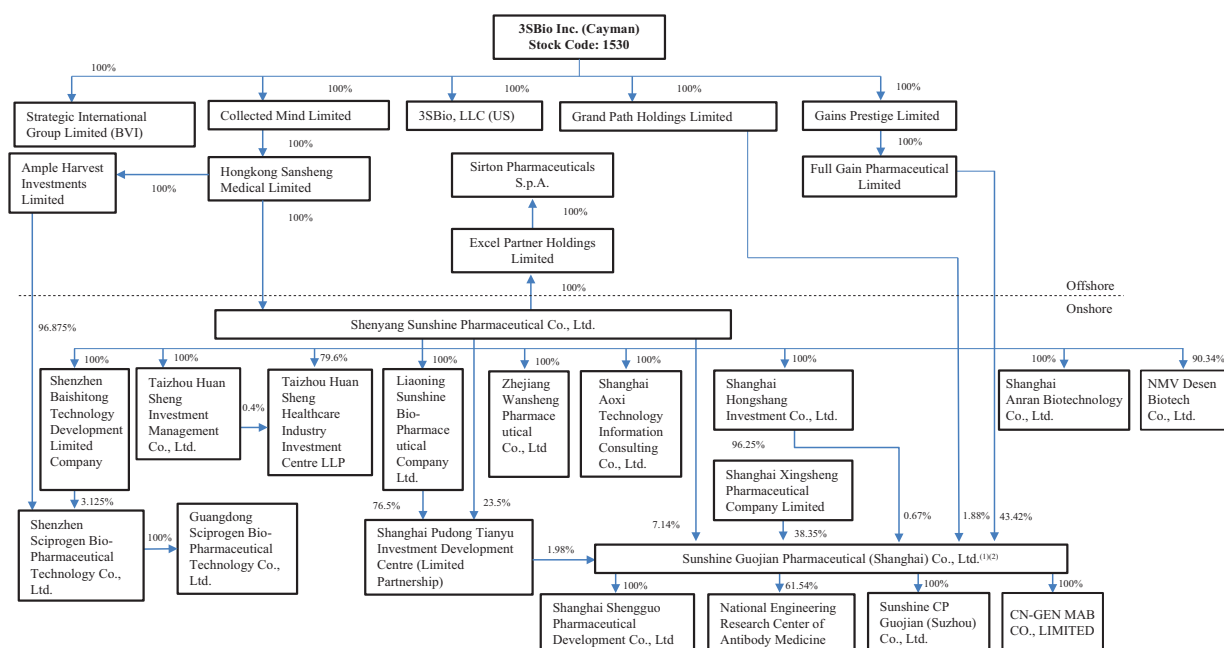
DIRECTORS

The directors of the Issuer are Dr Lou, Ms Su and Ms Liu Yanli, and their business address is 3A1, Road 10, Shenyang Economy & Technology Development Zone, Shenyang, PRC 110027. None of the directors of the Issuer holds any shares or options to acquire shares of the Issuer.

The Issuer does not have any employees and has no subsidiaries.

GROUP STRUCTURE

The following chart sets forth the subsidiaries of the Company as at the date of this Offering Circular:



Notes:

- On 31 October 2019, the Shanghai Stock Exchange formally accepted the spin-off application by Sunshine Guojian for listing on its STAR Market. The Stock Exchange has also confirmed that the Company may proceed with the proposed spin-off. The Company expects that the proposed listing will involve issuance and allotment of only new ordinary shares of Sunshine Guojian and the Company does not intend to sell any of its shares in Sunshine Guojian held under the proposed listing. The proposed spin-off is expected to be effected by way of a public offering of up to 10% of the share capital of Sunshine Guojian as enlarged by the proposed spin-off and listing of such shares on the STAR Market. The offering size is subject to the requirement of the PRC regulations and the market conditions. As at the date of this Offering Circular, the Company held, directly and indirectly, 89.96% of the share capital of Sunshine Guojian. It is anticipated that the Company will continue to hold more than 50% of Sunshine Guojian's share capital upon completion of the proposed listing.
- As part of the Group's initiatives to incentivise the performance of its directors, senior management and employees, Sunshine Guojian adopted an employee share ownership plan (the "ESOP") on 19 June 2019. Sunshine Guojian increased its total issued share capital by 44,367,221 shares, representing not more than 8% of the enlarged issued share capital of Sunshine Guojian, for the purpose of granting and allotting the award shares (the "Award Shares") to the selective participants of the ESOP. The Award Shares were granted and allotted to selected participants comprising Dr Lou, Ms Su and other directors, supervisors, and independent employees of the Group. The Award Shares are subject to a 36-month lock-up starting from the registration of the subscription of the Award Shares with the relevant PRC government.

BUSINESS

Overview

The Group is a leading biotechnology company in China. As a pioneer in the PRC biotechnology industry, the Group has extensive expertise in researching and developing, manufacturing and marketing biopharmaceuticals. The core products of the Group include TPIAO, Yisaipu, and rhEPO products EPIAO and SEPO. According to IQVIA,¹ all four products are market leaders in terms of sales value and market share in the PRC. TPIAO is the only commercialised rhTPO product in the world. The market share in the treatment of thrombocytopenia, in terms of sales value, of TPIAO in the PRC increased to 73.2% in 2019. Yisaipu is a TNF α inhibitor product with a continuing leading market share in the PRC of 60.9% in terms of sales value in 2019. With its two rhEPO products, the Group has been the market leader in the rhEPO market in the PRC for almost two decades, holding a total market share of 41.6% in terms of sales value in 2019. The Group is expanding its therapeutic coverage by adding products through leveraging its internal research and development capabilities and various external strategic partnerships.

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

As at 31 December 2019, among the 32 product candidates within the Group's active pipeline, 22 were being developed as national new drugs (including registration Class I and Biologics Class II) in the PRC. The Group has 11 product candidates in oncology; 12 product candidates that target autoimmune diseases including RA, and other diseases including refractory gout and ophthalmological diseases such as 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 23 of the 32 product candidates are biologics, and the other nine are small molecules.

The Group believes that it is well positioned for global expansion. TPIAO, Yisaipu, EPIAO, SEPO and some of the Group's other products are exported to a number of countries. As at the date of this Offering Circular, outside the PRC, TPIAO has been approved in eight countries; Yisaipu has been approved in 15 countries; and EPIAO has been approved in 22 countries. In the long term, the Group aims to market its products in developed countries. Furthermore, the Group is collaborating with international partners to develop and market the Group's product candidates, such as pegsiticase. The Group aims to focus its R&D efforts to provide innovative therapeutics for patients in the PRC as well as globally.

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

The Group focuses its R&D efforts on researching and developing innovative biological products and small molecule therapeutics. The Group has several biological products in various stages of clinical development, including 302H (an anti-HER2 antibody to treat metastatic breast cancer), 304R (an anti-CD20 antibody to treat

¹ All market share information throughout this Offering Circular cites IQVIA data, unless otherwise specified.

Non-Hodgkin lymphoma and other autoimmune diseases), 301S (the pre-filled aqueous injection solution of Yisaipu), SSS06 (NuPIAO, a second-generation rhEPO to treat anaemia), RD001 (a pegylated long-acting rhEPO to treat anaemia), SSS07 (an anti-TNF α antibody to treat RA and other inflammatory diseases), pegsiticase (a modified pegylated recombinant uricase from candida utilis to treat refractory gout), 601A (an anti-VEGF antibody to treat AMD and other ophthalmological diseases), 602 (an anti-EGFR antibody to treat cancer), 608 (an anti-IL-17A antibody to treat autoimmune and other inflammatory diseases), 609A (an anti-PD1 antibody to treat cancer) and 610 (an anti-IL-5 antibody to treat severe asthma). On the small molecule side, the Group is initiating clinical trials of two innovative products: nalfurafine hydrochloride (TRK-820, a highly selective kappa receptor agonist) to treat pruritus in haemodialysis patients, and HIF-117 capsule (SSS17, a selective small molecule inhibitor to hypoxia inducible factor proline hydroxylase) to treat anaemia. In addition, the Group is performing bio-equivalency studies of a number of generic small molecule products in the field of nephrology, autoimmune and dermatological diseases.

The Group continues to seek global strategic partnerships to enrich its existing product portfolio and pipeline to sustain long-term growth. The Group strategically collaborates with leading pharmaceutical companies, such as Verseau Therapeutic, Inc., Numab Therapeutics, Samsung Bioepis Co., Ltd., Taiwan Liposome Company, Ltd., GenSight Biologics, and MPM Oncology Innovations Fund. The Group believes its partnerships with these companies will serve as stepping stones for future strategic collaborations.

As at 31 December 2019, the Group had operation facilities in the PRC, including Shenyang (Liaoning Province), Shanghai, Hangzhou (Zhejiang Province) and Shenzhen, as well as in Como, Italy, with over 5,000 employees in total. The Group's pharmaceutical products are marketed and sold in all the provinces, autonomous regions and special municipalities in the PRC, as well as a number of foreign countries and regions. In 2019, the Group's nationwide sales and distribution network enabled it to sell its products to over 17,000 hospitals and medical institutions in the PRC.

For the years ended 31 December 2017, 2018 and 2019, the Group's revenue amounted to RMB3,734.3 million, RMB4,583.9 million and RMB5,318.1 million, respectively, representing growth at a CAGR of 19.3% between 2017 and 2019.

THE GROUP'S STRENGTHS

The Group believes the following strengths have contributed to its success and differentiated the Group from its competitors:

A Market Leader in the Highly Attractive PRC Biotechnology Industry

The Group is a market leader and pioneer the biotechnology industry in the PRC. According to the "2018 China Pharma 100 List" issued by the CNPIIC, the Group was ranked 58 among the top 100 pharmaceutical companies in the PRC in terms of revenue in 2018. The Group was also recognised as one of the top 100 companies in the pharmaceutical industry of the PRC by the CMP. The CNPIIC is the official pharmaceutical information platform of the PRC Ministry of Industry and Information Technology. The China Pharma 100 List is officially recognised by local authorities in the government-sponsored competitive bidding process that determines the medicine procurement of state-owned hospitals, as any company included on the China Pharma 100 List will be awarded points for the bidding. CNPIIC also recognised the Group as one of the Best Pharmaceutical Research and Development Pipeline Companies in China in 2019.

The core products of the Group include TPIAO, Yisaipu, EPIAO and SEPO, all of which are market leaders in the PRC in terms of sales value and market share according to IQVIA. TPIAO is the only commercialised rhTPO

product in the world. The market share in the treatment of thrombocytopenia, in terms of sales value, of TPIAO in the PRC increased to 73.2% in 2019. Yisaipu is a TNF α inhibitor product with a leading market share in the PRC of 60.9% in terms of sales value in 2019. With its two rhEPO products, the Group has been the market leader in the rhEPO market in the PRC for nearly two decades, holding a total market share of 41.6% in terms of sales value in 2019.

The Group operates in a highly attractive industry. Biotechnology has revolutionised the pharmaceutical industry by addressing unmet medical needs and offering innovative treatment for a wide array of human diseases. The biotechnology industry requires interdisciplinary research and development expertise, entails complex manufacturing processes and faces stringent government regulation. As a pioneer in the PRC biopharmaceutical industry, the Group is one of the few established players that can benefit from the attractive opportunities in the fast-growing PRC biotechnology industry. In the PRC, the biotechnology industry enjoys strong government support and has been selected by the State Council as a key strategic industry. Strong government support along with increasing physician adoption of biopharmaceuticals has driven the strong industry growth in the PRC. The Group believes that, as a market leader in the PRC biotechnology industry, the Group has significant advantages over its existing competitors and potential new market entrants, for the following reasons:

- the Group's extensive expertise in developing, manufacturing and marketing biopharmaceuticals allows the Group to further expand the market shares of its existing products and to achieve fast commercialisation of new products;
- the Group's business scale enables it to increase its production, sales and management efficiency and strengthen its core competitiveness; and
- the Group's strong brand recognition and market leadership position enable it to capture industry consolidation opportunities in the fast-growing biopharmaceutical market.

Market-Leading Products with Significant Growth Potential

TPIAO is the Group's self-developed proprietary product, and is the only commercialised rhTPO product in the world since its launch in 2006. TPIAO has been approved by the NMPA for two indications: the treatment of CIT and ITP. TPIAO has the advantages of higher efficacy, faster platelet recovery and fewer side effects as compared to alternative treatments for CIT and ITP. TPIAO is listed in the 2019 NRDL as a Class B Drug ("Western Medicine" Section No. 234) for the treatment of severe CIT in patients with solid tumours or ITP. TPIAO has received many professional endorsements in several national guidelines and experts consensus on treating other diseases in the PRC, including conventional osteosarcoma and certain other off-label uses.

Yisaipu, generically known as etanercept, is a TNF α inhibitor product. It was first launched in 2005 in the PRC for RA. Its indications were expanded to AS and psoriasis in 2007. Yisaipu is listed in the 2019 NRDL as a Class B Drug ("Western Medicine" Section No. 857) for the treatment of patients with a confirmed diagnosis of RA and for the treatment of patients with confirmed a diagnosis of AS (excluding pre-radiographic axial spondyloarthritis), each subject to certain medical prerequisites, and for the treatment of adult patients with severe plaque psoriasis. Yisaipu experienced significant growth as the first-to-market etanercept product in the PRC, with a significant market share in the PRC of 60.9% by sales value in 2019. In 2019, the sales coverage of Yisaipu extended to more than 3,500 hospitals in the PRC, including over 1,500 Grade III hospitals. The Group believes that Yisaipu is still at an early stage of its product life cycle. The majority of the Group's sales of Yisaipu is generated from approximately 8% of the hospitals covered by the Group's sales team. The Group completed the Phase III trial for pre-filled aqueous injection solution of Yisaipu and submitted the application for manufacturing approval in July 2019. The application was accepted for review by the NMPA. Yisaipu aqueous injection solution is the first self-developed pre-filled fusion protein injection solution in the PRC. If approved,

Yisaipu will likely be the only TNF α inhibitor product in pre-filled format marketed in the PRC. The Group believes that the pre-filled aqueous injection solution of Yisaipu will improve the convenience and compliance for patients, and contribute to further growth of Yisaipu. Outside the PRC, Yisaipu has been approved in 15 countries, including India, Thailand, the Philippines, and Mexico.

As at the date of this Offering Circular, EPIAO is the only rhEPO product approved by the NMPA for the following three indications: the treatment of anaemia associated with CKD; the treatment of CIA; and the reduction of allogeneic blood transfusion in surgery patients. EPIAO has been listed in the NRDL as a Class B Drug, for renal anaemia since 2000 and, additionally in the 2019 NRDL, for CIA in patients with non-haematological malignancies. EPIAO has also been listed in the 2018 National Essential Drug List (《國家基本藥物目錄》). EPIAO is consistently the market leader in the PRC rhEPO market since 2002 in terms of both sales volume and value. Future growth for EPIAO is expected to be driven by: (1) the increase of the dialysis penetration rate among stage IV and V CKD patients, which the Group believes is substantially lower in the PRC as compared with other countries; and (2) the increase in the applications of EPIAO in CIA oncology indication and in reducing allogeneic blood transfusion in the PRC, which the Group believes is at a very early stage of growth. The 2019 NRDL addition of a CIA oncology indication validates the growth potential of EPIAO as well as the Group's assessment. With contribution from the second brand of the Group's rhEPO products, SEPO, market coverage of the Group's rhEPO products has expanded in Grade II and Grade I hospitals in the PRC, where sales of its rhEPO products have been experiencing significant growth. The Group expects that SEPO will continue to gain market share in the rhEPO market in the PRC. The Group has initiated patient enrolment in phase II clinical trials on NuPIAO (SSS06), a second-generation rhEPO to treat anaemia. The Group is currently planning for phase II trials on RD001, a pegylated long-acting rhEPO to treat anaemia. Outside of the PRC, EPIAO has been approved in 22 countries, including Ukraine, Thailand and Egypt. The multi-centre biosimilar clinical trials for EPIAO in Russia and Thailand have made good progress, and patient recruitment was completed by the end of 2019. The trial is expected to complete in 2020.

The Group also markets a group of other drugs, including Qiming Keli, Mandi, Disu and Laiduofei, which are indicated to treat diabetic retinopathy, alopecia areata, chronic bronchitis and chronic idiopathic urticaria, respectively. Qiming Keli is listed in the 2019 NRDL as a Class B Drug ("Traditional Chinese Medicine — Prepared Prescription" Section No. 1064) for the treatment of non-proliferative retinopathy caused by type 2 diabetes.

Robust Pipeline of Innovative Products Supported by Integrated R&D Capabilities

The Group's integrated R&D platform covers a broad range of technical expertise in the discovery and development of various innovative biopharmaceutical and small molecule products, including antibody discovery, molecular cloning, antibody/protein engineering, gene expression, cell line construction, manufacturing process development, pilot and large-scale manufacturing, quality control and assurance, design and management of preclinical and clinical trials, and regulatory filing and registration. As at 31 December 2019, the Group's R&D team consisted of over 380 experienced scientists working diligently to research and discover new medicines, to accelerate the progress of clinical development, and to bring breakthrough therapies to fulfil the unmet medical needs of patients.

The Group is experienced in the R&D of mammalian cell-expressed, bacterial cell-expressed and chemically-synthesised pharmaceuticals. The Group focuses its R&D efforts on researching and developing innovative biological products and small molecule therapeutics. The Group has several leading biological products in various stages of clinical development, including 302H (an anti-HER2 antibody to treat metastatic breast cancer), 304R (an anti-CD20 antibody to treat Non-Hodgkin lymphoma and other autoimmune diseases), 301S (the pre-filled aqueous injection solution of Yisaipu); SSS06 (NuPIAO, a second-generation rhEPO to treat anaemia), RD001 (a pegylated long-acting rhEPO to treat anaemia); SSS07 (an anti-TNF α antibody to treat RA and other

inflammatory diseases), pegsiticase (a modified pegylated recombinant uricase from candida utilis to treat refractory gout), 601A (an anti-VEGF antibody to treat AMD and other ophthalmological diseases), 602 (an anti-epidermal growth factor receptor (“EGFR”) antibody to treat cancer), 608 (an anti-IL-17A antibody to treat autoimmune and other inflammatory diseases), 609A (an anti-PD1 antibody to treat cancer) and 610 (an anti-IL-5 antibody to treat severe asthma). With respect to small molecules, the Group has initiated clinical trials of two innovative products: nalfurafine hydrochloride (TRK-820, a highly selective kappa receptor agonist) to treat pruritus in haemodialysis patients, and HIF-117 capsule (SSS17, a selective small molecule inhibitor to hypoxia inducible factor proline hydroxylase) to treat anaemia. As at 31 December 2019, two of the Group’s innovative biologics candidates had reached the final approval stage of the NMPA: Saiputing (302H), a humanised anti-HER2 antibody, which is likely be the first-to-market anti-HER2 antibody developed by a domestic company in the PRC for the treatment of HER2-positive metastatic breast cancer patients; and Yisaipu pre-filled syringe aqueous injection, once approved, which, to the belief of the Group, will continue to reinforce the Group’s leading position in the rapidly growing market of the anti-TNF α agents. In 2019, the Group also received IND approvals for various new drugs including 608, TRK820, SSS17 and 609A. As at the date of this Offering Circular phase 1 trials for 609A are ongoing in both the United States and the PRC. In addition, the Group is performing bio-equivalency studies on a number of generic small molecule products in the field of nephrology, autoimmune and dermatological diseases.

The Group is also developing a panel of novel biological products, including monoclonal antibodies, bi-specific antibodies and fusion proteins, and a number of small molecule drugs, both innovative and generic, in the areas of oncology, autoimmune and inflammatory diseases, nephrology, metabolic and dermatological diseases.

Strong Marketing Capabilities Supported by an Extensive Sales, Marketing and Distribution Network

As at 31 December 2019, the Group’s extensive sales and distribution network in the PRC was supported by approximately 3,372 sales and marketing employees, 660 distributors and 2,079 third-party promoters, which allows the Group to cover 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 the PRC.

The Group’s sales and marketing efforts are characterised by a dedicated and experienced in-house sales team with strong academic background and technical knowledge and expertise, and a strong emphasis on academic promotion, with the goal to promote and strengthen the academic recognition and brand awareness of the Group’s products among medical experts. As at 31 December 2019, the Group’s sales team had on average more than two years of experience in pharmaceutical sales and approximately 51.7% of its in-house sales team held bachelor’s degrees or above in biology, medicine or pharmacy.

The Group sells its products to distributors that are responsible for delivering products to hospitals and other medical institutions, and relies on third-party promoters to market certain products. In addition, TPIAO, Yisaipu, EPIAO, SEPO and some of the Group’s other products are exported to a number of countries through international promoters.

Strong Manufacturing Expertise Ensuring High Product Quality and Efficiency

The Group has accumulated extensive expertise and know-how in manufacturing biopharmaceuticals. Such expertise and know-how allow the Group to efficiently mass produce biopharmaceuticals while consistently ensuring high quality. The Group imposes rigorous manufacturing standards to ensure its product quality and safety, which the Group believes help differentiate its products from those of its competitors. In September 2011, the NMPA approved the Group’s voluntary upgrade of manufacturing specifications to fully align the product quality of EPIAO with European Pharmacopoeia standards. The Group also continuously improves its production efficiency. The Group believes its ability to deliver high quality products with cost efficiency enables it to

accelerate product registration and expand market reach in foreign countries. Therefore, the Group's manufacturing expertise and know-how set a solid foundation for its long-term growth.

With the Group's mAb facility, mammalian cell-based, bacteria cell-based and small molecule manufacturing facilities and over 27 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.

An Experienced and Visionary Management Team with Proven Ability to Lead the Group's Growth

The Company's core management team comprises a group of seasoned biotechnology industry professionals with a strong track record and proven execution capabilities. In particular, the Company is led by its co-founder, president, chief executive officer and chairman of the Board, Dr Lou, who has worked in the biotechnology industry for over 20 years. Dr Lou conducted post-doctoral research at the National Institutes of Health in the United States after obtaining a PhD degree in molecular and cell biology from Fordham University in February 1994. Dr Lou led the development of TPIAO and EPIAO and has played an instrumental role in both the Company's research and development efforts and the Company's overall business growth.

Along with Dr Lou Jing, other members of the Company's core management team have also led the Company's business growth. Ms Su joined the Company in January 1993 and is the co-inventor of four of the Company's patents. Ms Su also leads strategic planning, research and development and other major decision-making of the Company.

The Company's senior management team has extensive industry expertise, innovative vision and strong execution capabilities. Members of the Company's senior management team on average have more than 15 years of experience in the biotechnology or pharmaceutical industries. Many of them have worked with leading overseas global biopharmaceutical companies. They bring extensive industry experience and in-depth knowledge on the intricacies of managing a biotechnology company. Their expertise range from research and development to manufacturing, sales, marketing and distribution.

The Company believes that its management team will continue to lead the Group and successfully capture growth opportunities in the fast-growing PRC biopharmaceutical industry.

THE GROUP'S STRATEGIES

The Group's mission is to provide better care for patients through innovation and excellence. The Group aims to strengthen its leadership position in the PRC biotechnology industry and to significantly expand its international business. The key elements of the Group's strategy are set out below:

Continue to Strengthen the Group's Commercial, R&D and Manufacturing Platforms

The mission of the Group is to stand at the forefront of innovation and to provide medicines that are innovative, affordable, and of international quality to the public. The Group intends to continue to invest in R&D, including for expanding and upgrading its operational facilities. The Group will leverage its position as the leading biopharmaceutical company in the PRC to continue to strengthen its commercial, R&D and manufacturing platforms. The Group plans to increase the revenue generated by its existing products through further penetration into the hospitals already covered by the Group's sales and marketing team and new hospitals (including lower-tier cities), and through academic marketing efforts. The current market penetration rates of the Group's core products are still relatively low, which offer significant growth potentials in the future.

The Group will continue to build up a comprehensive quality management system and voluntarily adhere to global quality standards. The Group has a proven track record of efficacy, and the safety profile of its products and manufacturing facilities have passed numerous inspections conducted by the NMPA and local authorities.

Continue to Seek Global Strategic Partnerships

The Group continues to seek global strategic partnerships to enrich its existing product portfolio and pipeline to sustain long-term growth. The Company established strategic collaboration and partnership with Verseau Therapeutic, Inc. (“**Verseau**”), and nominated VTX-0811, a humanised PSGL-1-targeted antibody as the first collaboration programme generated from Verseau’s proprietary platform for discovering first-in-class macrophage checkpoint modulators. The Group partnered with Switzerland-based Numab Therapeutics to develop multiple bi- and multi-specific antibodies with the potential to unlock entirely novel modes of action with superior benefit-to-risk profiles relative to conventional cancer immune therapies. The collaboration with Samsung Bioepis Co., Ltd. focuses on biosimilars, including SB8, an anti-vascular endothelial growth factor biosimilar candidate for metastatic colorectal cancer and non-small cell lung cancer. The Company has also partnered with Taiwan Liposome Company, Ltd. to develop novel liposomal products for cancer and infectious diseases. Moreover, the Company is collaborating with GenSight Biologics on its innovative gene therapy products for eye disease, and with Sensorion on its novel therapeutics for inner ear disease. Additionally, the Company invested in the MPM Oncology Innovations Fund (“**INV**”) and agreed to make a donation to the Dana-Farber Cancer Research Institute’s Innovations Research Fund (“**IRF**”). Part of the INV-IRF collaboration involves the right of first offer to license certain Dana-Farber technologies that have been identified for commercialisation. The Group believes that the strategic collaborations with these companies have established the Group as a partner of choice to leading pharmaceutical companies around the world, and will serve as stepping stones for future strategic collaborations.

As part of its expansion plan, the Group also seeks selective merger and acquisition targets and collaboration opportunities. The Group takes a market-driven approach in assessing potential acquisition targets. It primarily focuses on the market potential of a target’s existing products and pipeline and potential synergies with the Group’s own existing product portfolio and pipeline. The Group believes that its extensive industry knowledge and expertise will not only assist it in making acquisition decisions, but also make it a more desirable buyer to other pharmaceutical companies. Furthermore, the Group believes that its strong business execution capabilities will help it integrate the acquired businesses to create synergies with its existing business.

Expand the Group’s In-house Marketing Capabilities and Network of Distributors and Third-Party Promoters to Broaden the Group’s Market Coverage

The Group intends to broaden its market coverage by expanding its in-house marketing capabilities. The Group will also continue to rely on distributors and third-party promoters to market some of its products, including SEPO and Sparin. The Group intends to expand its network of distributors and third-party promoters to help it broaden its market coverage in China. The Group believes that distributors and third-party promoters will help increase its product penetration in a wide range of markets, particularly lower-tier cities and smaller hospitals, where pharmaceutical sales have significant growth potential. The Group also intends to leverage its strength in academic promotion and logistic capabilities to provide more marketing support for its network of third-party promoters.

Grow the Group’s International Business through Global Product Registration and Development

The Group believes that it is well positioned to expand its global presence. The Group intends to continue to leverage its research and development capabilities and manufacturing expertise to develop new products for international markets. The Group intends to grow its international sales through the registration of existing products in new countries and development of new products in highly regulated markets.

As at the date of this Offering Circular, the Group mainly exports TPIAO, Yisaipu, EPIAO, SEPO and certain other products to countries such as Colombia, India, Pakistan, the Philippines, Sri Lanka, Thailand, South Korea and the People's Republic of Bangladesh, where the relevant products have been registered and therefore are approved to be sold in compliance with local laws and regulations. For the years ended 31 December 2017, 2018 and 2019, the export sales of the Group amounted to RMB64.5 million, RMB84.2 million and RMB68.0 million, respectively, representing 1.7%, 1.8% and 1.3% of the Group's revenue for these years.

The Group plans to increase its international marketing capabilities while continuing to work with local agents to expand the markets where its products are approved for sale.

The Group also out-licences technology and distribution rights to expand its international presence. The Group plans to deepen and expand its reach in international markets through this and similar out-licencing arrangements.

THE GROUP'S PRODUCTS

The Group primarily markets and sells pharmaceutical products. The Group's core products are TPIAO, Yisaipu, EPIAO and SEPO. Sales of TPIAO accounted for 26.0%, 36.3% and 43.5% of the Group's total sales of goods in 2017, 2018 and 2019, respectively; sales of Yisaipu accounted for approximately 27.0%, 24.1% and 21.4% of the Group's total sales of goods in 2017, 2018 and 2019, respectively; and sales of EPIAO and SEPO collectively accounted for 22.8%, 19.5% and 14.0% of the Group's total sales of goods in 2017, 2018 and 2019, respectively. The Group expects that sales of its four core products will continue to represent a substantial portion of its total sales of goods in the near future.

The Group's Core Products

TPIAO

TPIAO is the Group's self-developed proprietary product, and has been the only commercialised rhTPO product in the world since its launch in 2006. TPIAO was approved by the NMPA for two indications: the treatment of CIT and ITP. TPIAO has the advantages of higher efficacy, faster platelet recovery and fewer side effects as compared to alternative treatments for CIT and ITP.

TPIAO is listed in the 2019 NRDL as a Class B Drug ("Western Medicine" Section No. 234) for the treatment of severe CIT in patients with solid tumours or ITP. According to the Consensus on the Clinical Diagnosis, Treatment, and Prevention of Chemotherapy Induced Thrombocytopenia in China (2019 version) published by the society of Chemotherapy and Committee of Neoplastic Supportive-Care (CONs), TPIAO is one of the primary treatments for CIT. In the article titled The Chinese Guidelines for Treatment of Adult Primary Immune Thrombocytopenia, published in the International Journal of Haematology in April 2018, rhTPO was included as the first choice recommendation for the second-line treatments list. According to the Consensus of the China Experts on Diagnosis and Treatment of Adult Primary Immune Thrombocytopenia (2016 version), rhTPO products were included as the first choice recommendation for the second-line treatments and were recommended among the medicines to increase platelet production in certain emergency cases. In The Guidelines of Chinese Society of Clinical Oncology (CSCO) — Soft Tissue Sarcoma (2019), rhTPO is a primary treatment strategy for thrombocytopenia accompanying treating soft tissue sarcoma. TPIAO has also received similar professional endorsements in several national guidelines and experts consensus on treating other diseases in the PRC, including conventional osteosarcoma and certain other off-label uses.

TPIAO was included in the NRDL, which led to the growth in the sale of TPIAO. The Group believes that TPIAO is still at an early stage of its product life cycle. The majority of the Group's sales of TPIAO are

generated from approximately 10% of the hospitals covered by the Group's sales team. In 2019, its market share for the treatment of thrombocytopenia in the PRC was 25.8% in terms of sales volume and 73.2% in terms of sales value in the PRC according to IQVIA report. The Group has started a phase III clinical trial of TPIAO in the paediatric ITP indication. A phase I clinical trial for TPIAO in surgery patients with hepatic dysfunction at the risk of thrombocytopenia has been completed, and the Group plans to initiate the phase II trials in 2020. Outside the PRC, TPIAO was approved in eight countries, including Ukraine, the Philippines and Thailand.

The following table sets forth the material awards TPIAO has received:

Award	Grantor	Year
Single Product Champion in the Manufacturing Industry	Ministry of Industry and Information Technology	2019
The Most Reliable Clinical Brand Award in the Healthcare Industry of 2017 in China	China National Pharmaceutical Industry Information Centre	2017
Second Class Award for the Advancement of Science and Technology in Liaoning Province ...	Liaoning provincial government	2017
First Class Award for the Super New Product in Liaoning Province	Liaoning provincial government	2010
National Key New Product	Ministry of Science and Technology, Ministry of Commerce, General Administration of Quality Supervision, Inspection and Quarantine and State Environmental Protection Administration	2006
First Class Award for the Advancement of Science and Technology in Shenyang	Shenyang municipal government	2006
Achievements in Scientific and Technological Research in Shenyang	Science and Technology Committee in Shenyang	2006

Yisaipu

Yisaipu, generically known as etanercept, is a TNF α inhibitor product. It was first launched in 2005 in the PRC for RA. Its indications were expanded to AS and psoriasis in 2007. The Group actively participated in the development of "The 2018 China Rheumatoid Arthritis Treatment Guidance" (the "**Guidance**"), an authoritative document issued by the China Medical Association. Yisaipu was adopted in the Guidance under 'TNF α inhibitors' as one of the RA treatment options, and the Guidance deemed TNF α inhibitors as a group of biological agents with relatively sufficient evidence and relatively wide adoption in treating RA. Yisaipu is listed in the 2019 NRDL as a Class B Drug ("Western Medicine Section" No. 857) for the treatment of patients with confirmed diagnosis of RA and for the treatment of patients with confirmed diagnosis of AS (excluding pre-radiographic axial spondyloarthritis), each subject to certain medical prerequisites, and for the treatment of adult patients with severe plaque psoriasis.

Yisaipu has a leading market position in the PRC with a market share of 60.9% in terms of sales value in 2019. The sales coverage of Yisaipu extended to more than 3,500 hospitals in the PRC, including over 1,500 Grade III hospitals. The Group believes that Yisaipu is still at an early stage of its product life cycle. The majority of the Group's sales of Yisaipu is generated from sales to 8% of the hospitals covered by the Group's sales team. The Group completed the Phase III trial for pre-filled aqueous injection solution of Yisaipu and submitted the application for manufacturing approval in July 2019. The application was accepted for review by the NMPA. Yisaipu aqueous injection solution is the first self-developed pre-filled fusion protein injection solution in the PRC. If approved, Yisaipu will likely be the only TNF α inhibitor product in pre-filled format among its Chinese peers. The Group is of the view that the pre-filled aqueous injection solution of Yisaipu will improve convenience and compliance for patients, and contribute to further growth of Yisaipu.

Outside of the PRC, Yisaipu has been approved in 15 countries, including India, Thailand, the Philippines, and Mexico.

The following table sets forth the material awards Yisaipu has received:

Award	Grantor	Year
Shanghai Intellectual Property Innovation Award . .	Shanghai Intellectual Property Administration	2019
Famous Trademark in Shanghai	Shanghai Administration for Industry & Commerce	2017
The First Innovative QiPu Award in the Healthcare Industry of China	China Healthcare Innovation Platform	2014
Shanghai Famous Brand Certificate	Shanghai Famous Brand Recommendation Committee	2014
National Key New Product	Ministry of Science and Technology, Ministry of Commerce, General Administration of Quality Supervision, Inspection and Quarantine	2011
China Patent Gold Award	World Intellectual Property Organisation and State Intellectual Property Office of the PRC	2009
Second Class Award for the National Technology Invention Award	State Council of the PRC	2007

EPIAO

EPIAO is the only rhEPO product approved by the NMPA for the following three indications: the treatment of anaemia associated with CKD; the treatment of CIA; and the reduction of allogeneic blood transfusion in surgery patients. EPIAO has been listed in the NRDL as a Class B Drug, for renal anaemia since 2000, and, additionally in 2019 NRDL, for CIA in patients with non-haematological malignancies. EPIAO has also been listed in the 2018 National Essential Drug List. EPIAO, together with SEPO, captured a market share of 41.6% in terms of sales value in 2019. EPIAO is the only rhEPO product in the PRC available at 36,000 IU (international unit per vial) dosage, and together with SEPO, claims the majority of the PRC rhEPO market share at 10,000 IU dosage in 2019. The indication of chemotherapy-induced anaemia in patients with non-haematological malignancies was added in the 2019 NRDL for EPIAO. With contribution from the second brand of the Group's rhEPO products, SEPO, market coverage of the Group's rhEPO products has expanded in Grade II and Grade I hospitals in the PRC. The Group expects that SEPO will continue to gain market share in the rhEPO market in the PRC. The Group has initiated patient enrolment in phase II clinical trials on NuPIAO (SSS06), a second-generation rhEPO to treat anaemia. As at the date of this Offering Circular, the Group has started phase II clinical trials on RD001, a pegylated long-acting rhEPO to treat anaemia.

Outside of the PRC, EPIAO was approved in 22 countries, including Ukraine, Thailand and Egypt. The multi-centre biosimilar clinical trials for EPIAO in Russia and Thailand have made good progress and patient recruitment was completed by the end of 2019. The trial is expected to complete in 2020.

The following table sets forth the material awards EPIAO has received:

Award	Grantor	Year
Famous Trademark in Shenyang	Shenyang Administration for Industry & Commerce	2016
Contribution Award in the Returned Overseas Chinese (Achievements in Innovation)	All-China Federation of Returned Overseas Chinese	2012
Third Class Award in the Transformation of Scientific and Technological Achievements in Liaoning Province	Liaoning provincial government	2007
Well-known Brand in Shenyang	Shenyang municipal government	2005
Famous Trademark in Shenyang	Shenyang Administration for Industry & Commerce	2005
Second Class Award for Advancement of Science and Technology in Liaoning Province	The Evaluation Committee of the Advancement of Science and Technology Award in Liaoning Province	1999
First Class Award for the Advancement of Pharmaceutical Science and Technology in Liaoning Province	The Evaluation Committee of the Advancement of Pharmaceutical Science and Technology Award in Liaoning Province	1999
The Revitalisation of Science and Technology Award in Shenyang	Shenyang municipal government	1999
First Class Award for the Advancement of Science and Technology in Shenyang	Shenyang municipal government	1999

SEPO

SEPO is an injectable rhEPO product manufactured and marketed by Sciprogen, which the Group acquired in December 2014. The Group's acquisition of SEPO has helped broaden its market coverage, especially in Grade II and Grade I hospitals.

Launched in 2001, SEPO was approved by the NMPA for the treatment of anaemia associated with CKD and the treatment of CIA. As at the date of this Offering Circular, SEPO was included in the NMIC as a Category B drug for the treatment of anaemia associated with CKD and in eight provincial medical insurance catalogues (Province of Fujian, Hainan, Heilongjiang, Hubei, Jilin, Liaoning, Shaanxi and Shanghai) for the treatment of CIA. SEPO is manufactured at the Group's Shenzhen production facilities. SEPO is offered in six dosages ranging from 2,000 IU to 10,000 IU, all of which are available in both vial format and pre-filled syringe format. SEPO and EPIAO are two of only three rhEPO products in China approved for the 10,000 IU dosage. The Group holds a PRC patent related to SEPO, which is valid until 2031. The patent covers a serum-free medium that increases the amount and stability of EPO expression and a method for efficiently expressing EPO in CHO cells with said medium. SEPO was recognised as a well-known trademark by the Guangdong Administration for Industry and Commerce in 2014.

In the PRC, the Group primarily relies on third-party promoters to market and sell SEPO, and SEPO primarily competes with other rhEPO products offered by domestic companies.

The following table sets forth the material awards SEPO has received:

Award	Grantor	Year
Shenzhen Top Brand	Shenzhen Top Brand Evaluation Committee	2018
Guangdong Province Renowned Trademark Certificate	Guangdong Province Renowned Trademark Evaluation Committee	2017

The Group's Other Products

Byetta

Byetta is a diabetes product manufactured by AstraZeneca. On 11 October 2016, Hongkong Sansheng, a wholly owned subsidiary of the Company, entered into an exclusive licence agreement with AstraZeneca, pursuant to which AstraZeneca has agreed to grant an exclusive licence to Hongkong Sansheng for the commercialisation of Byetta in the PRC from 11 October 2016 until 31 December 2036.

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 the treatment of patients who have not achieved adequate glycaemic control on metformin, sulphonylureas, or metformin plus sulphonylureas. Byetta is licensed from AstraZeneca, and the Group has started to record the revenue of Byetta from October 2016. Byetta was included in the 2019 NRDL to treat type 2 diabetes through the price negotiation mechanism in November 2019.

The Group primarily relies on the Group's in-house marketing and promotion team to market and sell Byetta in the PRC.

Bydureon

Bydureon is a diabetes product manufactured by AstraZeneca. On 11 October 2016, Hongkong Sansheng, a wholly owned subsidiary of the Company, entered into an exclusive licence agreement with AstraZeneca, pursuant to which AstraZeneca agreed to grant an exclusive licence to Hongkong Sansheng for the commercialisation of Bydureon single dose tray, Bydureon dual chamber pen and Bydureon auto-injector in the PRC from 11 October 2016 to 31 December 2036. Bydureon was launched in May 2018, and the Group started to record its revenue since then.

Bydureon is an extended-release formulation of exenatide, administered once weekly as an adjunct to diet and exercise to improve glycemic control in adults with type 2 diabetes mellitus, which is indicated for the treatment of patients who have not achieved adequate glycaemic control on metformin, sulphonylureas, thiazolidines, metformin plus sulphonylureas or thiazolidines, or sulphonylureas plus thiazolidines. Bydureon has been shown to reduce glycated haemoglobin levels by approximately 1.3 to 1.9%. Bydureon was approved by the Food and Drug Administration in the U.S. in 2012. Bydureon is currently available in 42 countries worldwide, including EU countries.

The Group primarily relies on the Group's in-house marketing and promotion team to market and sell Bydureon in the PRC.

Humulin

Humulin is an insulin product manufactured by Lilly. The Group entered into a strategic cooperation agreement with Lilly China, pursuant to which the Group has been granted the exclusive right of distribution and promotion of Humulin in China from 1 July 2017 for a period of ten years.

Humulin was the first bio-synthetic human insulin product and was also the first medical product for human therapeutic use in the world produced by recombinant DNA technology. Humulin is licensed from Lilly, and the Group started to consolidate the revenue of Humulin from July 2017. Diabetes is a major chronic disease in the PRC. Since its launch in the PRC in 1997, Humulin has in aggregate served millions of Chinese diabetic patients. Human insulin is classified as a Class A Drug in the NRDL.

The Group primarily relies on the Group's in-house marketing and promotion team to market and sell Humulin in the PRC.

Other Drugs

The Group also markets a group of other drugs, including Qiming Keli (芪明顆粒), Mandi (蔓迪), Disu (迪蘇) and Laiduofei (萊多菲), which are indicated to treat diabetic retinopathy, alopecia areata, chronic bronchitis and chronic idiopathic urticaria, respectively. Qiming Keli is listed in the 2019 NRDL as a Class B Drug ("Traditional Chinese Medicine — Prepared Prescription" Section No. 1064) for the treatment of non-proliferative retinopathy caused by type 2 diabetes.

The Group primarily relies on its in-house marketing and promotion team to market and sell Qiming Keli, Mandi, Disu and Laiduofei in the PRC.

SALES, MARKETING AND DISTRIBUTION

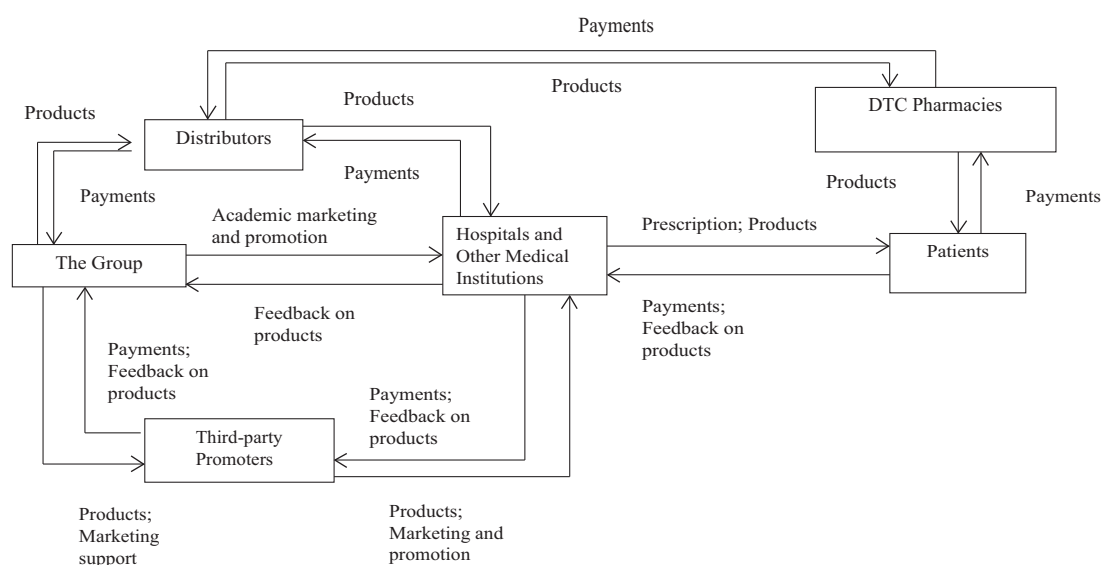
The Group's pharmaceutical products are marketed and sold in all provinces, autonomous regions and special municipalities in the PRC, as well as a number of foreign countries and regions. For the year ended 31 December 2019, the Group's nationwide sales and distribution network enabled it to sell its products to approximately 17,000 hospitals and medical institutions in the PRC. As at 31 December 2019, 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 the PRC.

The Group mainly promotes and sells biopharmaceuticals with a dedicated in-house sales team and an academic marketing approach. The sales team sells the products to distributors that are responsible for delivering products to hospitals and other medical institutions and third-party promoters to market and sell its products.

The distributors distribute the Group's products to hospitals and medical institutions in the PRC that order the Group's products. Distributors also distribute TPIAO and Yisaipu to DTC pharmacies, which in turn sell TPIAO and Yisaipu to patients with physician prescriptions.

The Group also relies on third-party promoters to market and distribute certain products in the PRC.

The following diagram illustrates the Group's relationships with distributors, third-party promoters, hospitals, DTC pharmacies and patients:



Both distributors and third-party promoters are the Group's direct customers. All of the Group's distributors and third-party promoters are Independent Third Parties. They are not authorised by the Group to use its trade name or any other material that may lead others to believe that they are acting on the Group's behalf. Due to the difference in product offerings, there is no risk of cannibalisation between the Group's distributors and third-party promoters. As at 31 December 2019, the Group's extensive sales and distribution network in the PRC was supported by approximately 3,372 sales and marketing employees, 660 distributors and 2,079 third-party promoters.

The Group's sales and marketing efforts are characterised by a strong emphasis on academic promotion, which the Group believes plays a pivotal role in the marketing and sales of biopharmaceuticals. The Group aims to promote and strengthen the Group's academic recognition and brand awareness among medical experts. Products marketed mainly through the Group's in-house sales force mainly include TPIAO, Yisaipu, EPIAO, Byetta, Bydureon and Humulin. Products marketed mainly through third-party promoters mainly include SEPO. Qiming Keli is marketed through both the Group's in-house sales force and third-party promoters.

In addition, the Group believes it is well positioned to expand its global presence. TPIAO, Yisaipu, EPIAO, SEPO and some of the Group's other products are exported to a number of countries through international promoters. The Group is applying for approval to initiate clinical trials of TPIAO in the United States, India and Mexico. Yisaipu was approved in nine countries and is in the process of registration in 18 countries. The Group is conducting multi-centre biosimilar clinical trials for EPIAO in Russia and Thailand. In the long term, the Group aims to market its products in developed countries.

Domestic Sales, Marketing and Distribution

In-house Sales Force

Led by a centralised sales management department, the Group's in-house sales force is divided into six business divisions in accordance with different product lines and each business division covers over ten broad regions in the PRC. In each of these regions, the Group has sales representatives dedicated to the marketing of TPIAO, Yisaipu, EPIAO, Byetta, Bydureon, Humulin and other products.

The Group's sales representatives are primarily responsible for establishing and maintaining relationships with hospitals in their covered regions. Through academic marketing activities and other promotional efforts, they promote the Group's products among physicians and collect feedback on the Group's products. The Group's sales team also coordinates with third-party promoters and distributors in the promotion and distribution of the Group's products.

The Group has an experienced and stable in-house sales team with a relatively high level of technical knowledge and expertise. As at 31 December 2019, the Group's sales team had, on average, more than 2 years of experience in pharmaceutical sales and approximately 51.7% of its in-house sales team held bachelor's degrees or above in biology, medicine or pharmacy. The turnover rate of the sales staff has been maintained at relatively low levels.

The Group regularly provides in-house and external training to enhance the industry knowledge and marketing skills of its sales staff. The Group puts particular emphasis on training its sales representatives and junior managers. The Group's sales representatives are categorised into different levels based on their experience and capabilities to receive tailored mandatory and elective training. The Group targets to provide each sales representative at least one in-person training session and two online training sessions every year.

The Group motivates its sales staff with financial and other incentives. Compensation of the Group's sales staff is tied to various key performance indicators including, among others, completion of sales targets, period-to-period growth, and sales contribution relative to other sales teams, as well as sales productivity, which compares sales achieved with resources used. The Group has also implemented an evaluation system that rewards optimal sales behaviour rather than overemphasising sales results. To retain high quality and experienced sales staff, the Group provides comprehensive training, guidance in career development and ample opportunities for internal promotion. The above-mentioned key performance indicators, particularly those related to sales productivity, are also used to determine internal promotion.

The Group has maintained a sales force efficiency ("SFE") system since 2002. Through the Group's SFE system, the Group continually updates information on distributors, third-party promoters, hospitals and other players on the value chain of pharmaceutical sales. The SFE system provides the Group's sales team with comprehensive and automated analysis of sales data, and facilitates internal sharing of business intelligence. With the help of the SFE system, the Group's sales team can allocate resources more efficiently and improve its sales performance.

Academic Marketing

The Group adopts a research-oriented marketing approach, particularly with respect to the Group's core products. The Group's sales and marketing efforts are characterised by a strong emphasis on academic promotion.

The Group regularly organises and participates in various academic conferences, seminars and symposia, which include large-scale national and provincial conferences, as well as smaller events tailored for specific cities and hospital departments. The Group sets up booths at large-scale academic conferences to promote its products. During these conferences, the Group also sponsors satellite events that focus on the therapeutic areas related to its products. The Group invites leading experts in these therapeutic areas to speak on the latest developments and share their experience. The Group also sponsors clinical studies and pharmacovigilance studies related to its products. Through these academic marketing efforts, the Group aims to educate doctors and other medical professionals on the Group's products and solidify the Group's academic recognition and brand awareness among medical experts. The Group maintains long-term cooperative relationships with national academic associations, such as the Chinese Society of Nephrology (中國臨床腫瘤學會) and the Chinese Society of Clinical Oncology (中華腎臟病學會). The Group believes that its relationships with medical experts help to raise its profile, enhance awareness of its products in the medical community and among patients, and provide it with valuable clinical data to improve its products, all of which help it to market and sell its products more effectively.

The Group conducts academic marketing activities to establish and maintain relationships with key opinion leaders, as well as department heads and senior physicians in the Group's target hospitals, particularly Grade III hospitals. The Group provides these experts with detailed information on its products and helps them make independent comparisons among competing products in the market.

Distributors

The Group's extensive network of distributors distributes TPIAO, Yisaipu, EPIAO, SEPO and other products. Distributors are the direct customers of the Group, and are responsible for delivering the Group's products to hospitals and other medical institutions that purchase these products. The Group believes that its existing distribution model is consistent with customary industry practice and serves to ensure efficient coverage of its sales network while controlling its cost of distribution and account receivables.

The Group selects its distributors based on their qualifications, reputation, market coverage and sales experience. To distribute the Group's products, a distributor must maintain its business licence, GSP certificate, pharmaceutical trade licence and other relevant licences and permits. It must maintain extensive hospital coverage in the target province. A distributor must meet the latest GSP standards for cold-chain storage and transportation, and must be capable of delivering the Group's products to covered hospitals in a safe and timely manner. Any distributor of the Group's rhEPO products must also maintain qualifications in distributing protein and peptide hormone products.

The Group actively monitors the inventory levels of its distributors to increase the efficiency of its distribution network. The Group has established direct connections with the inventory databases of its major distributors, which allow it to keep track of their sales and inventory information in real time. The Group generally aims to keep a distributor's inventory at a healthy level to support ten to 30 days of sales.

The Group conducts credit assessments of each of its distributors before it enters into a distribution agreement. The Group usually does not have exclusive distribution arrangements with its distributors. They are generally allowed to distribute products that compete with the Group's products. There is no risk of cannibalisation among the Group's distributors as, for any of its products, each hospital is covered by only one distributor. For every calendar year, the Group enters into a distribution agreement with each distributor which provides general terms for the Group's distribution arrangement, such as the designated geographical area, place and method of delivery and receivable collection. Product price under each contract reflects the prevailing pricing arrangement resulted from the local competitive tendering process. At the same time, the Group's standard distribution contract provides that, in case of pricing changes resulted from the tendering process or government price controls during the term of the contract, the Group and the distributor must renegotiate prices and enter into a supplemental agreement based on the principle of mutual benefits. The Group is generally required to ship its products and issue invoices within three business days upon receipt of a distributor's order. The Group generally grants a distributor credit terms between 60 and 90 days. Typically, the Group bears the costs of transporting its products to the designated city of delivery, and the distributor bears the costs of unloading and further transporting the products. Under the Group's standard distribution agreement, a distributor cannot sell its products outside the designated geographical area without first obtaining its written consent. The Group's products are labelled with tracking bar codes that allow it to monitor their movement during the distribution process and to detect potential cannibalisation among distributors. Under the Group's standard distribution agreement, a distributor may not return products to it other than for product quality issues.

From time to time, the Group terminates its relationships with certain distributors generally because they (1) were unable to meet the Group's distribution needs in the relevant region; (2) breached their distribution agreement with the Group; (3) failed to maintain their GSP certificate or other licences or permits required for distributing the Group's products; and/or (4) encountered financial difficulty. The Group requests terminated

distributors to settle any outstanding balances with it as soon as possible. At the same time, the Group adds new distributors primarily as a result of the continued expansion and optimisation of its sales network.

A significant amount of the Group's sales is attributable to a limited number of distributors. In 2017, 2018 and 2019, the Group's five largest distributors accounted for 20.0%, 18.1% and 17.1%, respectively, of its total sales, and its largest distributor accounted for 8.2%, 5.7% and 5.3%, respectively, of its total sales. The Group's five largest distributors in 2019 on average had 14 years of relationship with it.

Many of the Group's distributors are members of large pharmaceutical distributor groups in the PRC, particularly subsidiaries of Sinopharm Group Co. Ltd. (collectively with its subsidiaries, the "**Sinopharm Group**"). As the Sinopharm Group is collectively the largest pharmaceutical distributor in the PRC, the Group believes its level of concentration risk is not specific to its business. The individual members of the Sinopharm Group that act as the Group's distributors are distinct legal entities holding separate GSP certificates. The Group evaluates members of the Sinopharm Group on an individual basis, negotiates contractual arrangements with them individually and ultimately enters into separate contractual agreements with them. Consequently, the Group's engagement of, or termination or non-renewal of contractual relationships with, an individual member of the Sinopharm Group is independent of the Group's engagement of, or termination or non-renewal of contractual relationships with, any other member of the Sinopharm Group.

Third-party Promoters

Some of the Group's products, including SEPO, are primarily marketed and promoted by third-party promoters. Marketing through third-party promoters helps the Group to efficiently allocate the Group's internal resources to the Group's core products. Furthermore, the Group believes that third-party promoters will help increase its product penetration in a broad range of markets, particularly lower-tier cities and small hospitals.

The Group's third-party promoters perform both marketing and distribution functions. Like the Group's distributors, they are the Group's direct customers. They purchase the Group's products and distribute them to hospitals according to orders submitted by hospitals. Also like the Group's distributors, these promoters are prohibited from selling the Group's products outside the designated geographical areas. Unlike the Group's distributors, the Group's third-party promoters promote its products to medical professionals by visiting hospitals, disseminating information of the Group's products and organising academic conferences. Also unlike the Group's distributors, many of its third-party promoters are prohibited from promoting and distributing other products that directly compete with the Group's products. For each of the Group's products, each hospital is covered by no more than one third-party promoter.

The Group selects its third-party promoters based on their qualifications, reputation, marketing experience, management capabilities and hospital coverage in the Group's target therapeutic areas. Before entering into a business relationship with a third-party promoter, the Group makes enquiries into the promoter's business qualifications and reputation, distribution network, financial conditions, past experience with similar products, sales force and other relevant factors.

The Group periodically evaluates the performance of its third-party promoters. The Group reviews quantitative metrics including the number of newly developed hospitals, sales target completion rate, period-to-period sales growth and sales productivity in terms of sales-to-resources ratio. The Group also reviews qualitative factors including, among others, whether a promoter strictly abides by the Group's pricing policies, whether it distributes the Group's products outside its designated region, whether it delivers the Group's products to hospitals in a timely manner and provides satisfactory pre-sale and post-sale services, whether it diligently provides the Group with sales, inventory and market feedback and attends the Group's trainings, and whether it actively cooperates with the Group's promotional campaigns in its designated region.

The Group generally enters into one-year agreements with its third-party promoters. For each third-party promoter, the Group sets targets for new hospital development and product sales. A third-party promoter is typically required to submit an initial order or make an initial prepayment for the Group's products shortly after the effective date of its annual agreement with the Group. The Group generally evaluates a third-party promoter's sales performance on a quarterly basis. If the third-party promoter fails to meet the specified sales target for two consecutive quarters, under the Group's standard agreement, the Group has the right to terminate the agreement or increase its product price in the subsequent quarter. In addition, under the Group's standard agreement, the Group has the right to terminate the agreement if the third-party promoter fails to provide valid evidence for generating sales of the Group's products to hospitals or fails to make a specified minimum purchase from it.

The Group generally requires its third-party promoters to make full payments for their orders before the Group ships its products. Product prices specified in a third-party promoter agreement are typically inclusive of costs of transporting the Group's products to the designated city of delivery. Product promotion and marketing expenses are borne by the third-party promoters. The selling prices of the Group's products to third-party promoters are sufficiently lower than their retail prices to allow the Group's third-party promoters to cover their marketing expenses and maintain reasonable profits. The Group requires each third-party promoter to provide it with a marketing plan each year. To support a third-party promoter's academic marketing efforts, the Group provides it with promotional materials, academic articles, product samples and product manuals. If requested by the third-party promoter, the Group also provides trainings to sales representatives or other personnel of the third-party promoter and participates in academic activities organised or attended by the third-party promoter.

The Group provides various incentives to motivate sales performance by third-party promoters. For example, for a top promoter, the Group may provide additional academic marketing support, expand its designated sales region, increase the scope of its business relationship and provide additional product-related trainings. If, however, a third-party promoter fails to achieve its sales target, materially breaches its agreement with the Group or violates relevant laws or regulations, the Group may penalise the promoter by reducing its designated sales region, adjusting its product prices, terminating its business relationship, and/or seeking damages and other legal remedies.

DTC Pharmacies

To establish long-term relationships with chronic-disease patients and to diversify its sales channels, the Group started to utilise DTC pharmacies to sell its TPIAO products in 2013 and Yisaipu in 2016. DTC pharmacies are typically independent of hospitals and sell pharmaceutical products to patients with physician prescriptions. DTC pharmacies tend to sell drugs with relatively high prices and requiring long-term or repeated use. In 2017, 2018 and 2019, TPIAO was sold to 48, 72 and 94 DTC pharmacies, respectively; and Yisaipu was sold to 75, 104 and 148 DTC pharmacies, respectively. All of the DTCs are Independent Third Parties.

Like hospitals, DTC pharmacies order TPIAO and Yisaipu from the Group's distributors. Patients with physician prescriptions may then purchase TPIAO or Yisaipu from hospitals or DTC pharmacies. The retail prices are generally identical in hospitals and DTC pharmacies, which are determined by the provincial tendering processes. When patients purchase TPIAO or Yisaipu at DTC pharmacies, the pharmacies deliver the product to patients with temperature-controlled transportation systems. The Group selects DTC pharmacies based on their GSP certificates, quality control, cold-chain transportation system and timeliness of delivery. Furthermore, the Group sets certain requirements on the staff, equipment, workplace environment, purchase procedure and service procedure for DTC pharmacies that sell its products. Every year the Group assesses each DTC pharmacy on its consistency and effectiveness of quality control.

Product Pricing

Prices of pharmaceutical products in China are determined through competitive tendering processes at the provincial level and limited by government price controls.

In provinces where the Group markets its products, the Group is required to participate in a government-sponsored competitive bidding process every year or every few years, during which the Group and its competitors submit pricing and other product information to local pricing bureaus. Based on the bid price, clinical effectiveness and quality of each product and the reputation of the bidder, the relevant local pricing bureau selects a limited number of products in each product category that are permitted for sale in the relevant province or local district. If the Group wins bids in the centralised tendering process, the bid price of the selected product will become the purchase price of that product to be paid by all state-owned hospitals in the applicable region.

The administration of price-controlled pharmaceutical products is vested in the national and provincial price administration authorities. Depending on the categories of pharmaceutical products in question, the prices of pharmaceutical products listed in the NMIC, drugs with patents and other drugs whose production or trading may constitute monopolies are subject to the control of the NDRC and the relevant provincial or local price administration authorities. In respect of pharmaceutical products manufactured in the PRC, the national price administration authority from time to time publishes price control lists setting out the names of pharmaceutical products and their respective price ceilings. The provincial price administration authorities also publish price control lists in respect of the pharmaceutical products that are manufactured within the respective provinces. The main purpose of the price control policy is to set an upper limit to the prices of pharmaceutical products to prevent excessive increases in the prices of such products. Pursuant to the Measures on Government Pricing of Pharmaceutical Products (藥品政府定價辦法), the price ceiling is determined mainly by reference to, among others, the quality of the product, whether it is a newly developed product and the GMP compliance status.

The price ceilings of pharmaceutical products included in the price control lists are subject to adjustment upon approval by the price administration authorities from time to time. Pharmaceutical enterprises in the PRC are required to submit cost-related information such as raw material prices regularly to the relevant price administration authorities so that the authorities can take into account the market conditions when setting the price ceilings. The price administration authorities may approve adjustments to the price ceilings upon request if material changes in production costs or significant changes in demand for these pharmaceutical products are recognised. There is a reasonable gap between the price ceilings set by relevant government authorities and the Group's average selling prices at which the Group sells its products to distributors or third-party promoters.

Since 2015, PRC government authorities have been starting to implement policies that aim to further increase the affordability of pharmaceutical products. Moreover, subject to those policies, some new methods are used in provincial tendering, which may create further downward pressure on the prices of pharmaceutical products. However, as of the date of this Offering Circular, the prices of the Group's products have not been significantly affected by these policies and the Group does not expect to be significantly affected by new tendering methods.

The Group has a market entry department. The regulatory affairs division under the market entry department closely monitors new policies affecting the pricing of pharmaceutical products in the PRC, which helps the Group formulate strategies to stay competitive and profitable.

On 1 June 2015, pursuant to a notice issued by seven PRC state agencies including the NDRC and the NMPA regarding pharmaceutical price reform, government price controls on pharmaceutical products (other than narcotic drugs and certain psychiatric drugs) were lifted. Since then, prices of most pharmaceutical products, including all of the Group's products, have mainly been determined by market competition through the provincial tendering processes, without price ceilings set by the NDRC. Instead of direct price controls, the

government regulates prices mainly by establishing a consolidated procurement mechanism, revising medical insurance reimbursement standards and strengthening the regulation of medical and pricing practices. The notice also reiterates the policy of establishing transparent, multi-party negotiation mechanisms for the pricing of patented and exclusive drugs. After price ceilings are lifted, the Group and other manufacturers of innovative and/or high-quality pharmaceutical products may be able to command higher prices than would have been allowed under a price-controlled system. The Group expects that this policy change will provide more incentives for manufacturers to develop innovative products, and may encourage more multinational pharmaceutical companies to enter the PRC market. As a result, the Group's products may face greater competition from innovative products. However, as at the date of this Offering Circular, the Group has not faced any significantly greater competition from multinational companies mainly because it can generally price its products at lower levels than most multinational companies for similar versions of drugs due to its cost advantage.

International Sales, Marketing and Distribution

The Group is one of the earliest China-based biotechnology companies to enter the international market. The Group initiated its export business in 2004 through an export company in China. In subsequent years, the Group has worked with local agents in countries in the Middle East, South America and Southeast Asia to expand the Group's international sales. The Group mainly exports TPIAO, Yisaipu, EPIAO, SEPO and certain other products to countries such as Colombia, India, Pakistan, Philippines, Sri Lanka, Thailand, South Korea and People's Republic of Bangladesh, where the relevant products have been registered and therefore are approved to be sold in compliance with local laws and regulations.

The Group plans to increase its international marketing capabilities while continuing to work with local agents to expand the markets where its products are approved for sale.

RESEARCH AND DEVELOPMENT

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

As at 31 December 2019, the Group's R&D team consisting of over 380 experienced scientists is working diligently to research and discover new medicines, to accelerate the progress of clinical developments, and to bring breakthrough therapies to fulfil the unmet medical needs of patients.

Research and Development Process

The Group employs a market-driven approach to its R&D efforts. The Group's experienced research and development team identifies innovative product candidates with significant market potentials, conducts preclinical development and clinical trials, and ultimately commercialises these products. The Group's project committee must review each of the Group's product development projects before its launch. The Group's project committee consists of researchers and executives from various internal departments, including research and development, manufacturing, regulatory affairs, clinical and business development departments. If a development project is approved, a project management team is appointed to supervise the technical progress and the budget of the project.

The research, development and commercialisation of new drugs in China include the following key milestones: discovery and preclinical studies; IND application to the NMPA; Phases I, II and III clinical trials; submission of

new drug application to the NMPA for examination and approval; manufacturing approval by the NMPA; and GMP authorisation by the NMPA.

The Group's discovery and preclinical studies involve the following main steps, which are similar for product candidates developed with each of the Group's three platforms:

- Discovery – The Group identifies and select molecules that have pharmaceutical efficacy and market potential.
- Chemistry, manufacturing and controls (CMC) development – The Group conducts studies including process development and controls, characterisation, specification and stability studies. All these studies are carried out according to regulatory guidelines, aiming to demonstrate that the quality of the product and the manufacturing process meet a sufficiently high standard.
- Pharmacodynamics, pharmacokinetics and toxicology studies – The Group analyses the efficacy and safety of a product candidate on animal subjects to guide the clinical trials that follow.

The Group continues studies of process development and controls throughout the preclinical and clinical stages, up until a product is commercialised. Currently, the Group generally relies on its in-house research and development personnel to conduct preclinical studies on biopharmaceutical candidates, and outsource the preclinical studies on chemical pharmaceutical candidates to contract research organisations.

Four units within the Company carry out the Group's research and development projects:

- Research institute – The Group's research institute specialises in developing mammalian and bacterial cell-based biopharmaceutical products and it is the main unit responsible for its in-house pre-clinical research and development.
- External collaboration department – The Group's external collaboration department focuses primarily on identifying companies with promising chemical pharmaceutical products and mAb therapeutics and it is the main unit responsible for its collaborative preclinical research and development.
- Clinical department – The Group's clinical department is in charge of designing and managing its clinical trials.
- Regulatory affairs department – The Group's regulatory affairs department is in charge of registering its products with the NMPA as well as monitoring its research and development projects to ensure that they are compliant with relevant PRC regulations on the development, registration and commercialisation of pharmaceuticals.

The Group's R&D units and its business development and manufacturing departments closely interact with each other to advance its R&D projects in an efficient and coordinated manner. The Group's clinical department and manufacturing department participate early in the research and development process, which helps the Group to optimise its preclinical design decisions and reduce the likelihood of inefficient development due to unanticipated obstacles in the clinical or manufacturing stages.

The Group's Product Candidates

As at 31 December 2019, the Group had 32 product candidates, covering five major areas, including oncology, autoimmune diseases and other diseases, nephrology, metabolism and dermatology. Among them, 22 are National New Drugs.

As at 31 December 2019, among the 32 product candidates within the Group's active pipeline, 22 were being developed as national new drugs (including registration Class I and Biologics Class II) in the PRC. The Group has 11 product candidates in oncology; 12 product candidates that target autoimmune diseases including RA, and other diseases including refractory gout and ophthalmological diseases such as 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 23 of the 32 product candidates are biologics, and the other nine are small molecules.

The Group is developing a panel of novel biological products, including mAb, bi-specific antibodies and fusion proteins, and a number of small molecule drugs, both innovative and generic, in the areas of oncology, autoimmune and inflammatory diseases, nephrology, metabolic and dermatological diseases.

The graph below sets forth the Group's product pipeline supported by its integrated R&D platform and collaboration with other parties as at 31 December 2019:



The Group focuses its R&D efforts on researching and developing innovative biological products as well as small molecule therapeutics. As at the date of this Offering Circular, the Group has several leading biological products in various stages of clinical development, including 302H (an anti-HER2 antibody to treat metastatic breast cancer), 304R (an anti-CD20 antibody to treat Non-Hodgkin lymphoma and other autoimmune diseases), 301S (the pre-filled aqueous injection solution of Yisaipu), SSS06 (NuPIAO, a second-generation rhEPO to treat anaemia), RD001 (a pegylated long-acting rhEPO to treat anaemia), SSS07 (an anti-TNFα antibody to treat RA and other inflammatory diseases), pegsiticase (a modified pegylated recombinant uricase from candida utilis to treat refractory gout), 601A (an anti-VEGF antibody to treat AMD and other ophthalmological diseases), 602 (an EGFR antibody to treat cancer), 608 (an anti-IL-17A antibody to treat autoimmune and other inflammatory diseases), 609A (an anti-PD1 antibody to treat cancer) and 610 (an anti-IL-5 antibody to treat severe asthma). On the small molecule side, the Group is initiating clinical trials of two innovative products: nalfurafine hydrochloride (TRK-820, a highly selective kappa receptor agonist) to treat pruritus in haemodialysis patients and HIF-117 capsule (SSS17, a selective small molecule inhibitor to hypoxia inducible factor proline hydroxylase) to treat anaemia. In addition, the Group has been performing bio-equivalency studies of a number of generic small molecule products in the field of nephrology, autoimmune and dermatological diseases.

MANUFACTURING

The Group manufactures biopharmaceuticals at the Group's production facilities in Shenyang, Shanghai, Shenzhen and Hangzhou in the PRC, and Como in Italy. The Group generally manufactures its products based on

quarterly order forecasts and anticipated additional orders that the Group is reasonably confident will be obtained. Lead times for raw materials and components vary and depend on the specific supplier and the availability and demand for the raw materials. The Group expects that its existing manufacturing facilities and outside sources will allow it to meet manufacturing needs for its biopharmaceuticals and product candidates that are in clinical trials in the near future.

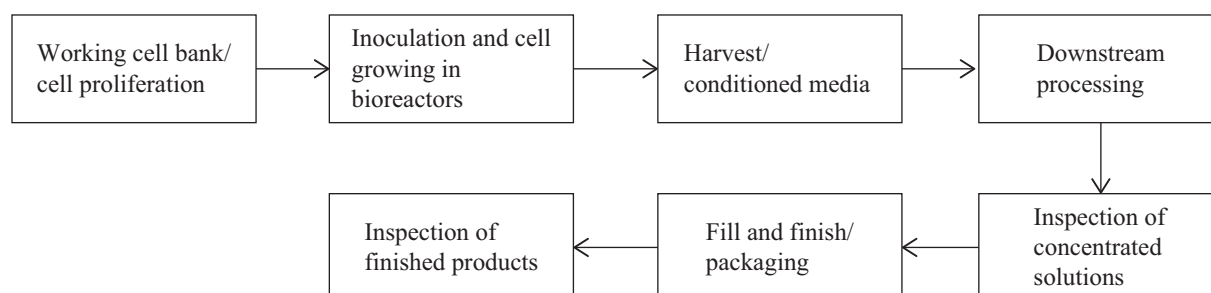
The table below sets forth the details of the Group's main facilities located in the PRC and overseas as at 31 December 2019:

<u>Location</u>	<u>Main Products</u>	<u>Certification/Certifying Institution</u>
China		
Shenyang, Liaoning	EPIAO and TPIAO	Chinese GMP by the NMPA
Shanghai	Yisaipu	Chinese GMP by the NMPA
Shenzhen, Guangdong	SEPO and Sparin	Chinese GMP by the NMPA
Hangzhou, Zhejiang	Qiming Keli	Chinese GMP by the NMPA
Overseas		
Como, Italy	Injectable pharmaceutical products	GMP by the Italian Medicines Agency

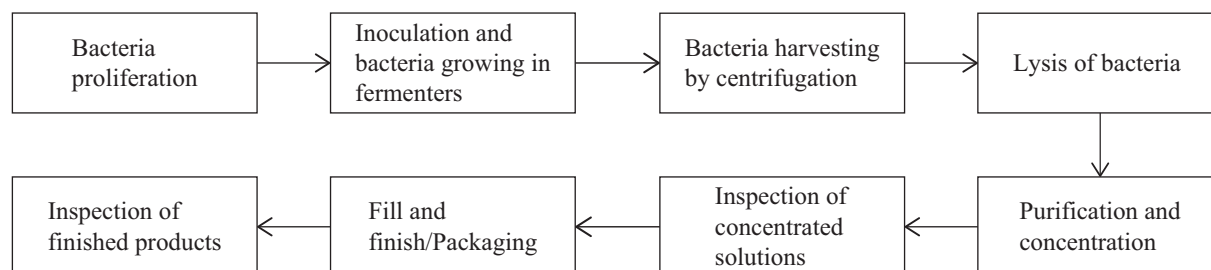
The Group believes that its facilities and equipment are in good working condition. The Group has devoted significant efforts to continually improve its production efficiency.

Manufacturing Process

The following diagram summarises the manufacturing process for the Group's mammalian cell-based product lines:



The following diagram summarises the production process for the Group's bacterial cell-based product lines:



Quality Control and Assurance

As at 31 December 2019, the Group's quality control team consisted of 276 dedicated employees, of whom 20 held master's or higher degrees. As at 31 December 2019, the Group's quality control team members on average had over 5 years of industry experience.

The Group has its own independent quality control system and devotes significant attention to the quality control of the design, manufacturing and testing of the Group's products. The Group's stringent product quality control starts at the research and development stage. Highly educated and skilled technicians operate the Group's laboratories to ensure the quality of all released batches of its products. The Group has established detailed quality control procedures guiding its internal production and external purchase of drugs and other materials used in its research experiments. To ensure high product quality, the Group has implemented a "quality-by-design" approach pursuant to which manufacturing processes are designed during the product development stage and quality control processes are continually monitored.

The Group has established detailed internal rules governing the selection of raw material suppliers and raw material quality control. The Group purchases raw materials only from suppliers with verified business qualifications and product quality. The Group selects suppliers based on a variety of factors including qualifications, business reputation, production scale, technological strengths, quality management capabilities, after-sales services and price. After initial screening by its procurement department, the Group requests product samples from a supplier to be examined by its quality control team, whose report provides an important basis for its supplier selection decisions. In addition, the Group classifies its raw materials into three categories in terms of their importance for its production. For the most important category of raw materials, the Group conducts at least one on-site quality audit at the manufacturer's production facilities and the Group requires the distributor or the manufacturer to execute a quality guarantee agreement with it.

The Group's quality control team is responsible for ensuring that its manufacturing processes consistently conform to GMP standards. The Group has specific operating rules for production areas with varying degrees of cleanliness requirements. After completion of each production process, the Group performs cleaning procedures to prevent contamination, and the quality control team verifies that the production line has been properly cleaned before the Group proceeds to the next production process. All of the Group's cleaning procedures have been tested before their implementation. The Group has established a comprehensive set of standard operating procedures governing various aspects of production, such as factory cleaning, water purification and waste disposal.

Before the Group delivers its final products to customers, its quality assurance team conducts quality assessment of each batch of products to ensure that they have been produced in accordance with applicable GMP requirements and approved production processes. Authorised quality personnel inspects the documentation relating to the quality of a product, including its batch records, laboratory control records, production process records and other information that may impact product quality to confirm that all necessary examinations have been conducted with satisfactory results. Only the final products that have fulfilled all testing requirements can be released and sold to the market.

Product Returns and Warranty

Consistent with customary industry practice in the PRC, the Group generally does not allow product returns or exchanges by its distributors unless specifically provided in its sales agreements. The Group's distributors are required to inspect the products on delivery, and must notify the Group and obtain the Group's written consent before damaged products can be returned or exchanged. Unilateral returns by a distributor without the Group's prior consent may result in downgrade of its credit rating and credit terms. The Group did not record any product returns in 2017, 2018 and 2019.

The Group's Suppliers

The Group's suppliers mainly include suppliers of raw materials and packaging materials, as well as manufacturers of its in-licensed products. In 2017, 2018 and 2019, the Group's five largest suppliers accounted,

in aggregate, for 57.9%, 38.7% and 37.6%, respectively, of its total purchases, and the Group's largest supplier accounted for 37.8%, 9.9% and 14.2%, respectively, of its total purchases.

Raw materials and supplies required for the manufacture of the Group's products include, among others, cell growth medium, foetal bovine serum and chromatography resins and columns. Packaging materials required for the manufacture of the Group's products include, among others, syringes, glass vials and boxes. These raw materials and packaging materials are generally available from various suppliers in quantities adequate to meet the Group's needs. The Group internally develops and produces cell lines and solutions for the production of its biopharmaceuticals. The Group primarily sources its raw materials from a variety of international suppliers through their local distributors. The Group does not anticipate any significant fluctuations in price or any significant disruptions in the supply of its raw materials in the near future. It is the Group's current belief that the costs for switching its suppliers will not be high because alternative suppliers are readily available.

The Group carefully selects its suppliers based on various factors, including their product selection, quality, reputation and business scale. Shipping costs are generally borne by the Group's suppliers. The Group is typically granted credit terms of 30 to 90 days. To manage the prices of the Group's raw materials and other supplies, from time to time the Group arranges with its suppliers to reduce prices in exchange for shorter credit terms. The Group's suppliers are not responsible for any quality defects in the products the Group manufactures unless the defects are directly caused by the bad quality of the raw materials supplied. Under the Group's standard supplier contract, the Group has a right to return or exchange products if quality issues are discovered during inspection or use of the products.

The Group has not experienced any disruptions in the supply of these raw materials in the past. The Group does not need NMPA approval to change suppliers. In the event that any one of these supply arrangements or agreements is terminated or the ability of any one of these suppliers to perform under the Group's agreements were to be materially adversely affected, the Group believes that it will be able to locate, qualify and enter into an agreement with a new supplier on a timely basis. The Group maintains long-term relationships with most of its suppliers and places orders from these suppliers on an as-needed basis.

Inventory Management

The Group's inventory primarily consists of finished products, work in progress, raw materials, active pharmaceutical ingredients, excipients and packaging materials. The Group has established an inventory management system that monitors each stage of the warehousing process. Warehousing personnel are responsible for the inspection, storage and distribution of production materials and finished products. All materials and products are stored in different areas in warehouses according to their storage condition requirement, properties, usage and batch number. Warehousing personnel regularly check to ensure consistency among the raw material or product, logbook and material card.

COMPETITION

The Group faces competition from both biotechnology and chemical pharmaceutical companies. The Group competes primarily on the basis of managerial and technological expertise, brand recognition, academic promotion activities and the ability to identify and market commercially viable products. Other factors affecting the Group's competitive position include pricing, reimbursement, time to market, patent position, product efficacy, safety, reliability and availability.

As a result of the Group's long history as a provider of high-quality protein-based therapeutics to the Chinese market and the Group's long-term efforts made to build up strong relationships with hospitals, medical

professionals and patients, the Group believes its Shenyang Sunshine brand is widely recognised throughout the PRC medical community for quality and reliability, particularly in the areas of nephrology and oncology. Furthermore, the Group believes it is well positioned to compete in the fast-developing Chinese biotechnology market with its diverse product portfolio, proven research and development capabilities, established sales and marketing network, proprietary manufacturing processes and efficient cost structure. For example, in terms of quality, EPIAO follows the EU standard. In addition, the Group's production platform has one of the longest track records in China (18 years with recombinant proteins and over ten years with monoclonal antibodies).

The identities of the Group's key competitors vary by product. Although the Group's core products are currently leading products in their respective markets based on sales value and market share, it is still possible that the Group's competitors will successfully develop, acquire or in-licence products contending market leadership. For any of the Group's products, the Group's competitors, including foreign pharmaceutical companies and large state-owned pharmaceutical companies, may compete with products that are better recognised for certain indications or more accepted in the medical profession.

LAND AND PROPERTIES

As at 31 December 2019, the Group held approximately 176,400 square metres in the PRC and overseas for production facilities, laboratories, offices and dormitories. The Group also leased approximately 6,500 square metres in Shanghai and Hangzhou in China for offices as at 31 December 2019. As at 31 December 2019, none of the properties held or leased by the Group had a carrying amount of 15% or more of the Group's consolidated total assets. The Group believes that its existing facilities are adequate for its current requirements, and the Group believes that additional space can be obtained on commercially reasonable terms to meet its future requirements. The Group does not anticipate any difficulty in renewing its leases upon their expiration.

INTELLECTUAL PROPERTY

The Group has acquired intellectual property in and outside China and may seek additional patents to protect its innovations in the future.

As at 31 December 2019, the Group had been granted 93 patents in the PRC, six patents in the United States, four patents in Japan, one patent in Europe and one patent in Hong Kong. As at 31 December 2019, the Group also had 59 pending patent applications in China and 10 patent applications in other countries.

As at 31 December 2019, the Group owned 121 registered trademarks in the PRC, three registered trademarks in Colombia and 15 registered trademarks in Hong Kong. As at 31 December 2019, the Group also had six pending trademark applications in China.

The Group relies on trade secrets, proprietary know-how and continuing technological innovation to develop and maintain a competitive position for the Group's products. Our intellectual property department is designated to manage the intellectual property of the Group, including the application for and maintenance of the registration of patents, trademarks and copyrights as well as the protection thereof. The Group generally requires its employees, consultants and advisors to enter into confidentiality agreements. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with the Group be kept confidential and not disclosed to third parties except under specific circumstances. In the case of the Group's employees, the agreements provide that all of the technology conceived by the individual during the course of employment is the Group's exclusive intellectual property. Further, as a matter of company policy, all scientific and technical employees enter into agreements that generally require disclosure and assignment to the Group of ideas, developments, discoveries and inventions made by them that relate to their employment with the Group.

The Group also follows procedures to ensure that the Group does not infringe on the intellectual property rights of others. As at the date of this Offering Circular, the Group had not been involved in any significant intellectual property disputes or encountered major difficulties in enforcing its intellectual property rights in the PRC.

EMPLOYEES

As at 31 December 2019, the Group had a total of 5,404 employees, among which 2,783 employees held bachelor's or higher degrees, representing approximately 51.5% of its total employees. The Group believes that its success will depend in part on its ability to attract, recruit and retain quality employees. To maintain the quality, knowledge and skill levels of its workforce, the Group provides its employees with periodic training, including introductory training for new employees, technical training, professional and management training and health and safety training. The Group provides its sales and marketing team with extensive training.

The Group enters into individual employment contracts with its employees to cover matters such as wages, benefits and grounds for termination. The Group generally formulates its employees' remuneration packages to include salary, bonus and allowance elements. The Group's compensation programmes are designed to remunerate its employees based on their performance, measured against specified objective criteria. The Group also provides its employees with welfare benefits in accordance with applicable regulations and its internal policies.

In order to recognise the contributions of certain employees and to motivate and give incentives to its employees, the Company adopted a share award scheme (the **"Share Award Scheme"**) on 16 July 2019. The Share Award Scheme shall be valid and effective for a term of ten years commencing on the adoption date. On 16 July 2019, the Company resolved to grant a maximum of 10,000,000 awarded shares (the **"Awarded Shares"**) to 37 employees of the Group, subject to vesting conditions, pursuant to the terms of the Share Award Scheme. Pursuant to the Share Award Scheme, the Awarded Shares shall be issued in two tranches: (i) a maximum 5,000,000 Awarded Shares in 2019; and (ii) a maximum 5,000,000 Awarded Shares in 2020.

As part of the Group's initiatives to incentivise the performance of its directors, senior management and employees, Sunshine Guojian adopted the ESOP on 19 June 2019. Pursuant to the ESOP, the award shares were granted and allotted to selected participants comprising Dr Lou, Ms Su and other directors, supervisors, and employees of the Group.

The Group has established an employee association that represents employees with respect to the promulgation of by-laws and internal protocols. Such employee association may represent employees for the purpose of collective bargaining. The Group believes that it maintains a good working relationship with its employees.

In accordance with applicable regulations in the PRC, the Group participates in a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a personal injury insurance plan as well as housing fund contributions for its employees.

INSURANCE

The Group maintains insurance policies for all of its properties, manufacturing facilities, plant and machinery, equipment and inventories against damage caused by accidents. The Group also maintains various insurances in relation to its export business, such as export credit insurance and international cargo insurance. Under PRC laws and regulations, the Group is not required to, and the Group does not, maintain any insurance in relation to its

business operations, such as business interruption insurance, or product liability insurance against claims or liabilities that may arise from products that the Group has sold. The Group believes that its insurance coverage is in line with industry practice in the PRC. The Group did not experience any material industrial accidents in 2017, 2018 and 2019.

HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION

Health and Occupational Safety

The Group is subject to various PRC laws and regulations in respect of health and occupational safety. The Group has adopted and maintained a series of rules, standard operating procedures and measures to maintain a healthy and safe environment for its employees, including those required under the GMP certification. The Group constructs and maintains all of its production facilities in accordance with the GMP certification. It carefully designs its production facilities to ensure the safe storage and handling of flammable or corrosive materials used in its manufacturing process, mainly including ethanol, acetonitrile, caustic soda, hydrochloric acid and liquefied petroleum gas. The Group requires new employees to participate in safety training to familiarise themselves with the relevant safety rules and procedures.

Additionally, the Group appoints qualified consulting firms to conduct on-site safety assessments and hazard identification, which helps to enhance its overall health and safety management effectiveness.

As at the date of this Offering Circular, the Group had not experienced any material accidents in the course of its operation and its Directors were not aware of any claims for personal or property damages in connection with health and occupational safety.

Environmental Protection

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

The Group has established detailed internal rules regarding environmental protection. The Group tests effluent water to ensure compliance with national emission standards. Solid waste is sorted for proper disposal.

Hazardous waste is sent to qualified third parties for treatment. When a new construction project is proposed, the Group conducts comprehensive analysis and testing on the environmental issues involved in the manufacturing processes. The Group's production team and in-house legal department are primarily responsible for ensuring its compliance with applicable environmental rules and regulations. In 2017, 2018 and 2019, the Group did not incur any additional costs specifically attributable to environmental compliance. All the Group's property, plant and equipment meet the standards required for compliance with applicable environmental rules and regulations, and the Group believes it has maintained good relationship with the communities surrounding its production facilities.

As at the date of this Offering Circular, the Group believes it had complied with all applicable laws and regulations relating to production safety and environmental requirements, in all material respects.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

Any internal control defects identified by the internal audit department will be communicated to the department in question with advice for correction and remediation. Before the end of the year, the status will be reviewed. The compliance department will also assist in the correction and remediation. The management will be informed of any unresolved control defects at the end of the year. For the year ended 31 December 2019, no material internal control defect was detected.

The audit committee reviews the Company's material controls, including financial, operational and compliance controls, and risk management and internal control systems at least annually. During the year ended 31 December 2019, the audit committee conducted a review of the effectiveness of the risk management and internal control systems of the Group, including the above-mentioned material controls. The review covered various aspects of the Group's risk management and internal control systems. In the review, the audit committee reviewed the report from the management and the findings and recommendations from the internal audit department. The review results were reported to the Board. The Board is satisfied that such systems are effective and adequate.

The Group has also adopted an information disclosure policy that sets out comprehensive guidelines in respect of handling and dissemination of inside information. The Board is entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy and release of inside information. Unless duly authorised, all members of the Company are prohibited from disseminating inside information relating to the Group to any external parties or responding to media reports or market speculation that may materially affect the trading price or volume of the Shares.

LICENCES AND PERMITS

As a China-based company developing, manufacturing, marketing and selling pharmaceutical products, the Group is subject to regular inspections, examinations and audits and is required to maintain or renew the

necessary permits, licences and certifications for its business. As at the date of this Offering Circular, the Group had obtained all requisite licences, approvals and permits from the relevant government authorities that are material for its business operations in the PRC, and there was no material legal impediment to renew such licences, approvals and permits.

LEGAL PROCEEDINGS AND COMPLIANCE

The Group may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of its business. As at the date of this Offering Circular, except as disclosed below, the Group is not a party to, and the Group is not aware of any threat of, any legal, arbitral or administrative proceeding that, in the opinion of its Directors, is likely to have a material and adverse effect on its business, financial condition or results of operations, nor has the Group experienced any incident of non-compliance which, in the opinion of its Directors, is likely to materially and adversely affect its business, financial condition or results of operations. As at the date of this Offering Circular, none of the Group's Directors or senior management was involved in any material litigation, arbitration or administrative proceeding.

On 9 March 2020, the Company commenced legal proceedings against a candidate for the position of chief financial officer in relation to a dispute over his potential engagement by the Company on grounds of, among other things, invalidity or rescission of contract and misrepresentations. Subsequently, on 8 May 2020, the candidate commenced legal proceedings against the Company on the grounds that certain statements made in the Company's announcements in relation to the dispute are defamatory. The Company will defend vigorously in such legal proceedings and the Board does not consider such proceedings against the Company would have any significant adverse impact on the business operations and/or financial position of the Group. As at the date of this Offering Circular, the proceedings were ongoing. Please refer to the Company's announcements from time to time for any update on the progress of these legal proceedings that are available on the HKSE's website at <http://www.hkex.com.hk> and the investors relations section of the Company's website at www.3sbio.com.

DIRECTORS AND SENIOR MANAGEMENT

The table below sets out the roles of the Directors and senior management in the Group as at the date of this Offering Circular:

<u>Name</u>	<u>Roles in the Group</u>
Dr LOU Jing	Executive Director, president, chairman of the Board and chief executive officer of the Company
Ms SU Dongmei	Executive Director and senior vice president of the Company
Mr HUANG Bin	Non-executive Director and a vice president of Shenyang Sunshine
Mr TANG Ke	Non-executive Director
Mr PU Tianruo	Independent non-executive Director
Mr David Ross PARKINSON	Independent non-executive Director
Dr WONG Lap Yan	Independent non-executive Director
Dr ZHU Zhenping	Former president of R&D and chief scientific officer of the Company (resigned in September 2019) and existing president of R&D of Sunshine Guojian since June 2019
Mr XIAO Weihong	Former chief operating officer of the Company (resigned in September 2019) and existing general manager of Sunshine Guojian since June 2019
Mr CHEN Yongfu	Vice president of the Company, in charge of administration, compliance and internal control and existing non-executive Director of Sunshine Guojian since June 2019
Ms LIU Yanli	Former joint company secretary of the Company (resigned in September 2019 and ceased to be a joint company secretary of the Company with effect from October 2019) and existing vice general manager and secretary to the board of directors of Sunshine Guojian since June 2019
Mr WANG Fei	Chief financial officer of the Company (appointed on 15 April 2020)

Executive Directors

Dr LOU Jing, aged 57, was appointed as a Director on 5 September 2006 and was re-designated as an executive Director on 27 November 2014. He was appointed as the chairman of the Board on 1 April 2012. Dr Lou is also the chief executive officer of the Company. He is responsible for Group's strategic development and planning, overall operational management and major decision making of the Group. He is a co-founder of the Group and joined Shenyang Sunshine as a director of the research and development department in September 1995.

Dr Lou also holds the following positions with other members of the Group: (1) director and chairman of the board of Collected Mind; (2) director of Hongkong Sansheng; (3) director of Excel Partner; (4) director of Ample Harvest; (5) director, chief executive officer and president of Shenyang Sunshine and chairman of the board of Shenyang Sunshine; (6) director and general manager of Liaoning Sunshine; (7) director and chairman of the board of Taizhou Huan Sheng Investment; (8) executive director of Shenzhen Baishitong; (9) chairman of the board of Sciprogen; (10) chairman of the board of Guangdong Sciprogen; (11) chairman of the board of Guangdong Sunshine Pharmaceutical Co., Ltd.; (12) director of Gains Prestige; (13) director of the Issuer; (14) director and chairman of the board of Sunshine Guojian; and (15) director and chairman of the board of Xing Sheng.

Dr Lou has been highly active in pharmaceutical research and has made substantial contributions to the Group's research and development of pharmaceutical products. Dr Lou was the leading scientist and principal investigator

in the Group's successful development of EPIAO and TPIAO. He co-invented a "preparation process for recombinant human thrombopoietin" and a "method for improving the stability of polypeptides in human bodies and its application" in 2000 and 2001, respectively. He has published in a number of academic journals on microbiology and medicinal biotechnology. His research has been recognised with various awards. In 2006, he was awarded the "Shenyang Science and Technology Progress Award" (瀋陽市科舉技術進步一等獎) for his research on recombinant human thrombopoietin. In 2007, he was awarded the "Liaoning Province Scientific and Technological Achievements Prize" (遼寧省科技成果轉化三等獎) for his contribution to the industrialisation of production of recombinant human thrombopoietin. Dr Lou was selected as a member of the prestigious national programme "the Recruitment Programme of Global Experts", which is also known as the "Thousand Talents Programme", in March 2013. In 2017, he was named "Liaoning Province Outstanding Entrepreneur" (遼寧省優秀企業家) in the 2017 Outstanding Entrepreneur Commendation Conference by the Liaoning Provincial Party of the Communist Party of China and the People's Government of Liaoning Province, and was awarded with "Friendship Award of Liaoning Province" (遼寧友誼獎) by the People's Government of Liaoning Province. Dr Lou obtained a Medical Doctor degree (M.D.) in clinical medicine from Shanghai Second Military Medical University in July 1985. He conducted post-doctoral research at the National Institutes of Health of the United States after obtaining a PhD in molecular and cell biology from Fordham University in the United States in February 1994. He also obtained an Executive Master of Business Administration from China Europe International Business School (中歐國際工商學院) in September 2008.

Ms SU Dongmei, aged 50, was appointed as a Director on 11 June 2012 and was re-designated as an executive Director on 27 November 2014. Ms Su is also the Company's senior vice president and the general manager of Shenyang Sunshine. She is responsible for strategic direction of the Group. Ms Su joined Shenyang Sunshine as a scientist of the research and development department in January 1993, and served as a director of the research and development department from 1997 to 2006. She subsequently served as the chief technology officer responsible for research and development and manufacturing process engineering of Shenyang Sunshine from 2006 to 2008. Ms Su was promoted to vice president of Shenyang Sunshine in April 2008. Ms Su served as a director of Shenyang Sunshine from August 2007 to June 2013, and was re-appointed on 18 July 2016. She also served as a director of Hongkong Sansheng from November 2009 to November 2014.

Ms Su also holds the following positions with other members of the Group: (1) senior vice president and general manager of Shenyang Sunshine; (2) supervisor of Liaoning Sunshine; (3) director of Sciprogen; (4) director of Guangdong Sciprogen; (5) director of Guangdong Sunshine Pharmaceutical Co., Ltd.; and (6) director of the Issuer.

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

Non-executive Directors

Mr HUANG Bin, aged 59, was first appointed as a Director on 5 September 2006 and ceased to be a Director on 29 May 2013. Mr Huang was re-appointed as an executive Director on 27 November 2014 and was re-designated as a non-executive Director on 20 June 2019. Mr Huang joined Shenyang Sunshine in 1993 as a manager of the human resources department.

Mr Huang also holds the following positions (in a non-executive capacity) with other members of the Group: (1) director and vice president of Shenyang Sunshine; and (2) director and general manager of Taizhou Huan Sheng Investment.

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

Mr TANG Ke, aged 40, was appointed as a non-executive Director on 10 February 2020. He has more than 15 years of work experience in the investment sector. Mr Tang joined CITIC Private Equity Funds Management Co., Ltd (中信產業投資基金管理有限公司, “CITIC PE”) in 2013 and had held various positions, including vice President and managing director, before he became in charge of the investment department of the healthcare sector at CITIC PE. Mr Tang has substantial experience in corporate investment, strategic planning, capital operation and corporate management. Mr Tang served as an Associate and Executive Director at the investment banking division of Goldman Sachs Gao Hua from 2008 to 2011 and later served as an Investment Manager at the Principal Investment Department of Goldman Sachs Group from 2012 to 2013.

He was also a director in BeiGene, Ltd. (a listed company on NASDAQ at the time when he was a director which has been dually listed on NASDAQ and the Stock Exchange since 2018) from 2014 to 2017 and Biosensors International Group, Ltd. (a company formerly listed on Singapore Exchange Securities Trading Limited which was subsequently delisted in 2016) from 2016 to 2018. Mr Tang also serves as a director of Bluesail Medical Co., Ltd. (藍帆醫療股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 002382) and Shanghai Hanyu Medical Technology Co., Ltd. (上海捍宇醫療科技有限公司), and as the chairman of the board of directors of Spectrum Dynamics Medical Group Limited, JW ICU Medical LTD. (威海吉威重症醫療製品有限公司), a subsidiary of Biosensors International Pte Ltd., Beijing EverLife Healthcare Hospital Management Company Limited (北京長生眾康醫院管理有限公司) and Acotec Scientific Co. Ltd (北京先瑞達醫療科技有限公司), respectively.

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

Independent Non-executive Directors

Mr PU Tianruo, aged 52, was appointed as an independent non-executive Director on 23 May 2015, with such appointment taking effect on 1 June 2015. He is responsible for participating in decision-making and advising on issues relating to the Company’s significant events and corporate governance. Previously, he served as an independent Director and the audit committee chair of the Company from 1 September 2012 to 29 May 2013.

Mr Pu has substantial experience in accounting and finance. He has served as an independent non-executive director of several companies, including Autohome Inc. (a company listed on the NYSE with symbol ATHM) since December 2016, and Renren Inc. (a company listed on the NYSE with symbol RENN) since December 2016, Kaixin Auto (a company listed on the NASDAQ with symbol KXIN), One Connect Financial Technology (a company listed on the NYSE with symbol OCFT) since December 2019, and Luckin Coffee (a company listed on the NASDAQ with symbol LK). Mr Pu was previously the independent non-executive director of JMU Limited (a company listed on the NASDAQ with symbol JMU) and the chief financial officer of Zhaopin Ltd. (a company listed on the NYSE with symbol ZPIN). Mr Pu obtained a Bachelor’s degree in English from China Foreign Affairs University (外交學院) in July 1991, a Master’s degree in Accounting from the University of Illinois, College of Business Administration in May 1996 and a Master of Business Administration degree from Northwestern University Kellogg School of Management in June 2000.

Mr David Ross PARKINSON, aged 70, was appointed as an independent non-executive Director on 23 May 2015, with such appointment taking effect on 1 June 2015. He is responsible for participating in decision-making and advising on issues relating to the Company’s significant events and corporate governance.

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

Dr WONG Lap Yan, aged 49, was appointed as an independent non-executive Director on 8 October 2019. He is a Chartered Biologist and Fellow of the Royal Society of Biology and a Chartered Scientist of the Science Council of the United Kingdom. Dr Wong has over 20 years of work experience with various highly respected healthcare and biopharmaceutical companies, genetic services providers and academia in biology, including conducting antibody cancer research in translational oncology at Genentech Inc. (formerly listed on NYSE: DNA and now a subsidiary of Roche), research in pharmacokinetics and drug metabolism at Amgen Inc. (listed on NASDAQ: AMGN) and pharmaceutical research at SRI International (a scientific research institute established by the trustees of Stanford University) in the United States. His research work has contributed to the discovery, research and development of cancer target therapy drugs, including Bevacizumab (Avastin) and Vemurafenib (Zelboraf), which are medication used to treat different types of cancers and specific eye diseases. He has published numerous medical research articles and abstracts in journals on different topics, including cancer and nutritional science, which have been cited extensively by peer scientists and researchers.

Dr Wong has also served as a Postdoctoral Fellow at the Faculty of Medicine at The University of Hong Kong and as a chief executive officer of a biotechnology company in Hong Kong. Dr Wong is now the chief scientific officer and principal scientist of Alom Intelligence Limited that offers deep learning technology and analytical solutions relating to healthcare and financial data, and a director and founder of Cannan Biotech Limited that offers personal genetic technology consultancy services.

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

Senior Management

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

Dr ZHU Zhenping (朱禎平), aged 55, had been the president of R&D and chief scientific officer of the Company from January 2017 to September 2019. Due to the proposed listing of Sunshine Guojian, Dr Zhu was appointed as the president of R&D in Sunshine Guojian in June 2019, and resigned from his positions as the president of R&D and chief scientific officer of the Company in September 2019. Prior to joining the Company

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

Mr XIAO Weihong (肖衛紅), aged 51, had been the chief operating officer of the Company from March 2016 to September 2019. Due to the proposed listing of Sunshine Guojian, Mr Xiao was appointed as the general manager of Sunshine Guojian in June 2019, and resigned from his position as the chief operating officer of the Company in September 2019. Prior to joining the Company in March 2016, Mr Xiao served as the chief executive officer of Hisun-Pfizer Pharmaceutical Co. Ltd. (海正輝瑞製藥有限公司), from 2012 to 2015, where he oversaw the strategy and operations. From 2007 to 2012, Mr. Xiao served as a general manager of commercial and diversified business unit of Pfizer China. Mr Xiao worked in Pfizer China's human resources department from 1999 to 2007 and served as the human resources director of Pfizer China from 2004 to 2007. Mr Xiao graduated from the University of International Business & Economics with a Bachelor of Economics degree in 1991. He is currently a vice president of the Chinese Pharmaceutical Enterprises Association.

Mr CHEN Yongfu (陳永富), aged 63, is a vice president of the Company, and has been in charge of administration and construction of the Group since 2018. Previously, he was also responsible for compliance and internal control. Due to the proposed listing of Sunshine Guojian, Mr Chen was appointed as a non-executive director of Sunshine Guojian in June 2019. Mr Chen has also served as a director of Hongkong Sansheng since November 2014. Mr Chen had served as a financial manager of Shenyang Sunshine from March 2003 to November 2010. Mr Chen obtained a Bachelor's degree in Engineering and Accounting from Liaoning University (遼寧大學) in July 1983.

Ms LIU Yanli (劉彥麗), aged 39, was the joint company secretary of the Company from April 2016 to October 2019, and was responsible for overseeing capital market, corporate governance, legal and public relation matters of the Group. Due to the proposed listing of Sunshine Guojian, Ms Liu was appointed as the vice general manager and secretary to the board of directors of Sunshine Guojian in June 2019, and resigned from her position as the joint company secretary of the Company in September 2019 (with effect from October 2019). Ms Liu has served as a director of Hongkong Sansheng since November 2014, and as the supervisor of Sciprogen since December 2014. She also served as the supervisor of Shenzhen Baishitong from December 2014 to September 2019, and as the supervisor of Guangdong Sciprogen from December 2014 to August 2019. She served as a director of Sirton from January 2015 to November 2018. Ms Liu joined Shenyang Sunshine as an international drug registration representative in January 2007. Ms Liu served as an assistant to the chief executive officer and a project manager of foreign drug registration of Shenyang Sunshine from 2008 to 2011. Ms Liu was responsible for various roles in the Hong Kong initial public offering of the Company. Ms Liu obtained a Bachelor's degree in Biochemistry and Master's degree in Chemistry with Entrepreneurship from the University of Nottingham in July 2004 and December 2006, respectively.

Mr WANG Fei (王飛), aged 42, is a chief financial officer of the Company appointed on 15 April 2020 and is in charge of finance and accounting, managing and supervising financial reporting, and carrying out investment and finance activities, as well as handling investor relations matters of the Group. Mr Wang is a certified public accountant in the PRC. He has over 20 years of experience in auditing, accounting and finance management. With his wealth of experience in finance management, investment and financing of foreign enterprises and private enterprises, he has both an international outlook and local experience in performing the onshore work. He served as an executive director and a chief financial officer of a Hong Kong listed company. Before joining the Company, Mr Wang worked in a pharmaceutical company, AstraZeneca, as the chief financial officer of its China operation from January 2011 to October 2015 and as the director of finance of its respiration, immunology and inflammation department from January 2020 to April 2020. In 1999, Mr Wang graduated from Xinjiang University of Finance and Economics and obtained a bachelor's degree in management. He obtained a master's degree in 2012 from Shanghai Jiao Tong University and Euromed Marseille Ecole de Management (now known as KEDGE), majoring in business administration.

TERMS AND CONDITIONS OF THE BONDS

The following, subject to completion and amendment, and save for the paragraphs in italics, is the text of the Terms and Conditions of the Bonds which will appear on the reverse of each definitive Certificate evidencing the Bonds:

The issue of the €320,000,000 aggregate principal amount of zero coupon guaranteed convertible bonds due 2025 (the “**Bonds**”, which term shall include, unless the context requires otherwise, any further bonds issued in accordance with Condition 17 and consolidated and forming a single series therewith) of Strategic International Group Limited (the “**Issuer**”) was authorised by the Board of Directors of the Issuer on 17 June 2020 and the Guarantee (as defined in Condition 2(B)) of the Bonds given by 3SBio Inc. (the “**Guarantor**”) and the right of conversion into Shares (as defined in Condition 6(A)(iv)) was authorised by the Board of Directors of the Guarantor on 17 June 2020. The Bonds are constituted by the trust deed, as amended or supplemented from time to time (the “**Trust Deed**”) dated 29 June 2020 (the “**Issue Date**”) between the Issuer, the Guarantor and DB Trustees (Hong Kong) Limited (the “**Trustee**”, which expression, where the context so permits, shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Bonds. These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. The Bondholders (as defined below) are entitled to the benefit of, and are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the agency agreement dated 29 June 2020 (the “**Agency Agreement**”) relating to the Bonds between the Issuer, the Guarantor, the Trustee, Deutsche Bank AG, Hong Kong Branch, as principal paying agent and principal conversion agent (collectively, the “**Principal Agent**”), registrar (the “**Registrar**”) and as transfer agent (the “**Transfer Agent**”) and the other paying agents, conversion agents and transfer agents appointed under it (each a “**Paying Agent**”, a “**Conversion Agent**”, a “**Transfer Agent**” and, together with the Registrar, the Transfer Agent and the Principal Agent, the “**Agents**”, which expressions shall include, where the context so permits, their successors and all persons for the time being Agents under the Agency Agreement) relating to the Bonds. References to the “**Principal Agent**”, the “**Registrar**”, the “**Transfer Agent**” and “**Agents**” below are references to the principal agent, the registrar, the transfer agent and the agents for the time being for the Bonds.

Copies of the Trust Deed and of the Agency Agreement are available for inspection at all reasonable times during usual business hours (being between 9:00 a.m. and 5:00 p.m.) at the principal office for the time being of the Trustee (presently at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified offices for the time being of each of the Agents, in any such case following reasonable prior written request and proof of holding and identity to the satisfaction of the Trustee or, as the case may be, the Agent.

Unless otherwise defined, terms used in these Conditions have the meanings specified in the Trust Deed. In these Conditions, “**Bondholder**” and (in relation to a Bond) “**holder**” mean the person in whose name a Bond is registered.

1. Form, Denomination and Title

(A) *Form and Denomination*

The Bonds are in registered form in the denomination of €100,000 and integral multiples of €1,000 in excess thereof (each, an “**Authorised Denomination**”). A bond certificate (each a “**Certificate**”) will be issued to each Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders (the “**Register**”) which the Issuer will procure to be kept by the Registrar.

*Upon issue, the Bonds will be represented by a global certificate (the “**Global Certificate**”) registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV (“**Euroclear**”) or Clearstream Banking, S.A. (“**Clearstream**”). The Conditions are modified by certain provisions contained in the Global Certificate. See the section of the Offering Circular captioned “The Global Certificate”.*

Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.

(B) Title

Title to the Bonds will pass only by transfer and registration in the Register as described in Condition 3. The holder of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

2. Status and Guarantee

(A) Status

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4(A)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4(A), at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

(B) Guarantee

The due payment of all sums expressed to be payable by the Issuer and the due performance by the Issuer of its obligations under the Trust Deed and the Bonds have been unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor in that respect (the “**Guarantee**”) are contained in the Trust Deed. The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4(A), at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

3. Transfers of Bonds; Issue of Certificates

(A) Register

The Issuer will cause the Register to be kept at the specified office of the Registrar outside the United Kingdom in accordance with the terms of the Agency Agreement on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of the Bonds. Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

(B) Transfer

The Bonds may, subject to Conditions 3(E) and 3(F) and the terms of the Agency Agreement, be transferred in whole or in part in an Authorised Denomination (and where not all of the Bonds held by the holder are being

transferred, the principal amount of the Bonds not so transferred, shall be an Authorised Denomination) by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of either the Registrar or any of the Transfer Agents, together with such evidence as the Registrar or such Transfer Agent may require to prove the title and identity of the transferor and the authority of the individuals who have executed such form of transfer. In the case of a transfer of only part of a holding of Bonds (being that of one or more Bonds) represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. No transfer of title to a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(C) Delivery of New Certificates

Each new Certificate to be issued upon a transfer of Bonds will, within five business days of receipt by the Registrar or, as the case may be, any relevant Transfer Agent of the original Certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder and at the Issuer's expense) to the address specified in the form of transfer.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.

Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred, converted, redeemed or repurchased, a new Certificate in respect of the Bonds not so transferred, converted, redeemed or repurchased will, within five business days of delivery of the original Certificate to the Registrar or, as the case may be, any relevant Transfer Agent, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, converted, redeemed or repurchased (but free of charge to the holder and at the Issuer's expense) to the address of such holder appearing on the Register.

For the purposes of this Condition 3 and Condition 6, “**business day**” means a day (other than a Saturday, Sunday or a public holiday) on which commercial banks are generally open for business in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer or conversion) or the relevant Transfer Agent, with whom a Certificate is deposited in connection with a transfer or conversion, is located.

(D) Formalities Free of Charge

Subject to Conditions 3(E) and 3(F), registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any taxes, duties or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or prefunding as the Registrar or the relevant Transfer Agent may require).

(E) Restricted Transfer Periods

No Bondholder may require the transfer of a Bond to be registered (a) during the period of seven days ending on (and including) the dates for payment of any principal pursuant to these Conditions; (b) after a Conversion Notice (as defined in Condition 6(B)(i)) has been delivered with respect to a Bond; or (c) after a Relevant Event Put Exercise Notice (as defined in Condition 8(D)) has been deposited in respect of such Bond pursuant to Condition 8(D). Each such period is a “**Restricted Transfer Period**”.

(F) Regulations

All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer and the Guarantor, with the prior written approval of the Registrar and the Trustee, or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder following written request and proof of holding satisfactory to the Registrar.

4. Certain Covenants

(A) Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and the Guarantor will procure that none of its Subsidiaries (as defined below) will, create, permit to subsist or arise, or have outstanding, any mortgage, charge, lien, pledge or other security interest (each a “**Charge**”) (other than a security interest arising by operation of law) upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, unless at the same time or prior thereto according to the Bonds:

- (i) the same Charge as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity equally and rateably; or
- (ii) such other security as either (x) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (y) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

In these Conditions:

“**Relevant Indebtedness**” means any present or future indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock, bearer participation certificates, depositary receipts, certificates of deposit or other similar securities or instruments which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange or over-the-counter or other securities market but shall not include any financing of the acquisition of assets if (i) by the terms of such financing it is expressly provided that the holders of the resulting indebtedness shall look to the assets financed and the revenues to be generated by the operation of, or loss of or damage to, such assets as the sole source of repayment for the moneys advanced and payment of interest thereon and (ii) such financing is not guaranteed by the Guarantor or any of its Subsidiaries. For the avoidance of doubt, Relevant Indebtedness shall not include any indebtedness under any loan, credit agreement or loan facility obtained by the Issuer, the Guarantor or their respective Subsidiaries in the ordinary course of business; and

a “**Subsidiary**” of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person, which, for the purpose of these Conditions, shall exclude Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. (三生國健藥業(上海)股份有限公司) (“**Sunshine Guojian**”).

(B) NDRC Filing

- (i) The Guarantor undertakes to file or cause to be filed with the National Development and Reform Commission of the PRC (the “**NDRC**”) the requisite information and documents within the timeframe prescribed by the NDRC after the Issue Date in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知 (發改外資[2015]2044 號)) issued by the NDRC and which came into effect on 14 September 2015 and any implementation rules as issued by the NDRC from time to time (the “**NDRC Post-issue Filing**”).
- (ii) The Issuer shall, within 15 business days after submission of the NDRC Post-issue Filing, provide the Trustee with a certificate in English signed by an authorised officer of the Issuer confirming the submission of the NDRC Post-issue Filing. In addition, the Issuer shall give notice to the Bondholders (in accordance with Condition 11) confirming the submission of the NDRC Post-issue Filing.

The Trustee shall have no obligation to monitor or ensure the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any certificate, confirmation, or other documents in relation to or in connection with the NDRC Post-issue Filing or to give notice to the Bondholders confirming the submission of the NDRC Post-issue Filing, and shall not be liable to Bondholders or any other person for not doing so or any failure by the Guarantor to make the NDRC Post-issue Filing.

5. Default Interest

The Bonds are zero coupon and do not bear interest unless, upon due presentation thereof, payment of principal or premium (if any) is improperly withheld or refused. If the Issuer (or as the case may be, the Guarantor) fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of two per cent. per annum (both before and after judgement) from the due date up to and until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder and (b) the day seven days after the Trustee or the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

6. Conversion

(A) *Conversion Right*

- (i) *Conversion Period:* Subject as provided in these Conditions, each Bond shall entitle the holder to convert such Bond into Shares (as defined in Condition 6(A)(iv)) credited as fully paid at any time during the Conversion Period referred to below (the “**Conversion Right**”).

Subject to and upon compliance with these Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time (subject to any applicable fiscal or other laws or regulations and as hereinafter provided) on or after 9 August 2020 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date falling seven days prior to the Maturity Date (as defined in Condition 8(A)) (both days inclusive) (but, except as provided in Condition 6(A)(iii), in no event thereafter) or, if such Bond shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than seven days (both days inclusive and in the place aforesaid) prior to the date fixed for redemption thereof, or if notice requiring redemption has been given by the holder of such Bond pursuant to Condition 8(D) or Condition 8(E) then up to the close of business (at the place aforesaid) on the business day prior to the giving of such notice (the “**Conversion Period**”).

A Conversion Right may not be exercised (a) in respect of a Bond where the holder shall have exercised his right, by delivering or depositing the relevant notice, to require the Issuer to redeem or repurchase such Bond pursuant to Condition 8(D) or Condition 8(E), or (b) except as provided in Condition 6(A)(iii), following the giving of notice by the Trustee pursuant to Condition 10.

The price at which Shares will be issued upon exercise of a Conversion Right (the “**Conversion Price**”) will initially be HK\$13.1750 per Share, but will be subject to adjustment in the manner described in Condition 6(C) and/or Condition 6(D), as applicable.

The number of Shares to be issued on exercise of a Conversion Right shall be determined by dividing the principal amount of the Bonds to be converted (translated into Hong Kong dollars at the fixed rate of HK\$8.7299 = €1.00 (the “**Fixed Exchange Rate**”)) by the Conversion Price in effect on the relevant Conversion Date (as defined below). A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted.

- (ii) *Fractions of Shares:* Fractions of Shares will not be issued on exercise of Conversion Rights and no cash payment or other adjustment will be made in lieu thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Shares to be issued on conversion are to be registered in the same name, the number of such Shares to be issued in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of Shares. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after 29 June 2020 which reduces the number of Shares outstanding, the Issuer will upon conversion of Bonds pay in cash (in Euros) a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights, aggregated as provided in Condition 6(A)(i), as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification aforesaid if such sum exceeds €10. Any such sum shall be paid not later than five Stock Exchange Business Days (as defined in Condition 6(B)(i)) after the relevant Conversion Date by a Euro denominated cheque drawn on, or by

transfer to a Euro account maintained by the payee with, a bank in a city in which banks have access to the Trans-European Automated Real-Time Gross Settlement Express Transfer System (the “**TARGET2 System**”), in accordance with instructions given by the relevant Bondholder in the Conversion Notice.

- (iii) *Revival and/or survival after Default*: Notwithstanding the provisions of Condition 6(A)(i), if (a) the Issuer shall default in making payment in full in respect of any Bond which shall have been called or put for redemption on the date fixed for redemption thereof; (b) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of any of the events under Condition 10; or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8(A), the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders in accordance with Condition 11 and notwithstanding the provisions of Condition 6(A)(i), any Bond in respect of which the Certificate and Conversion Notice (as defined in Condition 6(B)(i)) are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined in Condition 6(B)(i)) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.
- (iv) *Meaning of “Shares”*: As used in these Conditions, the expression “**Shares**” means ordinary shares of nominal value US\$0.00001 each of the Guarantor or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Guarantor.

(B) Conversion Procedure

- (i) *Conversion Notice*: To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during the Conversion Period at the specified office of any Conversion Agent during its usual business hours a duly completed and signed notice of conversion (a “**Conversion Notice**”) in the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate and confirmation that any amounts required to be paid by the Bondholder under Condition 6(B)(ii) have been so paid. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Conversion Agent to whom the relevant Conversion Notice is delivered is located.

If such deposit is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the relevant Conversion Agent, such deposit shall be deemed for all purposes of these Conditions to have been made on the next following such business day. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Issuer consents in writing to such withdrawal.

Any determination as to whether any Conversion Notice has been duly completed and properly delivered shall be made by the relevant Conversion Agent and shall, save in the case of manifest error, be conclusive and binding on the Issuer, the Guarantor, the Trustee, the Conversion Agents and the relevant Bondholder.

Conversion Rights may only be exercised in respect of an Authorised Denomination.

The conversion date in respect of a Bond (the “**Conversion Date**”) shall be deemed to be the Stock Exchange Business Day (as defined below) immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice to the Conversion Agent and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right.

“**Stock Exchange Business Day**” means any day (other than a Saturday or Sunday) on which the Relevant Stock Exchange (as defined in Condition 6(G) below) is open for the business of dealing in securities.

- (ii) *Stamp Duty etc.*: A Bondholder exercising its Conversion Right must pay directly to the relevant authorities any taxes and/or capital, stamp, issue and registration and transfer taxes and duties (“**Duties**”) arising on such exercise (other than any Duties payable in the British Virgin Islands, the Cayman Islands and Hong Kong and, if relevant, in the place of the Alternative Stock Exchange (as defined in Condition 6(G) below), by the Guarantor in respect of the allotment and issue of Shares and/or listing of the Shares on the Relevant Stock Exchange on conversion, being the “**Issuer Duties**”) (such Duties and such Issuer Duties are collectively referred to as the “**Taxes**”). The Issuer (failing whom, the Guarantor) will pay all other expenses arising on the issue of Shares on conversion of Bonds. The Bondholder (and, if different, the person to whom the Shares are to be issued) must declare in the relevant Conversion Notice that any amounts payable to the relevant tax authorities in settlement of Taxes payable pursuant to this Condition 6(B)(ii) have been paid or, where permitted by law, will be paid.

If the Issuer and the Guarantor shall fail to pay any Issuer Duties as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer and the Guarantor as a separate and independent stipulation, covenant to reimburse and indemnify each Bondholder in respect of any payment thereof and any penalties payable in respect thereof.

Such Bondholder must also pay all, if any, taxes imposed on it and arising by reference to any disposal or deemed disposal of a Bond or interest therein in connection with the exercise of Conversion Rights by it.

Neither the Trustee nor any of the Agents shall be responsible to Bondholders or any other person for paying any Taxes, expenses or other amounts referred to in this Condition 6(B)(ii) or for determining whether such Taxes are payable or the amount thereof and shall not be responsible or liable for any failure by the Issuer, the Guarantor or any Bondholder to pay such Taxes, expenses or other amounts.

- (iii) *Registration*: Upon exercise by a Bondholder of its Conversion Right and compliance with Conditions 6(B)(i) and 6(B)(ii), the Guarantor will, as soon as practicable, and in any event not later than seven Stock Exchange Business Days after the Conversion Date, register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Shares in the Guarantor’s register of members in Hong Kong and will, if the Bondholder has also requested in the Conversion Notice and to the extent permitted under applicable law and the rules and procedures of the Central Clearing and Settlement System of Hong Kong (“**CCASS**”) effective from time to time, take all necessary action to procure that Shares are delivered through CCASS for so long as the Shares are listed on the HKSE (as defined in Condition 6(G) below); or will make such certificate or certificates available for collection at the office of the Guarantor’s share registrar in Hong Kong

(currently Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) notified to Bondholders in accordance with Condition 11 or, if so requested in the relevant Conversion Notice, will cause its share registrar to mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any other securities, property or cash required to be delivered upon conversion of the Bonds and such assignments and other documents (if any) as may be required by law to effect the transfer thereof, in which case a single share certificate will be issued in respect of all Shares issued on conversion of Bonds subject to the same Conversion Notice and which are to be registered in the same name.

The delivery of the Shares to the converting Bondholder (or such person or persons designated in the relevant Conversion Notice) in the manner contemplated above in this Condition 6(B)(iii) will be deemed to satisfy the Issuer's obligation to pay the principal and premium (if any) on such converted Bonds.

If the Conversion Date in relation to the conversion of any Bond shall be after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Conversion Price pursuant to Condition 6(C) and/or Condition 6(D), as applicable, but before the relevant adjustment becomes effective under the relevant Condition (a "**Retroactive Adjustment**"), upon the relevant adjustment becoming effective the Guarantor shall procure the issue to the converting Bondholder (or in accordance with the instructions contained in the Conversion Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares ("**Additional Shares**") as is, together with Shares to be issued on conversion of the Bond(s), equal to the number of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and become effective on or immediately after the relevant record date and in such event and in respect of such Additional Shares references in this Condition 6(B)(iii) to the Conversion Date shall be deemed to refer to the date upon which the Retroactive Adjustment becomes effective (notwithstanding that the date upon which it becomes effective falls after the end of the Conversion Period).

The person or persons specified for that purpose in the Conversion Notice will become the holder of record of the number of Shares issuable upon conversion with effect from the date he is or they are registered as such in the Guarantor's register of members (the "**Registration Date**").

The Shares to be issued upon exercise of Conversion Rights will be fully paid and will in all respects rank *pari passu* with the fully paid Shares in issue on the relevant Registration Date except for any right excluded by mandatory provisions of applicable law and except that such Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record or other due date for the establishment of entitlement for which falls prior to the relevant Registration Date.

If the record date for the payment of any dividend or other distribution in respect of the Shares is on or after the Conversion Date in respect of any Bond, but before the Registration Date (disregarding any Retroactive Adjustment of the Conversion Price referred to in this Condition 6(B)(iii) prior to the time such Retroactive Adjustment shall have become effective), the Guarantor will calculate and pay to the converting Bondholder or his designee an amount in Euros (the "**Equivalent Amount**") converted at the Prevailing Rate (as defined below) equal to the Fair Market Value (as defined below) of such dividend or other distribution to which he would have been entitled had he on that

record date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by a Euro denominated cheque drawn on, or by transfer to a Euro account maintained by the payee with, a bank in a city in which banks have access to the TARGET2 System, in accordance with instructions given by the relevant Bondholder in the Conversion Notice.

(C) Adjustments to Conversion Price

The Conversion Price will be subject to adjustment as follows:

(1) Consolidation, Reclassification or Subdivision:

Adjustment: If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, reclassification or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share in issue immediately before such alteration.

Effective Date of Adjustment: Such adjustment shall become effective on the date the alteration takes effect.

(2) Capitalisation of Profits or Reserves:

(i) *Adjustment:* If and whenever the Guarantor shall issue any Shares credited as fully paid to the holders of Shares (the “**Shareholders**”) by way of capitalisation of profits or reserves (including, Shares paid up out of distributable profits or reserves and/or share premium account) (except any Scrip Dividend) and which would not have constituted a Distribution (as defined in Condition 6(G)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such Shares, or if a record date is fixed therefor, immediately after such record date.

- (ii) *Adjustment:* In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price (as defined in Condition 6(G)) on the date of announcement of the terms of the issue of such Shares multiplied by the number of such Shares issued exceeds 105 per cent. of the amount of the Relevant Cash Dividend (as defined in Condition 6(G)) or the relevant part thereof and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such Scrip Dividend;
- B is the aggregate number of Shares which the Relevant Cash Dividend would purchase at such Current Market Price; and
- C is the aggregate number of Shares issued pursuant to such Scrip Dividend;

or by making such other adjustment to the Conversion Price to give effect to the foregoing as an Independent Investment Bank shall certify to the Bondholders is fair and reasonable.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(3) *Distributions:*

Adjustment: If and whenever the Guarantor shall pay or make any Distribution to Shareholders (except to the extent that the Conversion Price falls to be adjusted under Condition 6(C)(2) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such Distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the date on which the Distribution is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the Distribution in Hong Kong dollars attributable to one Share.

Effective Date of Adjustment: Such adjustment shall become effective on the date that such Distribution is actually made or if a record date is fixed therefor, immediately after such record date.

(4) *Rights Issues of Shares or Options over Shares:*

Adjustment: If and whenever the Guarantor shall issue Shares to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class by way of rights,

options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares or any securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Shares (or shall grant any such rights in respect of existing securities so issued), in each case at less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of the issue or grant of such Shares, options, warrants or other rights (and notwithstanding that the relevant issue may be or be expressed to be subject to Shareholder or other approvals or consents or other contingency or event occurring or not occurring), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares issued by way of rights, or for the securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Shares deliverable on the exercise thereof would purchase at such Current Market Price per Share; and
- C is the aggregate number of Shares to be issued or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be, on the Relevant Stock Exchange.

(5) *Rights Issues of Other Securities:*

Adjustment: If and whenever the Guarantor shall issue securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the date on which such issue or grant is publicly announced; and

- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of the securities, or issue or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be, on the Relevant Stock Exchange.

(6) *Issues at Less than Current Market Price:*

Adjustment: If and whenever the Guarantor shall issue (otherwise than as mentioned in Condition 6(C)(4)) wholly for cash or for no consideration any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, or purchase of Shares) or issue or grant (otherwise than as mentioned in Condition 6(C)(4)) wholly for cash or for no consideration any options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares (other than the Bonds, which term shall for this purpose exclude any further bonds issued pursuant to Condition 17), in each case at less than 95 per cent. of the Current Market Price on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before the issue of such additional Shares or the issue or grant of such options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares;
- B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares or, as the case may be, for the Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Share; and
- C is the number of Shares to be issued pursuant to such issue of Shares or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

References to additional Shares in the above formula shall, in the case of an issue by the Guarantor of options, warrants or other rights to subscribe for or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

For the avoidance of doubt, no adjustments to the Conversion Price shall be triggered by (a) the 20,000,000 options granted by the Guarantor on 2 February 2017 to beneficiaries including but not limited to certain directors and employees of the Guarantor at an exercise price of HK\$7.62 per Share (each entitling the holder to subscribe for one Share under the post-IPO share option scheme adopted by the Guarantor on 23 May 2015 and amended on 28 June 2016); (b) up to a maximum of 10,000,000 Shares awarded or to be awarded by the Guarantor to the grantees including but not limited to certain directors and employees of the Guarantor under the share award scheme adopted by the Guarantor on 16 July 2019; and (c) the zero coupon guaranteed convertible

bonds issued by the Issuer on 21 July 2017 (the “**2017 Convertible Bonds**”), which entitled the holders thereof to convert the bonds into the Shares at an initial conversion price of HK\$14.28 per Share subject to adjustment in accordance with the terms thereof.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the grant of such options, warrants or other rights.

(7) *Other Issues at Less than Current Market Price:*

Adjustment: If and whenever the Guarantor or any of its Subsidiaries (otherwise than as mentioned in Conditions 6(C)(4), 6(C)(5) or 6(C)(6)), or (at the direction or request of or pursuant to any arrangements with the Guarantor or any of its Subsidiaries) any other company, person or entity shall issue wholly for cash or for no consideration any securities (other than the Bonds, which term shall for this purpose exclude any further bonds issued pursuant to Condition 17) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Shares to be issued by the Guarantor upon conversion, exchange or subscription at a consideration per Share which is less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the date on which such issue is announced; and

B is the difference on a per Share basis between the Fair Market Value of such securities on the date of the announcement of the issue of such securities and the issue price of such securities.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such securities.

(8) *Modification of Rights of Conversion etc.:*

Adjustment: If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such securities as are mentioned in Condition 6(C)(7) (other than in accordance with the terms (including terms as to adjustment) applicable to such securities upon issue) so that following such modification the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the date on which such modification is announced; and

B is the difference between the Fair Market Value of the modification on a per Share basis on the date of such announcement and the consideration received for the modification on a per Share basis.

Effective Date of Adjustment: Such adjustment shall become effective on the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such securities.

(9) *Other Offers to Shareholders:*

Adjustment: If and whenever the Guarantor or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Guarantor or any of its Subsidiaries) any other company, person or entity shall offer any securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under Conditions 6(C)(2), 6(C)(3), 6(C)(4), 6(C)(5), 6(C)(6) or 6(C)(7)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the making of such offer by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the date on which such issue is first publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue, sale or delivery of the securities.

(10) *Other Events:*

Adjustment: If the Guarantor determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to in this Condition 6(C) (even if the relevant circumstance is specifically excluded from the operation of Conditions 6(C)(1) to 6(C)(9) (both inclusive)), the Guarantor shall, at its own expense and acting reasonably, request an Independent Investment Bank to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment (if any) should take effect and upon such determination by the Independent Investment Bank such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this Condition 6(C)(10) if such Independent Investment Bank is so requested to make such a determination.

(D) *Adjustment upon Change of Control*

If a Change of Control (as defined in Condition 8(D)) shall have occurred, the Issuer shall give notice of that fact to the Bondholders (the “**Change of Control Notice**”) in accordance with Condition 11 within 14 days after it becomes aware of such Change of Control. Following the giving of a Change of Control Notice (with a copy to the Trustee), upon any exercise of Conversion Rights such that the relevant Conversion Date falls within the

period of 30 days following the later of (1) the relevant Change of Control and (2) the date on which the Change of Control Notice is given to Bondholders (such period, the “**Change of Control Conversion Period**”), the Conversion Price shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} / (1 + (\text{CP} \times (c / t))), \text{ where}$$

NCP = the Conversion Price after such adjustment;

OCP = the Conversion Price before such adjustment. For the avoidance of doubt, OCP for the purposes of this Condition 6(D) shall be the Conversion Price applicable on the relevant Conversion Date in respect of any conversion to which this Condition 6(D) is applicable;

CP (or Conversion Premium) = 25.0 per cent.;

c = the number of days from and including the first day of the Change of Control Conversion Period to but excluding the Maturity Date; and

t = the number of days from and including the Issue Date to but excluding the Maturity Date.

If the last day of a Change of Control Conversion Period shall fall during a Restricted Transfer Period, the Change of Control Conversion Period shall be extended such that its last day will be the fifteenth day following the last day of the Restricted Transfer Period.

(E) Undertakings

The Guarantor has undertaken in the Trust Deed, *inter alia*, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders:

- (i) it will use all reasonable endeavours (a) to maintain a listing for all the issued Shares on the HKSE, and (b) to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the Bonds on the HKSE, and (c) if the Guarantor is unable to obtain or maintain such listing, or the maintenance of such listing is unduly onerous, to use all reasonable endeavours to obtain and maintain a listing for all the issued Shares on an Alternative Stock Exchange as the Guarantor may from time to time determine (and notify in writing to the Trustee) and will forthwith give notice to the Bondholders in accordance with Condition 11 of the listing or delisting of the Shares (as a class) by any of such stock exchange;
- (ii) it will use all reasonable endeavours to maintain the listing of the Bonds on the HKSE and if the Guarantor is unable to maintain such listing or such listing is unduly onerous, to use all reasonable endeavours to obtain and maintain a listing on another internationally recognised stock exchange as the Guarantor may from time to time determine (with written notice to the Trustee) and will forthwith give notice to the Bondholders in accordance with Condition 11 of the listing or delisting of the Bonds by any such stock exchange;
- (iii) it will pay the expenses of the issue and delivery of, and all expenses of obtaining listing for, the Shares arising on conversion of the Bonds (save for any Duties payable by the relevant Bondholder as specified in Condition 6(B)(ii));
- (iv) it will not make any reduction of its ordinary share capital or any uncalled liability in respect thereof or of any share premium account or capital redemption reserve fund except, in each case, where the

reduction is permitted by applicable law and results in (or would, but for the provision of these Conditions relating to rounding or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made, provided always that the Guarantor shall not be prohibited from purchasing its Shares to the extent permitted by law;

- (v) the Issuer shall remain a direct or indirect wholly-owned Subsidiary of the Guarantor; and
- (vi) it will procure that the Issuer will not carry on any business activity whatsoever other than in connection with the Bonds (which shall, for the avoidance of doubt, include the on-lending of the proceeds of the issue of the Bonds to the Guarantor or any of the Guarantor's Subsidiaries) and, in particular, will not incur any indebtedness (other than to the Guarantor) or make any issue of bonds, debentures, notes or other debt securities of any kind other than the Bonds, save for the 2017 Convertible Bonds.

In the Trust Deed, the Guarantor has also undertaken with the Trustee that so long as any Bond remains outstanding:

- (i) it will reserve, free from any other pre-emptive or other similar rights, out of its authorised but unissued ordinary share capital the full number of Shares liable to be issued on conversion of the Bonds from time to time remaining outstanding and shall ensure that all Shares delivered on conversion of the Bonds will be duly and validly issued as fully-paid; and
- (ii) it will not make any offer, issue, grant or distribute or take any action the effect of which would be to reduce the Conversion Price below the nominal value of the Shares, provided always that the Guarantor shall not be prohibited from purchasing its Shares to the extent permitted by law.

The Guarantor has also given certain other undertakings in the Trust Deed for the protection of the Conversion Rights.

(F) Provisions Relating to Changes in Conversion Price

- (i) *Minor Adjustments:* On any adjustment, the resultant Conversion Price, if not an integral multiple of one Hong Kong cent, shall be rounded down to the nearest Hong Kong cent. No adjustment shall be made to the Conversion Price if such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made. Notice of any adjustment shall be given by the Issuer to Bondholders in accordance with Condition 11 and to the Trustee promptly after the determination thereof.
- (ii) *Decision of an Independent Investment Bank:* If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, and following consultation between the Guarantor and an Independent Investment Bank, a written opinion of such Independent Investment Bank in respect thereof shall be conclusive and binding on the Issuer, the Guarantor, the Bondholders and the Trustee, save in the case of manifest error. Notwithstanding the foregoing, the per Share value of any such adjustment shall not exceed the per Share value of the dilution in the shareholders' interest in the Guarantor's equity caused by such events or circumstances.

- (iii) *Minimum Conversion Price:* Notwithstanding the provisions of this Condition 6, the Guarantor undertakes that: (a) the Conversion Price shall not in any event be reduced to below the nominal value of the Shares as a result of any adjustment hereunder unless under applicable law then in effect the Bonds may be converted at such reduced Conversion Price into legally issued, fully paid and non-assessable Shares; and (b) it shall not take any action, and shall procure that no action is taken, that would otherwise result in an adjustment to the Conversion Price to below such nominal value or any minimum level permitted by applicable laws and regulations.
- (iv) *Reference to “Fixed”:* Any references herein to the date on which a consideration is “**fixed**” shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.
- (v) *Multiple Events:* Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an Independent Investment Bank, the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such Independent Investment Bank to be in its opinion appropriate in order to give such intended result.
- (vi) *Share Option Schemes:* Notwithstanding any provision in this Condition 6, no adjustment will be made to the Conversion Price when Shares or other securities (including rights, warrants or options) are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, among others, employees and/or former employees (including directors and/or former directors) of the Guarantor or any of its Subsidiaries pursuant to any share option, share award, restricted share or employee incentive scheme or plan (and which such scheme or plan is in compliance with the listing rules of the Relevant Stock Exchange) (“**Share Scheme Shares/Options**”) unless any grant or issue of Share Scheme Shares/Options (which, but for this provision, would have required adjustment pursuant to this Condition 6) would result in the total number of Shares which may be issued upon exercise of such Share Scheme Shares/Options granted during any 12-month period up to and including the date of such grant representing, in aggregate, over three per cent. of the average number of issued and outstanding Shares during such 12-month period, in which case only such portion of the grant or issue of Share Scheme Shares/Options that exceeds three per cent. of the average number of issued and outstanding Shares during the relevant 12-month period shall be taken into account in determining adjustment of the Conversion Price pursuant to this Condition 6 .
- (vii) *Upward/downward Adjustment:* No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation or re-classification of the Shares as referred to in Condition 6(C)(1) above. The Guarantor may at any time and for a specified period of time only, following notice being given to the Trustee and the Bondholders in accordance with Condition 11, reduce the Conversion Price, subject to Condition 6(F)(iii).
- (viii) *Trustee and Agents Not Obligated to Monitor or Make Calculation:* Neither the Trustee nor any Agent shall be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or to make any calculation (or verification thereof) in connection with the Conversion Price and will not be responsible to Bondholders for any loss arising from any failure by it to do so or for any delay by the Issuer and the Guarantor in making a determination or any erroneous determination in connection with the Conversion Price, without prejudice to its duties owed to the Issuer and the Guarantor.

- (ix) *Notice of Change in Conversion Price*: The Issuer shall give notice to the Bondholders in accordance with Condition 11 (with a copy to the Trustee) and, for so long as the Bonds are listed on the HKSE and the rules of the HKSE so require, the Issuer shall also give notice to the HKSE of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

(G) Definitions

For the purposes of these Conditions:

“Alternative Stock Exchange” means at any time, in the case of the Shares, if they are not at that time listed and traded on the HKSE, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in.

“Closing Price” for the Shares for any Trading Day shall be the price published in the Daily Quotation Sheet published by the HKSE or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange for such day.

“Current Market Price” means, in respect of a Share on a particular date, the average of the daily Closing Prices of one Share on each of the 10 consecutive Trading Days ending on and including (i) the Trading Day immediately preceding such date or (ii) if the relevant announcement was made after the close of trading on such date (being a Trading Day), such date of announcement; provided that if at any time during such 10 Trading Day period the Shares shall have been quoted ex-dividend (or ex-any other entitlement) and during some other part of that period the Shares shall have been quoted cum-dividend (or cum-any other entitlement) then:

- (a) if the Shares to be issued or transferred and delivered do not rank for the dividend (or entitlement) in question, the Closing Price on the dates on which the Shares shall have been based on a price cum-dividend (or cum-any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Share; or
- (b) if the Shares to be issued or transferred and delivered rank for the dividend (or entitlement) in question, the Closing Price on the dates on which the Shares shall have been based on a price ex-dividend (or ex-any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such dividend or entitlement per Share;

and provided that:

- (i) if on each of the said 10 Trading Days the Shares have been quoted price cum-dividend (or cum-any other entitlement) in respect of a dividend (or other entitlement) which has been declared or announced but the Shares to be issued or transferred and delivered do not rank for that dividend (or other entitlement), the Closing Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Share in any such case determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit;

- (ii) if the Closing Price of a Share is not available on one or more of the said 10 Trading Days (disregarding for this purpose the proviso to the definition of Closing Price), then the average of such Closing Prices which are available in that 10 Trading Day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Closing Price is available in the relevant period the Current Market Price shall be determined by an Independent Investment Bank; and
- (iii) in making any calculation or determination of Current Market Price in relation to an issue of Shares, other securities or options, rights or warrants for shares or other securities which are issued offered, allotted, appropriated, modified or granted in connection (partly or fully) with any merger or acquisition, each reference above to 10 consecutive Trading Days shall be to 30 consecutive Trading Days.

In making any calculation or determination of Current Market Price, such adjustments (if any) shall be made as an Independent Investment Bank considers appropriate to reflect any consolidation or sub-division of the Shares or any issue of Shares by way of capitalisation of profits or reserves, or any like or similar event.

“Distribution” means (i) any distribution of assets in specie by the Guarantor for any financial period whenever paid or made and however described (and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid (other than Shares credited as fully paid) by way of capitalisation of reserves, but excludes a Scrip Dividend adjusted for under Condition 6(C)(2)(ii)); and (ii) any cash dividend or distribution (including, without limitation, the relevant cash amount of a Scrip Dividend) of any kind by the Guarantor for any financial period (whenever paid and however described) translated into Hong Kong dollars at the Prevailing Rate as at the date such distribution under (i) and/or (ii) of this definition is announced. In making any such calculation, such adjustments (if any) shall be made as an Independent Investment Bank may consider appropriate to reflect (a) any consolidation or subdivision of the Shares, (b) issues of Shares by way of capitalisation of profits or reserves, or any like or similar event, or (c) the modification of any rights to dividends of Shares.

“Fair Market Value” means, with respect to any asset, security, option, warrant or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an Independent Investment Bank, provided that (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend determined as at the date of announcement of such dividend (in which case no determination by an Independent Investment Bank would be required); (ii) the fair market value of any other cash amount shall be equal to such cash amount (in which case no determination by an Independent Investment Bank would be required); and (iii) where securities are or will be publicly traded in a market of adequate liquidity (as determined by such Independent Investment Bank) the fair market value of such securities shall equal the arithmetic mean of the daily closing prices of such securities during the period of five Trading Days commencing on the first such Trading Day (or, if later, the first such Trading Day such securities are publicly traded) or such shorter period as such securities are publicly traded.

“HKSE” means The Stock Exchange of Hong Kong Limited or any successor thereto.

“Independent Investment Bank” means an independent investment bank of international repute selected by the Issuer and the Guarantor (at the cost of the Issuer and the Guarantor), and notified in writing to the Trustee. If the Issuer and the Guarantor fail to select an Independent Investment Bank when required by these Conditions, the Trustee may in its absolute discretion (but shall not be obliged to) select the Independent Investment Bank, provided the Trustee shall have no liability to any person in respect of such selection or non-selection.

“Prevailing Rate” means, in respect of any currency on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12:00 noon (Hong Kong time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12:00 noon (Hong Kong time) on the immediately preceding day on which such rate can be so determined.

“Relevant Cash Dividend” means the aggregate cash dividend or distribution declared by the Guarantor, including any cash dividend in respect of which there is any Scrip Dividend (which, for the avoidance of doubt, shall exclude a purchase or redemption of Shares, but include the Relevant Cash Dividend component of a Scrip Dividend).

“Relevant Page” means the relevant Bloomberg BFIX page (or its successor page) or, if there is no such page, on the relevant Reuters EURHKD page (or its successor page) or such other information service provider that displays the relevant information.

“Relevant Stock Exchange” means at any time, in respect of the Shares, the HKSE or the Alternative Stock Exchange.

“Scrip Dividend” means any Shares issued in lieu of the whole or any part of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a Distribution (and for the avoidance of doubt, no adjustment is to be made under Condition 6(C)(3) in respect of the amount by which the Current Market Price of the Shares exceeds the Relevant Cash Dividend or the relevant part thereof) but without prejudice to any adjustment required in such circumstances to be made under Condition 6(C)(2)(ii).

“Trading Day” means a day on which the Relevant Stock Exchange (or in respect of any other security, relevant securities market) is open for business and on which Shares or other securities may be dealt in (other than a day on which the Relevant Stock Exchange is scheduled to or does close prior to its regular weekday closing time) provided that, if no closing price is reported for one or more consecutive dealing days, such day or days will be disregarded in any relevant calculation and shall be deemed not to have been dealing days when ascertaining any period of dealing days.

References to any issue or offer or grant to Shareholders **“as a class”** or **“by way of rights”** shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders, other than Shareholders by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

7. Payments

(A) Method of Payment

Payment of principal, Early Redemption Amount (as defined in Condition 8(C)), premium (if any) and default interest (if any) will be made by transfer to the registered account of the Bondholder or by Euro cheque drawn on a bank in a city in which banks have access to the TARGET2 System mailed to the registered address of the Bondholder if it does not have a registered account. Such payment will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

*So long as the Bonds are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system(each, a “**relevant clearing system**”), each payment due under the Bonds evidenced by the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “**Clearing System Business Day**” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

(B) Registered Accounts

For the purposes of this Condition 7, a Bondholder’s “**registered account**” means the Euro account maintained by or on behalf of it with a bank in a city in which banks have access to the TARGET2 System, details of which appear on the Register at the close of business on the second Payment Business Day (as defined below in Condition 7(F)) before the due date for payment, and a Bondholder’s registered address means its address appearing on the Register at that time.

(C) Fiscal Laws

Without prejudice to the provisions of Condition 9, all payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(D) Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Payment Business Day (as defined below in Condition 7(F)), for value on the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a Payment Business Day, the immediately following Payment Business Day) or, in the case of a payment of principal, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

(E) Delay In Payment

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

(F) Payment Business Day

In this Condition 7, “**Payment Business Day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Hong Kong and the city in which the specified office of the Principal Agent is located and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered, and also on which the TARGET2 System is operating.

(G) Agents

The initial Agents and their initial specified offices are listed below. The Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer and the Guarantor reserve the right at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and appoint additional or replacement Agents provided that they will maintain (i) a Principal Agent, (ii) an Agent having a specified office in a major financial centre in Europe, (iii) a Registrar with a specified office outside the United Kingdom, and (iv) an Agent in Hong Kong. Notice of any changes in any Agent or their specified offices will promptly be given to the Bondholders.

8. Redemption, Purchase and Cancellation

(A) Maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at 107.76 per cent. of its principal amount on 29 June 2025 (the “**Maturity Date**”). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Condition 8(B) or 8(C) (but without prejudice to Condition 10).

(B) Redemption for Taxation Reasons

- (i) The Issuer may redeem all and not some only of the Bonds, at its option, at any time, on giving not less than 30 nor more than 60 days’ notice (a “**Tax Redemption Notice**”) to the Trustee and to the Bondholders in accordance with Condition 11 (which notice shall be irrevocable), on the date specified in the Tax Redemption Notice for redemption (the “**Tax Redemption Date**”) at the Early Redemption Amount, if (a) the Issuer satisfies the Trustee immediately prior to the giving of such notice that the Issuer (or if the Guarantee was called, the Guarantor) has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, the Cayman Islands or Hong Kong or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 17 June 2020, and (b) such obligation cannot be avoided by the Issuer (or as the case may be, the Guarantor) taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer (or as the case may be, the Guarantor) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due. Prior to the publication of any Tax Redemption Notice pursuant to this Condition 8(B)(i), the Issuer (or as the case may be, the Guarantor) shall deliver to the Trustee (1) a certificate signed by two directors of the Issuer (or as the case may be, the Guarantor) who are also Authorised Signatories stating that the obligation referred to in (a) above cannot be avoided by the Issuer (or as the case may be, the Guarantor) taking reasonable measures available to it and (2) an opinion of independent legal or tax advisors of recognised standing issued to the effect that the Issuer (or as the case may be, the Guarantor) has, or would become obligated to pay such Additional Tax Amounts as a result of such change or amendment referred to above in this Condition 8(B)(i). The Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (b) above of this Condition 8(B)(i), in which event it shall be conclusive and binding on the Bondholders.

On the Tax Redemption Date, the Issuer (subject to Condition 8(B)(ii)) shall redeem the Bonds at the Early Redemption Amount.

- (ii) If the Issuer gives a Tax Redemption Notice pursuant to Condition 8(B)(i), each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of principal, Early Redemption Amount, premium (if any) or default interest (if any) to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date, whereupon no Additional Tax Amounts shall be payable by the Issuer (or as the case may be, the Guarantor) in respect thereof pursuant to Condition 9 and payment of all amounts by the Issuer (or as the case may be, the Guarantor) to such holder in respect of such Bond(s) shall be made subject to the deduction or withholding of any tax required to be deducted or withheld. To exercise a right pursuant to this Condition 8(B)(ii), the holder of the relevant Bond must complete, sign and deposit during normal business hours at the specified office of any Paying Agent a duly completed and signed notice of exercise, in the form for the time being current, obtainable from the specified office of any Paying Agent together with the Certificate evidencing the relevant Bond(s) on or before the day falling 10 days prior to the Tax Redemption Date.

(C) Redemption at the Option of the Issuer

On giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee, the Paying Agents and the Bondholders in accordance with Condition 11, the Issuer shall redeem all and not some only of the Bonds on the date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice at the Early Redemption Amount:

- (i) at any time after 29 June 2023, provided that the Closing Price of a Share (translated into Euros at the Prevailing Rate), for 20 out of 30 consecutive Trading Days, the last of which occurs not more than 10 days prior to the date of the Optional Redemption Notice was at least 130 per cent. of the applicable Early Redemption Amount for each Bond divided by the Conversion Ratio (as defined below); or
- (ii) at any time if, prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 90 per cent. or more in aggregate principal amount of the Bonds originally issued (which shall for this purpose include any further Bonds issued pursuant to Condition 17).

If there shall occur an event giving rise to a change in the Conversion Price during any such 30 consecutive Trading Day period as mentioned in Condition 8(C)(i) above, appropriate adjustments for the relevant days shall be made, as determined by an Independent Investment Bank, for the purpose of calculating the Closing Price for such days.

For the purposes of these Conditions:

"**Early Redemption Amount**" means an amount equal to 100% of the principal amount of the Bond redeemed plus the applicable Redemption Premium. The applicable Early Redemption Amount for each €100,000 principal amount of Bonds and integral multiples of €1,000 in excess thereof is calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided that if the date fixed for redemption is a Semi-annual Date (as set out below), such Early Redemption Amount shall be as set out in the table below in respect of such Semi-annual Date):

Early Redemption Amount = Previous Redemption Amount $\times (1 + \frac{r}{2})^{\frac{d}{180}}$, where

Previous Redemption Amount = the Early Redemption Amount for each €100,000 principal amount of Bonds and integral multiples of €1,000 in excess thereof on the Semi-annual Date immediately preceding the date fixed for redemption as set out below (or if the Bonds are to be redeemed prior to 29 December 2020, €100,000):

<u>Semi-annual Date</u>	<u>Early Redemption Amount</u>
29 December 2020	€100,750.00
29 June 2021	€101,505.63
29 December 2021	€102,266.92
29 June 2022	€103,033.92
29 December 2022	€103,806.67
29 June 2023	€104,585.22
29 December 2023	€105,369.61
29 June 2024	€106,159.88
29 December 2024	€106,956.08

$r = 1.5$ per cent.

d = number of days from and including the immediately preceding Semi-annual Date (or if the Bonds are to be redeemed on or before 29 December 2020, from and including 29 June 2020) to, but excluding, the date fixed for redemption, calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

“**Conversion Ratio**” is equal to the principal amount of each Bond divided by the Conversion Price (translated into Euros at the Fixed Exchange Rate) then in effect immediately prior to the date upon which notice of such redemption is given.

“**Redemption Premium**” means an amount payable pursuant to the Bonds with respect to a redemption of a Bond that will provide a holder who purchased such Bond at the issue price of the Bonds on 29 June 2020 a gross yield of 1.50 per cent. per annum, calculated on a semi-annual basis.

(D) Redemption for Delisting or Change of Control

Following the occurrence of a Relevant Event (as defined below), the holder of each Bond will have the right (the “**Relevant Event Put Right**”) at such holder’s option, to require the Issuer to redeem all or some only of such holder’s Bonds on the Relevant Event Put Date at the Early Redemption Amount. To exercise a Relevant Event Put Right, the holder of the relevant Bond must deposit during normal business hours at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a “**Relevant Event Put Exercise Notice**”), together with the Certificate evidencing the Bonds to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 11. The “**Relevant Event Put Date**” shall be the fourteenth day after the expiry of such period of 60 days as referred to above.

A Relevant Event Put Exercise Notice, once delivered, shall be irrevocable and may not be withdrawn without the Issuer’s consent. The Issuer shall redeem the Bonds the subject of the Relevant Event Put Exercise Notice (subject to delivery of the relevant Certificate as aforesaid) on the Relevant Event Put Date.

Within 14 days after it becomes aware of the occurrence of a Relevant Event, the Issuer shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 11. The notice regarding the Relevant Event shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and their entitlement to exercise their rights to require redemption of their

Bonds pursuant to this Condition. Such notice shall also specify: (a) the date of such Relevant Event and, all information material to Bondholders concerning the Relevant Event; (b) the Relevant Event Put Date; (c) the last date by which a Relevant Event Put Exercise Notice must be given; (d) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Relevant Event Put Right or Conversion Right; and (e) the information required by Condition 8(H).

Neither the Agents nor the Trustee shall be required to monitor or to take any steps to ascertain whether a Relevant Event or any event which could lead to a Relevant Event has occurred or may occur.

For the purposes of this Condition 8(D):

“Control” means (a) the acquisition, beneficial ownership or control of more than 50 per cent. of the Voting Rights of the issued share capital of the Guarantor, or (b) the right to appoint and/or remove all or the majority of the members of the Guarantor’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise.

a **“Change of Control”** occurs when:

- (i) any person or persons acting together acquires Control provided that such person or persons does not or do not have, and would not be deemed to have, Control on the Issue Date (for the avoidance of doubt, any increase in Voting Rights beneficially owned or controlled by Mr. Lou Jing, Ms. Lily Xing, Mr. Tan Bo, Ms. Su Dongmei and Mr. Huang Bin, whether individually or collectively, shall not be deemed a Change of Control); or
- (ii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the assets of the Guarantor to any other person or persons acting together unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring Control over the Guarantor or successor entity.

“person” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Guarantor’s Board of Directors or any other governing board and does not include the Guarantor’s wholly-owned direct or indirect Subsidiaries.

“Relevant Event” occurs:

- (i) when the Shares cease to be listed or admitted to trading or are suspended on the Main Board of the HKSE for a period equal to or exceeding 30 consecutive Trading Days; or
- (ii) when there is a Change of Control.

“Voting Rights” means the right generally to vote at a general meeting of shareholders of the Guarantor (including, at the time, stock of any other class or classes which shall have, or might have, voting power by reason of the happening of any contingency).

(E) Redemption at the option of the Bondholders

On 29 June 2023 (the **“Optional Put Date”**), the holder of each Bond will have the right at such holder’s option, to require the Issuer to redeem all or some only of the Bonds of such holder on the Optional Put Date at

104.59 per cent. of their principal amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit during normal business hours at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the then current form obtainable from the specified office of any Paying Agent (“**Optional Put Exercise Notice**”) together with the Certificate evidencing the Bonds to be redeemed not earlier than 60 days and not later than 30 days prior to the Optional Put Date.

An Optional Put Exercise Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal) and the Issuer shall redeem the Bonds the subject of the Optional Put Exercise Notice delivered as aforesaid on the Optional Put Date.

(F) Purchase

The Issuer, the Guarantor or any of its Subsidiaries may, subject to applicable laws and regulations, at any time and from time to time purchase Bonds at any price in the open market or otherwise.

(G) Cancellation

All Bonds which are redeemed, converted or purchased by the Issuer, the Guarantor or any of its Subsidiaries, will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

(H) Redemption Notices

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition 8 will be irrevocable and will be given in accordance with Condition 11 specifying: (a) the Conversion Price as at the date of the relevant notice; (b) the last day on which Conversion Rights may be exercised; (c) the Closing Price of the Shares on the latest practicable date prior to the publication of the notice; (d) the Early Redemption Amount, (e) the date for redemption; (f) the manner in which redemption will be effected; (g) the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice; and (h) such other information as the Trustee may require.

If more than one notice of redemption is given (being a notice given by either the Issuer or a Bondholder pursuant to this Condition), the first in time shall prevail. Neither the Trustee nor the Agents shall be responsible for calculating or verifying the Early Redemption Amount under this Condition 8 and any other calculations of any amounts payable under these Conditions and will not be responsible to Bondholders for any loss arising from any failure by it to do so. For the avoidance of doubt, the Issuer shall be responsible for calculating or verifying the calculations of any amounts payable under these Conditions.

9. Taxation

All payments made by or on behalf of the Issuer (or, as the case may be, the Guarantor) in respect of the Bonds shall be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Island, the Cayman Islands, Hong Kong or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law.

In such event, the Issuer (or, as the case may be, the Guarantor) shall pay such additional amounts (“**Additional Tax Amounts**”) as will result in the receipt by the Bondholders of such amounts as would have

been received by them had no such deduction or withholding been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:

- (i) *Other connection:* to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the British Virgin Islands, the Cayman Islands or Hong Kong, other than the mere holding of the Bond or by the receipt of amounts in respect of the Bond; and
- (ii) *Presentation more than 30 days after the relevant date:* (in the case of a payment of principal) if the Certificate in respect of such Bond is surrendered more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the relevant Certificate for payment on the last day of such period of 30 days.

“Relevant Date” means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.

References in these Conditions to principal, premium (if any), default interest (if any) or any other amount payable in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

For the avoidance of doubt, neither the Issuer nor the Guarantor, as the case may be, shall be required to pay any Additional Tax Amount in respect of the Bonds, or otherwise indemnify a holder for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 to 1474 of the Code, any regulations or agreement thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

10. Events of Default

If any of the following events (each an **“Event of Default”**) occurs, the Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount of the Bonds then outstanding, or if so directed by an Extraordinary Resolution, shall (subject in either case to the Trustee first being indemnified and/or secured and/or pre-funded by the holders to its satisfaction), give notice in writing to the Issuer and the Guarantor that the Bonds are, and they shall immediately become due and repayable at the Early Redemption Amount to the date of payment (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6) if:

- (i) *Non-Payment:* the Issuer (or as the case may be, the Guarantor) fails to pay the principal, premium (if any) or default interest (if any) on any of the Bonds when due and the default continues for a period of seven days; or
- (ii) *Breach of Other Obligations:* the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not remedied within 30 days after written notice of such default shall have been given to the Issuer or the Guarantor, as applicable, by the Trustee; or
- (iii) *Failure to deliver Shares:* any failure by the Guarantor to deliver any Shares as and when the Shares are required to be delivered following conversion of Bonds and such failure continues for a period of seven days; or

- (iv) *Cross-Default*: (a) any other present or future indebtedness of the Issuer, the Guarantor or any of their Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (b) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (c) the Issuer, the Guarantor or any of their Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(iv) have occurred equals or exceeds €35 million or its equivalent (as determined on the basis of the middle spot rate for the relevant currency against the Euro as quoted by any leading bank on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantee or indemnity); or
- (v) *Enforcement Proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer, the Guarantor or any of the Principal Subsidiaries and is not discharged or stayed within 30 days; or
- (vi) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any of the Principal Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) against any material part of the property, asset or revenues of the Issuer, the Guarantor or any of the Principal Subsidiaries and is not discharged within 30 days; or
- (vii) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Issuer, the Guarantor or any of the Principal Subsidiaries (except for a members' voluntary solvent winding up of a Subsidiary) and such order is not discharged within 30 days, or the Issuer, the Guarantor or any of the Principal Subsidiaries ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (a) on terms approved by an Extraordinary Resolution of the Bondholders, or (b) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Guarantor or another Principal Subsidiary; or
- (viii) *Insolvency*: the Issuer, the Guarantor or any of the Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Guarantor or any of the Principal Subsidiaries; an administrator or liquidator of the Issuer, the Guarantor or any of the Principal Subsidiaries or of the whole or any material part of the assets and revenue of the Issuer, the Guarantor or any of the Principal Subsidiaries is appointed (or application for any such appointment is made) and such appointment is not discharged within 30 days; or
- (ix) *Nationalisation*: any step is lawfully taken by a competent governmental authority with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer, the Guarantor or any of the Principal Subsidiaries; or

- (x) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Bonds and the Trust Deed, (b) to ensure that those obligations are legally binding and enforceable, and (c) to make the Bonds and the Trust Deed admissible in evidence in the courts of the British Virgin Islands, Cayman Islands or Hong Kong is not taken, fulfilled or done; or
- (xi) *Illegality*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed; or
- (xii) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 10(i) to 10(xi).

For the purposes of this Condition 10:

“Principal Subsidiary” means any Subsidiary of the Guarantor:

- (a) as to which one or more of the following conditions is satisfied:
 - (i) its revenue or (in the case of a Subsidiary of the Guarantor which itself has Subsidiaries) consolidated revenue attributable to the Guarantor is at least five per cent. of the consolidated revenue of the Guarantor and its Subsidiaries, including the Guarantor and its consolidated Subsidiaries’ share of revenue of Subsidiaries not consolidated and of associated entities and after adjustments for minority interests; or
 - (ii) its gross assets or (in the case of a Subsidiary of the Guarantor which itself has Subsidiaries) consolidated gross assets attributable to the Guarantor are at least five per cent. of the sum of (x) the consolidated gross assets of the Guarantor and its Subsidiaries, and (y) the Guarantor and its consolidated Subsidiaries’ share of the gross assets or (in the case of a Subsidiary of the Guarantor which itself has Subsidiaries) consolidated gross assets of each Subsidiary of the Guarantor whose accounts are not consolidated with the accounts of the Guarantor and after adjustment for minority interests; or
 - (iii) its profit after tax or (in the case of a Subsidiary of the Guarantor which itself has Subsidiaries) consolidated profit after tax attributable to the Guarantor, is at least five per cent. of the consolidated profit after tax of the Guarantor and its Subsidiaries, including the Guarantor and its consolidated Subsidiaries’ share of profit after tax of Subsidiaries not consolidated and of associated companies and after adjustments for minority interests,

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) (or, if not available, the latest management accounts) of the Subsidiary of the Guarantor and the then latest audited consolidated financial statements of the Guarantor provided that: (A) in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest relevant audited accounts relate, the reference to the then latest audited accounts for the purposes of the calculation above shall, until audited accounts for the financial period in which the acquisition is made are published, be deemed to be a reference to the accounts adjusted to consolidate the latest audited accounts of the Subsidiary in the accounts; (B) if, in the case

of a Subsidiary of the Guarantor which itself has one or more Subsidiaries, no consolidated accounts are prepared and audited, its consolidated revenue, gross assets and profit after tax shall be determined on the basis of pro forma consolidated accounts of the relevant Subsidiary and its Subsidiaries prepared for this purpose by the Guarantor; (C) if, in the case of a Subsidiary, no accounts are audited, its revenue, gross assets and profit after tax (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Guarantor; and (D) if the accounts of a subsidiary of the Guarantor (not being a Subsidiary referred to in proviso (A) above of this definition) are not consolidated with those of the Guarantor, then the determination of whether or not such subsidiary of the Guarantor is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts of the Guarantor and its Subsidiaries; or

- (b) to which is transferred all or substantially all of the assets of a Subsidiary of the Guarantor which immediately prior to the transfer was a Principal Subsidiary, provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (notwithstanding paragraph (a) above) and the Subsidiary of the Guarantor to which the assets are so transferred shall become or remain a Principal Subsidiary, provided that on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Principal Subsidiary shall be determined pursuant to the provisions of paragraph (a) above.

A certificate of a director of the Guarantor certifying that, in his opinion, a Subsidiary is or is not, or was or was not, a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Bondholders. The certificate shall be accompanied by an extraction of the figures used and of the calculations made by the Guarantor in determining the Principal Subsidiaries of the Guarantor.

11. Notices

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the Register or published in a leading newspaper having general circulation in Hong Kong or, if such publication is not practicable, in an English language newspaper having general circulation in Asia (which is expected to be the *Asian Wall Street Journal*). Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed, as the case may be.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear, Clearstream or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to Bondholders shall be given by delivery of the relevant notice to Euroclear, Clearstream or the Alternative Clearing System for communication by it to entitled accountholders in substitution for notification as required by the Conditions, and such notice shall be deemed to be received by the Bondholders on the date of delivery of such notice to Euroclear, Clearstream or the Alternative Clearing System.

12. Prescription

Claims in respect of amounts due in respect of the Bonds shall be prescribed and become void unless made as required by Condition 7 within five years (in the case of default interest) and 10 years (in the case of principal or other sums payable hereunder) from the appropriate Relevant Date.

13. Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar or any Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity and/or security as the Issuer and the Registrar or such Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14. Meetings of Bondholders, Modification, Waiver and Substitution

(A) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including, without limitation, the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Agency Agreement. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if requested in writing to do so by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding and subject to it first being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (a) to modify the maturity of the Bonds, the Optional Redemption Date or the Optional Put Date, (b) to modify the circumstances in which the Issuer or Bondholders are entitled to redeem the Bonds pursuant to Conditions 8(B), 8(C), 8(D) or 8(E), (c) to reduce or cancel the principal amount, any premium payable, any default interest payable or Equivalent Amount payable in respect of the Bonds or changing the method of calculation of interest, (d) to change the currency of denomination or payment of the Bonds, (e) to modify (except by a unilateral and unconditional reduction in the Conversion Price) or cancel the Conversion Rights, (f) to modify or cancel the Guarantee, or (g) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 66 per cent., or at any adjourned meeting not less than 33 per cent., in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that (a) a written resolution signed by or on behalf of the holders of not less than 90 per cent. in nominal amount of Bonds for the time being outstanding or (b) a resolution passed by Electronic Consent (as defined in the Trust Deed) shall be as valid and effective as a duly passed Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(B) Modification and Waiver

The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (a) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions (together the “**Documentation**”) which in the Trustee’s opinion is of a formal, minor or technical nature, or is made to correct a manifest error, or to comply with mandatory provisions of law, and (b) any other modification to the Documentation (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Documentation which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may, without the consent of the

Bondholders, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, any such modification, authorisation or waiver shall be notified by the Issuer to the Bondholders promptly in accordance with Condition 11.

(C) Substitution

The Trustee may (but shall not be obliged to), without the consent of the Bondholders, agree to the substitution in place of the Issuer (or any previous substitute or substitutes under this Condition 14(C)) as the principal debtor under the Bonds and the Trust Deed of any Subsidiary of the Guarantor subject to (a) the Bonds being unconditionally and irrevocably guaranteed by the Guarantor, and (b) the Bonds continuing to be convertible or exchangeable into Shares as provided in these Conditions mutatis mutandis as provided in these Conditions, subject to in any such case, certain other conditions set out in the Trust Deed being complied with. Any such substitution shall be binding on the Bondholders and shall be notified by the Issuer to the Bondholders promptly in accordance with Condition 11.

(D) Entitlement of the Trustee

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those in relation to any proposed modification, authorisation or waiver referred to in this Condition 14) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim from the Issuer, the Guarantor or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders.

In the event of the passing of an Extraordinary Resolution in accordance with Condition 14(A), a modification, waiver or authorisation in accordance with Condition 14(B) or a substitution in accordance with Condition 14(C), the Issuer will procure that the Bondholders be notified in accordance with Condition 11.

15. Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice to the Issuer or the Guarantor, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and the Bonds, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or shall have been so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount of the Bonds then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

16. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including from taking proceedings or other action unless indemnified and/or secured and/or pre-funded of its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Guarantor without accounting for any profit.

The Trustee may rely without liability to Bondholders on any report, confirmation or certificate or any advice of any accountants, lawyers, financial advisers, financial institution or any other expert, whether or not

addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Guarantor, the Trustee and the Bondholders.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision or giving any such direction, to seek directions from the Bondholders by way of Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction as a result of seeking such direction from the Bondholders or in the event that no direction is given to the Trustee by the Bondholders.

None of the Trustee or any of the Agents shall be responsible for the performance of the Issuer, the Guarantor or any other person appointed by any of them under or in relation to the Bonds, the Trust Deed, the Agency Agreement and any other document referred to herein or therein or of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. The Trustee will not be responsible for having acted on a resolution purporting to have been passed at a meeting of Bondholders.

The Trustee shall have no obligation to monitor or supervise the performance or functions of any other person under the Trust Deed, the Agency Agreement or the Bonds or any other agreement or document. The Trustee shall be under no obligation to monitor any financial performance of the Issuer or the Guarantor and the Trustee shall not be responsible to Bondholders for any loss arising from any failure to do so.

Each Bondholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer and the Guarantor, and the Trustee shall not at any time have any responsibility for the same and each Bondholder shall not rely on the Trustee in respect thereof.

17. Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the date of issue and the timing for filing to the NDRC) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed.

18. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999 (the “Act”), but this shall not affect any right or remedy which exists or is available apart from the Act and is without prejudice to the rights of the Bondholders as contemplated in Condition 15.

19. Governing Law and Submission to Jurisdiction

(A) *Governing Law*

The Bonds, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(B) *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Trust Deed and the Agency Agreement (“**Proceedings**”) may be brought in such courts. Pursuant to the Trust Deed, the Issuer and the Guarantor have irrevocably submitted to the jurisdiction of such courts and waived any objections to Proceedings in any such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(C) *Agent for Service of Process*

Pursuant to the Trust Deed, each of the Issuer and the Guarantor has irrevocably appointed Vistra Trust Company Limited as its authorised agent for service of process in England to receive service of process in any Proceedings in England.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. Terms defined in the Terms and Conditions of the Bonds have the same meaning in the paragraphs below. The following is a summary of those provisions:

The Global Certificate will be registered in the name of a nominee (the “**Registered Holder**”) for a common depositary for Euroclear and Clearstream (the “**Common Depositary**”) and may be delivered on or prior to the original issue date of the Bonds.

Upon the registration of the Global Certificate in the name of any nominee for Euroclear and Clearstream and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream will credit each subscriber with a nominal amount of Bonds equal to the nominal amount thereof for which it has subscribed and paid.

Each of the persons shown in the records of Euroclear, Clearstream or any other clearing system (“**Alternative Clearing System**”) as the holder of a Bond represented by the Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer or the Guarantor, as the case may be, to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer or the Guarantor in respect of payments due on the Bonds for so long as the Bonds are represented by the Global Certificate and such obligations of the Issuer and the Guarantor will be discharged by payment to the Registered Holder of the Global Certificate in respect of each amount so paid.

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates (“**Definitive Certificates**”) if either Euroclear or Clearstream (or any Alternative Clearing System) as shall have been designated by the Issuer and notified in writing to the Trustee on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. The Global Certificate contains provisions that apply to the Bonds that it represents, some of which modify the effect of the terms and conditions of the Bonds set out in this Offering Circular. The following is a summary of certain of those provisions:

Meetings

The registered holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each €1,000 in principal amount of Bonds for which the Global Certificate is issued. The Trustee may (but is not obliged to) allow a person with an interest in the Bonds in respect of which the Global Certificate has been issued to attend and speak at a meeting of Bondholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Bonds by the Issuer following its redemption or purchase will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

Trustee's Powers

In considering the interests of Bondholders while the Global Certificate is held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Bonds represented by the Global Certificate.

Conversion

Subject to the requirements of Euroclear and Clearstream (or any Alternative Clearing System), the Conversion Right attaching to a Bond in respect of which the Global Certificate is issued may be exercised by the presentation thereof to or to the order of the Principal Agent of one or more conversion notices duly completed by or on behalf of a holder of a book-entry interest in such Bond. Deposit of the Global Certificate with the Principal Agent together with the relevant conversion notice(s) shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holder of the Global Certificate.

Payments

Payments of principal and interest in respect of Bonds represented by the Global Certificate will be made without presentation or if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

Each payment will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

Redemption at the option of the Issuer

The options of the Issuer provided for in Conditions 8(B) and 8(C) shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by Conditions 8(B) and 8(C).

Bondholder's Tax Option

The option of Bondholders not to have the Bonds redeemed as provided in Condition 8(B) shall be exercised by the presentation to any Paying Agent, or to the order of such Paying Agent, of a duly completed and signed notice of exercise within the time limits set out in and containing the information required by Condition 8(B).

Bondholder's Redemption

The Bondholder's redemption options in Conditions 8(D) and 8(E) may be exercised by the holder of the Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise (if required) within the time limits specified in the Conditions.

Registration of Title

Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which the Global Certificate is issued, except if either Euroclear or Clearstream (or any Alternative Clearing System) is closed for business for a continuous period of fourteen (14) days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

Transfers

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

Enforcement

For all purposes, each person who is for the time being shown in the records of Euroclear or of Clearstream (or of any Alternative Clearing System) as a holder of a particular principal amount of Bonds in respect of which the Global Certificate has been issued, (in which regard any certificate or other document issued by Euroclear or Clearstream or any Alternative Clearing System as to the principal amount of Bonds represented by the Global Certificate standing to the account of any person shall be conclusive and binding for all purposes) shall be recognised as the holder of such principal amount of Bonds.

Electronic Consent and Written Resolution

While the Global Certificate is registered in the name of any nominee for a clearing system, then:

- (a) approval of a resolution proposed by the Issuer, the Guarantor or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Bonds outstanding (an "Electronic Consent" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held, and shall be binding on all Bondholders whether or not they participated in such Electronic Consent; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer, the Guarantor and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee and communicated through the electronic systems of the relevant clearing system(s) in accordance with their operating rules and procedures and provided that, in each case, the Issuer, the Guarantor and the Trustee

have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Bondholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, “commercially reasonable evidence” includes any certificate or other document issued by Euroclear, Clearstream or any other relevant clearing system, or issued by an accountholder of them. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream’s Creation Online system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Bonds is clearly identified together with the amount of such holding. Neither the Issuer, the Guarantor nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS

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

<u>Name of shareholder</u>	<u>Nature of interest</u>	<u>Number of Shares held</u>	<u>Approximate percentage of all Shares in Issue⁽¹⁾</u>
Decade Sunshine Limited (“DSL”) ⁽²⁾⁽⁶⁾	Beneficial owner	476,774,553 ^(L)	18.78%
Century Sunshine Limited (“CSL”) ⁽²⁾⁽⁶⁾	Interest in a controlled corporation	476,774,553 ^(L)	18.78%
XING Lily ⁽³⁾	Interest in a controlled corporation ⁽²⁾⁽⁶⁾	476,774,553 ^(L)	18.78%
	Interest of spouse ⁽³⁾	50,446,010 ^(L)	1.99%
	Total:	527,220,563 ^(L)	20.77%
Lambda International Limited ⁽²⁾⁽⁶⁾	Interest in a controlled corporation	476,774,553 ^(L)	18.78%
TMF (Cayman) Ltd. ⁽⁴⁾	Trustee	582,323,543 ^(L)	22.94%
CS Sunshine Investment Limited ⁽⁵⁾	Beneficial owner	472,212,360 ^(L)	18.60%
CPEChina Fund, L.P. ⁽⁵⁾	Interest in a controlled corporation	472,212,360 ^(L)	18.60%
CITIC PE Associates, L.P. ⁽⁵⁾	Interest in a controlled corporation	472,212,360 ^(L)	18.60%
CITIC PE Funds Limited ⁽⁵⁾	Interest in a controlled corporation	472,212,360 ^(L)	18.60%
CITICPE Holdings Limited ⁽⁵⁾	Interest in a controlled corporation	472,212,360 ^(L)	18.60%
CLSA Global Investment Management Limited ⁽⁵⁾	Interest in a controlled corporation	472,212,360 ^(L)	18.60%
CITIC Securities International Company Limited ⁽⁵⁾	Interest in a controlled corporation	472,212,360 ^(L)	18.60%
CITIC Securities Company Limited ⁽⁵⁾	Interest in a controlled corporation	472,212,360 ^(L)	18.60%
Gaoling Fund, L.P. ⁽⁶⁾	Beneficial owner	223,514,977 ^(L)	8.80%
Hillhouse Capital Advisors, Ltd. ⁽⁶⁾	Investment manager	229,371,477 ^(L)	9.04%
JPMorgan Chase & Co.	Interest in a controlled corporation	18,273,573 ^(L)	0.72%
		11,845,496 ^(S)	0.47%
	Investment manager		
	Person having a security interest in shares	101,938,533 ^(L)	4.02%
	Approved lending agent	30,983,722 ^(L)	1.22%
	Total:	151,195,828 ^(L)	5.96%
		11,845,496 ^(S)	0.47%

Notes:

- (L): denotes long position
- (S): denotes short position
- (P): denotes lending pool

- (1) The calculation is based on the total number of 2,538,511,132 Shares in issue as of the date of this Offering Circular.
- (2) DSL (a company controlled by LOU Jing) is wholly-owned by CSL and therefore CSL was deemed to be interested in 476,774,553 Shares held by DSL; further, 42.60% and 35.65% of CSL were respectively controlled by XING Lily and Lambda International Limited, who were therefore deemed to be interested in such 476,774,553 Shares.
- (3) XING Lily's spouse, LOU Jing, was interested in 50,446,010 Shares and therefore XING Lily was deemed to be interested in the same number of Shares.
- (4) TMF (Cayman) Ltd. was the trustee with respect to four unnamed trusts, which respectively were interested in 476,774,553, 37,516,980, 18,246,000, and 49,786,010 Shares, and therefore TMF (Cayman) Ltd. was deemed to be interested in all such Shares.
- (5) CS Sunshine Investment Limited was wholly-owned by CPEChina Fund, L.P. The general partner of CPEChina Fund, L.P. was CITIC PE Associates, L.P., an exempted limited partnership registered under the laws of the Cayman Islands whose general partner was CITIC PE Funds Limited, an exempted company incorporated in the Cayman Islands with limited liability. CITICPE Holdings Limited exercised 100% control over CITIC PE Funds Limited. 35% of CITICPE Holdings Limited was controlled by CLSA Global Investment Management Limited, which therefore is deemed to be interested in the Shares in which CITICPE Holdings Limited was interested. CITIC Securities International Company Limited exercised 100% control over CLSA Global Investment Management Limited. CITIC Securities Company Limited exercised 100% control over CITIC Securities International Company Limited.
- (6) On 18 March 2020, DSL, a company that is controlled by LOU Jing, entered into an agreement that involved the delivery of 134,391,234 Shares, representing approximately 4.83% of the total issued share capital of the Company, to one of the investment funds of Hillhouse Capital Advisors, Ltd., an existing shareholder of the Company. The disposal of 122,592,477 Shares was completed on 31 March 2020. For details, please refer to the Company's announcement dated 19 March 2020.

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

As at the date of this Offering Circular, the following Directors had interests in the Shares as disclosed below:

Name	Position	Nature of interest	Number of Shares held	Approximate percentage of all Shares in issue⁽¹⁾
LOU Jing ⁽²⁾	Executive Director	Beneficial owner	660,000 ^(L)	0.03%
		Beneficiary of a trust	49,786,010 ^(L)	1.96%
		Other	476,774,553 ^(L)	18.78%
		Total:	527,220,563 ^(L)	20.77%
SU Dongmei ⁽³⁾	Executive Director	Interest in controlled corporation	24,384,630 ^(L)	0.96%
		Beneficial owner	660,000 ^(L)	0.03%
		Total:	25,044,630 ^(L)	0.99%
Huang Bin ⁽⁴⁾	Non-executive Director	Interest in controlled corporation	32,197,350 ^(L)	1.27%

Notes:

(L): denotes long position

- (1) The calculation is based on the total number of 2,538,511,132 Shares in issue as of the date of this Offering Circular.
- (2) LOU Jing was granted 660,000 share options by the Company on 2 February 2017, representing 660,000 Shares upon full exercise. LOU Jing was a beneficiary under an unnamed trust which was interested in 41,746,000 Shares that was held on trust for LOU Jing.

and in another 8,040,010 Shares held by it, and therefore LOU Jing was deemed to be interested in all such Shares. On 18 March 2020, DSL, a company that is controlled by LOU Jing, entered into an agreement that involved the delivery of 134,391,234 Shares, representing approximately 4.83% of the total issued share capital of the Company, to one of the investment funds of Hillhouse Capital Advisors, Ltd., an existing shareholder of the Company. The disposal of 122,592,477 Shares was completed on 31 March 2020. For details, please refer to the Company's announcement dated 19 March 2020.

- (3) SU Dongmei directly holds the entire issued share capital of Joint Palace Group Limited (“**JPG**”) and therefore, was deemed to be interested in the same number of the Shares in which JPG was interested (i.e. 24,384,630 Shares); and, SU Dongmei was granted 660,000 share options by the Company, representing 660,000 Shares upon full exercise.
- (4) HUANG Bin directly holds the entire issued share capital of Known Virtue International Limited (“**KVI**”) and therefore, was deemed to be interested in the same number of the Shares in which KVI was interested (i.e., 32,197,350 Shares).

DESCRIPTION OF THE SHARES

Set out below is certain selected information concerning the share capital of the Company and a summary of certain provisions of the Memorandum of Association (the “**Memorandum**”) and Articles of Association (the “**Articles**”) of the Company. This summary does not purport to be complete and is qualified in its entirety by reference to the Memorandum and Articles. The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9 August 2006 under the Companies Law, Cap 22. (Law 3 of 1961 as consolidated and revised) of the Cayman Islands (the “**Cayman Companies Law**”). The Memorandum and the Articles comprise the Company’s constitution.

Memorandum of Association

The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

Share Capital

The share capital of the Company consists of ordinary shares. The current authorised share capital of the Company is US\$500,000 consisting of 50,000,000,000 shares of US\$0.00001 each.

Articles of Association

The Articles were conditionally adopted on 23 May 2015 with effect from 11 June 2015. The following is a summary of certain provisions of the Articles:

Directors

Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Cayman Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Cayman Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting.

Compensation or payments for loss of office

Pursuant to the Articles, payments to any director or past director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the director is contractually entitled) must be approved by the Company in general meeting.

Loans and provision of security for loans to directors

There are provisions in the Articles prohibiting the making of loans to directors.

Disclosure of interests in contracts with the Company or any of its subsidiaries.

A director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Companies Law and the Articles, no director or proposed or intended director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or

place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any director is in any way interested be liable to be avoided, nor shall any director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such director holding that office or the fiduciary relationship thereby established. A director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- any contract or arrangement for giving to such director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- any contract or arrangement in which the director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

Remuneration

The ordinary remuneration of the directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as directors.

Any director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a director. An executive director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any director or ex-director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

Retirement, appointment and removal

At each annual general meeting, one third of the directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every director shall be subject to retirement at an annual general meeting at least once every three years. The directors to retire by rotation shall include any director who wishes to retire and not offer himself for re-election. Any further directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of directors upon reaching any age limit. The directors shall have the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy on the board or as an addition to the existing board. Any director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a director nor an alternate director is required to hold any shares in the Company by way of qualification.

A director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such director may have for damages for any breach of any contract between him and the Company) and the members may by ordinary resolution appoint another in his place at the meeting at which such director is removed. Unless otherwise determined by the Company in general meeting, the number of directors shall not be less than two. There is no maximum number of directors.

The office of director shall be vacated:

- if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the board;
- becomes of unsound mind or dies;
- if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- if he is prohibited from being a director by law;
- if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such director or directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes provided that the approval of the annual budget of the Company and its subsidiaries shall require the approval of at least 80 per cent of the directors voting in favour at a meeting of the board. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

Register of Directors and Officers

The Cayman Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers, alternate directors and officers. The Registrar of Companies in the

Cayman Islands shall make available the list of the names of the current directors of the Company (and where applicable the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar of Companies within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Companies Law:

- increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Cayman Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual

general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any director. No member (other than a director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

Notices of meetings and business to be conducted thereat

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- the declaration and sanctioning of dividends;
- the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- the election of directors in place of those retiring;
- the appointment of auditors and other officers;
- the fixing of the remuneration of the directors and of the auditors;
- the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- the granting of any mandate or authority to the directors to repurchase securities of the Company.

Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Cayman Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

Power for the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

Dividends and other methods of distribution

Subject to the Cayman Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares

may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Cayman Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised below.

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands (the “**Court**”) may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company’s affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company’s capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company’s memorandum and articles of association.

Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

RELATED PARTY TRANSACTIONS

The Company has in the past engaged in transactions with its related parties. The Company expects that it will continue to engage in certain of these related party transactions in the future.

For the years ended 31 December 2017, 2018 and 2019, the significant related party transaction of the Company was as follows:

On 26 May 2017, Zhejiang Wansheng provided a loan, the principal amount of which being RMB10,000,000, to Beijing Huansheng at an interest rate of 4.35% per annum with the maturity date on 26 May 2018. Pursuant to a supplemental agreements dated on 27 May 2018 and 27 May 2019, the maturity dates were extended to 26 May 2019 and 27 May 2020, respectively. During the year ended 31 December 2019, Beijing Huansheng repaid interest of RMB410,000 to Zhejiang Wansheng. The accrued interest for the year of 2019 was RMB435,000 (2018: RMB435,000).

On 11 August 2017 and 18 September 2017, Shenyang Sunshine provided entrusted loans, the principal amounts of which being RMB20,000,000 and RMB10,000,000, to Zhejiang Sunshine at an annual interest rate of 3.48% with the maturity dates on 11 August 2018 and 18 September 2018, respectively. Pursuant to a supplemental agreements dated on 9 August 2018, the maturity dates were extended to 8 August 2019. On 8 August 2019, Zhejiang Sunshine repaid RMB31,016,000, including loan principal and interest, to Shenyang Sunshine.

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

On 8 August 2019, Shenyang Sunshine provided an entrusted loan, the principal amounts of which being RMB30,000,000, to Zhejiang Sunshine at an annual interest rate of 3.48% per annum with the maturity date on 7 August 2020. The accrued interest for the year of 2019 was RMB962,000 (2018: RMB936,000).

On 17 July 2018, Strategic International entered into a loan agreement with Medical Recovery to provide a loan of USD30,000,000 at an interest rate of 4% per annum with the maturity date on 16 July 2019. Pursuant to a supplemental agreement dated on 16 July 2019, the maturity date was extended to 17 July 2020. The accrued interest for the year of 2019 was RMB11,835,000 (2018: RMB3,432,000).

On 24 December 2018, Shenyang Sunshine provided a loan of RMB100,000, to Sunshine Bio-Pharmaceutical Fund. On 15 March 2019, Sunshine Bio-Pharmaceutical Fund repaid the loan principal entirely.

On 29 December 2014 and 9 January 2015, Century Sunshine provided a loan of USD12,700,000 and USD3,100,000, respectively, to Hongkong Sansheng. Hongkong Sansheng repaid Century Sunshine a loan of USD5,500,000 partially during 2017, which was equivalent to RMB37,135,000. As at 31 December 2019, the balance was RMB71,855,000.

On 8 August 2018, Xing Sheng provided a loan of RMB1,100,000 to Zhejiang Sunshine with no maturity date and non-interest-earning.

Details of the related party transactions for the years ended 31 December 2017 and 2018 are set out in Note 42 to each of the auditors' reports included in the Company's 2017 and 2018 annual reports. Details of the related party transactions for the year ended 31 December 2019 are set out in Note 41 to the auditors' report included in the Company's 2019 annual report.

Copies of the Company's 2017, 2018 and 2019 annual reports can be downloaded from the website of the HKSE at <http://www.hkexnews.hk> and the website of the Company at <http://www.3sbio.com>.

REGULATORY OVERVIEW

REGULATORY OVERVIEW

This section is a summary of the key PRC laws and regulations relating to the business and operations carried out by its PRC subsidiaries, as well as regulations on product liability and product safety in other countries where the Group intends to significantly expand its business.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Enterprises Establishment

The Company Law of the PRC (《中華人民共和國公司法》) promulgated by the Standing Committee of the National People's Congress (the “NPC”) on 29 December 1993, and subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018, governs the establishment, operation and management of corporate entities in the PRC. There are two types of companies in the PRC, namely limited liability companies and joint stock limited companies.

The Law of the PRC on Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》) (the “WFOE Law”) promulgated by the NPC and effective on 12 April 1986, and subsequently amended by the Standing Committee of the NPC on 31 October 2000 and 3 September 2016, and its Implementation Rules approved on 28 October 1990 by the State Council and promulgated by the Ministry of Foreign Economic Relations and Trade (which changed to the MOFCOM on 12 December 1990 and subsequently amended on 12 April 2001 and 19 February 2014, governs the establishment, operation and management of wholly foreign-owned enterprises (“WFOEs”). However, the WFOE Law was repealed by the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “Foreign Investment Law”), which was promulgated by the NPC on 15 March 2019 and became effective on 1 January 2020. According to the Foreign Investment Law, foreign investment means any investment activity directly or indirectly carried out in the PRC by one or more foreign natural persons, enterprises or other organisations (“Foreign Investor(s)”), and specifically stipulates three forms of investment activities as foreign investments, namely, (a) the establishment of a foreign-invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor, (b) the obtaining of shares, equities, assets interests or any other similar rights or interests of an enterprise in the PRC by a Foreign Investor and (c) the investment in any new construction project in the PRC by a Foreign Investor, either individually or collectively with any other investor, and investment in any other manner stipulated under the laws, administrative regulations or provisions prescribed by the State Council. Foreign investment in the territory of the PRC shall be governed by this law. The State implements the management systems of pre-establishment national treatment and negative list for foreign investment. The pre-establishment national treatment refers to the treatment given to foreign investors and their investments during the investment access stage, which should not be lower than that given to their domestic counterparts; negative list refers to special administrative measures for the access of foreign investment in specific fields as stipulated by the State. The State shall give national treatment to foreign investment beyond the negative list.

Foreign Investment Industrial Guidance Catalogue

The Catalogue of Industries for Encouraged Foreign Investment (2019 Edition) (《鼓勵外商投資產業目錄 (2019 年版)》) (the “Foreign Investment Catalogue (2019)”) 30 June 2019, which became effective on 30 July 2019. The Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) (《外商投資准入特別管理措施 (負面清單) (2019 年版)》) (the “Negative List”) was jointly promulgated by the NDRC and the MOFCOM on 30 June 2019 and became effective on 30 July 2019. The Negative List stipulates the requirements of equity share, officer and other aspects of special administrative measures. Foreign investors

shall not invest in the industries prohibited by the Negative List, shall obtain permission before investing in the non-prohibited industries, and shall not establish foreign-invested partnerships in the industries subject to equity share requirements.

PRC REGULATORY FRAMEWORK IN RELATION TO THE PHARMACEUTICAL INDUSTRY

According to the Institutional Reform Programme of the State Council promulgated by the PRC National People's Congress on 17 March 2018 ("**2018 Institutional Reform**"), the National Health and Family Planning Commission ("**NHFPC**", 國家衛生和計劃生育委員會) was incorporated into the NHC and the functions of the China Food and Drug Administration ("**CFDA**", 國家食品藥品監督管理總局) with respect to drug supervision will be transferred to the National Medical Products Administration ("**NMPA**", 國家藥品監督管理局), an organisation under the supervision of State Administration for Market Regulation ("**SAMR**", 國家市場監督管理總局), a national institution for supervising and administering the market in China. Both NHFPC and the CFDA are not retained following the structure reform of administrative organs led by the State Council.

The NMPA (國家藥品監督管理局), a department under the State Administration for Market Regulation, is responsible for the registration, supervision and administration of drugs, cosmetics and medical devices. It is in charge of drafting the laws and regulations on drug administration; enacting, promulgating drug standards regulations and supervising the implementation of drug standard, such as the Pharmacopoeia of the PRC (《中華人民共和國藥典》) and rules on classified management; and establishing and implementing the inspection system on drug administration.

The NHC is responsible for drafting the national health policy; coordinating and promoting the deepening reform of medicine and health; establishing a national essential drug system; regulating and administering public health, medical services and health contingency systems; the administration of family planning and relevant services; and drawing up measures to cope with the ageing population and the combination of recuperation and treatment.

China's pharmaceutical industry is highly regulated by the PRC government. The Pharmaceutical Administration Law of the PRC (《中華人民共和國藥品管理法》) (the "**Pharmaceutical Administration Law**"), as effective on 1 July 1985 and amended on 28 February 2001, 28 December 2013, 24 April 2015 and 26 August 2019 (became effective on 1 December, 2019) provides the basic legal framework for the administration of the production and operation of pharmaceutical products in the PRC and covers the manufacturing, distribution, packaging, pricing and advertising of pharmaceutical products. Its implementation regulations set out detailed implementation rules with respect to the administration of pharmaceutical products in the PRC.

PRC LAWS AND REGULATIONS RELATING TO THE MANUFACTURE OF PHARMACEUTICAL PRODUCTS

Manufacturers of pharmaceutical products in the PRC must obtain a variety of permits, licences and registrations of pharmaceutical products before commencing operations and production. These include a business licence, a pharmaceutical production licence, a GMP certification, and approval and registration documents in relation to the pharmaceutical products to be produced.

Pharmaceutical Production Licence and Business Licence

According to the Pharmaceutical Administration Law, in order to commence the production of pharmaceuticals a manufacturer of pharmaceutical products must obtain a pharmaceutical production licence from one of the competent medical product administrations under the local people's government at provincial level branches. Prior to granting such licence, the relevant government authority will inspect the manufacturer's production

facilities, and decide whether its sanitary conditions, quality assurance system, management structure and equipment meet the required standards. According to the Regulations of Implementation of the Law of the PRC on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法實施條例》 the “**Implementing regulations**”), effective on 15 September 2002 and amended on 6 February 2016 and 2 March 2019, a pharmaceutical production licence is valid for five years and may be renewed at least six months prior to its expiration date according to the relevant rules of the drug supervisory department of the State Council.

In addition, before commencing business, a pharmaceutical manufacturer must obtain a business licence from the SAMR, and the business scope of such a business licence must include pharmaceutical manufacturing.

GOOD MANUFACTURING PRACTICES OR GMP

The Administrative Measures Governing the Production Quality of Pharmaceutical Products (《藥品生產質量管理規範》) (the “**Administrative Measures for Production**”), effective on 1 March 2011, provides detailed guidelines on practices governing the production of pharmaceutical products. A GMP certification certifies that a manufacturer’s factory has met certain criteria in the Administrative Measures for Production, which includes: institution and staff qualifications, production premises, facilities and equipment, hygiene conditions, production management, quality controls, product operation, maintenance of sales records and manner of handling customer complaints and adverse feedbacks. According to the Administrative Measures for Certification of the Good Manufacturing Practices (《藥品生產質量管理規範認證管理辦法》), effective on 2 August 2011, a manufacturer of pharmaceutical products shall reapply for the GMP certification six months prior to its expiration date.

According to the newly revised Pharmaceutical Administration Law and Notice on Fully Implementation of Items Relating to the Pharmaceutical Administration Law (關於貫徹實施《中華人民共和國藥品管理法》有關事項的公告) issued by the NMPA on 29 November 2019, GMP certification is officially canceled as of 1 December 2019. Whilst the GMP certificate is canceled, a manufacturer of pharmaceutical products shall still meet the GMP standard so as to comply with the revised Pharmaceutical Administration Law. In particular, the manufacturer of pharmaceutical products shall abide by the GMP standards, and shall establish a sound manufacturing system to ensure the continuous compliance of drug manufacturing with statutory requirements throughout the whole process.

PRC LAWS AND REGULATIONS RELATING TO THE REGISTRATION AND CLASSIFICATION OF PHARMACEUTICAL PRODUCTS

Several modifications and amendments were made to the laws and regulations relating to the registration and classification of pharmaceutical products.

On 1 July 1985, the MOH promulgated and implemented the Measures for New Drug Approval (《新藥審批辦法》), which set out the standards for the classification of new traditional Chinese drugs and Western drugs, excluding new biological products. On the same date, the MOH promulgated and implemented the Measures for New Biological Product Approval (《新生物製品審批辦法》), which set out the standards for the classification of new biological products.

In May 1999, the NMPA amended the Measures for New Drug Approval and the Measures for New Biological Product Approval.

On 30 October 2002, the NMPA promulgated the Measures for the Administration of Drug Registration (Trial) (《藥品註冊管理辦法（試行）》), which took effect on 1 December 2002 and superseded the Measures for New Drug Approval and the Measures for New Biological Product Approval.

On 28 February 2005, the NMPA promulgated the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》) (the “**Measures for Drug Registration**”), which took effect on 1 May 2005 and superseded the Measures for the Administration of Drug Registration (Trial).

The Measures for Drug Registration were subsequently amended. The amended version was promulgated on 10 July 2007 and implemented on 1 October 2007 by the NMPA, and has remained in effect to date.

In accordance with Exhibit II of the Measures for Drug Registration, new chemical drugs are divided into six classes as follows:

1. Drugs that have not been launched in China or abroad;
2. Drugs with a new method of administration and that have not been launched in China or abroad;
3. Drugs that have been launched abroad but not in China;
4. Drugs or active pharmaceutical ingredients containing an acid radical, base or metallic element that is different from a launched product but with the same pharmacological effects as the launched product;
5. Drugs with a new format but the same method of administration as a product already launched in China; and
6. Drugs or active pharmaceutical ingredients with established national standards.

In accordance with the Exhibit III of the Measures for Drug Registration, biological products include biological products for therapeutic uses and biological products for preventive uses. Biological products for therapeutic uses are divided into 15 classes as follows:

1. Biological products that have not been launched in China or abroad;
2. Monoclonal antibody;
3. Gene therapy, somatic cell therapy and their products;
4. Allergen products;
5. Biologically active multi-component products extracted from the tissues or bodily fluids of humans or animals, or prepared by fermentation;
6. New combination products made from biological products already launched;
7. Biological products that have been launched abroad but not in China;
8. Microecological products containing previously unapproved strains;
9. Products not launched in China or abroad and are not identical to previously launched products (with differences such as mutations, deficiency of the amino acid residues; creation, elimination of or post-translational modifications due to different expression systems; and chemical modifications on the products);

10. Products that have a different preparation method from previously launched products (such as using different expression systems or host cells);
11. Products that are first prepared using recombinant DNA technologies (for example, replacing synthetic extraction or fermentation technologies);
12. Products with the method of administration changed from non-injection to injection or from topical administration to systemic administration and that have not been launched in China or abroad;
13. Biological products with a new format but the same method of administration as a previously launched product;
14. Biological products with a new method of administration and not classified into one of the above classes; and
15. Biological products with established national standards.

The New Administrative Measures for Drug Registration (the “**New Measures for Drug Registration**”) were promulgated by the State Administration for Market Regulation on 22 January 2020, and shall come into force as of 1 July 2020. According to the New Measures for Drug Registration, drug registration shall be subject to classified registration administration in terms of traditional Chinese medicines, chemical drugs and biological products, etc: (1) registration of traditional Chinese medicines shall be classified by innovative traditional Chinese medicines, modified new traditional Chinese medicines, traditional Chinese medicine compound preparations of ancient classical prescriptions and medicines with the same names and the same prescriptions, etc; (2) registration of chemical drugs shall be classified by innovative chemical drugs, modified new chemical drugs and generic drugs, etc. (3) registration of biological products shall be classified by innovative biological products, modified new biological products and marketed biological products (including biosimilars), etc. Refined classification of traditional Chinese medicines, chemical drugs and biological products, etc., and the corresponding requirements for application materials shall be formulated upon organisation by the NMPA according to the product characteristics, innovation level, and review management needs of registered drugs, and shall be made public. The application for registration of drugs manufactured overseas shall be subject to refined classification of drugs and the corresponding requirements for application materials.

PRC LAWS AND REGULATIONS RELATING TO THE REGISTRATION OF PHARMACEUTICAL PRODUCTS

Registration of New Drugs

In accordance with the Measures for Drug Registration, effective on 1 October 2007, the application for new drugs refers to the application for the registration of drugs that have not been marketed in China. The application for changing the dosage form or route of administration, or claiming a new indication for marketed drugs, shall be submitted as a new drug application.

All new drug applications must undergo four phases before launch: preclinical research, phase I clinical trial (preliminary pharmacology and human safety evaluation trials); phase II clinical trial (a preliminary assessment on the therapeutic efficacy); and phase III clinical trial (confirmation of the therapeutic efficacy). After the new drug is launched, a phase IV clinical trial is conducted to assess the product’s efficacy and adverse reactions when widely used.

The preclinical research for drug registration application includes synthetic processes, extraction methods, physical and chemical properties, purity, selection of dosage forms, screening of formula, preparation processes, testing methods, quality specifications, stability, pharmacology, toxicology and animal pharmacokinetics. For biological products, it also includes a study on the source, quality specifications, storage conditions, biological characteristics and genetic stability of the starting materials such as bacterial and viral seeds/strains, cell lines, bio-tissues, and immunological study, etc.

Upon completion of the preclinical research, new drug applicants must obtain approval from the NMPA prior to commencing clinical trials. Application materials must first be submitted to the NMPA at the provincial level. Upon receipt of the application, the NMPA at the provincial level will review the applicant's submission and conduct on-site inspections. The NMPA at the provincial level will then submit its inspection opinion and report, as well as the application materials to the NMPA. If the drug to be registered is a biological product, sample drugs must be examined by the drug inspection bureau, which will provide a verification report to the NMPA. Upon receipt of the above materials, the NMPA will conduct both technical and non-technical reviews of the application to decide whether to grant an approval for clinical trials.

After the completion of the clinical trials, the applicant shall submit an application form and supporting materials to the NMPA at the provincial level and the National Institute for the Control of Pharmaceutical and Biological Products. The NMPA at the provincial level will conduct on-site inspections and a preliminary review of the application materials. For drugs other than biological products, sample drugs must be taken for verification by the drug inspection bureau. After their inspections and assessment of the application, the NMPA at the provincial level and the drug inspection bureau will report to the NMPA, which will conduct a final assessment to consider whether to grant an approval for registration of the new drug. If approved, the applicant will be granted a new drug certificate, and the applicant may also be granted a drug approval number if it has obtained a pharmaceutical production licence and may commence mass production of the new drug.

To protect public health, the NMPA may set an observation period of up to five years in respect of any new drug approved for production. During the observation period, the drug manufacturer shall investigate the manufacturing processes, quality, stability, therapeutic effect and adverse reactions etc. of the new drug and report annually to the NMPA at the provincial level. The NMPA shall not approve other manufacturers to produce, change dosage form of or import the drug during the monitoring period.

The State encourages the research and development of new drugs and adopts a special review and approval process with respect to innovative drugs and new drugs for serious and life-threatening diseases to address unmet medical needs. In accordance with the Provisions on the Administration of Special Examination and Approval of Registration of New Drugs (《新藥註冊特殊審批管理規定》), effective on 7 January 2009, a new drug application that meets certain requirements will be given priority in the review and approval process. In addition, the applicant is entitled to provide additional materials during the review period in addition to those requested by the NMPA, and will have access to enhanced communication channels with the NMPA.

Registration of Generic Drugs

In accordance with the Measures for Drug Registration, applications for generic drugs refer to applications for producing drugs approved by the NMPA to be marketed in China and have existing national standards for production. Pharmaceutical manufacturers are required to register their generic drugs in the form of an application for recognition of compliance with national standards before commencement of manufacturing of such products. Applications for biological products are required to undergo the process for new drug applications.

To apply for approval to manufacture a drug with existing national standards, the applicant must submit, among other things, relevant information prepared in accordance with the relevant national standards to the NMPA at

the provincial level, which will then review the applicant's submission and conduct an on-site inspection. Three consecutive production batches of drug samples will be collected from the applicant's production site for examination by the drug inspection bureau appointed by the NMPA. After the preliminary review, the NMPA at the provincial level and the drug inspection bureau will submit the relevant materials and inspection report to the NMPA, which will conduct a final assessment of the application to consider whether an approval should be granted. If approved, the applicant will be granted a drug approval number or an approval for drug clinical trials. After completing drug clinical trials, the applicant shall submit clinical trial data to the NMPA. The NMPA shall issue a drug approval number or a disapproval notice based on the technical review opinions.

Application for Non-prescription Drugs

In accordance with the Measures for Drug Registration, for any of the following circumstances: (1) alteration of the dosage form of a non-prescription drug determined by the NMPA without changing the indications or functions, dosage and route of administration; or (2) formulation of a new fixed dose combination using active ingredients of non-prescription drugs determined by the NMPA, the applicant may apply in accordance with the requirement of non-prescription drug, and indicate the item of non-prescription drug in the "additional application items" of the Application Form for Drug Registration. If relevant requirements for non-prescription drugs apply, the drug shall be reviewed and approved, and regulated as a non-prescription drug; if relevant requirements for non-prescription drugs do not apply, it shall be reviewed and approved, and regulated as a prescription drug.

Re-registration

According to the Measures for Drug Registration, an approval number for medicine issued by the NMPA is valid for five years and the applicant shall apply to the relevant NMPA for renewal six months prior to its expiration date.

PRC LAWS AND REGULATIONS RELATING TO THE DISTRIBUTION OF PHARMACEUTICAL PRODUCTS

A distributor of pharmaceutical products, must obtain a variety of permits and licences before commencing its operations. These include a business licence, a pharmaceutical operation permit and a GSP certificate.

Pharmaceutical Operation Permit and Business Licence

The establishment of a wholesale pharmaceutical distribution company requires the approval of the NMPA at the provincial level, while the establishment of a retail pharmaceutical distribution company requires the approval of the NMPA above the county level. Upon approval, the authority will grant a pharmaceutical operation permit. According to The Measures for the Administration of Pharmaceutical Operation Permit (《藥品經營許可證管理辦法》), effective on 1 April 2004 and amended on 17 November 2017, the pharmaceutical operation permit is valid for five years and may be renewed at least six months prior to its expiration date upon a re-examination by the original authority granting the permit.

In addition, before commencing business, a wholesale or retail pharmaceutical distribution company must also obtain a business licence from the SAMR, and the business scope of such business licence must include pharmaceutical operations.

GOOD SUPPLY PRACTICES OR GSP

Each retail or wholesale operator of pharmaceutical products is required to obtain a GSP certificate from the NMPA at the provincial level. According to the Administrative Measures for Certification of Good Supply

Practices (《藥品經營質量管理規範認證管理辦法》), promulgated and effective on 24 April 2003, and Administrative Measures Governing the Supply Quality of Pharmaceutical Products (《藥品經營質量管理規範》), effective on 13 July 2016, the GSP certificate is valid for five years and may be renewed three months prior to its expiration date upon a re-examination by the NMPA at the provincial level.

According to the newly revised Pharmaceutical Administration Law and Notice on Fully Implementation of Items Relating to the Pharmaceutical Administration Law (關於貫徹實施《中華人民共和國藥品管理法》有關事項的公告) issued by the NMPA on 29 November 2019, GSP certification is officially canceled as of 1 December 2019. Whilst the GSP certificate is canceled, a retail or wholesale operator of pharmaceutical products shall still meet the GSP standard so as to comply with the revised Pharmaceutical Administration Law. In particular, the retail or wholesale operator of pharmaceutical products shall abide by the GSP standards.

PRC LAWS AND REGULATIONS RELATING TO COMMERCIAL BRIBERY WITH RESPECT TO THE PHARMACEUTICAL INDUSTRY

Medical production and operation enterprises involved in criminal, investigative or administrative procedure for commercial bribery shall be listed in the Adverse Records of Commercial Bribery by provincial health and family planning administrative department. Pursuant to the Provisions on the Establishment of Adverse Records of Commercial Bribery in the Medicine Purchase and Sales Industry (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》) enforced on 1 March 2014 by the NHFPC, if medical production and operation enterprises are listed into the Adverse Records of Commercial Briberies for the first time, their products shall not be purchased by public medical institutions, and medical and health institutions receiving financial subsidies in a local province for two years since publication of the record, and public medical institutions, and medical and health institutions receiving financial subsidies in other province shall lower their rating in the bidding or purchasing process. If medical production and operation enterprises are listed in the Adverse Records of Commercial Bribery more than once in five years, their products shall not be purchased by public medical institutions, and medical and health institutions receiving financial subsidies nationwide for two years from the publication of the record.

Pursuant to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) (the “**Anti-Unfair Competition Law**”), which was promulgated on 2 September 1993 and became effective on 1 December 1993 and amended on 4 November 2017 and 23 April 2019, a business operator may not use bribery to buy or sell products. A business operator may offer discounts or commissions to other parties on explicit terms. Such discounts and commissions, if offered, must be accurately recorded by each party in their respective accounts. The Anti-Unfair Competition Law also requires that bidders in a tendering process shall not collude with each other to raise or reduce bids.

Pursuant to the Notice on Issuing the Working Plans of the Ministry of Health and the State Administration of Traditional Chinese Medicine on Establishing and Improving the Long-term Mechanism for the Prevention and Control of Commercial Bribery in Medical and Pharmaceutical Sales (關於印發《衛生部、國家中醫藥管理局關於建立健全防控醫藥購銷領域商業賄賂長效機制的工作方案》), issued on 7 December 2006, government branches should formulate behavioural guidelines for medical and pharmaceutical sales representatives, and monitor and regulate the behaviours of these sales representatives.

PRC LAWS AND REGULATIONS RELATING TO THE PROTECTION OF PHARMACEUTICAL PRODUCTS

Protection under Patent Law

Pharmaceutical inventions became patentable after the PRC Patent Law (《中華人民共和國專利法》) (effective on 1 April 1985 and amended in 1992, 2000 and 2008) was amended on 4 September 1992 and enforced on 1 January 1993. Patents are divided into three categories: inventions, utility-models and designs. The term

“invention” refers to any new technical solution relating to a product, a process or an improvement thereof. The term “utility model” refers to any new technical solution relating to a product’s shape, structure, or a combination thereof, which is fit for practical use. The term “design” refers to any new design of a product’s shape, pattern or a combination thereof, as well as the combination of the colour and the shape or pattern of a product that is aesthetically fit for industrial application.

Under the PRC Patent Law, the term of patent protection starts from the date the patent was filed, instead of the date it was issued. Patents relating to inventions are effective for 20 years from the initial date the patent application was filed. Patents relating to utility-models and designs are effective for ten years from the initial date the patent application was filed. Any persons and entities using the patent in the absence of authorisation from the patent owner or conducting other activities that infringe upon patent rights will be held liable for compensation to the patent owner, subject to fines charged by the relevant administrative authorities and may include criminal liabilities.

Protection under Trademark Law

The PRC Trademark Law (《中華人民共和國商標法》) was promulgated in 1982 and enforced on 1 March 1983 (later amended in 1993, 2001, 2013 and on 1 November 2019), and the PRC Trademark Implementing Regulations (《中華人民共和國商標法實施條例》) were promulgated on 2 August 2002 and effective on 15 September 2002 and amended on 29 April 2014. These laws provide the basic legal framework for the regulation of trademarks in the PRC. The Trademark Office of the National Intellectual Property Administration (the “NIPA”) is responsible for the registration and administration of trademarks throughout the country. The period of validity of a registered trademark is ten years from the date of registration; renewal is allowed thereafter and the period of validity of each renewal of registration is ten years. The SAIC has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law; where the case is so serious as to constitute a crime, it shall be transferred to the judicial authority for handling.

PRC LAWS AND REGULATIONS RELATING TO RESTRICTIONS ON ADVERTISING OF PHARMACEUTICAL PRODUCTS

According to the Pharmaceutical Administration Law, the contents of pharmaceutical advertisement must be true, legitimate, based on the directions for use as approved by the competent advertisement censorship authority determined by the people’s government of the relevant province and free from misrepresentation. Advertisements of pharmaceuticals shall not contain any unscientific assertion or guarantee on effects, and shall not be endorsed using the names and images of government bodies, pharmaceutical scientific research units, academic organisations, experts, scholars, physicians and patients. The advertisements of non-pharmaceuticals shall not be included in the advertisements of pharmaceuticals.

Pursuant to the Interim Administrative Measures for Censorship of Advertisements for Drugs, Medical Devices, Dietary Supplements and Foods for Special Medical Purpose (《藥品、醫療器械、保健食品、特殊醫學用途配方食品廣告審查管理暫行辦法》), which were promulgated on 24 December 2019, and came into effect on 1 March 2020, An advertisement for drug, medical device, dietary supplement or food for special medical purpose shall prominently indicate the advertisement approval number.. The validity period of the advertisement approval number concerning a drug, medical device, dietary supplement or food for special medical purpose shall be consistent with that of the registration certificate or record-filing certificate or the production licence of the product, whichever is the shortest. Where no validity period is set forth in the registration certificate, record-filing certificate or the production licence of the product, the advertisement approval number shall be valid for two years.

In particular, an application for a drug advertising approval code shall be filed with the advertisement censorship authority, who shall censor the materials submitted by each applicant and complete the censorship within ten

working days as of the date of acceptance ; and upon censorship, decide to approve the advertisement that conforms to laws, administrative regulations and these measures and issue an advertisement approval number therefor.

PRC LAWS AND REGULATIONS RELATING TO THE PACKAGING AND NAME OF PHARMACEUTICAL PRODUCTS

The Packaging

According to the Pharmaceutical Administration Law, the Regulations of Implementation of the Law of the PRC on the Administration of Pharmaceuticals and the Measures for The Administration of Pharmaceutical Packaging (《藥品包裝管理辦法》) effective on 1 September 1988, immediate packaging materials and containers shall meet the requirements for medical use and the standards for ensuring human health and safety, and shall be approved by the NMPA for registration. The NMPA shall promulgate the registered immediate packaging materials and containers catalogue and implement registration management to the products of the catalogue. Pharmaceutical packaging must comply with the provisions of the national standard and professional standard. If there is no existing standards, the enterprise can formulate its own standard after obtaining the approval of the NMPA at the provincial level or local bureau of standards. The enterprise shall reapply if it needs to change the packaging standard. Drugs without packaging must not be sold in the PRC (except for drugs supplied to the army). The application for changing the packaging would constitute part of a supplemental application.

Pharmaceutical Directions and Labels

Pursuant to the Administrative Provisions on Pharmaceutical Directions and Labels (《藥品說明書和標籤管理規定》) effective on 1 June 2006, pharmaceutical directions and labels shall be subject to the ratification of the NMPA. The labels of a pharmaceutical shall be based on its directions, and the contents thereof shall not exceed the scope of the directions, and may not be printed with any word or mark that implies the curative effect, misleads the usage or inappropriately advertises the product. The package of a pharmaceutical must be printed or affixed with the label according to the provisions, and shall not carry other literal or video materials or other information that advertises the product or the enterprise. The smallest packages produced by a pharmaceutical manufacturing enterprise for sale on the market must be attached with directions. The pharmaceutical directions, the interior labels and exterior labels as well as names shall comply with the relevant provisions.

Pharmaceutical Name

According to the Notice on the Supplemental Provisions Concerning the Registration Management of Pharmaceutical Products promulgated by NMPA (《國家食品藥品監督管理局印發關於藥品註冊管理的補充規定的通知》) on 23 December 2003, the brand name of pharmaceutical products is the brand name the new drug intends to use, which shall be applied by the pharmaceutical manufacturer together with the application for new drug registration. There are different time limits on adding the brand name to the new drug depending on whether the new drug has an inspection period or not.

Pursuant to the Pharmaceutical Administration Law, the names of the pharmaceuticals listed in the State pharmaceutical standards are the generic names of the pharmaceuticals. Those names that have become the generic names of pharmaceuticals shall not be used as trademarks of pharmaceuticals. The Pharmaceutical products use generic names, the same prescription or the same type of pharmaceutical products uses the same name. The generic names must be used on the pharmaceutical directions and labels

The Pharmacopoeia of the PRC (《中華人民共和國藥典》) (the prevailing version is the 2015 first supplemental edition effective on 1 January, 2019) and the pharmaceutical standards promulgated by the NMPA shall be the State pharmaceutical standards. The generic names of pharmaceutical products shall be the names listed in the Pharmacopoeia of the PRC. The Pharmacopoeia Committee organised by the NMPA shall be responsible for the formulation and revision of the State pharmaceutical standards.

PRC LAWS AND REGULATIONS RELATING TO THE EXPORT OF PHARMACEUTICAL PRODUCTS

According to the Approval by the NMPA on Certain Issues of Pharmaceutical Products Export (《國家藥品監督管理局關於藥品出口有關問題的批復》), promulgated and effective on 20 September 1999, whether the enterprise can obtain the right to operate import and export business and the qualification shall be approved by relevant foreign trade authority. The pharmaceutical products export shall mainly comply with the requirements of the importing country, so long as there are no special requirement by the importation country, the NMPA support the export in principal based on the national policy of encouraging exports. However, under the Pharmaceutical Administration Law, the export licences issued by the relevant NMPA are required for the export of narcotics and psychotropic substances falling within the restricted scope prescribed by the State.

SUPERVISION AND ADMINISTRATION OF DRUG CIRCULATION

The Measures on the Supervision and Administration of Drug Circulation (《藥品流通監督管理辦法》), which was issued on 31 January 2007 and effected on 11 May 2007, provide detail rules for the transactions, transportation and storage of drugs by pharmaceutical manufacturing enterprises as well as drug purchases and storage by medical institution and the supervision and administration of the above.

The Several Opinions of the General Office of the State Council on Further Reforming and Improving the Policies on Drug Production, Circulation and Use (《國務院辦公廳關於進一步改革完善藥品生產流通使用政策的若干意見》) issued on 24 January 2017, requires promoting the transformation and upgrading of drug distributors, breaking the market division and local protectionism for pharmaceutical products, promoting cross-regional and mixed-ownership mergers and acquisitions of pharmaceutical distributors, and cultivating large, modern and backbone drug distributors; encouraging small- and medium-sized drug distributors to conduct specialised operations and facilitate the distribution-model transformation of certain enterprises, encouraging drug distributors to participate in the building of an international drug procurement and marketing network.

PRC LAWS AND REGULATIONS RELATING TO THE NATIONAL MEDICAL INSURANCE PROGRAMME AND THE PRICE CONTROLS OF PHARMACEUTICAL PRODUCTS

Reimbursement under the National Medical Insurance Programme

Pursuant to the Decision of the State Council on the Establishment of the Urban Employee Basic Medical Insurance Programme (《國務院關於建立城鎮職工基本醫療保險制度的決定》) issued by the State Council on 14 December 1998 which took effect on the same day, all employers in urban cities are required to enrol their employees in the basic medical insurance programme and the insurance premium is jointly contributed by the employers and employees. The State Council promulgated Guiding Opinions of the State Council about the Pilot Urban Resident Basic Medical Insurance (《國務院關於開展城鎮居民基本醫療保險試點的指導意見》) on 10 July 2007 which took effect on the same day, under which urban residents of the pilot district, rather than urban employees, may voluntarily join the Urban Resident Basic Medical Insurance. Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) which was promulgated by the Standing Committee of the NPC on 28 October 2010, and became effective on 1 July 2011, and amended on 29 December 2018, all employees are required to enrol in the basic medical insurance programme and the insurance premium is jointly contributed by the employers and employees as required by the State.

The Notice Regarding the Tentative Measures for the Administration of the Scope of Medical Insurance Coverage for Pharmaceutical Products for Urban Employee (《關於印發城鎮職工基本醫療保險用藥範圍管理暫行辦法的通知》) (“**Measures for the Administration of the Scope of Medical Insurance Coverage for**

Pharmaceutical Products”), jointly issued by several authorities including the Ministry of Labour and Social Security and MOF, among others, on 12 May 1999, provides that a pharmaceutical product listed in the Medical Insurance Catalogue must be clinically needed, safe, effective, reasonably priced, easy to use, available in sufficient quantity, and must meet the following requirements:

- it is set forth in the Pharmacopoeia (the prevailing version) of the PRC;
- it meets the standards promulgated by the NMPA; and
- if imported, it is approved by the NMPA for import.

According to Measures for the Administration of the Scope of Medical Insurance Coverage for Pharmaceutical Products, the PRC Ministry of Labour and Social Security, together with other government authorities (including NDRC, MOFCOM, MOF, MOH, NMPA and State Administration of Traditional Chinese Medicine of the PRC), has the power to determine the medicines included in the NMIC, which is divided into two parts, Part A and B. Provincial governments are required to include all Part A medicines listed on the NMIC in their provincial Medical Insurance Catalogue, but have the discretion to adjust upward or downward by no more than 15% from the number of Part B medicines listed in the NMIC. As a result, the contents of Part B of the provincial Medical Insurance Catalogues may differ from region to region in the PRC.

Patients purchasing medicines included in Part A of the Medical Insurance Catalogue are entitled to reimbursement in accordance with the regulations in respect of basic medical insurance. Patients purchasing medicines included in Part B of the Medical Insurance Catalogue are required to pay a certain percentage of the purchase price and the remainder of the purchase price shall be reimbursed in accordance with the regulations in respect of basic medical insurance. The percentage of reimbursement for Part B medicines is stipulated by local authorities and, as a result, may differ from region to region in the PRC.

National Essential Drug List

On 18 August 2009, MOH and eight other ministries and commissions in the PRC issued the Provisional Measures on the Administration of the National Essential Drug List (《國家基本藥物目錄管理辦法》(暫行)) (the “**Measures on Essential Drugs**”) that became effective on the same day and amended on 13 February 2015. The National Essential Drugs List (2018 version) (《國家基本藥物目錄 (2018 年版)》), which was issued on 30 September 2018 and effected on 1 November 2018, provides the basis for the health institution at all levels about equipping and using of such drugs. The Guidelines on the Implementation of the National List of Essential Drugs System (《關於建立國家基本藥物制度的實施意見》) (the “**Essential Drugs Guidelines**”) aim to promote essential medicines sold to consumers at fair prices in the PRC and ensure that the general public in the PRC has equal access to the drugs contained in the National Essential Drug List. MOH promulgated the National Essential Drug List on 13 March 2013 which became effective on 1 May 2013.

According to these regulations, basic healthcare institutions funded by government, which primarily include county-level hospitals, county-level Chinese medicine hospitals, rural clinics and community clinics, shall store up and use drugs listed in the National Essential Drug List. The drugs listed in the National Essential Drug List shall be purchased by a centralised tender process and shall be subject to the price control by NDRC. Remedial drugs in the National Essential Drug List are all listed in the Medical Insurance Catalogue and the entire amount of the purchase price of such drugs is entitled to reimbursement.

Price Controls

According to the Pharmaceutical Administration Law, the Regulations of Implementation of the Law of the PRC on the Administration of Pharmaceuticals, the pharmaceutical products are subject to a fixed or directive pricing

system or one to be adjusted by the market. Those pharmaceutical products included in the Medical Insurance Catalogues and the National Essential Drug List, and the drugs the production or trading of which is deemed to constitute monopolies, are subject to price controls by the PRC government in the form of fixed retail prices or maximum retail prices. Manufacturers and distributors cannot set the actual retail price for any given price controlled product above the maximum retail price or deviate from the fixed retail price set by the government. The retail prices of pharmaceutical products subject to price controls are administered by the NDRC and provincial and regional price control authorities. From time to time, the NDRC publishes and updates a list of pharmaceutical products subject to price controls. According to the Notice Regarding Measures on Government Pricing of Pharmaceutical Products Issued by NDRC (《國家計委關於印發藥品政府定價辦法的通知》) effective on 25 December 2000, maximum retail prices for pharmaceutical products shall be determined based on a variety of factors, including production costs, the profit margins that the relevant government authorities deem reasonable, the product's type, and quality, as well as the prices of substitute pharmaceutical products.

Further, pursuant to the Notice Regarding Further Improvement of the Order of Market Price of Pharmaceutical Products and Medical Services (《關於進一步整頓藥品和醫療服務市場價格秩序的意見》) jointly promulgated by the NDRC, the State Council Legislative Affairs Office and the State Council Office for Rectifying, the MOH, the NMPA, the MOFCOM, the MOF and Ministry of Labour and Social Security on 19 May 2006 and effective on the same day, the PRC government exercises price control over pharmaceutical products included in the Medical Insurance Catalogues and makes an overall adjustment of their prices by reducing the retail price of certain overpriced pharmaceutical products and increasing the retail price of certain underpriced pharmaceutical products in demand for clinical use but that have not been produced in large quantities by manufacturers due to their low retail price level. In particular, the retail price charged by hospitals at the county level or above may not exceed 115% of the procurement cost of the relevant pharmaceutical products or 125% for Chinese herbal pieces.

On 9 February 2015, the General Office of the State Council issued the Guiding Opinion on Enhancing Consolidated Procurement of Pharmaceutical Products by Public Hospitals (《國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見》). The opinion encourages public hospitals to consolidate their demands and to play a more active role in the procurement of pharmaceutical products. Hospitals are encouraged to settle the prices of pharmaceutical products directly with manufacturers. Consolidated procurement of pharmaceutical products should facilitate hospital reform, reduce patient costs, prevent corrupt conducts, promote fair competition and induce the healthy growth of the pharmaceutical industry. According to the opinion, provincial tendering processes will continue to be used for the pricing of essential drugs and generic drugs with significant demands, and transparent multi-party price negotiation will be used for some patented drugs and exclusive drugs.

On 4 May 2015, the NDRC, the NHFPC, the MOHRSS, the Ministry of Industry and Information Technology of the PRC, the MOF, the MOFCOM and the NMPA issued the Opinion on Furthering Pharmaceutical Price Reform (《推進藥品價格改革的意見》) (the “**Price Reform Opinion**”) and the Notice on Issuing the Opinion on Furthering Pharmaceutical Price Reform (《關於印發推進藥品價格改革意見的通知》) (the “**Price Reform Notice**”). Pursuant to the Price Reform Notice, government price controls on pharmaceutical products (other than narcotic drugs and certain psychiatric drugs) will be lifted on 1 June 2015. According to the Price Reform Opinion, after price controls are lifted, prices of pharmaceutical products will be mainly determined by market competition. Instead of direct price controls, the government will regulate prices mainly by establishing a consolidated procurement mechanism, revising medical insurance reimbursement standards and strengthening regulation of medical and pricing practices.

PRC LAWS AND REGULATIONS RELATING TO LABOUR PROTECTION

Under the Labour Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the Standing Committee of the NPC on 5 July 1994 and became effective on 1 January 1995 and subsequently amended on 27 August 2009 and 29 December 2018, the PRC Labour Contract Law (《中華人民共和國勞動合同法》), which

was promulgated by the Standing Committee of the NPC on 29 June 2007 and became effective on 1 January 2008 and subsequently amended on 28 December 2012 and became effective on 1 July 2013 and the Implementing Regulations of the Labour Contract Law (《中華人民共和國勞動合同法實施條例》), which were promulgated by the State Council and became effective on 18 September 2008, labour contracts in written form shall be executed to establish labour relationships between employers and employees. Wages cannot be lower than the local minimum wage. Employers must establish a comprehensive management system to protect the rights of their employees, including a system governing occupational health and safety to provide employees with occupational training to prevent occupational injury, and employers are required, when employing labour, to truthfully inform prospective employees of the job description, working conditions, location, occupational hazards and status of safe production as well as remuneration and other conditions as requested by the Labour Contract Law of the PRC.

Pursuant to the Law of Manufacturing Safety of the PRC (《中華人民共和國安全生產法》) promulgated on 29 June 2002 and effective on 1 November 2002 and amended on 27 August 2009 and 31 August 2014, manufacturers must establish a comprehensive management system to ensure manufacturing safety in accordance with applicable laws and regulations. Manufacturers not meeting the relevant legal requirements are not permitted to commence their manufacturing activities.

PRC LAWS AND REGULATIONS RELATING TO SOCIAL INSURANCE AND HOUSING PROVIDENT FUNDS

Pursuant to applicable PRC laws, rules and regulations, including the Social Insurance Law of the PRC which was promulgated by the Standing Committee of the NPC on 28 October 2010 and became effective on 1 July 2011, the Interim Regulations on the Collection and Payment of Social Security Funds (《社會保險費征繳暫行條例》), which were promulgated by the State Council and became effective on 22 January 1999 and amended on 24 March 2019, the Interim Measures concerning Maternity Insurance (《企業職工生育保險試行辦法》), which were promulgated by the PRC Ministry of Labour and Social Security on 14 December 1994 and became effective on 1 January 1995, the Regulations on Work-related Injury Insurance (《工傷保險條例》), which were promulgated by the State Council on 27 April 2003 and became effective on 1 January 2004 and subsequently amended on 20 December 2010, the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), which were promulgated by the State Council and become effective on 3 April 1999 and amended on 24 March 2002 and 24 March 2019, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance, maternity insurance, and housing provident funds. Employers that fail to comply with the above may be ordered by relevant authorities to rectify and subject to fines and be penalties.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Pursuant to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated and effective on 26 December 1989, amended on 24 April 2014 and effective on 1 January 2015, the environmental protection department of the State Council is in charge of promulgating national standards for environmental quality. The provincial governments and local governments in autonomous regions and municipalities may also promulgate local standards for environmental quality on matters not specified under national standards and local governments may promulgate local standards for environmental quality that is stricter than the national standards with respect to the matters already specified under national standards. Local governments must report such standards to the competent department of environmental protection administration under the State Council for record.

Pursuant to the Law on Environmental Impact Studies of the PRC (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and effected on 1 September 2003, amended on 2 July 2016 and effective on

1 September 2016, amended on 29 December 2018, manufacturers must prepare an environmental impact study report setting forth the impacts the proposed construction project may have on the environment and the measures to prevent or mitigate the impacts for approval by the government authority prior to the commencement of construction of the relevant project.

Pursuant to Air Pollution Prevention Law of the PRC (《中華人民共和國大氣污染防治法》), promulgated on 5 September 1987 by the Standing Committee of the NPC and effected on 1 June 1988, amended on 29 August 1995, 29 April 2000, 29 August 2015 and effective on 1 January 2016, 26 October 2018, the ecology and environment authorities above the county level are in charge of supervising and managing the prevention of air pollution. The ecology and environment department under the State Council formulates national standards and the local provincial governments formulate local standards on matters not specified under national standards. Manufacturers discharging polluted air must comply with applicable national and local standards. If a manufacturer emits polluted air exceeding national or local standards, it must correct its action within a certain period of time and the manufacturer may be subject to penalties.

Pursuant to Water Pollution Prevention Law of the PRC (《中華人民共和國水污染防治法》), promulgated by the Standing Committee of the NPC on 11 May 1984, effected on 1 November 1984, amended on 15 May 1996, 28 February 2008, 27 June 2017 and became effective on 1 January 2018, the environmental protection department under the State Council is in charge of promulgating laws and regulations governing national standards relating to discharge of waste water. The state shall implement the rules for the control of total discharge of major water pollutants. The administrative department for environmental protection of the State Council shall jointly report the indicators for controlling the total discharge of major water pollutants with the economic comprehensive macro-control department of the State Council to the State Council for approval and assign the indicators for implementation. Provincial governments may promulgate local waste discharge standards for matters not specified in national standards. Manufacturers must discharge waste water in accordance with national and local standards. Manufacturers discharging waste water must pay waste water treatment fees. If the waste water discharged exceeds national or local standards, the manufacturer is required to pay higher waste water treatment fees. The environmental protection department has the right to order manufacturers which severely pollute water to correct their actions by reducing the amount of discharge during a stipulated period of time, suspend their operation or shutdown.

Pursuant to the Laws of Prevention and Control of Environmental Noise Pollution of the PRC (《中華人民共和國環境噪聲污染防治法》), promulgated on 29 October 1996 and effected on 1 March 1997, and amended on 29 December 2018, the environmental protection department under the State Council is in charge of promulgating national standards for noise control. Local governments at the county level or above shall, in accordance with the national standards for acoustic environmental quality, divide their respective administrative regions into different zones for application of different standards for acoustic environmental quality and exercise control accordingly. Manufacturers releasing noise exceeding national or local standards may be required to correct their actions and be subject to penalties.

PRC LAWS AND REGULATIONS RELATING TO PRODUCT LIABILITY AND PROTECTION OF CONSUMERS

Pursuant to The General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), which became effective from 1 January 1987 and amended on 27 August 2009, manufacturers and sellers of defective products causing property damage or injury shall incur civil liabilities. The Product Quality Law of the PRC (《中華人民共和國產品質量法》) was promulgated in 1993 and amended in 2000 to strengthen quality control of products and protect consumers' rights. Under this law, manufacturers and operators who produce and sell defective products may be subject to the confiscation of the products and earnings from such sales, the revocation of business licences and imposition of fines, and in severe circumstances, may be subject to criminal liability. It was

amended a second time on 12 December 2018, the competent authority has been changed from the product supervision departments to market regulatory authorities.

The Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) was promulgated on 31 October 1993 and was later amended on 25 October 2013 and effective on 15 March 2014 to protect consumers' rights when they purchase or use goods and accept services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers. Under the amendment of 25 October 2013, all business operators shall pay particular attention to protect customers' privacy which they obtain during the business operation. In extreme situations, pharmaceutical product manufacturers and operators may be subject to criminal liability if their goods or services lead to the death or injuries of customers or other third parties.

Under the Tort Law of the PRC (《中華人民共和國侵權責任法》), promulgated by the Standing Committee of the NPC on 26 December 2009 and implemented from 1 July 2010, if damages to other persons are caused by defective products, which resulted from the fault of a third party, such as the parties providing transportation or warehousing, the producers and the sellers of the products have the right to recover their respective losses from such third parties. If defective products are identified after they have been put into circulation, the producers or the sellers shall take remedial measures such as issuance of warning, recall of products, etc. in a timely manner. The producers or the sellers shall be liable under tort if they fail to take remedial measures in a timely manner or do not make efforts to take remedial measures, thus causing damages. If the products are produced and sold with known defects, causing deaths or severe damage to the health of others, the infringed party shall have the right to claim respective punitive damages in addition to compensatory damages.

According to the Measures on Drug Recalling (《藥品召回管理辦法》), which were issued and effected on 10 December 2007, a pharmaceutical manufacturer should establish and improve its recall system by collecting relevant information about drug safety and hold an investigation and evaluation with respect to any drugs with possible potential safety hazards. If the pharmaceutical manufacturer found any possible safety hazards in respect of any drugs sold in the PRC that endanger human health and life, such manufacturer must recall the drug. When a drug is recalled, the pharmaceutical operating entities and users should assist the pharmaceutical manufacturer to perform its recall obligations by communicating the drug recall information, giving any feedback, controlling and recovering such drugs with potential hazards according to the recall plan.

There are two forms of drug recalling: voluntary or mandatory. A pharmaceutical manufacturer should voluntary recall any drugs if it finds such drugs have potential safety hazards. If the pharmaceutical manufacturer should have voluntary recalled its drugs but had not done so, the NMPA would mandatorily order the manufacturer to recall such drugs.

LAWS AND REGULATIONS RELATING TO PRODUCT LIABILITY AND PRODUCT SAFETY IN SELECTED JURISDICTIONS OUTSIDE CHINA

European Union

Two directives of the European Parliament govern the field of product liability and product safety: Council Directive 85/374/EEC of 25 July 1985, on the approximation of the laws, regulations, and administrative provisions of the Member States concerning liability for defective products (the “PLD”) and Directive 2001/95/EC of the European Parliament and of the Council of 3 December 2001, on general product safety (the “GPSD”). In European Community law, a directive is a legislative instrument that is binding on the Member States but leaves them with freedom to determine the form and methods for its implementation.

The PLD establishes a strict liability scheme for producers of defective products. As defined in the PLD, producers include manufacturers, importers, suppliers (if the producers or importers cannot be identified) and any

person who, by putting their name, trademark, or other distinguishing feature on a product, presents themselves as its producer. To trigger strict liability under the PLD, the injured person must demonstrate (1) damage; (2) defect in the product; and (3) a causal relationship between the defect and the damage. When two or more persons are found liable for the same damage, they have joint and several liability.

Under the GPSD, producers should only put safe products on the market, and should provide consumers with all relevant information necessary to assess the risks inherent in a product. Producers subject to the GPSD include manufacturers established in the EU, representatives of manufacturers or importers, if the manufacturers are not established in the EU, and other professionals in the supply chain insofar as their activities may affect product safety.

Thailand

In Thailand, the key pieces of legislation dealing with product liability are the Liability for Damages Arising from Unsafe Product Act (2008) (the “**Product Liability Act**”) and the Consumer Cases Act (2008).

Product Liability Act imposes strict liability on business operators. Business operators are held jointly liable to injured parties who have suffered damage from unsafe products that have been sold, distributed, dispensed or given to consumers by the business operators. As defined in the Product Liability Act, business operators include manufacturers, importers, sellers and persons who use a name, trademark, trade name, mark or statement that would lead to the belief that they are the manufacturer or importer of the product. In order for business operators to be liable under the Product Liability Act, the injured party must prove that (1) they sustained actual damage from the relevant product and (2) the use and storage of the product was done in the normal manner.

The Consumer Cases Act (2008) is intended to give consumers access to cheaper, simpler and swifter legal proceedings. Under the Consumer Cases Act (2008), the Consumer Protection Board is entitled to file a law suit for damages on behalf of an injured party. If the Consumer Protection Board takes up a case, it will bear the cost of litigation, which reduces the burden for persons of limited financial means.

PRC LAWS AND REGULATIONS RELATING TO TAXATION

Enterprise Income Tax

Under the EIT Law and its Implementation Rules (《中華人民共和國企業所得稅法實施條例》) promulgated by the State Council on 6 December 2007 and effective as at 1 January 2008 and last amended on 23 April 2019, the tax rate for both domestic-funded enterprises and foreign-invested enterprises is 25%, and a high-technology enterprise receiving key support from the State enjoys a reduced EIT rate of 15%. High-technology enterprises are enterprises that have their own independent, core intellectual property rights and meet the following conditions: (1) the product (service) falls within the scope of the High and New Technology Areas Entitled to the Key Support of the State; (2) the proportion of research and development expenses to the sales revenues is not lower than the prescribed proportion; (3) the proportion of the income from high and new technology products (services) to the total income of the enterprise is not lower than the prescribed proportion; (4) the proportion of technicians to the total number of staff members of the enterprise is not lower than the prescribed proportion; and (5) other conditions as stipulated in the measures for the determination of high and new technology enterprises. According to the Notice of MST, MOF and SAT on Revision of the Administrative Measures for Determination of High and New Tech Enterprises (《科學技術部、財政部、國家稅務總局關於修訂印發〈高新技術企業認定管理辦法〉的通知》) promulgated on 29 January 2016, high and new tech enterprise qualifications shall be valid for a period of three years from the date of issuance of the certificate, and may be renewed at least three months prior to its expiration date upon a re-examination by the relevant authority.

Under the EIT Law promulgated by the Standing Committee of the NPC on 16 March 2007 and effective as at 1 January 2008 and amended on 24 February 2017, enterprises are classified as either “resident enterprises” or “non-resident enterprises”. Enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and are subject to the uniform 25% EIT rate on their global income. According to the implementation rules of the EIT Law, a “de facto management body” refers to a managing body that exercises, in substance, overall management and control over the manufacture, business, personnel, accounting and assets of an enterprise. However dividends from resident enterprises to their investors, which are treated as resident enterprises, are exempted from withholding tax.

The EIT Law provides that a “non-resident enterprise” is an entity established under foreign law whose “de facto management bodies” are not within the PRC but have an establishment or place of business in the PRC, or do not have an establishment or place of business in the PRC but have income sourced within the PRC. The implementation rules of EIT Law provide that after 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-resident enterprise investors that do not have an establishment or place of business in the PRC, or have such an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. Such a withholding tax rate may be reduced to 5% according to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income, or the Double Tax Avoidance Arrangement, if a Hong Kong resident enterprise is determined by the relevant PRC tax authority to have satisfied the relevant conditions and requirements under the Double Tax Avoidance Arrangement and other applicable laws.

Pursuant to the Announcement on Certain Issues Concerning Enterprise Income Taxes Related to Indirect Transfer of Properties by a Non-resident Enterprise (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), which was promulgated and came into effect on 3 February 2015 by the SAT (“**Circular 7**”), an indirect transfer of properties such as an equity interest in a PRC resident enterprise (“**PRC Taxable Properties**”) by a non-resident enterprise through an arrangement without a reasonable commercial purpose to evade EIT shall be re-defined as a direct transfer of PRC Taxable Properties in accordance with Article 47 of the EIT Law, and proceeds from such transfer shall be subject to EIT in China in accordance with the PRC tax laws. PRC Taxable Properties in this announcement include properties of a PRC entity or establishment located in the PRC, real estate in China and an equity investment in a PRC resident enterprise, that are directly held by a non-resident enterprise. An indirect transfer of PRC Taxable Properties refers to a transaction resulting in an identical or substantially similar consequence to that resulting from a direct transfer of the PRC Taxable Properties involving a transfer by a non-resident enterprise of an equity interest and other similar interests (“**Equity Interest**”) in an overseas enterprise that directly or indirectly holds the PRC Taxable Properties, excluding the PRC resident enterprises registered overseas (the “**Overseas Enterprises**”). Such an indirect transfer includes a change in shareholders of the Overseas Enterprises as a result of the reorganisation of a non-resident enterprise and a non-resident enterprise that indirectly transfers the PRC Taxable Properties is a transferor of the Equity Interest.

Value-Added Tax

Pursuant to the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例》), which were promulgated by the State Council on 13 December 1993 and subsequently amended on 10 November 2008 and 19 November 2017 and their implementation rules (《中華人民共和國增值稅暫行條例實施細則》) amended by the MOF on 28 October 2011 and 19 November 2017, unless stated otherwise, the tax rate for value-added tax (“**VAT**”) payers, selling or importing goods, and providing processing repairs and replacement services in the PRC shall be 17%.

Pursuant to the Notice of the MOF and the SAT on the Policies of Low Value-added Tax Rates and the Simplified Value-added Tax Collection Method Being Applicable to Certain Goods (《財政部、國家稅務總局

關於部分貨物適用增值稅低稅率和簡易辦法徵收增值稅政策的通知》), which was issued on 19 January 2009 and took effect on 1 January 2009, manufacturers of certain products, including biological products made from microbes or their metabolites, animal toxins, or bloods or tissues of humans or animals, may choose to pay VAT at the rate of 6% with the simplified VAT collection method. When the simplified VAT collection method is used, the lower VAT rate is applied but without the deduction of input VAT. Eligible companies that choose to adopt the lower VAT rate and simplified VAT collection method only need to file with the local taxation authorities, and no pre-approval is required. Among its current products, EPIAO, TPIAO, Intefen, Inleusin and SEPO are biological products eligible for the low VAT rate and the simplified VAT collection method. In April 2013, after filing with the applicable taxation authority, the Group started to adopt the 6% VAT rate and the simplified VAT collection method for its eligible products.

Pursuant to the Notice of the MOF and the SAT on the Policy of Simplifying and Consolidating Value-added Tax Collection Rates (《財政部、國家稅務總局關於簡併增值稅徵收率政策的通知》), which was issued on 13 June 2014 and took effect on 1 July 2014, the optional VAT rate for the products described above decreased from 6% to 3%, which the Group adopted in July 2014.

On 23 March 2016, the MOF and the SAT issued the Circular of Full Implementation of Business Tax to VAT Reform (《關於全面推開營業稅改征增值稅試點的通知》, Caishui [2016] No. 36, “**Circular 36**”), which confirms that business tax will be completely replaced by VAT from 1 May 2016. Since then, income derived from the provision of financial services which attracted business tax will be entirely replaced by, and be subject to, VAT.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN CURRENCY EXCHANGE

The principal regulations governing foreign currency exchange in China are the Regulations on Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》) which were promulgated by the State Council on 29 January 1996 and last amended on 5 August 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》) promulgated by the PBOC on 20 June 1996 and became effective on 1 July 1996. Under these rules and other PRC rules and regulations on currency conversion, RMB is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and divided payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of SAFE or its local counterparts is obtained. Foreign investment enterprises (FIEs) in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain supporting documents (such as board resolutions), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain their recurrent exchange earnings according to their needs of operation and the sums retained may be deposited into foreign exchange bank accounts maintained with the designated banks in the PRC. In addition, foreign exchange transactions involving overseas direct investment or investment and exchange in securities and derivative products abroad are subject to registration with SAFE and approval from or filing with the relevant PRC government authorities (if necessary).

On 30 March 2015, the SAFE issued the Notice of the SAFE on the Reform of the Administrative Methods of the Settlement of Foreign Currency Capital of Foreign-invested Enterprises (“**Circular 19**”, 《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), which became effective on 1 June 2015 to reform the administration of conversion of foreign currency registered capitals of FIEs. Circular 19 adopts a concept of “discretionary settlement” as opposed to settlement on a payment basis as set forth in Circular 142. Discretionary settlement is defined in Circular 19 as the settlement of an FIE’s foreign currency registered capital in accordance with the enterprise’s actual business needs. No review of the purpose of the funds is required at the time of settlement under Circular 19. However, use of any RMB funds converted from its registered capital shall be based on true transactions, and the RMB funds obtained by FIEs from the discretionary settlement of foreign currency registered capitals shall be managed under the accounts pending for foreign currency settlement

payment. In addition, equity investments using converted registered capital are no longer prohibited under Circular 19.

Pursuant to the Circular on Further Improving and Adjusting the Direct Investment Foreign Exchange Administration Policies (“**Circular No. 59**”, 《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) promulgated by SAFE on 19 November 2012 and that became effective on 17 December 2012, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment, and for domestic transfer of the foreign exchange under direct investment. Circular No. 59 also simplified the capital verification and confirmation formalities for the FIEs and the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire the equity interests of PRC entities, and further improve the administration on exchange settlement of foreign exchange capital of FIEs.

According to the Circular of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (“**Circular No. 16**”, 《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) promulgated by the SAFE on 9 June 2016, the SAFE decided, based on the summary of the pilot experience in certain regions at the early stage, to promote nationwide the reform of control approaches to foreign exchange settlement of foreign debts of enterprises and in the meantime to unify and regulate the control over discretionary settlement and payment of foreign exchange receipts under capital accounts.

PRC LAWS AND REGULATIONS RELATING TO THE MEDICAL DEVICE OPERATION

In accordance with the Regulations on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), which became effective on 1 April 2000 and was amended on 12 February 2014 (with the amendments becoming effective on 1 June 2014) and 4 May 2017 (with the amendments becoming effective on the same day), the state shall administer the medical devices on the basis of classification according to the degree of risk. Class I medical devices shall refer to those devices with low risk and whose safety and effectiveness can be ensured through routine administration. Class II medical devices shall refer to those devices with medium risk and whose safety and effectiveness should be strictly controlled. Class III medical devices shall refer to those devices with high risk and whose safety and effectiveness must be strictly controlled with special measures. Pursuant to the Measures for the Supervision and Administration of the Operation of Medical Devices (《醫療器械經營監督管理辦法》) promulgated by the NMPA on 30 July 2014 and which became effective on 1 October 2014, and amended on 17 November 2017, the operation of medical devices is administered on the basis of classification according to the degree of risk of medical devices. The operation of Class I medical devices do not need any permission or filing for record, the operation of Class II medical devices requires the filing for record, and the operation of Class III medical devices require obtaining approval.

Specifically, an enterprise engaged in the distribution of medical devices shall have business premises and storage facilities suitable for the scale and scope of the operation, and shall have a quality control organ or personnel suitable for the medical devices it operates. An enterprise engaged in the distribution of Class II medical devices shall keep a record with the municipal level food and drug administration, while an enterprise engaged in the distribution of Class III medical devices shall apply for an operation permit to the municipal level food and drug administration. The authority which accepts such application shall review and examine (if necessary), and will grant the operation permit if the enterprise meets the prescribed requirements. An operation permit is valid for five years and may be renewed pursuant to the relevant regulations. Pursuant to the Measures for the Supervision and Administration of the Operation of Medical Devices, an enterprise engaged in the distribution of medical devices shall comply with the medical device operation quality management rules, which are prescribed in the Notice on the Implementation of Medical Device Operation Quality Management Rules (《國家食品藥品監督管理總局公告2014年第58號關於施行醫療器械經營質量管理規範的公告》) issued by NMPA on 12 December 2014.

PRC LAWS AND REGULATIONS RELATING TO CENTRALISED PROCUREMENT AND TENDER PROCESS

The Guiding Opinions concerning the Urban Medical and Health System Reform (《關於城鎮醫藥衛生體制改革的指導意見》), promulgated on 21 February 2000, aims to regulate the procurement process of pharmaceutical products by medical institutions. The MOH and other relevant government authorities have promulgated a series of regulations and releases in order to implement the tender requirements. According to the Notice on Issuing Certain Regulations on the Trial Implementation of Centralised Tender and Procurement of Drugs by Medical Institutions (《關於印發醫療機構藥品集中招標採購試點工作若干規定的通知》) promulgated on 7 July 2000 and the Notice on Further Improvement on the Implementation of Centralised Tender and Procurement of Drugs by Medical Institutions (《關於進一步做好醫療機構藥品集中招標採購工作的通知》) promulgated on 8 August 2001, non-profit medical institutions established by county or higher level government are required to implement centralised tender procurement of drugs.

On 17 January 2009, the MOH, the NMPA and four other national departments jointly promulgated the Opinions on Further Regulating Centralised Procurement of Drugs by Medical Institutions (《關於進一步規範醫療機構藥品集中採購工作的意見》). According to the notice, public medical institutions controlled by the government at the county level or higher or controlled by state-owned enterprises (including state-controlled enterprises) shall purchase pharmaceutical products by pharmaceutical centralised procurement. Each provincial government shall formulate its catalogue of drugs subject to centralised procurement. Except for drugs in the National Essential Drug List (the procurement of which shall comply with the relevant rules on National Essential Drug List), certain pharmaceutical products which are under the national government's special control and traditional Chinese medicines, in principle, all drugs used by public medical institutions shall be covered by the catalogue of drugs subject to centralised procurement. On 15 July 2010, the MOH and six other ministries and commissions jointly promulgated the Working Regulations of Medical Institutions for Centralised Procurement of Drugs (《醫療機構藥品集中採購工作規範》) to further regulate the centralised procurement of drugs and clarify the code of conduct of the parties in centralised drug procurement.

The centralised tender process takes the form of a public tender operated and organised by provincial or municipal government agencies. The centralised tender process is in principle conducted once a year in the relevant province or city in China. Intermediaries may be engaged to act as bidding agencies for the centralised tender process. Such intermediaries are not permitted to engage in the distribution of drugs and must have no affiliation relationship or interest with the responsible government agencies. The bids are assessed by a committee composed of medical experts randomly selected from a group of experts approved by the relevant government authorities. The committee members assess the bids based on a number of factors, including but not limited to, bid price, product quality, clinical effectiveness, qualifications and reputation of the manufacturer, and after-sale services. In principal, only pharmaceuticals that have won in the centralised tender process may be purchased by public medical institutions funded by government in the relevant region.

PRC LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal law governing distribution of dividends of foreign holding companies is the Company Law of the PRC promulgated by the Standing Committee of the NPC in 1993 and amended in 1999, 2004, 2005, 2013, 2016 and 2018. Where a company distributes its after-tax profits for the current financial year, it shall draw 10% of its profits as the company's statutory common reserve, provided that a company with an aggregate common reserve of more than 50% of the company's registered capital may elect not to draw any statutory common reserve any more.

Where the aggregate balance of the company's statutory common reserve is insufficient to cover any loss the company made in the previous financial year, the current financial year's profits shall first be used to cover the

loss before any statutory common reserve is drawn from them in accordance with the provisions of the preceding paragraph.

Where the company has drawn a statutory common reserve from its after-tax profits, it may, subject to a resolution of the board of shareholders or the general meeting, draw a discretionary common reserve from its after-tax profits.

Where losses have been covered and the statutory and discretionary common reserves have been drawn, any remaining after-tax profits shall be distributed to shareholders. In case of a limited liability company, shareholders shall draw dividends in proportion to their actual capital contributions, unless otherwise agreed by the shareholders. In case of a joint stock limited company, dividends shall be made on a pro rata basis unless its articles of association provides otherwise.

PRC LAWS AND REGULATIONS RELATING TO THE RECOGNITION AND REVIEW OF HIGH AND NEW TECHNOLOGY ENTERPRISES

Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), promulgated by MST, MOF and SAT on 14 April 2008 and amended on 29 January 2016, high and new technology enterprises refer to PRC-resident enterprises that are incessantly devoted to the research and development as well as the transformation of technological achievements in the “High and New Technology Areas Entitled to the Key Support of the State”, have formed their own independent core intellectual property rights and are carrying out business activities on this basis, and have been registered within the territory of China (excluding Hong Kong, Macau and Taiwan regions). An enterprise must satisfy the following requirements simultaneously in order to be recognised as a high and new technology enterprise: (1) the enterprise applying for the accreditation shall be under operation for not less than one year after the date of incorporation; (2) the enterprise shall obtain the ownership of the intellectual property rights which play a core supportive role technologically for its main products (services) by independent research and development, transfer, donation, acquisition or other ways; (3) the technologies that play a core supportive role for its main products (services) are included in the scope as provided in the key high-tech fields with government support; (4) the technical personnel engaged in research and development and relevant technology innovative activities shall account for not less than 10% of the total number of the employees in the relevant year; (5) the proportion of the total expenses earmarked for research and development to the sales income in the last three fiscal years (or the actual operating time if the operating time is less than three years, hereinafter the same) of the enterprise shall meet the following requirements: 1) not lower than 5%, if the enterprise’s latest annual sales income is less than RMB50 million (inclusive); 2) not lower than 4%, if the enterprise’s latest annual sales income is between RMB50 million and RMB200 million (inclusive); or 3) not lower than 3%, if the enterprise’s latest annual sales income is over RMB200 million. Of the total expenses earmarked for research and development, the total expenses for research and development accrued within the territory of China shall account for not less than 60%; (6) the proportion of the income from high-tech products (services) last year to the total income of the enterprise for the same period shall be not lower than 60%; (7) the enterprise shall meet the corresponding requirements in terms of innovation capability assessment; and (8) the enterprise applying for the accreditation shall not have any major safety or quality accident or serious environmental violations in the previous year.

In accordance with the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》) and the Guidelines on the Administration of Recognition of High and New Technology Enterprises (《高新技術企業認定管理工作指引》), promulgated by MST, MOF and SAT on 8 July 2008 and amended on 22 June 2016, an enterprise shall first make a self-evaluation referring to the previously mentioned requirements at the “Website of Administration of Recognition of High and New Enterprise”. If an enterprise fulfils the requirements and has registered online, it may file a recognition application before the recognition authority and submit the following application materials: (1) written

application for accreditation as a high-tech enterprise; (2) relevant registration certificates to prove that the enterprise is incorporated under the laws; (3) relevant materials concerning the intellectual property rights, and documentations for registration of science and technology programmes, commercialisation of achievements in science and technology and organisation and management of research and development; (4) documentations for key technologies of high-tech products (services) and relevant technical indicators, official document on production, certificates for accreditation and relevant qualifications, report for production quality test and other relevant materials; (5) materials stating information on employees and scientific and technical personnel of the enterprise; (6) special audit or assurance reports on the expenses earmarked for research and development for the previous three fiscal years and income from high-tech products (services) for the previous fiscal year issued by a duly qualified intermediary, with the documents illustrating the said research and development attached; (7) financial accounting reports (including accounting statements, the notes to the accounting statements and the explanatory statements on financial conditions) for the previous three fiscal years that are verified by a duly qualified intermediary; and (8) annual returns of enterprise income tax for the previous three fiscal years.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of Bonds and Shares is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds or Shares and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Bonds and Shares. Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

The following summary of certain tax consequences of the purchase, ownership and disposition of Bonds and Shares is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds or Shares and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Bonds and Shares. Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

PRC

The following summary accurately describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of PRC for the PRC tax purposes. These beneficial owners are referred to as non-resident Bondholders in this “PRC Taxation” section. In considering whether to invest in the Bonds, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the EIT Law effective on 1 January 2008 and amended on 24 February 2017 and 29 December 2018, and the Individual Income Tax Law of the PRC, as amended on 31 August 2018 and effective on 1 January 2019 (“**IIT Law**”), and their implementation rules respectively, an income tax is imposed on the interests by way of withholding in respect of the Bonds, paid by the Issuer (if such interests are regarded as income derived from sources within the PRC under the EIT Law or the IIT Law (as the case may be) to non-resident Bondholders, including non-resident enterprises and non-resident individuals. The current rate of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest. However, the tax so charged on interests paid on the Bonds to non-resident Bondholders who or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the Arrangement between mainland China and Hong Kong for Purpose of the Avoidance of Double Taxation will be 7 per cent. of the gross amount of the interest pursuant to the arrangement between mainland China and Hong Kong and relevant interpretation of the arrangement formulated by the SAT.

Under the EIT Law and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as incomes derived from sources within the PRC. Under the EIT Law, a “non-resident enterprise” means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual

administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained incomes derived from sources within the PRC. In addition, there is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax under the IIT Law and its implementation rules. If such gains are subject to PRC income tax, the 10 per cent. Enterprise income tax rate and 20 per cent. Individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to an arrangement between the PRC and Hong Kong for avoidance of double taxation, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds.

In addition, if the Guarantor is treated as a PRC tax resident enterprise and if the Issuer is not able to make payments under the Bonds and the Guarantor fulfils the payment obligations under the Guarantee, the Guarantor must withhold PRC income tax on payments with respect to the interest accrued on the Bonds to non-resident enterprise holders generally at the rate of 10 per cent. (and possibly at a rate of 20 per cent. in the case of payments to non-resident individual holders), subject to the provisions of any applicable tax treaty.

On 23 March 2016, MOF and SAT issued Circular 36, which introduced a *new* VAT from 1 May 2016. Under Circular 36, VAT is applicable where the entities or individuals provide services within the PRC. The operating income generated from the provision of taxable sale of services by entities and individuals, such as financial services, shall be subject to PRC VAT if the seller or buyer of the services is within PRC. In the event that foreign entities or individuals do not have a business establishment in the PRC, the purchaser of services shall act as the withholding agent. According to the Explanatory Notes to Sale of Services, Intangible Assets and Real Property attached to Circular 36, financial services refer to the business activities of financial and insurance operation, including loan processing services, financial services of direct charges, insurance services and the transfer of financial instruments, and the VAT rate is 6 per cent. Circular 36 further clarified that “loan processing” refers to the activity of lending capital for another’s use and receiving the interest income thereon, therefore based on such an interpretation of “loan processing” under the Circular 36, the issuance of Bonds may be treated as the Bondholders providing loans to the Issuer or the Guarantor, which thus shall be regarded as the provision of financial services. If the Issuer is treated as PRC tax resident and if PRC tax authorities take the view that the Bondholders are providing loans within the PRC, or if the Guarantor is treated as PRC tax resident and in the event that the Guarantor is required to fulfil its obligations under the Guarantee by making interest payments on behalf of the Issuer, the Bondholders may be subject to VAT at the rate of six per cent and certain surcharges when receiving the interest payments under the Bonds. And as the withholding agent, the Guarantor and, if the Issuer is treated as a PRC resident enterprise, the Issuer shall calculate the withholding tax according to the following formula: $\text{withholding tax} = \text{price paid by the purchaser} \div (1 + \text{tax rate}) \times \text{tax rate}$. Pursuant to the Circular 36, the PRC Interim Regulations on Municipal Maintenance Tax (《中華人民共和國城市維護建設稅暫行條例》), the Interim Provisions on Imposition of Education Surcharge (《徵收教育費附加的暫行規定》), the Notice on Unification of the Application of Municipal Maintenance Tax and Education Surcharge by Domestic and Foreign Enterprises and Individuals (《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), the Notice on Relevant Issues of Imposition of Municipal Maintenance and Education Surcharge on Foreign-invested Enterprises (《關於對外資企業徵收城市維護建設稅和教育費附加有關問題的通知》), the municipal maintenance tax and education surcharge will be applicable when entities and individuals are obliged to pay VAT (for an aggregate of 12 per cent. on any VAT payable) and consequently, the combined rate of VAT and surcharges would be around 6.72%. However, there is uncertainty as to whether gains derived from a sale or exchange of Bonds consummated outside of the PRC between non-PRC resident Bondholders will be subject to PRC VAT. VAT is unlikely to be applicable to any transfer of Bonds between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Bonds, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC.

The interpretation and enforcement of Circular 36 together with other laws and regulations pertaining to VAT involve uncertainties.

The Issuer *has* agreed to pay additional amounts to holders of the Bonds so that holders of the Bonds would receive the full amount of the scheduled payment, as further set out in “*Terms and Conditions of the Bonds*”.

No PRC stamp duty will be imposed on non-resident Bondholders either upon issuance of the Bonds or upon a subsequent transfer of the Bonds.

Cayman Islands

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands.

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 22 August 2006.

Hong Kong Taxation

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (a) Interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

- (b) Interest on the Bonds is derived from Hong Kong and is received by or accrues to a person other than a corporation (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business; or
- (c) Interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond, or issue of Shares upon conversion of the Bond.

British Virgin Islands

The Issuer, as a company incorporated under the BVI Business Companies Act, as amended, is exempt from all provisions of the Income Tax Act (as amended) of the British Virgin Islands (including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by the company to persons who are not persons resident in the British Virgin Islands).

Capital gains realised with respect to any shares, debt obligations or other securities of a company by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Act of the BVI. The Payroll Taxes Act, 2004 does not apply to a British Virgin Islands business company except to the extent that the company has employees (and deemed employees) rendering services to the company wholly or mainly in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations or other securities of the company, save for interest payable to or for the benefit of an individual resident in the EU.

No stamp duty is payable in the British Virgin Islands on a transfer of shares, debt obligations or other securities in a British Virgin Islands business company which is not a land owning company. A company is a land owning company if it, or any of its subsidiaries, has an interest in any land in the British Virgin Islands.

SUBSCRIPTION AND SALE

The Issuer, the Company and the Managers have entered into a subscription agreement dated 17 June 2020 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Managers, and the Managers severally and not jointly agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the Bonds.

The Issuer and the Company have agreed jointly and severally to indemnify the Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Managers are subject to certain conditions precedent, and entitles the Managers to terminate the Subscription Agreement in certain circumstances at any time up to the time when subscription moneys have been received and the Bonds issued.

The Issuer and the Company have agreed in the Subscription Agreement with the Managers that none of the Issuer, the Company or any person acting on its or their behalf will (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Bonds or the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, the Shares or securities of the same class as the Bonds, the Shares or other instruments representing interests in the Bonds, the Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Managers between the date of the Subscription Agreement and the date which is 90 days after the issue date of the Bonds (both dates inclusive); except for (i) the issue of the Bonds and any Shares to be issued upon the conversion of the Bonds; (ii) the 2017 Convertible Bonds and any Shares issued upon conversion of the 2017 Convertible Bonds; (C) the options granted or to be granted under the publicly disclosed share option scheme of the Company; (D) the share awards granted or to be granted under the publicly disclosed share award scheme of the Company; and (E) any form of share incentives given or to be given (including but not limited to cash distribution from sale proceeds of shares) under The Sun Shine Trust.

Dr Lou, Ms Su and Mr Huang Bin have agreed not to (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in the Lock-up Shares or securities of the same class as the Lock-up Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Lock-up Shares or securities of the same class as Lock-up Shares or other instruments representing interests in Lock-up Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of Lock-up Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, or (d) announce or otherwise make public an intention to do any of the foregoing without the prior written consent of the Managers between the date of their undertaking and the date which is 90 days after the issue date of the Bonds.

The Managers and certain of their affiliates have, from time to time, performed, and may in the future perform, certain commercial banking, investment banking and advisory services for us and/or our affiliates for which they have received or will receive customary fees and expenses. In addition to the transaction services for us, each of the Managers may, from time to time, engage in other transactions with and perform services for us in the ordinary course of our business.

In addition, the Managers and certain of their subsidiaries and affiliates may hold Shares as beneficial owners, on behalf of clients or in the capacity of investment advisers. Each of the Managers and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve our securities and instruments.

Each of the Managers or their respective affiliates may purchase the Bonds for its or their own account and enter into transactions, including (i) credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities or (ii) equity derivatives and stock loan transactions relating to the Shares or our subsidiaries' or our associates' shares at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds).

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised. No action has been or will be taken in any jurisdiction by the Managers or us that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published, by us or any of the Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on us or the Managers.

United States

The Bonds, the Guarantee and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

United Kingdom

Each of the Managers has represented and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to us; and

- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the UK.

Hong Kong

Each of the Managers has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “professional investors” as defined in the SFO and any rules made under that ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) (the “CO”) of Hong Kong or which do not constitute an offer to the public within the meaning of the CO; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong (who will not, in contravention of, inter alia, the CO, sell, offer or market the Bonds to persons who are public in Hong Kong, or who are not within the definition of “professional investors”) or only to “professional investors” as defined in the SFO and any rules made under that ordinance.

Singapore

Each of the Managers has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, each of the Managers has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time including by any subsidiary legislation as may be applicable of the relevant time (together, the “SFA”)) pursuant to section 274 of the SFA; (ii) to a relevant person (as defined in section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within 6

months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

In connection with Section 309B of the SFA and CMP Regulations 2018, the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Japan

The Bonds have not been and will not be registered under the Securities and Exchange Law of Japan and it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and other relevant laws and regulations of Japan.

The People's Republic of China

Each of the Managers has represented, warranted and undertaken that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, except as permitted by the securities laws of the PRC.

Switzerland

The Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Bonds. The Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. None of the Offering Circular and any other offering or marketing material relating to the Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and none of the Offering Circular and any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Netherlands

The Bonds (or any interest therein) are not and may not, directly or indirectly, be offered, sold, pledged, delivered or transferred in the Netherlands, on their issue date or at any time thereafter, and neither the Offering

Circular nor any other document in relation to any offering of the Bonds (or any interest therein) may be distributed or circulated in the Netherlands, other than to qualified investors as defined in the Prospectus Directive 2003/71/EC, as amended, provided that these parties acquire the Bonds for their own account or that of another qualified investor.

European Economic Area

PRIIPs Regulation/Prohibition of sales to EEA and UK retail investors

The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the UK.

For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”);
or
- (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Cayman Islands

No invitation has been made or will be made directly or indirectly to the public in the Cayman Islands to subscribe for any of the Bonds or the Shares.

British Virgin Islands

No invitation has been made or will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Bonds or the Shares.

GENERAL INFORMATION

1. **Clearing Systems and Settlement:** The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 218382568. The International Securities Identification Number (“ISIN”) for the Bonds is XS2183825681.
2. **Legal Entity Identifier (“LEI”):** The LEI of the Issuer is 30030097QEAX8XFCKU69.
3. **Listing of Shares:** Application will be made to the HKSE for the listing of, and permission to deal in, the Shares arising on conversion of the Bonds.
4. **Listing of Bonds:** A formal application will be made to the HKSE for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only.
5. **Authorisations:** The Company has obtained all necessary consents, approvals and authorisations in connection with the issuance and performance of the Bonds. The issuance of the Bonds was authorised by resolutions of the Board passed on 17 June 2020. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issuance and performance of the Bonds. The issuance of the Bonds was authorised by resolutions of the board of directors of the Issuer passed on 17 June 2020.
6. **No Material Adverse Change:** There has been no material adverse change in the Group’s financial or trading position or prospects since 31 December 2019, save as disclosed in this Offering Circular.
7. **Litigation:** Save as disclosed in this Offering Circular, neither the Company, nor any of its subsidiaries is involved in any litigation, administration or arbitration proceedings relating to claims which are material in the context of the issued of the Bonds and, so far as the Company and the Issuer are aware, no such litigation, administrative or arbitration proceedings are pending or threatened.
8. **Available Documents:** The latest annual report and consolidated accounts of the Company, as well as the Trust Deed and the Agency Agreement, will be available for inspection, at 3SBio Inc. 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong during normal business hours, so long as any of the Bonds are outstanding.
9. **Reliance by the Trustee:** The Trustee may rely without liability to Bondholders on any certificate prepared by any two of the Directors or Authorised Officers of the Issuer or the Guarantor (as the case may be) which may or may not be accompanied by a certificate or report prepared by an Independent Investment Bank, the Auditors or other advisor or expert pursuant to the Conditions and/or this Trust Deed, whether or not addressed to the Trustee and whether or not the liability of the Independent Investment Bank, the Auditors or other advisor or expert in respect thereof is limited by a monetary cap or otherwise limited or excluded and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Issuer or the Guarantor (as the case may be) to procure such delivery under the Conditions; any such certificate or report shall be conclusive and binding on the Issuer, the Guarantor, the Trustee and the Bondholders.
10. **Independent Auditors:** The Group’s audited consolidated annual financial statements as at and for each of the three years ended 31 December 2017, 2018 and 2019, which have been audited by Ernst & Young, independent auditors, as stated in their report appearing therein.

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Independent Auditor's Report



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To the shareholders of 3SBio Inc.

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

Opinion

We have audited the consolidated financial statements of 3SBio Inc. (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 79 to 210, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

Key audit matters

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

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

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of other intangible assets with indefinite life</i>	
<p>As at 31 December 2018, other intangible assets with indefinite life amounted to RMB138,481,000. In accordance with IAS 36 <i>Impairment of Assets</i>, intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. The impairment reviews performed by the Group contained a number of significant judgements and estimates including growth rate, royalty rate and discount rates. Changes in these assumptions might lead to a change in the carrying value of intangible assets.</p> <p>The Group's disclosures on other intangible assets with indefinite life are included in note 17 to the financial statements.</p>	<p>Our audit procedures included, among others, a review of the models and the assumptions applied by management in assessing the forecasted revenue growth and profit margins. We evaluated management's sensitivity analyses to ascertain the impact of reasonably possible changes to key assumptions on the available headroom. We also reviewed the Group's disclosures of the assumptions applied in assessing the impairment of those intangible assets. We involved internal valuation experts to assess key assumptions in valuation models including growth rate, royalty rate and discount rates.</p>

Independent Auditor’s Report (continued)



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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of goodwill</i>	
<p>As at 31 December 2018, the carrying amount of goodwill was RMB4,089,064,000. In accordance with IAS 36 <i>Impairment of Assets</i>, the Group is required to test goodwill for impairment annually. Management performs the impairment assessment using a value in use calculation based on the discounted cash flow method. This assessment is complex and judgemental and is based on assumptions, such as forecasted revenue growth, profit margins and the discount rates, which are affected by expected future market or economic conditions, particularly in Mainland China.</p> <p>The Group’s disclosures on goodwill are included in note 16 to the financial statements.</p>	<p>Our audit procedures included, among others, a review of the assumptions with actual results of prior periods applied by management in assessing the forecasted revenue growth, profit margins and discount rates. We evaluated management’s identification of CGU and impairment model used by the Group. We also reviewed the Group’s disclosures of those assumptions to which the outcome of the impairment test is most sensitive and which have the most significant effect on the determination of the recoverable amount of goodwill. We involved internal valuation experts in benchmarking key assumptions in valuation models including expected perpetual rates and discount rates.</p>

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

Other information included in the Annual Report

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

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

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

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

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

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

Ernst & Young

Certified Public Accountants

Hong Kong

20 March 2019

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	19	(8,245)	(14,442)
PROFIT BEFORE TAX		1,495,511	1,102,017
Income tax expense	11	(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)	13	0.50	0.37
— Diluted (RMB)	13	0.49	0.36

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 RMB'000	2017 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:		
Changes 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	14	1,791,961	1,759,669
Prepaid land lease payments	15	326,457	306,557
Goodwill	16	4,089,064	3,923,598
Other intangible assets	17	2,298,735	2,253,516
Investment in a joint venture	18	2,500	—
Investments in associates	19	385,850	33,510
Available-for-sale investments	20	—	48,333
Equity investments designated at fair value through other comprehensive income	20	313,246	—
Long-term receivables	21	28,758	35,372
Prepayments, other receivables and other assets	25	81,149	39,837
Deferred tax assets	22	84,402	76,363
Total non-current assets		9,402,122	8,476,755
CURRENT ASSETS			
Inventories	23	384,609	376,529
Trade and notes receivables	24	1,483,885	1,324,084
Prepayments, other receivables and other assets	25	693,997	459,251
Available-for-sale investments	20	—	704,564
Equity investments designated at fair value through other comprehensive income	20	32,872	—
Financial assets at fair value through profit or loss	26	35,260	—
Derivative financial instrument		16	1,322
Cash and cash equivalents	27	1,792,605	2,398,621
Pledged deposits	27	14,289	11,845
Total current assets		4,437,533	5,276,216
CURRENT LIABILITIES			
Trade and bills payables	28	112,915	274,568
Other payables and accruals	29	845,725	695,898
Deferred income	30	35,887	26,671
Interest-bearing bank and other borrowings	31	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

	Notes	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	31	425,022	1,046,791
Convertible bonds	32	2,299,321	2,271,874
Deferred income	30	275,337	310,410
Deferred tax liabilities	22	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	34	156	156
Treasury shares	34	(40,586)	—
Share premium	34	4,376,056	4,372,460
Other reserves		4,278,807	3,024,172
Controlling interests		8,614,433	7,396,788
Non-controlling interests		292,937	232,858
Total equity		8,907,370	7,629,646

Jing Lou
Director

Bo Tan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent								Total	Non-controlling interests	Total equity
	Share capital	Share premium	Contributed surplus*	Equity component of convertible bonds*	Statutory surplus reserves*	Retained earnings*	Available-for-sale investment revaluation reserve*	Exchange fluctuation reserve*			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 34)	(note 34)	(note 35)	(note 32)	(note 36)						
At 1 January 2017	155	4,367,719	179,417	—	206,847	1,609,483	57	158,821	6,522,499	243,843	6,766,342
Profit for the year	—	—	—	—	—	935,389	—	—	935,389	(10,985)	924,404
Other comprehensive income for the year:											
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	(4,450)	—	(4,450)	—	(4,450)
Exchange differences related to foreign operations	—	—	—	—	—	—	—	(124,896)	(124,896)	—	(124,896)
Total comprehensive income for the year	—	—	—	—	—	935,389	(4,450)	(124,896)	806,043	(10,985)	795,058
Transfer to statutory reserves	—	—	—	—	100,947	(100,947)	—	—	—	—	—
Issue of convertible bonds (note 32)	—	—	—	47,133	—	—	—	—	47,133	—	47,133
Equity-settled share option arrangements (note 35)	—	—	21,112	—	—	—	—	—	21,112	—	21,112
Shares issued upon exercise of warrants	1	4,741	(4,741)	—	—	—	—	—	1	—	1
At 31 December 2017	156	4,372,460	195,788	47,133	307,794	2,443,925	(4,393)	33,925	7,396,788	232,858	7,629,646

	Attributable to owners of the parent								Total	Non-controlling interests	Total equity
	Share capital	Treasury shares	Share premium	Contributed surplus*	Equity component of convertible bonds*	Statutory surplus reserves*	Retained earnings*	Available-for-sale investment revaluation /Fair value reserve*	Exchange fluctuation reserve*		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 34)	(note 34)	(note 34)	(note 35)	(note 32)	(note 36)					
At 31 December 2017	156	—	4,372,460	195,788	47,133	307,794	2,443,925	(4,393)	33,925	7,396,788	232,858
Effect of adoption of IFRS 9	—	—	—	—	—	—	—	—	—	—	—
Effect of adoption of IFRS 15	—	—	—	—	—	—	—	—	—	—	—
At 1 January 2018	156	—	4,372,460	195,788	47,133	307,794	2,443,925	(4,393)	33,925	7,396,788	232,858
Profit for the year	—	—	—	—	—	—	1,277,167	—	—	1,277,167	79
Other comprehensive income for the year:											
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	10,346	—	10,346	—
Exchange differences related to foreign operations	—	—	—	—	—	—	—	—	93,539	93,539	—
Total comprehensive income for the year	—	—	—	—	—	—	1,277,167	10,346	93,539	1,381,052	79
Transfer to statutory reserves	—	—	—	—	—	129,939	(129,939)	—	—	—	—
Shares repurchased	—	(40,586)	—	—	—	—	—	—	—	(40,586)	—
Equity-settled share option arrangements (note 35)	—	—	—	17,487	—	—	—	—	—	17,487	—
Capital injection from a non-controlling shareholder	—	—	—	—	—	—	—	—	—	—	60,000
Dividends paid (note 12)	—	—	—	—	—	—	(140,308)	—	—	(140,308)	—
Transfer to retained profits	—	—	—	—	—	—	5,796	(5,796)	—	—	—
Shares issued upon exercise of warrants	—	—	3,596	(3,596)	—	—	—	—	—	—	—
At 31 December 2018	156	(40,586)	4,376,056	209,679	47,133	437,733	3,456,641	157	127,464	8,614,433	292,937

* These reserve accounts comprised the consolidated other reserves of approximately RMB4,278,807,000 (2017: RMB3,024,172,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,495,511	1,102,017
Adjustments for:			
Share of losses of associates	19	8,245	14,442
Fair value loss on a derivative financial instrument	6	1,323	1,177
Interest income	5	(64,771)	(21,769)
Interest on bank borrowings	7	65,609	109,959
Interest on convertible bonds	7	72,773	31,391
Foreign exchange differences	5,6	(83,786)	22,166
Charge of share-based compensation costs	35	17,487	21,112
Depreciation	14	165,248	128,453
Amortisation of other intangible assets	6	148,016	115,242
Recognition of prepaid land lease payments	15	8,480	7,901
Amortisation of long-term deferred expenditures	6	1,958	3,622
Recognition of deferred income	30	(43,291)	(30,395)
Provision for impairment of trade receivables	6,24	36,622	15,386
Provision/(reversal of provision) for impairment of other receivables	6,25	23,299	(485)
Provision for impairment of long term receivables	6,21	8,095	—
Reversal of provision for impairment of inventories	23	(507)	(382)
Loss on disposal of items of property, plant and equipment	6	10,054	14,257
Gain on reclassification from investment in an associate to equity investment designated at fair value through other comprehensive income	5	(201,324)	—
Gain on disposal of an investment in an associate	5	—	(103,382)
Loss on disposal of an investment in a joint venture	6	—	134
Payment of service fee in relation to non-operation activities		(12,346)	19,513
		1,656,695	1,450,359
Increase in inventories		(35,724)	(108,344)
Decrease in pledged deposits		15	3,235
Increase in trade and notes receivables		(264,464)	(553,122)
(Decrease)/increase in prepayments, other receivables and other assets		2,561	(17,124)
(Decrease)/increase in trade and bills payables		(51,811)	215,246
Increase in other payables and accruals		106,317	214,134
Cash generated from operations		1,413,589	1,204,384
Income tax paid		(263,338)	(130,286)
Net cash flows from operating activities		1,150,251	1,074,098

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		63,714	13,685
Purchases of items of property, plant and equipment		(247,320)	(138,462)
Purchase of financial assets at fair value through profit or loss		(2,489,510)	—
Purchase of equity investments designated at fair value through other comprehensive income		(67,469)	—
Purchase of available-for-sale investments		—	(1,746,921)
Proceeds from disposal of financial assets at fair value through profit or loss		3,126,004	—
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		42,946	—
Proceeds from disposal of available-for-sale investments		—	1,401,234
Addition to land lease prepayment	15	(28,959)	(16,148)
Loans to related parties		(230,742)	(40,000)
Loans to a third party		(9,608)	(263,772)
Repayment of loans by related parties		—	50,000
Proceeds from disposal of investments in associates		—	136,885
Payment for investment in a joint venture	18	(2,500)	—
Payment for investments in associates		(386,774)	—
Addition to other intangible assets		(186,117)	(104,627)
Proceeds from disposal of items of property, plant and equipment		3,098	12,991
Received fund from government grants		7,325	51,920
Net cash flows used in investing activities		(405,912)	(643,215)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible bonds		—	2,319,915
Received capital injection from a non-controlling shareholder		60,000	—
Decrease in pledged deposits		(2,459)	(5,694)
Repayments of bank borrowings		(1,588,192)	(1,132,923)
Acquisition of treasury shares		(40,586)	—
Proceeds from bank borrowings		399,340	300,000
Repayment to a related party		—	(37,825)
Dividend paid		(150,813)	—
Interest paid		(66,968)	(125,741)
Net cash flows (used in)/from financing activities		(1,389,678)	1,317,732
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the year		2,398,621	677,598
Effect of foreign exchange rate changes on cash, net		39,323	(27,592)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		1,792,605	2,398,621
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	1,791,104	2,396,410
Restricted cash	27	1,501	2,211
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		1,792,605	2,398,621

Notes to Financial Statements

31 December 2018

1. Corporate and group information

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

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

Information about subsidiaries

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

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

Notes to Financial Statements

31 December 2018

1. Corporate and group information (continued)

Information about subsidiaries (continued)

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

Notes to Financial Statements

31 December 2018

1. Corporate and group information (continued)

Information about subsidiaries (continued)

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

Notes to Financial Statements

31 December 2018

1. Corporate and group information (continued)

Information about subsidiaries (continued)

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

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1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sunshine Guojian Pharmaceutical (Suzhou) Co., Ltd. (三生國健藥業(蘇州)有限公司)	PRC/Mainland China* 25 November 2013	RMB150,000,000	—	100%	Manufacture and sale of biopharmaceutical drugs and research and development
Shanghai Shengguo Pharmaceutical Development Co., Ltd. (上海晟國醫藥發展有限公司)	PRC/Mainland China* 29 January 2014	RMB100,000,000	—	100%	Technology services
Shanghai Hongshang Investment Co., Ltd. (“Shanghai Hongshang”) (上海翊騰投資諮詢有限公司)	PRC/Mainland China* 5 November 2015	RMB1,034,100,000	—	100%	Investment holding
Guangdong Sunshine Pharmaceutical Co., Ltd (“Guangdong Sunshine”) (廣東三生製藥有限公司)	PRC/Mainland China* 7 December 2016	RMB40,000,000	—	100%	Manufacture and sale of biopharmaceutical drugs and research and development
Strategic International Group Limited (“Strategic”)	British Virgin Islands* 14 June 2017	EUR50,000	100%	—	Investment holding
NMV Desen Biotech Co., Ltd. (“Desen Biotech”) (北方藥穀德生(瀋陽)生物科技有限责任公司) (a)	PRC/Mainland China* 26 February 2018	RMB2,830,000,000	—	86.93%	Manufacture and sale of biopharmaceutical drugs and research and development

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

(a) Desen Biotech was newly established on 26 February 2018 as a subsidiary of the Company.

1. Corporate and group information (continued)

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

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

2.1 Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 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.

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2.1 Basis of preparation (continued)

Basis of consolidation (continued)

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

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

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

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

2.2 Changes in accounting policies 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	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to IFRS 1 and IAS 28</i>

2.2 Changes in accounting policies and disclosures (continued)

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").

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31 December 2018

2.2 Changes in accounting policies and disclosures (continued)

(b) (continued)

Classification and measurement (continued)

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

	Notes	IAS 39 measurement		Re-classification	ECL	IFRS 9 measurement	
		Category	Amount			Amount	Category
			RMB'000	RMB'000	RMB'000	RMB'000	
<u>Financial assets</u>							
Equity investments							
designated at fair value							
through other							FVOCI ¹
comprehensive income		N/A	—	81,143	—	81,143	(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							FVPL
value through profit or loss		FVPL ⁵	—	671,754	—	671,754	(mandatory)
From: Available-for-sale							
investments	(ii)			671,754	—		

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2.2 Changes in accounting policies and disclosures (continued)

(b) (continued)

Classification and measurement (continued)

	IAS 39			IFRS 9			
	Notes	Category	measurement	Re-classification	ECL	measurement	
			Amount			Amount	
			RMB'000	RMB'000	RMB'000	RMB'000	Category
<u>Financial assets (continued)</u>							
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	
<u>Financial liabilities</u>							
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 to Financial Statements

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2.2 Changes in accounting policies and disclosures (continued)

(b) (continued)

Classification and measurement (continued)

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

2.2 Changes in accounting policies and disclosures (continued)

(b) (continued)

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 disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

Notes to Financial Statements

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2.2 Changes in accounting policies and disclosures (continued)

(c) (continued)

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

Upon the adoption of IFRS 15, the Group reclassified the advances from customers to “Contract liabilities”. As at 1 January 2018, the Group had advances from customers amounting to RMB76,854,000 that were reclassified to contract liabilities at the initial application of IFRS 15.

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

2.3 Issued but not yet effective international financial reporting standards

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

Amendments to IFRS 3	<i>Definition of a Business</i> ²
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
IFRS 16	<i>Leases</i> ¹
IFRS 17	<i>Insurance Contracts</i> ³
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ²
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ¹
<i>Annual Improvements 2015–2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 ¹

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

2 Effective for annual periods beginning on or after 1 January 2020

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

4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

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

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

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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2.4 Summary of significant accounting policies

Investments in associates and joint ventures

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

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

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill

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

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

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

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

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

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2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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

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

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

Fair value measurement

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

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

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

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

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

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

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or

2.4 Summary of significant accounting policies (continued)

Related parties (continued)

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation (continued)

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

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

Freehold land	Not depreciated
Buildings	10–45 years
Plant and machinery	5–12 years
Furniture and fixtures	3–12 years
Motor vehicles	4–10 years

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

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

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

2.4 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill)

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

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

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

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

Research and development costs

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

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31 December 2018

2.4 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill) (continued)

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

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

Leases

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Notes to Financial Statements

31 December 2018

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Notes to Financial Statements

31 December 2018

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

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

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

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2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

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

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

Loans and receivables

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

Available-for-sale financial investments

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

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition (applicable before 1 January 2018)” below.

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

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

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

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

General approach

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

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

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

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

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2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

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

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

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

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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

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

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

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2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Available-for-sale financial investments (continued)

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

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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

Notes to Financial Statements

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2.4 Summary of significant accounting policies (continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts (policies under IFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in “Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)”; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under IAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 Summary of significant accounting policies (continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Convertible bonds

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

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

Notes to Financial Statements

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2.4 Summary of significant accounting policies (continued)

Treasury shares

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 Summary of significant accounting policies (continued)

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

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2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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

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

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

Government grants

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

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

(a) *Sale of biopharmaceutical products*

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

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

(i) *Rights of return*

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

Notes to Financial Statements

31 December 2018

2.4 Summary of significant accounting policies (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

(a) *Sale of biopharmaceutical products (continued)*

(ii) *Trade discounts*

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

(b) *Contracts for services*

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

Other income

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

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

2.4 Summary of significant accounting policies (continued)

Revenue recognition (applicable before 1 January 2018)

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

- (a) from the sale of biopharmaceuticals, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for “Contracts for services (applicable before 1 January 2018)” below;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (d) dividend income, when the shareholders’ right to receive payment has been established.

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Notes to Financial Statements

31 December 2018

2.4 Summary of significant accounting policies (continued)

Contract costs (applicable from 1 January 2018)

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

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Right-of-return assets (applicable from 1 January 2018)

A right-of-return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned goods.

Refund liabilities (applicable from 1 January 2018)

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

2.4 Summary of significant accounting policies (continued)

Contracts for services (applicable before 1 January 2018)

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

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

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

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

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31 December 2018

2.4 Summary of significant accounting policies (continued)

Share-based payments (continued)

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

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

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

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

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

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cumulative expense recognised for cash-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of awards that will ultimately vest. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in the statement of profit or loss.

2.4 Summary of significant accounting policies (continued)

Other employee benefits

Defined benefit plan

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

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

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

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

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

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

Pension scheme

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

Notes to Financial Statements

31 December 2018

2.4 Summary of significant accounting policies (continued)

Other employee benefits (continued)

Termination benefits

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

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

2.4 Summary of significant accounting policies (continued)

Foreign currencies (continued)

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2018

3. Significant accounting judgements and estimates

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

Judgements

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

Revenue from contracts with customers

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

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

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

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

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

3. Significant accounting judgements and estimates (continued)

Judgements (continued)

Tax provisions

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

Determination of control over certain entity

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

Estimation uncertainty

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

Variable consideration for returns and trade discounts

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was approximately RMB4,089,064,000 (2017: RMB3,923,598,000). Further details are given in note 16 to the financial statements.

Notes to Financial Statements

31 December 2018

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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

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

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

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

Impairment of non-financial assets (other than goodwill)

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

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 22 to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 45 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2018 was RMB313,246,000 (2017: RMB48,333,000). Further details are included in note 20 to the financial statements.

Impairment of available-for-sale investments

Before 1 January 2018, the Group classified certain assets as available for sale and recognised movements of their fair values in equity. When the fair value declined, management made assumptions about the decline in value to determine whether there was an impairment that should be recognised in the statement of profit or loss. The carrying amount of available-for-sale assets as at 31 December 2017 was RMB752,897,000.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2018, the best estimate of the carrying amount of capitalised development costs was RMB138,481,000 (2017: RMB124,636,000).

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3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Estimation of inventory provision

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

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. Details of share-based payments are contained in note 35 to the financial statements.

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

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

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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 RMB'000	2017 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 RMB'000	2017 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.

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5. Revenue, other income and gains

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

	2018 RMB'000	2017 RMB'000
<i>Revenue from contracts with customers</i>		
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

5. Revenue, other income and gains (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

Revenue recognised that was included in contract liabilities at the beginning of the reporting period:

	2018 RMB'000
Sale of biopharmaceuticals	76,854
Technical service	—
	76,854

(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.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	RMB'000
Within one year	6,485
More than one year	6,710
	13,195

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31 December 2018

5. Revenue, other income and gains (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations (continued)

Technical service (continued)

All the remaining performance obligations are related to technical service, and are expected to be recognised within two years. The amounts disclosed above do not include variable consideration which is constrained.

	2018 RMB'000	2017 RMB'000
<u>Other income</u>		
Government grants related to		
— Assets (a)	35,350	24,744
— Income (b)	26,786	27,346
Interest income	64,771	21,769
Licensing income	1,397	—
Technical service income	—	9,121
Others	16,396	9,431
	144,700	92,411
<u>Gains</u>		
Gain on reclassification from investment in an associate to equity investment designated at fair value through other comprehensive income (c)	201,324	—
Gain on disposal of an investment in an associate	—	103,382
Foreign exchange differences, net	83,786	—
	285,110	103,382
	429,810	195,793

Notes:

- The Group has received certain government grants to purchase items of property, plant and equipment. The grants are initially recorded as deferred income and are amortised against the depreciation charge of the underlying property, plant and equipment in accordance with the assets' estimated useful lives (note 30).
- The government grants have been received for the Group's contribution to the development of the local pharmaceutical industry. There are no unfulfilled conditions or contingencies attaching to these grants.
- On 13 July 2018, Ascentage Pharma Group International ("Ascentage International") completed reorganization. Ascentage Jiangsu Pharmaceutical Group Co., Ltd. ("Ascentage Jiangsu") became a 100% subsidiary of Ascentage International. After reorganization, the Group no longer holds equity in Ascentage Jiangsu, and holds 10,140,375 preferred shares of Ascentage International which accounts for 4.89% of its total equity.

On 6 July 2018, the Group withdrew from the board of directors and had no significant impact on Ascentage International. In accordance with IFRS 9, the investment in Ascentage International was remeasured from investment in an associate to equity investment designated at fair value through other comprehensive income, and recognised a gain upon reclassification of RMB201,324,000.

Notes to Financial Statements

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6. Profit before tax

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		877,255	676,235
Depreciation of items of property, plant and equipment	14	165,248	128,453
Amortisation of other intangible assets		148,016	115,242
Recognition of prepaid land lease payments	15	8,480	7,901
Amortisation of long-term deferred expenditures		1,958	3,622
Operating lease expenses		9,137	11,014
Auditor's remuneration		7,813	8,560
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
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	21	8,095	—
Impairment of trade receivables	24	36,622	15,386
Impairment of other receivables	25	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

Notes to Financial Statements

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7. Finance costs

An analysis of finance costs is as follows:

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

8. Directors' and chief executive's remuneration

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

	2018 RMB'000	2017 RMB'000
Fees	11,035	8,159
Other emoluments:		
Salaries, allowances, bonuses and other benefits	2,183	2,105
Equity-settled compensation expenses	1,731	2,788
Pension scheme contributions	708	642
	15,657	13,694

On 2 February 2017, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

(a) Independent non-executive directors

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

	2018 RMB'000	2017 RMB'000
Mr. David Ross Parkinson	263	260
Mr. Jun Ma	263	260
Mr. Tianruo Pu	263	260
	789	780

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

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

	Salaries, allowances, bonuses and Fees RMB'000	Equity-settled compensation expenses RMB'000	Pension scheme contributions RMB'000	Total RMB'000	
2018					
Chief executive					
Dr. Jing Lou*	5,147	432	577	294	6,450
Executive directors					
Mr. Bo Tan	3,898	482	577	200	5,157
Ms. Dongmei Su	515	824	577	156	2,072
Mr. Bin Huang	686	445	—	58	1,189
Non-executive directors					
Mr. Dong Liu	—	—	—	—	—
Mr. Dasong Wang**	—	—	—	—	—
	10,246	2,183	1,731	708	14,868

Notes to Financial Statements

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

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

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

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

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

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

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9. Five highest paid employees

The five highest paid employees during the year included one director and the chief executive (2017: one director and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither directors nor chief executives of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances, bonuses and other benefits	9,254	8,938
Pension scheme contributions	379	345
Equity-settled compensation expenses	4,372	4,645
	14,005	13,928

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

	Number of employees	
	2018	2017
HKD4,000,001 to HKD4,500,000	1	—
HKD4,500,001 to HKD5,000,000	1	—
HKD5,000,001 to HKD5,500,000	—	3
HKD5,500,001 to HKD6,000,000	—	—
HKD6,000,001 to HKD6,500,000	—	—
HKD6,500,001 to HKD7,000,000	1	—
	3	3

On 2 February 2017, share options were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

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10. Pension schemes

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

The Group's contributions to the retirement benefit schemes for the year ended 31 December 2018 amounted to approximately RMB69,092,000 (2017: RMB52,926,000).

11. Income tax

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

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

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

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

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

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11. Income tax (continued)

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

	2018 RMB'000	2017 RMB'000
Current	242,145	202,143
Deferred (note 22)	(23,880)	(24,530)
Total tax charge for the year	218,265	177,613

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

	2018 RMB'000	2017 RMB'000
Profit before tax	1,495,511	1,102,017
At the PRC's statutory income tax rate of 25%	373,878	275,504
Preferential income tax rates applicable to subsidiaries	(186,862)	(90,808)
Additional deductible allowance for research and development expenses	(32,430)	(18,768)
Income not subject to tax	(24,503)	(32,580)
Effect of non-deductible expenses	29,964	14,691
Tax losses utilised from previous periods	(1,268)	(126)
Tax losses not recognised	59,657	29,735
Others	(171)	(35)
Tax charge at the Group's effective rate	218,265	177,613

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

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12.Dividends

	2018 RMB'000	2017 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 according to the resolution passed at the Company's annual general meeting held on 20 June 2018.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 2,540,646,747 (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 calculations of basic and diluted earnings per share are based on:

	2018 RMB'000	2017 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

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

	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

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14. Property, plant and equipment

2018

	Land and buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2017 and at 1 January 2018:						
Cost	712,401	796,402	123,013	13,268	730,547	2,375,631
Accumulated depreciation	(148,026)	(369,488)	(88,889)	(9,559)	—	(615,962)
Net carrying amount	564,375	426,914	34,124	3,709	730,547	1,759,669
At 1 January 2018, net of accumulated depreciation	564,375	426,914	34,124	3,709	730,547	1,759,669
Additions	5,606	19,566	35,868	1,081	148,181	210,302
Disposals	(8,227)	(4,327)	(439)	(159)	—	(13,152)
Depreciation provided during the year	(44,635)	(89,222)	(30,046)	(1,345)	—	(165,248)
Transfers	168,785	352,009	4,185	—	(524,979)	—
Exchange realignment	97	121	5	2	165	390
At 31 December 2018, net of accumulated depreciation	686,001	705,061	43,697	3,288	353,914	1,791,961
At 31 December 2018:						
Cost	857,819	1,148,204	159,486	13,547	353,914	2,532,970
Accumulated depreciation	(171,818)	(443,143)	(115,789)	(10,259)	—	(741,009)
Net carrying amount	686,001	705,061	43,697	3,288	353,914	1,791,961

A freehold land with a carrying amount of approximately RMB3,996,000 as at 31 December 2018 (2017: RMB3,973,000) is situated in Italy.

The Group is in the process of applying for the title certificates of certain of its buildings with an aggregate book value of approximately RMB68,885,000 as at 31 December 2018 (2017: RMB8,199,000). The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2018.

The Group had no property, plant and equipment pledged as at 31 December 2018 (2017: Nil).

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14. Property, plant and equipment (continued)

2017

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

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15. Prepaid land lease payments

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	314,726	306,479
Additions	28,959	16,148
Recognised during the year	(8,480)	(7,901)
Carrying amount at 31 December	335,205	314,726
Current portion included in prepayments, other receivables and other assets (note 25)	(8,748)	(8,169)
Non-current portion	326,457	306,557

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

As at 31 December 2018, the Group had no prepaid land lease payments pledged (2017: Nil).

16. Goodwill

	RMB'000
Cost at 1 January 2017	4,126,180
Exchange realignment	(202,582)
Cost and net carrying amount at 31 December 2017	3,923,598
Cost at 1 January 2018	3,923,598
Exchange realignment	165,466
Cost and net carrying amount at 31 December 2018	4,089,064
At 31 December 2018:	
Cost	4,089,064
Accumulated impairment	—
Net carrying amount	4,089,064

16. Goodwill (continued)

Impairment testing of goodwill

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

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

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

Assumptions were used in the value in use calculation of the group of CGUs as at 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

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

In the opinion of the Company’s directors, a decrease in the growth rate by 5% would cause the recoverable amount of the cash-generating unit to exceed its carrying amount by approximately RMB2,437,495,000 to RMB714,359,000, and any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause the cash-generating unit’s carrying amount to exceed its recoverable amount.

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17. Other intangible assets

2018

	Exclusive distribution right RMB'000	IP rights RMB'000	Patents and technology know-how RMB'000	IPR&Ds RMB'000	Others RMB'000	Total RMB'000
Cost at 1 January 2018, net of accumulated amortisation	402,013	1,346,882	341,690	124,636	38,295	2,253,516
Additions	167,374	3,460	—	13,845	1,438	186,117
Amortisation provided during the year	(39,246)	(70,362)	(40,609)	—	(11,438)	(161,655)
Exchange realignment	20,745	—	—	—	12	20,757
At 31 December 2018	550,886	1,279,980	301,081	138,481	28,307	2,298,735
At 31 December 2018:						
Cost	618,712	1,717,863	422,897	138,481	68,019	2,965,972
Accumulated amortisation	(67,826)	(437,883)	(121,816)	—	(39,712)	(667,237)
Net carrying amount	550,886	1,279,980	301,081	138,481	28,307	2,298,735

17. Other intangible assets (continued)

2017

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

Impairment testing of IPR&Ds

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

The recoverable amounts of IPR&Ds have been determined based on a value in use calculation using cash flow projections which are based on financial forecast approved by the Company's directors. The discount rates applied to the cash flow projections are 26.0%, 17.0%, 18.0% and 19.0%, which are determined by reference to the average rates for in progress research and development projects with similar business risk and after taking into account the risk premium in connection with the related research and development efforts.

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17. Other intangible assets (continued)

Impairment testing of IPR&Ds (continued)

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

Assumptions were used in the value in use calculation of IPR&Ds as at 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of IPR&Ds:

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

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

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

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

18. Investment in a joint venture

	2018 RMB'000	2017 RMB'000
At 1 January	—	134
Additions	2,500	—
Disposals	—	(134)
At 31 December	2,500	—

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

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

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18. Investment in a joint venture (continued)

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

	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of the Group's investment in the joint venture	2,500	—

19. Investments in associates

	2018 RMB'000	2017 RMB'000
Share of net assets	385,850	33,510

Particulars of the Group's associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group %	Principal activities
Refuge Biotechnologies, Inc.(a) (b) ("Refuge")	Preferred shares	United States	10.62	Research and development
Shanghai Companion Diagnostics Technology Ltd. (a) (c) ("Shanghai Companion")	Ordinary shares	PRC/ Mainland China	20.00	Research and development
Liaoning Sunshine Medical Industry Investment Fund Partnership LLP(a) (d) ("Sunshine Medical Industry Fund")	Limited partner	PRC/ Mainland China	66.01	Investment holding

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19. Investments in associates (continued)

Notes:

- (a) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.
- (b) On 30 April 2018, the Group entered into a share subscription agreement to purchase 1,962,349 preferred shares which equal to approximately 10.62% equity of Refuge at a consideration of USD8,000,000. The Group retained one seat on the board and can exercise significant influence over Refuge.
- (c) On 10 March 2018, the Group entered into an agreement to acquire a 20% equity interest in Shanghai Companion at a consideration of RMB250,000.
- (d) On 28 December 2018, Shenyang Sunshine paid an initial capital contribution of RMB333,333,000 to subscribe for 66.01% of the equity interest in Sunshine Medical Industry Fund. The Group can exercise significant influence over Sunshine Medical Industry Fund.

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

	2018 RMB'000	2017 RMB'000
Share of the associates' results:		
Net losses	(8,245)	(14,442)
Total comprehensive losses	(8,245)	(14,442)
	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of the Group's investments in the associates	385,850	33,510

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20. Equity investments designated at fair value through other comprehensive income/available-for-sale investments

	2018 RMB'000	2017 RMB'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value	32,872	—
Unlisted equity investments, at fair value	313,246	—
	346,118	—
Available-for-sale investments		
Treasury or cash management products, at fair value	—	671,754
Unlisted equity investments, at fair value	—	48,333
Listed equity investments, at fair value	—	32,810
	—	752,897

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

In August 2018, the Group sold its equity interest in a listed company as this investment no longer coincided with the Group's investment strategy. The fair value on the date of sale was RMB43,076,000 and the accumulated gain recognised in other comprehensive income of RMB5,796,000 was transferred to retained earnings.

During the year ended 31 December 2017, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB4,450,000, of which no amount was reclassified from other comprehensive income to the statement of profit or loss for the year ended 31 December 2017.

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21. Long-term receivables

	2018 RMB'000	2017 RMB'000
Long-term receivables due from a related party (a)	36,853	35,372
Long-term receivables	1,845	1,845
	38,698	37,217
Provision for impairment of long-term receivables	(9,940)	(1,845)
	28,758	35,372

- (a) On 29 March 2016, Shenyang Sunshine lent to Zhejiang Sunshine Pharmaceutical Co., Ltd. ("Zhejiang Sunshine"), a related party which was under significant influence of a director and key management personnel of the Company, a convertible loan with a principal amount of RMB75,000,000 at an annual interest rate of 8%. The convertible loan can be converted into equity interests in Zhejiang Sunshine at the discretion of Shenyang Sunshine. In 2017, Zhejiang Sunshine had repaid the principal amount of RMB50,000,000. The accrued interest for the year ended 31 December 2018 was RMB1,481,000 (2017: RMB5,855,000). The Group recognised an allowance for ECLs of RMB 8,095,000.

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

	2018 RMB'000	2017 RMB'000
Balance at beginning of the year	1,845	1,845
Additions	8,095	—
Balance at end of the year	9,940	1,845

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

21. Long-term receivables (continued)

Impairment under IFRS 9 for the year ended 31 December 2018

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

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

As at 31 December 2018

	Ageing		
	Within 1 Year	1 to 2 years	Over 2 years
Expected credit loss rate	1%	56.6%	100%
Gross carrying amount (RMB'000)	26,481	5,855	6,362
Expected credit losses (RMB'000)	265	3,313	6,362

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of long-term receivables was RMB1,845,000, which was measured based on incurred credit losses under IAS 39 as at 31 December 2017.

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31 December 2018

22. Deferred tax

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

	Accruals	Provision for inventories trade and other receivables	Decelerated depreciation for tax purposes	Government grants	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross deferred tax assets at 1 January 2017	27,834	2,612	499	21,900	12,949	65,794
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 11)	3,332	2,356	459	6,549	(2,294)	10,402
Exchange realignment	—	—	—	—	167	167
Gross deferred tax assets at 31 December 2017	31,166	4,968	958	28,449	10,822	76,363
Gross deferred tax assets at 1 January 2018	31,166	4,968	958	28,449	10,822	76,363
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 11)	(57)	8,742	237	(500)	(443)	7,979
Exchange realignment	—	—	—	—	60	60
Gross deferred tax assets at 31 December 2018	31,109	13,710	1,195	27,949	10,439	84,402

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22. Deferred tax (continued)

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

	2018 RMB'000	2017 RMB'000
Tax losses arising in Mainland China (a)	112,452	89,846
Tax losses arising in Hong Kong and other countries (b)	291,588	86,960
	404,040	176,806

Notes:

- (a) The tax losses arising in Mainland China are available for a maximum of ten years for offsetting against future taxable profits of the companies in which the losses arose.
- (b) The tax losses arising in Hongkong Sansheng and tax exempted entities in other countries could not be utilised to offset against future profits.

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

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22. Deferred tax (continued)

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

	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Fair value adjustments of equity investments designated at fair value through other comprehensive income RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2017	294,396	—	294,396
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	(14,128)	—	(14,128)
Gross deferred tax liabilities at 31 December 2017 and 1 January 2018	280,268	—	280,268
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	(15,901)	—	(15,901)
Deferred tax credited to the consolidated statement of comprehensive income	—	6,394	6,394
Gross deferred tax liabilities at 31 December 2018	264,367	6,394	270,761

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

At 31 December 2018, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China (2017: Nil).

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22. Deferred tax (continued)

In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB3,651,738,000 (2017: RMB2,757,951,000).

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

23. Inventories

	2018 RMB'000	2017 RMB'000
Raw materials	87,985	54,942
Work in progress	188,270	180,972
Finished goods	81,775	121,996
Consumables and packaging materials	27,365	19,912
	385,395	377,822
Provision for impairment of inventories	(786)	(1,293)
	384,609	376,529

24. Trade and notes receivables

	2018 RMB'000	2017 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

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24. Trade and notes receivables (continued)

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

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

	2018 RMB'000	2017 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

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

	2018 RMB'000	2017 RMB'000
At beginning of the year	27,007	11,620
Effect of adoption of IFRS 9	—	—
At beginning of the year	27,007	11,620
Impairment losses, net (note 6)	36,622	15,386
Exchange realignment	—	1
At end of the year	63,629	27,007

24. Trade and notes receivables (continued)

Impairment under IFRS 9 for the year ended 31 December 2018

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

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

As at 31 December 2018

	Ageing					
	Within 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years
Expected credit loss rate	0.83%	0.83%	0.83%	0.83%	71.29%	100%
Gross carrying amount (RMB'000)	708,267	566,211	28,350	44,203	38,939	24,690
Expected credit losses (RMB'000)	5,879	4,700	235	367	27,758	24,690

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables was RMB27,007,000, which was measured based on incurred credit losses under IAS 39 as at 31 December 2017.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	1,098,664
Less than 3 months past due	25,366
Over 3 months past due	61,745
	1,185,775

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

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24. Trade and notes receivables (continued)

Impairment under IAS 39 for the year ended 31 December 2017 (continued)

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Group were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The illustrative disclosures for transfers of financial assets relating to endorsement of bills are provided on note 44.

25. Prepayments, other receivables and other assets

	2018 RMB'000	2017 RMB'000
Prepayments, other receivables and other assets — current portion:		
Interest receivables	75	585
Prepayments	27,763	20,801
Prepaid land lease payments — current portion	8,748	8,169
Other deposits and other receivables	85,945	46,557
Deductible input VAT	8,601	39,423
Due from related parties — current portion	321,441	79,094
Due from Wealth Honest (a)	266,808	265,278
	719,381	459,907
Impairment allowance	(25,384)	(656)
	693,997	459,251
Prepayments, other receivables and other assets — non-current portion:		
Advance payments for property, plant and equipment	65,076	32,137
Other non-current assets	16,073	7,700
	81,149	39,837

Note:

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

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

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

	2018 RMB'000	2017 RMB'000
Balances at beginning of the year	(656)	(1,141)
Charge for the year	(23,299)	(695)
Write-off	—	1,180
Exchange realignment	(1,429)	—
At end of the year	(25,384)	(656)

Other receivables mainly represent the Group's receivables from related parties and third parties. In according to the related party's historical credit, repayment and mortgage information, the loss given default was estimated to be 1% within one year, 56.6% from one year to two years and 100% for more than two years.

26. Financial assets at fair value through profit or loss

	2018 RMB'000	2017 RMB'000
Other unlisted investments, at fair value	35,260	—

The above unlisted investments at 31 December 2018 were treasury or cash management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

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27. Cash and cash equivalents and pledged deposits

	2018 RMB'000	2017 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

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

The Group's cash and cash equivalents and deposits as at 31 December 2018 are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
Denominated in:		
— RMB	674,036	329,729
— HKD	142,063	4,558
— USD	308,185	936,699
— EUR	682,607	1,139,478
— Great Britain Pound ("GBP")	3	2
	1,806,894	2,410,466

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximated to their fair values as at the end of the reporting period. Deposits of approximately RMB14,289,000 (2017: RMB11,845,000) have been pledged to secure letters of credit and bank acceptance bills as at 31 December 2018.

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28. Trade and bills payables

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

	2018 RMB'000	2017 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.

29. Other payables and accruals

	2018 RMB'000	2017 RMB'000
Accrued selling and marketing expenses	308,205	240,548
Accrued salaries, bonuses and welfare expenses	173,004	151,079
Receipts in advance from customers	—	76,854
Contract liabilities (a)	29,816	—
Due to related parties (note 42 (b))	70,691	76,114
Taxes payable (other than income tax)	50,640	38,875
Interest payables	86,203	28,557
Payable to vendors of property, plant and equipment	16,956	10,601
Payable to vendors of other intangible assets	4,478	2,689
Others	105,732	70,581
	845,725	695,898

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29. Other payables and accruals (continued)

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018	1 January 2018
	RMB'000	RMB'000
Short-term advances received from customers		
Sale of biopharmaceuticals	29,816	76,854
Total contract liabilities	29,816	76,854

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

30. Deferred income

	2018	2017
	RMB'000	RMB'000
At beginning of the year	337,081	295,000
Received during the year		
— Government grants (a)	17,434	72,476
Less: Recognition during the year		
— Government grants (a)	(43,291)	(30,395)
	311,224	337,081
Less: Deferred income — current portion		
— Government grants (a)	(35,887)	(26,671)
	275,337	310,410

Note:

(a) The grants relate to the subsidies received from the government for compensation for expenses arising from research and the improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and the final assessment of the relevant government authorities, the grants related to the expense items will be recognised as other income directly in the consolidated statement of profit or loss when such expense items have been incurred by the Group and the grants related to an asset will be released to the consolidated statement of profit or loss over the expected useful life of the relevant asset.

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31. 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 (note 32)	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

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

	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 Xing Sheng, 100% of the equity interests in Shenyang Sunshine held by Hongkong Sansheng and 43.42% of the equity interests in Sunshine Guojian held by Full Gain 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 EUR, all the bank borrowings were denominated in RMB.
- (d) The carrying amounts of the current bank borrowings approximate to their fair values.

32. Convertible bonds

On 21 July 2017, Strategic, a directly wholly-owned subsidiary of the Company, issued Euro-denominated zero-coupon convertible bonds with a nominal value of EUR300,000,000. There was no repayment in the number of these convertible bonds during the year. The bonds are guaranteed by the Company and convertible at the option of the bondholders into ordinary shares with the initial conversion price of HKD14.28 per share at any time on and after 31 August 2017 and up to the close of business on the date falling seven days prior to 21 July 2022. The bonds are redeemable at the option of the bondholders at a 2.5% gross yield upon early redemption.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during the year have been split into the liability and equity components as follows:

	RMB'000
Nominal value of convertible bonds issued at 21 July 2017	2,351,970
Equity component	(47,133)
Direct transaction costs attributable to the liability component	(28,224)
Liability component at the issuance date	2,276,613
Interest accrual	5,472
Exchange realignment	(10,211)
Liability component at 31 December 2017	2,271,874
Liability component at 1 January 2018	2,271,874
Interest accrual	13,918
Exchange realignment	13,529
Liability component at 31 December 2018 (note 31)	2,299,321

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33. Retirement benefit obligations

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

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

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

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

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

	2018
Discount rate (%)	1.5
Expected rate of future pension cost increases (%) — 2019	2.5
Expected rate of future pension cost increases (%) — 2020	2.6
Expected rate of future pension cost increases (%) — 2021	2.7
Expected rate of future pension cost increases (%) — from 2022	3.0
	2017
Discount rate (%)	1.4
Expected rate of future pension cost increases (%)	2.2

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33. Retirement benefit obligations (continued)

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

	Increase in rate %	Net decrease in defined benefit obligations RMB'000	Decrease in rate %	Net increase in defined benefit obligations RMB'000
2018				
Discount rate	0.5	257	0.5	280
2017				
Discount rate	0.5	232	0.5	252

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis above is based on a change in an assumption while holding all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

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

	2018 RMB'000	2017 RMB'000
Current service cost	227	—
Interest cost	79	72
Net benefit expenses	306	72
Recognised in finance costs	306	72

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33. Retirement benefit obligations (continued)

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

	2018 RMB'000	2017 RMB'000
At 1 January	5,823	5,672
Current service cost	227	—
Interest cost	79	72
Benefit paid	(50)	(431)
Actuarial loss	188	131
Exchange realignment	36	379
At 31 December	6,303	5,823

The plan has no defined benefit plan assets.

The Group does not expect to make further contributions to the defined benefit plan in future years.

The average duration of the defined benefit obligations at the end of the reporting period was 15 years (2017: 15 years).

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34. Share capital

Shares

	2018 RMB'000	2017 RMB'000
Issued and fully paid:		
2,543,714,551 (2017: 2,538,796,890) ordinary shares	156	156

	Number of shares in issue	Share capital RMB'000	Share premium RMB'000	Total RMB'000
Ordinary shares of USD0.00001 each at 31 December 2017 and 1 January 2018	2,538,796,890	156	4,372,460	4,372,616
Shares issued upon exercise of warrants	4,917,661	—	3,596	3,596
Ordinary shares of USD0.00001 each at 31 December 2018	2,543,714,551	156	4,376,056	4,376,212

	Number of shares	Treasury shares RMB'000
At 1 January 2018	—	—
Repurchased	4,370,000	40,586
At 31 December 2018	4,370,000	40,586

During the year ended 31 December 2018, the Group had repurchased a total of 4,370,000 ordinary shares at an aggregate cash consideration of RMB40,586,000(excluding expenses). All the repurchased shares had been cancelled by the end of the reporting date.

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35. Share incentive scheme

Share option scheme adopted by the Company

On 26 September 2016, a total of 20,000,000 share options, each of which entitles the holders to subscribe for one ordinary share of the Company at an exercise price of HKD9.10, under the post-IPO share option scheme of the Company adopted on 23 May 2015 and 28 June 2016 (the “**Share Option Scheme**”), were granted to TMF (Cayman) Ltd. (“**TMF**”), as the trustee of The Empire Trust (the “**Grantee**”), a trust established by the Company for the beneficiaries who are executive directors and employees of the Group and its holding companies, and any other persons as nominated from time to time by the advisory committee of the Grantee that is established with the authority of the board of the directors of the Company. The share options will vest and become exercisable upon meeting certain vesting conditions. If the vesting conditions are not met, the share options will lapse.

On 2 February 2017, the Company and the Grantee had agreed that the grant of 20,000,000 share options which was approved by the board on 22 September 2016 was cancelled at nil consideration. By the date of cancellation, no beneficiary had been nominated by the advisory committee of the Grantee and no options had been designated to any beneficiary, and thus the Group did not recognise any share-based payment expenses in relation to the cancelled 20,000,000 share options. On the same date, a total of 20,000,000 share options, each of which entitles the holders to subscribe for one ordinary share of the Company at an exercise price of HKD7.62 (which is the highest of the closing price of HKD7.30 per share and the average closing price of HKD7.62 per share) were granted to TMF, as the trustee of the Grantee under the Share Option Scheme for the benefits of the designated beneficiaries. The share options will vest and become exercisable upon meeting certain vesting conditions. If the vesting conditions are not met, the share options will lapse.

The following share options were outstanding under the Scheme during the year:

	2018		2017	
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000
At 1 January	7.62	20,000	—	—
Granted during the year	—	—	7.62	20,000
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	—	—
Expired during the year	—	—	—	—
At 31 December	7.62	20,000	7.62	20,000

35. Share incentive scheme (continued)

Share option scheme adopted by the Company (continued)

The fair value of the share options at the grant date is estimated using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The contractual life of each option granted is ten years. There is no cash settlement of the share options. The fair value of share options granted on 2 February 2017 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	—
Expected volatility (%)	39.63
Risk-free interest rate (%)	1.91
Expected contractual life of share options (years)	10.00
Underlying share price (RMB)	6.45
Exercise price of each share option (RMB)	6.73

At the date of approval of the consolidated financial statements, the Company had 20,000,000 share options outstanding under the Share Option Scheme, which represented approximately 0.79% of the Company's shares in issue as at that date.

There were no share options granted during the year (2017: HKD66,287,000). The Group had recorded share-based payment expenses of RMB17,487,000 in the statement of profit or loss during the year ended 31 December 2018 (2017: RMB21,112,000).

Warrants granted by the Company

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

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

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35. Share incentive scheme (continued)

Warrants granted by the Company (continued)

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

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

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

During the year, there were no expenses recognised in the statement of profit or loss (2017: Nil).

There was no new grant of warrants during the year (2017: Nil).

No exercisable warrants vested during the year (2017: Nil). Warrants exercisable for 4,917,661 ordinary shares were exercised at an exercise price of USD0.00001 per share during the year, resulting in the issue of 4,917,661 ordinary shares of the Company and new share capital and share premium of RMB335 and RMB3,596,000, respectively (before issue expenses), as further detailed in note 34 to the financial statements (2017: RMB1,000 and RMB4,741,000).

At the end of the reporting period, the Sunshine Guojian Warrants expired; and the remainder of the vested Sunshine Guojian Warrants, exercisable for 28,040,036 Shares, had been forfeited.

The share price at the date of exercise of warrants during the year was HKD16.14 per share (2017: HKD9.74 per share).

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36. Reserves

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

Statutory surplus reserves

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

37. Notes to the consolidated statement of cash flows

Changes in liabilities arising from financing activities

	Bank and other borrowings RMB'000	Convertible bonds RMB'000
At 1 January 2017	3,059,143	—
Changes from financing cash flows	(832,923)	2,323,746
Equity component of convertible bonds	—	(47,133)
Interest accrual	—	5,472
Exchange realignment	(91,963)	(10,211)
At 31 December 2017	2,134,257	2,271,874
At 1 January 2018	2,134,257	2,271,874
Changes from financing cash flows	(1,188,852)	—
Interest accrual	—	13,918
Exchange realignment	49,945	13,529
At 31 December 2018	995,350	2,299,321

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38. Contingent liabilities

As at 31 December 2018, neither the Group nor the Company had any significant contingent liabilities (2017: Nil).

39. Pledge of assets

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

40. Operating lease arrangements

Operating lease commitments — as lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years. At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	4,406	6,578
In the second to fifth years, inclusive	7,445	8,718
	11,851	15,296

41. Commitments

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

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Plant and machinery	149,549	93,536
Capital contribution payable to funds	746,667	—
Initial payment on collaboration	56,632	—
	952,848	93,536

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42. Related party transactions

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

Company	Relationship
Century Sunshine Limited ("Century Sunshine")	Ultimate shareholder of the Company
Sunshine Bio-Pharmaceutical Fund	Joint venture
Sunshine Medical Industry Fund	Associate
Refuge	Associate
Shanghai Companion	Associate
Beijing Huansheng Medical Investment Co., Ltd. ("Beijing Huansheng")	Under significant influence of a director of the Company and owned by certain middle management personnel of the Group
Liaoning Sunshine Technology Development Co., Ltd. ("Liaoning Sunshine Technology")	Subsidiary of Beijing Huansheng
Zhejiang Sunshine	Under significant influence of a director and key management personnel of the Company
Medical Recovery Limited ("Medical Recovery")	Under control of directors of the Company

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

	Notes	2018 RMB'000	2017 RMB'000
Convertible loan including interest to Zhejiang Sunshine	21(a)	36,853	79,517
Loans including interest to Liaoning Sunshine Technology	(i)	32,170	31,126
Loans to Beijing Huansheng	(ii)	10,695	10,260
Loans to Zhejiang Sunshine	(iii)	61,308	30,372
Loans to Medical Recovery	(iv)	209,329	—
Loans to Sunshine Bio-Pharmaceutical Fund	(v)	100	—
Loan from Century Sunshine	(vi)	70,691	109,605
Loans to Zhejiang Sunshine	(vii)	1,100	—
Guarantee provided to Beijing Huansheng	(viii)	—	5,000

Notes to Financial Statements

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42. Related party transactions (continued)

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

Notes:

- (i) On 7 December 2016 and 23 December 2016, Sunshine Guojian extended loans, the principal amounts of which were RMB20,000,000 and RMB10,000,000, to Liaoning Sunshine Technology at an annual interest rate of 3.85%. Pursuant to supplemental agreements dated on 7 March 2018 and 23 March 2018, the maturity dates were extended to 6 March 2019 and 22 March 2019, respectively. The annual interest rate was changed to 3.48%. The accrued interest for the year ended 31 December 2018 was RMB1,044,000 (2017: RMB1,126,000).
- (ii) On 26 May 2017, Zhejiang Wansheng provided a loan, the principal amount of which is RMB10,000,000, to Beijing Huansheng at an interest rate of 4.35% per annum with the maturity date on 26 May 2018. Pursuant to a supplemental agreement dated on 27 May 2018, the maturity date was extended to 26 May 2019. During the year ended 31 December 2018, Beijing Huansheng repaid interest of RMB477,000 to Zhejiang Wansheng. The accrued interest for the year ended 31 December 2018 was RMB435,000 (2017: RMB260,000).
- (iii) On 11 August 2017 and 18 September 2017, Shenyang Sunshine provided entrusted loans, the principal amounts of which are RMB20,000,000 and RMB10,000,000, to Zhejiang Sunshine at an annual interest rate of 3.48% with the maturity dates on 11 August 2018 and 18 September 2018, respectively. Pursuant to supplemental agreements dated on 9 August 2018, the maturity dates were extended to 8 August 2019. On 25 September 2018, Shenyang Sunshine provided a loan, the principal amount of which is RMB30,000,000, to Zhejiang Sunshine at an interest rate of 3.48% per annum with the maturity date on 25 September 2019. During the year ended 31 December 2018, Zhejiang Sunshine repaid interests of RMB704,000 to Shenyang Sunshine. The accrued interest for the year ended 31 December 2018 was RMB936,000 (2017: RMB372,000).
- (iv) On 17 July 2018, Strategic entered into a loan agreement with Medical Recovery to provide Medical Recovery a loan, the principal amount of which is USD30,000,000 at an interest rate of 4% per annum with the maturity date on 16 July 2019. The accrued interest for the year ended 31 December 2018 was RMB3,432,000.
- (v) On 24 December 2018, Shenyang Sunshine provided a loan, the principal amount of which is RMB100,000, to Sunshine Bio-Pharmaceutical Fund.
- (vi) The Group repaid Century Sunshine a loan of USD5,500,000 during 2017, which is equivalent to RMB37,135,000. As at 31 December 2018, the balance was approximately RMB70,691,000.
- (vii) On 8 August 2018, Xing Sheng provided a loan, the principal amount of which is RMB1,100,000 to Zhejiang Sunshine, with no maturity date and interest rate.
- (viii) On 18 November 2016, the Group provided a financial guarantee to Beijing Huansheng in favour of bank borrowings amounting to RMB5,000,000 on a term of six months. The guarantee expired on 18 May 2017.

42. Related party transactions (continued)

(b) Outstanding balances with related parties:

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

	2018 RMB'000	2017 RMB'000
Due from related parties		
Current portion		
Medical Recovery	207,236	—
Zhejiang Sunshine	44,216	30,372
Liaoning Sunshine Technology	31,222	31,126
Beijing Huansheng	10,115	10,260
Directors and senior management	7,336	7,336
Sunshine Bio-Pharmaceutical Fund	100	—
	300,225	79,094
Non-current portion		
Zhejiang Sunshine	28,758	35,372
	2018 RMB'000	2017 RMB'000
Due to related parties		
Current portion		
Ascentage Pharma	—	8,799
Century Sunshine	70,691	67,302
Ascentage International	—	13
	70,691	76,114

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

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

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43. Financial instruments by category

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

2018

Financial assets

	Financial assets at fair value through profit or loss (Designated as such upon initial recognition) RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	—	346,118	—	346,118
Financial assets at fair value through profit or loss	35,260	—	—	35,260
Derivative financial instrument	16	—	—	16
Financial assets included in prepayments, other receivables and other assets	—	—	590,428	590,428
Trade and notes receivables	—	—	1,483,885	1,483,885
Long-term receivables	—	—	28,758	28,758
Cash and cash equivalents	—	—	1,792,605	1,792,605
Pledged deposits	—	—	14,289	14,289
	35,276	346,118	3,909,965	4,291,359

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43. Financial instruments by category (continued)

2018 (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	112,915
Financial liabilities included in other payables and accruals	284,060
Interest-bearing bank and other borrowings	995,350
Convertible bonds	2,299,321
	3,691,646

2017

Financial assets

	Financial assets at fair value through profit or loss (Designated as such upon initial recognition) RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Long-term receivables	—	35,372	—	35,372
Available-for-sale investments	—	—	752,897	752,897
Trade and notes receivables	—	1,324,084	—	1,324,084
Financial assets included in prepayments, other receivables and other assets	—	364,971	—	364,971
Derivative financial instrument	1,322	—	—	1,322
Cash and cash equivalents	—	2,398,621	—	2,398,621
Pledged deposits	—	11,845	—	11,845
	1,322	4,134,893	752,897	4,889,112

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43. Financial instruments by category (continued)

2017 (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	274,568
Financial liabilities included in other payables and accruals	188,542
Financial liabilities included in other non-current liabilities	12,350
Interest-bearing bank and other borrowings	2,134,257
Convertible bonds	2,271,874
	4,881,591

44. Transfers of financial assets

As at 31 December 2018, the Group endorsed certain notes receivable (the “**Derecognised Bills**”) accepted by major banks in Mainland China (the “**PRC banks**”) to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount totalling approximately RMB9,362,000 (2017: RMB50,656,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “**Continuing Involvement**”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2018, the Group had not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsements had been made evenly throughout the year.

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45. Fair value and fair value hierarchy of financial instruments

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

	Carrying amounts		Fair values	
	31 December 2018 RMB'000	31 December 2017 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	346,118	—	346,118	—
Financial assets at fair value through profit or loss	35,260	—	35,260	—
Available-for-sale investments	—	752,897	—	752,897
Derivative financial instrument	16	1,322	16	1,322
Long-term receivables	28,758	35,372	28,758	35,372
	410,152	789,591	410,152	789,591
Financial liabilities				
Interest-bearing bank and other borrowings: non-current	425,022	1,046,791	429,965	1,063,419
Convertible bonds	2,299,321	2,271,874	2,299,321	2,271,874
	2,724,343	3,318,665	2,729,286	3,335,293

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

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

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

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

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

The fair values of the non-current portion of interest-bearing bank and other borrowings and convertible bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2018 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

For the fair value of the unlisted equity investments at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model and has quantified this as a reduction in fair value of approximately RMB809,000, using less favourable assumptions, and an increase in fair value of approximately RMB798,000, using more favourable assumptions.

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

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

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

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018 and 2017:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments (2017: Unlisted available-for-sale equity investments)	Market approach	Discount for lack of marketability	2018: -10% to 10% (2017: -10% to 10%)	10% (2017: 10%) increase/decrease in discount would result in decrease/increase in fair value of RMB809,000 and RMB798,000 respectively (2017: RMB72,000)

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

Notes to Financial Statements

31 December 2018

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

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income:				
Listed equity investments	32,872	—	—	32,872
Unlisted equity investments	—	—	313,246	313,246
Financial assets at fair value through profit or loss: Treasury or cash management products	—	35,260	—	35,260
Derivative financial instrument	—	16	—	16
	32,872	35,276	313,246	381,394

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments:				
Listed equity investments	32,810	—	—	32,810
Unlisted equity investments	—	—	48,333	48,333
Treasury or cash management products	—	671,754	—	671,754
Derivative financial instrument	—	1,322	—	1,322
	32,810	673,076	48,333	754,219

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

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

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

	2018 RMB'000	2017 RMB'000
Equity investments designated at fair value through other comprehensive income/available-for-sale investments — unlisted:		
At 1 January	48,333	50,000
Effect of adoption of IFRS 9	—	—
At 1 January	48,333	50,000
Purchases	32,738	—
Reclassification from investment in an associate	221,982	—
Total gains/(losses) recognised in other comprehensive income	10,084	(1,667)
Exchange realignment	109	—
At 31 December	313,246	48,333

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 and 31 December 2017.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017:Nil).

Notes to Financial Statements

31 December 2018

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

Fair value hierarchy (continued)

Assets for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
	(Level 1)	(Level 2)	(Level 3)	
	RMB'000	RMB'000	RMB'000	
Long-term receivables	—	28,758	—	28,758

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
	(Level 1)	(Level 2)	(Level 3)	
	RMB'000	RMB'000	RMB'000	
Long-term receivables	—	35,372	—	35,372

Notes to Financial Statements

31 December 2018

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

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings	—	429,965	—	429,965
Convertible bonds	—	2,299,321	—	2,299,321
	—	2,729,286	—	2,729,286

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings	—	1,063,419	—	1,063,419
Convertible bonds	—	2,271,874	—	2,271,874
	—	3,335,293	—	3,335,293

Notes to Financial Statements

31 December 2018

46. Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits, trade and notes receivables, prepayments, other receivables and other assets, trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings and convertible bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors and senior management meet periodically to analyse and formulate measures to manage the Group's exposure to these risks.

Interest rate risk

The Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on cash and cash equivalents, and pledged and non-pledged deposits. Management considers that these bank balances are not sensitive to fluctuations in interest rates.

The Group's interest rate risk relates primarily to bank borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's interest rate profile as monitored by management is set out in note 31 to the financial statements.

Foreign currency risk

The Group's business is mainly located in Mainland China and most transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in USD, HKD, GBP and EUR as disclosed in note 27 and Euro-denominated convertible bonds as disclosed in note 32 to the financial statements.

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

46. Financial risk management objectives and policies (continued)

Credit risk

As at 31 December 2018, all pledged deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

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

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and notes receivables*	—	—	—	1,483,885	1,483,885
Financial assets included in prepayments, other receivables and other assets*	—	—	—	590,428	590,428
Long-term receivables*	—	—	—	28,758	28,758
Pledged deposits					
— Not yet past due	14,289	—	—	—	14,289
Cash and cash equivalents					
— Not yet past due	1,792,605	—	—	—	1,792,605
	1,806,894	—	—	2,103,071	3,909,965

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

Notes to Financial Statements

31 December 2018

46. Financial risk management objectives and policies (continued)

Credit risk (continued)

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledges deposits, financial assets included in prepayments, other receivables and other assets, trade and notes receivables and long-term receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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

Liquidity risk

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

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

Notes to Financial Statements

31 December 2018

46. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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

Group

	2018			Total RMB'000
	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 10 years RMB'000	
Financial liabilities:				
Trade and bills payables	92,046	20,028	841	112,915
Financial liabilities included in other payables and accruals	120,635	96,014	67,411	284,060
Interest-bearing bank and other borrowings	—	570,328	425,022	995,350
Convertible bonds	—	—	2,299,321	2,299,321
	212,681	686,370	2,792,595	3,691,646

	2017			Total RMB'000
	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 10 years RMB'000	
Financial liabilities:				
Trade and bills payables	88,458	185,330	780	274,568
Financial liabilities included in other payables and accruals	67,705	45,928	74,909	188,542
Financial liabilities included in other non-current liabilities	—	—	12,350	12,350
Interest-bearing bank and other borrowings	100,000	987,466	1,046,791	2,134,257
Convertible bonds	—	—	2,271,874	2,271,874
	256,163	1,218,724	3,406,704	4,881,591

Notes to Financial Statements

31 December 2018

46. Financial risk management objectives and policies (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments included in equity investments designated at fair value through other comprehensive income/available-for-sale investments (note 20) as at 31 December 2018 and 31 December 2017. The Group's major listed equity investment during the year ended 31 December 2018 was listed on the NASDAQ Stock Market ("NASDAQ") and was valued at quoted market price at the end of the reporting period.

At 31 December 2018, if the quoted market price of these financial assets held by the Group had increased/decreased by 10%, with all other variables held constant, other comprehensive income and equity would have been RMB3,254,000 (2017: RMB3,243,000) and RMB3,254,000 (2017: RMB3,243,000) higher/lower respectively as a result of the changes in fair value of these financial assets.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares or debt instruments. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2018.

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

The gearing ratio as at the end of the reporting period was as follows:

	2018 RMB'000	2017 RMB'000
Interest-bearing bank and other borrowings	995,350	2,134,257
Convertible bonds	2,299,321	2,271,874
	3,294,671	4,406,131
Total equity	8,907,370	7,629,646
Gearing ratio	37.0%	57.8%

47. Events after the reporting period

There was no significant events after the reporting period.

Notes to Financial Statements

31 December 2018

48. Statement of financial position of the company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	1,619	1,619
Investments in subsidiaries	3,033,570	2,825,473
Equity investments designated at fair value through other comprehensive income	76,115	—
Available-for-sale investments	—	72,466
Total non-current assets	3,111,304	2,899,558
CURRENT ASSETS		
Available-for-sale investments	—	32,426
Equity investments designated at fair value through other comprehensive income	32,541	—
Prepayments, other receivables and other assets	—	4
Due from subsidiaries	1,831,739	1,699,035
Cash and cash equivalents	152,166	197,874
Total current assets	2,016,446	1,929,339
CURRENT LIABILITIES		
Trade payables	7	7
Other payables and accruals	479,047	256,772
Total current liabilities	479,054	256,779
NET CURRENT ASSETS	1,537,392	1,672,560
TOTAL ASSETS LESS CURRENT LIABILITIES	4,648,696	4,572,118
NON-CURRENT LIABILITIES		
Other liabilities	—	12,350
Total non-current liabilities	—	12,350
Net assets	4,648,696	4,559,768
EQUITY		
Share capital	156	156
Treasury shares	(40,586)	—
Share premium (note)	4,304,768	4,301,172
Other reserves (note)	384,358	258,440
Total equity	4,648,696	4,559,768

Notes to Financial Statements

31 December 2018

48. Statement of financial position of the company (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Contributed surplus RMB'000	Available- for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	4,296,431	28,842	—	345,085	163,452	4,833,810
Total comprehensive loss for the year	—	—	(2,687)	(276,984)	(15,639)	(295,310)
Equity-settled share option arrangement (note 35)	—	21,112	—	—	—	21,112
Shares issued upon exercise of warrants	4,741	(4,741)	—	—	—	—
At 31 December 2017	4,301,172	45,213	(2,687)	68,101	147,813	4,559,612
Total comprehensive income for the year	—	—	6,708	215,911	29,716	252,335
Equity-settled share option arrangement (note 35)	—	17,487	—	—	—	17,487
Dividends paid	—	—	—	—	(140,308)	(140,308)
Transfer to retained profits	—	—	(5,796)	—	5,796	—
Shares issued upon exercise of warrants (note 35)	3,596	(3,596)	—	—	—	—
At 31 December 2018	4,304,768	59,104	(1,775)	284,012	43,017	4,689,126

49. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 20 March 2019.

Independent Auditor's Report



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To the shareholders of 3SBio Inc.

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

Opinion

We have audited the consolidated financial statements of 3SBio Inc. (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 83 to 212, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to consolidated the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

Key audit matters

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

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

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of other intangible assets with indefinite life</i>	
<p>As at 31 December 2019, other intangible assets with indefinite lives amounted to RMB151,764,000. In accordance with IAS 36 <i>Impairment of Assets</i>, intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. The impairment reviews performed by the Group contained a number of significant judgements and estimates including growth rate, royalty rate and discount rates. Changes in these assumptions might lead to a change in the carrying value of intangible assets.</p> <p>The Group's disclosures on other intangible assets with indefinite lives are included in note 17 to the financial statements.</p>	<p>Our audit procedures included, among others, a review of the models and the assumptions applied by management in assessing the forecasted revenue growth and profit margins. We evaluated management's sensitivity analyses to ascertain the impact of reasonably possible changes to key assumptions on the available headroom. We also reviewed the Group's disclosures of the assumptions applied in assessing the impairment of those intangible assets. We involved internal valuation experts to assess key assumptions in valuation models including growth rate, royalty rate and discount rates.</p>

Independent Auditor’s Report (continued)



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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of goodwill</i>	
<p>As at 31 December 2019, the carrying amount of goodwill was RMB4,145,896,000. In accordance with IAS 36 <i>Impairment of Assets</i>, the Group is required to test goodwill for impairment annually. Management performs the impairment assessment using a value in use calculation based on the discounted cash flow method. This assessment is complex and judgemental and is based on assumptions, such as forecasted revenue growth rate, profit margins and the discount rates, which are affected by expected future market or economic conditions, particularly in Mainland China.</p> <p>The Group’s disclosures on goodwill are included in note 16 to the financial statements.</p>	<p>Our audit procedures included, among others, a review of the assumptions with actual results of prior periods applied by management in assessing the forecasted revenue growth rate, profit margins and discount rates. We evaluated management’s identification of CGU and impairment model used by the Group. We also reviewed the Group’s disclosures of those assumptions to which the outcome of the impairment test was most sensitive and which had the most significant effect on the determination of the recoverable amount of goodwill. We involved internal valuation experts in benchmarking key assumptions in valuation models including expected perpetual rates and discount rates.</p>

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

Other information included in the Annual Report

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report (continued)



To the shareholders of 3SBio Inc.

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

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

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

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

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

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

Ernst & Young

Certified Public Accountants

Hong Kong

30 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	5,318,091	4,583,869
Cost of sales	6	(925,347)	(877,255)
Gross profit		4,392,744	3,706,614
Other income and gains	5	218,107	429,810
Selling and distribution expenses		(1,950,733)	(1,691,167)
Administrative expenses		(676,009)	(316,751)
Research and development costs		(526,565)	(362,706)
Other expenses	6	(114,024)	(123,662)
Finance costs	7	(109,476)	(138,382)
Share of profits and losses of:			
A joint venture	18	4,970	—
Associates	19	(16,001)	(8,245)
PROFIT BEFORE TAX		1,223,013	1,495,511
Income tax expense	11	(242,785)	(218,265)
PROFIT FOR THE YEAR		980,228	1,277,246
Attributable to:			
Owners of the parent		973,717	1,277,167
Non-controlling interests		6,511	79
		980,228	1,277,246
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic (RMB)	13	0.38	0.50
— Diluted (RMB)	13	0.38	0.49

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	980,228	1,277,246
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	27,732	93,539
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	27,732	93,539
Other comprehensive (loss)/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	(2,801)	16,740
Income tax effect	3,660	(6,394)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	859	10,346
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	28,591	103,885
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,008,819	1,381,131
Attributable to:		
Owners of the parent	1,002,308	1,381,052
Non-controlling interests	6,511	79
	1,008,819	1,381,131

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,988,793	1,791,961
Right-of-use assets	15(b)	335,936	—
Prepaid land lease payments	15(a)	—	326,457
Goodwill	16	4,145,896	4,089,064
Other intangible assets	17	2,165,139	2,298,735
Investment in a joint venture	18	7,470	2,500
Investments in associates	19	593,414	385,850
Equity investments designated at fair value through other comprehensive income	20	676,989	313,246
Long-term receivables	21	6,555	28,758
Prepayments, other receivables and other assets	25	163,909	81,149
Deferred tax assets	22	129,024	84,402
Total non-current assets		10,213,125	9,402,122
CURRENT ASSETS			
Inventories	23	528,473	384,609
Trade and notes receivables	24	1,018,265	1,483,885
Prepayments, other receivables and other assets	25	472,360	693,997
Equity investments designated at fair value through other comprehensive income	20	—	32,872
Financial assets at fair value through profit or loss	26	472,163	35,260
Derivative financial instrument		—	16
Pledged deposits	27	22,073	14,289
Cash and cash equivalents	27	2,082,847	1,792,605
Total current assets		4,596,181	4,437,533
CURRENT LIABILITIES			
Trade and bills payables	28	149,763	112,915
Other payables and accruals	29	913,990	845,725
Deferred income	30	37,217	35,887
Interest-bearing bank and other borrowings	31	483,957	570,328
Lease liabilities	15(c)	5,467	—
Tax payable		21,335	90,686
Total current liabilities		1,611,729	1,655,541
NET CURRENT ASSETS		2,984,452	2,781,992
TOTAL ASSETS LESS CURRENT LIABILITIES		13,197,577	12,184,114

Consolidated Statement of Financial Position (continued)

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	13,286	425,022
Lease liabilities	15(c)	3,964	—
Convertible bonds	32	2,304,750	2,299,321
Deferred income	30	242,314	275,337
Deferred tax liabilities	22	268,077	270,761
Other non-current liabilities		5,867	6,303
Total non-current liabilities		2,838,258	3,276,744
Net assets		10,359,319	8,907,370
EQUITY			
Equity attributable to owners of the parent			
Share capital	34	155	156
Treasury shares	34	—	(40,586)
Share premium	34	4,307,795	4,376,056
Other reserves		5,317,091	4,278,807
		9,625,041	8,614,433
Non-controlling interests		734,278	292,937
Total equity		10,359,319	8,907,370

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent							Available-for-sale investment revaluation/ Fair value reserve*	Exchange fluctuation reserve*	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (note 34)	Treasury shares RMB'000 (note 34)	Share premium RMB'000 (note 34)	Contributed surplus* RMB'000 (note 35)	Equity component of convertible bonds* RMB'000 (note 32)	Statutory surplus reserves* RMB'000 (note 36)	Retained earnings* RMB'000					
At 31 December 2017	156	—	4,372,460	195,788	47,133	307,794	2,443,925	(4,393)	33,925	7,396,788	232,858	7,629,646
Effect of adoption of IFRS 9	—	—	—	—	—	—	—	—	—	—	—	—
Effect of adoption of IFRS 15	—	—	—	—	—	—	—	—	—	—	—	—
At 1 January 2018	156	—	4,372,460	195,788	47,133	307,794	2,443,925	(4,393)	33,925	7,396,788	232,858	7,629,646
Profit for the year	—	—	—	—	—	—	1,277,167	—	—	1,277,167	79	1,277,246
Other comprehensive income for the year:												
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	10,346	—	10,346	—	10,346
Exchange differences related to foreign operations	—	—	—	—	—	—	—	—	93,539	93,539	—	93,539
Total comprehensive income for the year	—	—	—	—	—	—	1,277,167	10,346	93,539	1,381,052	79	1,381,131
Transfer to statutory reserves	—	—	—	—	—	129,939	(129,939)	—	—	—	—	—
Shares repurchased	—	(40,586)	—	—	—	—	—	—	—	(40,586)	—	(40,586)
Equity-settled share option arrangements (note 35)	—	—	—	17,487	—	—	—	—	—	17,487	—	17,487
Capital injection from a non-controlling shareholder	—	—	—	—	—	—	—	—	—	—	60,000	60,000
2017 final dividends	—	—	—	—	—	—	(140,308)	—	—	(140,308)	—	(140,308)
Transfer to retained profits	—	—	—	—	—	—	5,796	(5,796)	—	—	—	—
Shares issued upon exercise of warrants	—	—	3,596	(3,596)	—	—	—	—	—	—	—	—
At 31 December 2018	156	(40,586)	4,376,056	209,679	47,133	437,733	3,456,641	157	127,464	8,614,433	292,937	8,907,370

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent											Total equity RMB'000
	Share capital RMB'000 (note 34)	Treasury shares RMB'000 (note 34)	Share premium RMB'000 (note 34)	Contributed surplus* RMB'000 (note 35)	Equity component of convertible bonds* RMB'000 (note 32)	Statutory surplus reserves* RMB'000 (note 36)	Retained earnings* RMB'000	Fair value reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At 31 December 2018	156	(40,586)	4,376,056	209,679	47,133	437,733	3,456,641	157	127,464	8,614,433	292,937	8,907,370
Effect of adoption of IFRS 16	—	—	—	—	—	—	—	—	—	—	—	—
At 1 January 2019 (restated)	156	(40,586)	4,376,056	209,679	47,133	437,733	3,456,641	157	127,464	8,614,433	292,937	8,907,370
Profit for the year	—	—	—	—	—	—	973,717	—	—	973,717	6,511	980,228
Other comprehensive income for the year:												
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	895	—	895	—	895
Exchange differences related to foreign operations	—	—	—	—	—	—	—	—	27,732	27,732	—	27,732
Total comprehensive income for the year	—	—	—	—	—	—	973,717	895	27,732	1,002,344	6,511	1,008,856
Transfer to statutory reserves	—	—	—	—	—	142,807	(142,807)	—	—	—	—	—
Shares repurchased	—	(38,180)	—	—	—	—	—	—	—	(38,180)	—	(38,180)
Shares cancelled	(1)	78,766	(78,765)	—	—	—	—	—	—	—	—	—
Equity-settled share option arrangements (note 35)	—	—	—	11,001	—	—	—	—	—	11,001	—	11,001
Shares issued upon exercise of share option (Note 35)	—	—	10,504	(3,369)	—	—	—	—	—	7,135	—	7,135
The expenses associated with the shares awarded under the employee share ownership plan (Note 35)	—	—	—	335,110	—	—	—	—	—	335,110	—	335,110
Shares issued upon exercise of the shares awarded under the employee share ownership plan (Note 35)	—	—	—	(306,802)	—	—	—	—	—	(306,802)	351,169	44,367
Capital injection from a non-controlling shareholder	—	—	—	—	—	—	—	—	—	—	100,000	100,000
Dividends paid by a subsidiary	—	—	—	—	—	—	—	—	—	—	(16,339)	(16,339)
At 31 December 2019	155	—	4,307,795	245,619	47,133	580,540	4,287,551	1,052	155,196	9,625,041	734,278	10,359,319

* These reserve accounts comprised the consolidated other reserves of approximately RMB5,305,572,000 (2018: RMB4,278,807,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,223,013	1,495,511
Adjustments for:			
Finance costs	7	109,476	138,382
Share of profits and losses of a joint venture and associates	18,19	11,031	8,245
Fair value loss on a derivative financial instrument	6	—	1,323
Interest income	5	(83,858)	(64,771)
Foreign exchange differences	5	(47,622)	(83,786)
Charge of share-based compensation costs	35	346,111	17,487
Depreciation	6	185,608	165,248
Amortisation of other intangible assets	6	135,068	148,016
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	6	13,292	8,480
Amortisation of long-term deferred expenditures	6	3,780	1,958
Recognition of deferred income	30	(44,436)	(43,291)
(Reversal of provision)/provision for impairment of trade receivables	6	(12,078)	36,622
Provision for impairment of prepayments, other receivables and other assets	6	25,717	23,299
Provision for impairment of long term receivables	6	28,170	8,095
Reversal of provision for impairment of inventories	23	1,507	(507)
Loss on disposal of items of property, plant and equipment	6	3,367	10,054
Gain on reclassification from an investment in an associate to an equity investment designated at fair value through other comprehensive income	5	—	(201,324)
Loss on disposal of a derivative financial instrument		86	—
Payment of service fee in relation to non-operation activities		—	(12,346)
		1,898,232	1,656,695
Increase in inventories		(124,854)	(35,724)
(Increase)/decrease in pledged deposits		(9,752)	15
Decrease/(increase) in trade and notes receivables		453,884	(264,464)
(Increase)/decrease in prepayments, other receivables and other assets		(65,900)	2,561
Increase/(decrease) in trade and bills payables		37,035	(51,811)
Increase in other payables and accruals		54,068	106,317
Cash generated from operations		2,242,713	1,413,589
Income tax paid		(355,329)	(263,338)
Net cash flows from operating activities		1,887,384	1,150,251

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		68,282	63,714
Purchases of items of property, plant and equipment		(471,401)	(247,320)
Purchase of financial assets at fair value through profit or loss		(11,005,103)	(2,489,510)
Purchase of equity investments designated at fair value through other comprehensive income		(326,199)	(67,469)
Proceeds from disposal of financial assets at fair value through profit or loss		10,568,200	3,126,004
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		—	42,946
Addition to land lease prepayment	15	—	(28,959)
Advance of a loan to a related party		(32,200)	(230,742)
Advance of a loan to a third party		(20,000)	(9,608)
Repayment of loans from a related party		30,100	—
Repayment of loans from third parties		285,785	—
Payment for an investment in a joint venture	18	—	(2,500)
Payment for investments in associates		(218,734)	(386,774)
Disposal of a subsidiary		(256)	—
Addition to other intangible assets		(14,852)	(186,117)
Proceeds from disposal of items of property, plant and equipment		2,020	3,098
Received fund from government grants		641	7,325
Net cash flows used in investing activities		(1,133,717)	(405,912)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		7,135	—
Received capital injection from non-controlling shareholders		144,367	60,000
Decrease/(increase) in pledged deposits		1,968	(2,459)
Repayments of bank borrowings		(1,740,529)	(1,588,192)
Acquisition of treasury shares		(38,181)	(40,586)
Proceeds from bank borrowings		1,230,007	399,340
Principal portion of lease payments		(4,592)	—
Dividend paid		(16,339)	(150,813)
Interest paid		(38,236)	(66,968)
Net cash flows used in financing activities		(454,400)	(1,389,678)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the year		1,792,605	2,398,621
Effect of foreign exchange rate changes on cash, net		(9,025)	39,323
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		2,082,847	1,792,605
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	2,082,142	1,791,104
Restricted cash	27	705	1,501
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		2,082,847	1,792,605

Notes to Financial Statements

31 December 2019

1. Corporate and group information

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

The Company is an investment holding company. During the year, the subsidiaries of the Company were principally engaged in the development, production, marketing and sale of biopharmaceutical products in the mainland area (“**Mainland China**”) of the People’s Republic of China (the “**PRC**”).

Information about subsidiaries

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

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

Notes to Financial Statements

31 December 2019

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Taizhou Huan Sheng Investment Management Company Ltd. (泰州環晟投資管理有限公司)	PRC/Mainland China* 29 December 2010	RMB1,000,000	—	100%	Project management and consultation
Taizhou Huan Sheng Healthcare Industry Investment Centre LLP ("Taizhou Centre") (泰州環晟健康產業投資中心)	PRC/Mainland China* 30 May 2011	RMB250,000,000	—	80%	Investment holding
Excel Partner Holdings Limited ("Excel Partner") (特隆控股有限公司)	Hong Kong* 8 July 2010	HKD1	—	100%	Investment holding
Sirton Pharmaceuticals S.p.A. ("Sirton")	Italy 22 November 2010	Euro ("EUR") 300,000	—	100%	Manufacture and sale of pharmaceutical drugs and research and development
Ample Harvest Investments Limited ("Ample Harvest") (溢豐投資有限公司)	British Virgin Islands* 2 January 2003	USD10	—	100%	Investment holding
Shenzhen Baishitong Technology Development Company Limited ("Shenzhen Baishitong") (深圳市百士通科技開發有限公司)	PRC/Mainland China* 8 March 2002	RMB500,000	—	100%	Investment holding

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shenzhen Sciprogen Bio-pharmaceutical Co., Ltd. ("Sciprogen") (深圳賽保爾生物藥業有限公司)	PRC/Mainland China* 22 March 1999	RMB160,000,000	—	100%	Manufacture and sale of pharmaceutical drugs and research and development
Guangdong Sciprogen Bio-pharmaceutical Technology Co., Ltd. ("Guangdong Sciprogen") (廣東賽保爾生物醫藥技術有限公司)	PRC/Mainland China* 30 June 2011	RMB10,000,000	—	100%	Manufacture and sale of pharmaceutical drugs and research and development
Shanghai Anran Bio-technology Co., Ltd. ("Shanghai Anran") (上海安冉生物科技有限公司)	PRC/Mainland China* 21 December 2016	RMB10,000,000	—	100%	Research and development of bio-technology and drugs and sale of chemical products
Zhejiang Wansheng Pharmaceutical Co., Ltd. ("Zhejiang Wansheng") (浙江萬晟藥業有限公司)	PRC/Mainland China* 27 October 1997	RMB56,500,000	—	100%	Manufacture and sale of pharmaceutical drugs and research and development
Gains Prestige Limited ("Gains Prestige") (澤威有限公司)	British Virgin Islands* 2 September 2014	HKD8	100%	—	Investment holding

Notes to Financial Statements

31 December 2019

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Full Gain Limited ("Full Gain") (富健藥業有限公司)	Hong Kong* 6 October 2014	HKD1	—	100%	Investment holding
Shanghai Xingsheng Pharmaceutical Company Limited ("Xing Sheng") (上海興生藥業有限公司)	PRC/Mainland China* 23 December 1998	RMB410,000,000	—	96.25%	Investment holding
Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. ("Sunshine Guojian") (三生國健藥業(上海) 股份有限公司)	PRC/Mainland China 25 January 2002	RMB554,590,271	—	88.52%	Manufacture and sale of biopharmaceutical drugs and research and development
National Engineering Research Center of Antibody Medicine ("NERC") (上海抗體藥物國家工程 研究中心有限公司)	PRC/Mainland China 15 January 2009	RMB260,000,000	—	61.54%	Manufacture and sale of biopharmaceutical drugs and research and development

Notes to Financial Statements

31 December 2019

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Cn-Gen Mab Co., Ltd. ("Cn-Gen Mab") (中健抗體有限公司)	Hong Kong 19 September 2012	HKD1,000,000	—	100%	Distribution and sale of pharmaceutical drugs
Sunshine Guojian Pharmaceutical (Suzhou) Co., Ltd. (三生國健藥業(蘇州)有限公司)	PRC/Mainland China* 25 November 2013	RMB150,000,000	—	100%	Manufacture and sale of biopharmaceutical drugs and research and development
Shanghai Shengguo Pharmaceutical Development Co., Ltd. (上海晟國醫藥發展有限公司)	PRC/Mainland China* 29 January 2014	RMB100,000,000	—	100%	Technology services
Shanghai Hongshang Investment Co., Ltd. ("Shanghai Hongshang") (上海翹矯投資諮詢有限公司)	PRC/Mainland China* 5 November 2015	RMB1,034,100,000	—	100%	Investment holding
Guangdong Sunshine Pharmaceutical Co., Ltd ("Guangdong Sunshine") (廣東三生製藥有限公司)	PRC/Mainland China* 7 December 2016	RMB40,000,000	—	100%	Manufacture and sale of biopharmaceutical drugs and research and development

Notes to Financial Statements

31 December 2019

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Strategic International Group Limited ("Strategic International")	British Virgin Islands* 14 June 2017	EUR50,000	100%	—	Investment holding
Grand Path Holdings Limited ("Grand Path Holdings")	Hong Kong 13 May 2010	HKD16,000	100%	—	Investment holding
NMV Desen Biotech Co., Ltd. ("Desen Biotech") (北方藥穀德生(瀋陽) 生物科技有限責任公司)	PRC/Mainland China* 26 February 2018	RMB3,830,000,000	—	90.34%	Manufacture and sale of biopharmaceutical drugs and research and development

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

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

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

2.1 Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2019. 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.

Notes to Financial Statements

31 December 2019

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

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

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

2.2 Changes in accounting policies and disclosures

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

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to IFRSs 2015–2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRSs 2015–2017 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) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for certain buildings. As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

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2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

As a lessee — Leases previously classified as operating leases (continued)

Impact on transition (continued)

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

Financial impact at 1 January 2019

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	343,448
Increase in deferred tax assets	1,237
Decrease in prepaid land lease payments	(335,205)
Increase in total assets	9,480
Liabilities	
Increase in lease liabilities (including current and non-current portion)	8,243
Increase in deferred liabilities	1,237
Increase in total liabilities	9,480

2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

Financial impact at 1 January 2019 (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	11,851
Less: Commitments relating to short-term leases and those leases with a remaining term ended on or before 31 December 2019	(2,346)
	9,505
Weighted average incremental borrowing rate as at 1 January 2019	4.35%
Discounted operating lease commitments at 1 January 2019	8,243
Lease liabilities as at 1 January 2019	8,243

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.
- (c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The Group has assessed its tax position and determined that it is probable that it will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

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2.3 Issued but not yet effective international financial reporting standards

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

Amendments to IFRS 3	<i>Definition of a Business</i> ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
IFRS 17	<i>Insurance Contracts</i> ²
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ¹
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ³

1 Effective for annual periods beginning on or after 1 January 2020

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

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

4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

The amendments to IAS 1 clarify the meaning of a right to defer settlement and that a right to defer must exist at the end of the reporting period. The amendments also clarify that the classification is unaffected by the likelihood that an entity will exercise its deferral right and only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. The amendments to IAS 1 are required to be applied for annual periods beginning on or after 1 January 2022 and must be applied retrospectively. The amendments are not expected to have any significant impact on the Group's financial statements.

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2.4 Summary of significant accounting policies

Investments in associates and joint ventures

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

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

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill

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

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

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

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

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

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

Notes to Financial Statements

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2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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

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

Fair value measurement

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

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

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

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

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2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

2.4 Summary of significant accounting policies (continued)

Related parties (continued)

- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for “Non-current assets and disposal groups held for sale”. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

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

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2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

Non-current assets and disposal groups held for sale

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

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

Intangible assets (other than goodwill)

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

2.4 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill) (continued)

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

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

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

Research and development costs

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

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

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

Leases (applicable from 1 January 2019)

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

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2.4 Summary of significant accounting policies (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee

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

(a) *Right-of-use assets*

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

Leasehold land	30 to 50 years
Buildings	1 to 4 years

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

(b) *Lease liabilities*

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

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

2.4 Summary of significant accounting policies (continued)

Leases (applicable from 1 January 2019) (continued)

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

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

Group as a lessor

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

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

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

Leases (applicable before 1 January 2019)

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

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

Notes to Financial Statements

31 December 2019

2.4 Summary of significant accounting policies (continued)

Leases (applicable before 1 January 2019) (continued)

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

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

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

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

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

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

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

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2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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

Derecognition of financial assets

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

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

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

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

General approach

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

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

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

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2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

General approach (continued)

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

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

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Simplified approach (continued)

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

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31 December 2019

2.4 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Convertible bonds

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 Summary of significant accounting policies (continued)

Treasury shares

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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2.4 Summary of significant accounting policies (continued)

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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

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

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

Government grants

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

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

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

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

Notes to Financial Statements

31 December 2019

2.4 Summary of significant accounting policies (continued)

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) Sale of biopharmaceutical products

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

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

(i) Rights of return

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

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) *Sale of biopharmaceutical products (continued)*

(ii) *Trade discounts*

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

(b) *Contracts for services*

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

Other income

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

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

Contract assets

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

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31 December 2019

2.4 Summary of significant accounting policies (continued)

Contract liabilities

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

Contract costs

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

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Right-of-return assets

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

Refund liabilities

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

2.4 Summary of significant accounting policies (continued)

Contracts for services

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

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

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

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

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31 December 2019

2.4 Summary of significant accounting policies (continued)

Share-based payments (continued)

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

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

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

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

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

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cumulative expense recognised for cash-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of awards that will ultimately vest. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in the statement of profit or loss.

2.4 Summary of significant accounting policies (continued)

Other employee benefits

Pension scheme

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

Defined benefit plan

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

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

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

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

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

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

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31 December 2019

2.4 Summary of significant accounting policies (continued)

Other employee benefits (continued)

Termination benefits

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

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

2.4 Summary of significant accounting policies (continued)

Foreign currencies (continued)

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

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

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

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

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

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

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

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3. Significant accounting judgements and estimates

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

Judgements

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

Revenue from contracts with customers

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

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

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

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

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

3. Significant accounting judgements and estimates (continued)

Judgements (continued)

Tax provisions

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

Determination of control over certain entity

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

Estimation uncertainty

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

Variable consideration for returns and trade discounts

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

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

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3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was approximately RMB4,145,896,000 (2018: RMB4,089,064,000). Further details are given in note 16 to the financial statements.

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

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

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

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

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Leases — Estimating the incremental borrowing rate

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

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 22 to the financial statements.

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3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 44 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2019 was RMB174,070,000 (2018: RMB313,246,000). Further details are included in note 20 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2019, the best estimate of the carrying amount of capitalised development costs was RMB151,764,000 (2018: RMB138,481,000).

Estimation of inventory provision

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

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. Details of share-based payments are contained in note 35 to the financial statements.

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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

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

4. Operating segment information

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

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
Mainland China	5,175,586	4,430,024
Others	142,505	153,845
	5,318,091	4,583,869

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

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4. Operating segment information (continued)

Geographical information (continued)

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
Mainland China	7,391,487	6,817,104
Others	2,009,070	2,158,612
	9,400,557	8,975,716

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 is as follows:

	2019 RMB'000	2018 RMB'000
<i>Revenue from contracts with customers</i>		
Sale of biopharmaceuticals	5,292,397	4,569,565
Technical service	25,694	14,304
	5,318,091	4,583,869

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5. Revenue, other income and gains (continued)

Revenue from contracts with customers

(a) Disaggregated revenue information

	2019 RMB'000	2018 RMB'000
Type of goods or services		
Sale of biopharmaceuticals	5,292,397	4,569,565
Technical service	25,694	14,304
Total revenue from contracts with customers	5,318,091	4,583,869
Geographical markets		
Mainland China	5,175,586	4,430,024
Others	142,505	153,845
Total revenue from contracts with customers	5,318,091	4,583,869
Timing of revenue recognition		
Goods transferred at a point in time	5,292,397	4,569,565
Services transferred over time	25,694	14,304
Total revenue from contracts with customers	5,318,091	4,583,869

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

Revenue recognised that was included in contract liabilities at the beginning of the reporting period:

	2019 RMB'000	2018 RMB'000
Sale of biopharmaceuticals	29,816	76,854

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5. Revenue, other income and gains (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations

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

Sale of biopharmaceuticals

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

Technical service

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

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

	2019 RMB'000	2018 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	18,300	6,485
After one year	15,705	6,710
	34,005	13,195

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

5. Revenue, other income and gains (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations (continued)

Technical service (continued)

	2019 RMB'000	2018 RMB'000
Other income		
Government grants related to		
— Assets (a)	31,578	35,350
— Income (b)	36,508	26,786
Interest income	83,858	64,771
Licensing income	991	1,397
Others	17,550	16,396
	170,485	144,700
Gains		
Gain on reclassification from an investment in an associate to an equity investment designated at fair value through other comprehensive income (c)	—	201,324
Foreign exchange differences, net	47,622	83,786
	47,622	285,110
	218,107	429,810

Notes:

- (a) The Group has received certain government grants to purchase items of property, plant and equipment. The grants are initially recorded as deferred income and are amortised against the depreciation charge of the underlying property, plant and equipment in accordance with the assets' estimated useful lives (note 30).
- (b) The government grants have been received for the Group's contribution to the development of the local pharmaceutical industry. There are no unfulfilled conditions or contingencies attaching to these grants.
- (c) On 13 July 2018, Ascentage Pharma Group International ("Ascentage International") completed the reorganisation. Ascentage Jiangsu Pharmaceutical Group Co., Ltd. ("Ascentage Jiangsu") became a 100% subsidiary of Ascentage International. After reorganisation, the Group no longer holds equity in Ascentage Jiangsu, and holds 10,140,375 preferred shares of Ascentage International which accounts for 4.89% of its total equity.

On 6 July 2018, the Group withdrew from the board of directors and had no significant impact on Ascentage international. In accordance with IFRS 9, the investment in Ascentage International was remeasured from an investment in an associate to an equity investment designated at fair value through other comprehensive income, and the Group recognised a gain upon reclassification of RMB201,324,000.

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6. Profit before tax

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

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		918,155	870,628
Cost of service provided		7,192	6,627
Depreciation of property, plant and equipment	14	185,608	165,248
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	15(b)	13,292	8,480
Amortisation of other intangible assets		135,068	148,016
Amortisation of long-term deferred expenditures		3,780	1,958
Minimum lease payments under operating leases		—	9,137
Lease payments not included in the measurement of lease liabilities	15(d)	6,615	—
Auditor's remuneration		9,367	7,813
Employee benefit expenses (excluding directors' and chief executive's remuneration):			
Wages, salaries and staff welfare		973,269	878,758
Equity-settled compensation expenses		153,469	15,756
Pension scheme contributions		71,694	68,384
Social welfare and other costs		108,237	91,218
		1,306,669	1,054,116
Other expenses and losses:			
Donation		63,679	36,224
Loss on disposal of items of property, plant and equipment		3,367	10,054
Impairment of long-term receivables	21	28,170	8,095
(Reversal of provision for impairment)/provision for impairment of trade receivables	24	(12,078)	36,622
Provision for impairment of prepayments, other receivables and other assets	25	25,717	23,299
Fair value loss on a derivative financial instrument		—	1,323
Others		5,169	8,045
		114,024	123,662

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7. Finance costs

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans	36,380	65,609
Interest on convertible bonds	72,518	72,773
Interest on lease liabilities	578	—
	109,476	138,382

8. Directors' and chief executive's remuneration

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

	2019 RMB'000	2018 RMB'000
Fees	6,975	11,035
Other emoluments:		
Salaries, allowances, bonuses and other benefits	2,011	2,183
Equity-settled compensation expenses	192,642	1,731
Pension scheme contributions	646	708
	202,274	15,657

On 2 February 2017, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

(a) Independent non-executive directors

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

	2019 RMB'000	2018 RMB'000
Mr. David Ross Parkinson	269	263
Mr. Jun Ma (i)	127	263
Mr. Tianruo Pu	269	263
Mr. Wong Lap Yan (ii)	62	—
	727	789

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

(ii) Mr. Wong Lap Yan was appointed on 8 October 2019.

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

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

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

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

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

	Fees RMB'000	Salaries, allowances, bonuses and other benefits RMB'000	Equity-settled compensation expenses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2018					
Chief executive					
Dr. Jing Lou (i)	5,147	432	577	294	6,450
Executive directors					
Mr. Bo Tan (ii)	3,898	482	577	200	5,157
Ms. Dongmei Su	515	824	577	156	2,072
Mr. Bin Huang (iii)	686	445	—	58	1,189
Non-executive directors					
Mr. Dong Liu	—	—	—	—	—
Mr. Dasong Wang (iv)	—	—	—	—	—
	10,246	2,183	1,731	708	14,868

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

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

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

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

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

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9. Five highest paid employees

The five highest paid employees during the year included the chief executive (2018: one director and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2018: three) highest paid employees who are neither directors nor chief executives of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances, bonuses and other benefits	11,231	9,254
Pension scheme contributions	503	379
Equity-settled compensation expenses	58,757	4,372
	70,491	14,005

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

	Number of employees	
	2019	2018
HKD4,000,001 to HKD4,500,000	—	1
HKD4,500,001 to HKD5,000,000	—	1
HKD6,500,001 to HKD7,000,000	1	1
HKD9,000,001 to HKD9,500,000	1	—
HKD29,500,001 to HKD33,000,000	1	—
HKD33,000,001 to HKD33,500,000	1	—
	4	3

On 2 February 2017, share options were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. Pension schemes

The Company's subsidiaries registered in the PRC and Italy are required to participate in the retirement benefit schemes operated by the relevant local government authorities in Mainland China and Italy. The relevant local government authorities in Mainland China and Italy are responsible for the pension liabilities payable to retired employees. The Group is required to make contributions for those employees who are registered as permanent residents in Mainland China and Italy within the scope of the relevant PRC and Italy regulations at 16% and 30% (2018: 20% and 30%) of the employees' salaries for the year, respectively.

The Group's contributions to the retirement benefit schemes for the year ended 31 December 2019 amounted to approximately RMB72,340,000 (2018: RMB69,092,000).

11. Income tax

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

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

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

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

Shenyang Sunshine, Sciprogen, Zhejiang Wansheng, NERC and Sunshine Guojian are qualified as High and New Technology Enterprises and are entitled to a preferential income tax rate of 15%. In accordance with relevant Italian tax regulations, Sirton is subject to income tax at a rate of 27.9% (2018: 27.9%).

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

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11. Income tax (continued)

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

	2019 RMB'000	2018 RMB'000
Current	286,431	242,145
Deferred	(43,646)	(23,880)
Total tax charge for the year	242,785	218,265

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

	2019 RMB'000	2018 RMB'000
Profit before tax	1,223,013	1,495,511
At the PRC's statutory income tax rate of 25%	305,753	373,878
Preferential income tax rates applicable to subsidiaries	(81,911)	(186,862)
Additional deductible allowance for research and development expenses	(59,890)	(32,430)
Income not subject to tax	(15,157)	(24,503)
Effect of non-deductible expenses	16,744	29,964
Tax losses utilised from previous periods	(1,361)	(1,268)
Tax losses not recognised	74,889	59,657
Others	3,718	(171)
Tax charge at the Group's effective rate	242,785	218,265

The effective tax rate of the Group for the year ended 31 December 2019 was 19.9% (2018: 14.6%).

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12. Dividends

	2019 RMB'000	2018 RMB'000
Proposed and declared dividend	—	—

No dividends were declared or paid by the Company for the year ended 31 December 2019 (31 December 2018: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 2,535,438,744 (2018: 2,540,646,747) in issue during the year, as adjusted to reflect the issue of ordinary shares during the year.

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

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

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	973,717	1,277,167
Interest on convertible bonds	—	72,773
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	973,717	1,349,940

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

	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year	2,535,438,744	2,540,646,747
Effect of dilution — weighted average number of ordinary shares:		
Warrants	—	23,600,245
Share options	2,299,436	1,428,049
Convertible bonds	—	188,363,445
	2,537,738,180	2,754,038,486

Because the diluted earnings per share amount is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share.

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14. Property, plant and equipment

2019

	Land and buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2018 and at 1 January 2019:						
Cost	857,819	1,148,204	159,486	13,547	353,914	2,532,970
Accumulated depreciation	(171,818)	(443,143)	(115,789)	(10,259)	—	(741,009)
Net carrying amount	686,001	705,061	43,697	3,288	353,914	1,791,961
At 1 January 2019, net of accumulated depreciation	686,001	705,061	43,697	3,288	353,914	1,791,961
Additions	15	53,855	53,357	2,032	278,796	388,055
Disposals	(2,234)	(2,205)	(825)	(146)	—	(5,410)
Depreciation provided during the year	(46,245)	(106,977)	(31,127)	(1,259)	—	(185,608)
Transfers	39,652	28,182	383	—	(68,217)	—
Exchange realignment	(64)	(97)	(5)	(4)	(35)	(205)
At 31 December 2019, net of accumulated depreciation	677,125	677,819	65,480	3,911	564,458	1,988,793
At 31 December 2019:						
Cost	893,638	1,215,211	206,514	14,116	564,458	2,893,937
Accumulated depreciation	(216,513)	(537,392)	(141,034)	(10,205)	—	(905,144)
Net carrying amount	677,125	677,819	65,480	3,911	564,458	1,988,793

A freehold land with a carrying amount of approximately RMB3,980,000 as at 31 December 2019 (2018: RMB3,996,000) is situated in Italy.

The Group is in the process of applying for the title certificates of certain of its buildings with an aggregate book value of approximately RMB65,472,000 as at 31 December 2019 (2018: RMB68,885,000). The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2019.

At 31 December 2019, certain of the Group's land and buildings, which had an aggregate carrying amount of approximately RMB2,733,000 (2018: RMB2,744,000) and RMB14,443,000 (2018: RMB14,308,000) respectively, were pledged to secure general banking facilities granted to the Group (note 31).

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14. Property, plant and equipment (continued)

2018

	Land and buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2017 and at 1 January 2018:						
Cost	712,401	796,402	123,013	13,268	730,547	2,375,631
Accumulated depreciation	(148,026)	(369,488)	(88,889)	(9,559)	—	(615,962)
Net carrying amount	564,375	426,914	34,124	3,709	730,547	1,759,669
At 1 January 2018,						
net of accumulated depreciation	564,375	426,914	34,124	3,709	730,547	1,759,669
Additions	5,606	19,566	35,868	1,081	148,181	210,302
Disposals	(8,227)	(4,327)	(439)	(159)	—	(13,152)
Depreciation provided during the year	(44,635)	(89,222)	(30,046)	(1,345)	—	(165,248)
Transfers	168,785	352,009	4,185	—	(524,979)	—
Exchange realignment	97	121	5	2	165	390
At 31 December 2018,						
net of accumulated depreciation	686,001	705,061	43,697	3,288	353,914	1,791,961
At 31 December 2018:						
Cost	857,819	1,148,204	159,486	13,547	353,914	2,532,970
Accumulated depreciation	(171,818)	(443,143)	(115,789)	(10,259)	—	(741,009)
Net carrying amount	686,001	705,061	43,697	3,288	353,914	1,791,961

15. Leases

The Group as a lessee

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

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	314,726
Additions	28,959
Recognised in profit or loss during the year	(8,480)
Carrying amount at 31 December 2018	335,205
Current portion included in prepayments, other receivables and other assets	(8,748)
Non-current portion	326,457

(b) Right-of-use assets

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

	Prepaid land lease payments RMB'000	Operating lease RMB'000	Total RMB'000
As at 1 January 2019	335,205	8,243	343,448
Additions	—	5,780	5,780
Depreciation charge	(8,769)	(4,523)	(13,292)
As at 31 December 2019	326,436	9,500	335,936

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15. Leases (continued)

The Group as a lessee (continued)

(c) Lease liabilities

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

	2019 Lease liabilities RMB'000
Carrying amount at 1 January	8,243
New leases	5,780
Accretion of interest recognised during the year	578
Payments	(5,170)
Carrying amount at 31 December	9,431
Analysed into:	
Current portion	5,467
Non-current portion	3,964

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

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

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

16. Goodwill

	RMB'000
Cost at 1 January 2018	3,923,598
Exchange realignment	165,466
Cost and net carrying amount at 31 December 2018	4,089,064
Cost at 1 January 2019	4,089,064
Exchange realignment	56,832
Cost and net carrying amount at 31 December 2019	4,145,896
At 31 December 2019:	
Cost	4,145,896
Accumulated impairment	—
Net carrying amount	4,145,896

Impairment testing of goodwill

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

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

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

Assumptions were used in the value in use calculation of the group of CGUs as at 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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16. Goodwill (continued)

Impairment testing of goodwill (continued)

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

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

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

In the opinion of the Company's directors, a decrease in the growth rate by 5% would cause the recoverable amount of the cash-generating unit to exceed its carrying amount by approximately RMB3,203,657,000 to RMB1,157,869,000, and any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause the carrying amount of the cash-generating unit to exceed its recoverable amount.

17. Other Intangible Assets

2019

	Exclusive distribution right RMB'000	IP rights RMB'000	Patents and technology know-how RMB'000	IPR&Ds RMB'000	Others RMB'000	Total RMB'000
Cost at 1 January 2019, net of accumulated amortisation	550,886	1,279,980	301,081	138,481	28,307	2,298,735
Additions	—	—	—	13,283	1,569	14,852
Amortisation provided during the year	(58,097)	(69,350)	(19,553)	—	(8,604)	(155,604)
Exchange realignment	7,174	—	—	—	(18)	7,156
At 31 December 2019	499,963	1,210,630	281,528	151,764	21,254	2,165,139
At 31 December 2019:						
Cost	627,220	1,717,863	422,897	151,764	69,573	2,989,317
Accumulated amortisation	(127,257)	(507,233)	(141,369)	—	(48,319)	(824,178)
Net carrying amount	499,963	1,210,630	281,528	151,764	21,254	2,165,139

17. Other intangible assets (continued)

2018

	Exclusive distribution right RMB'000	IP rights RMB'000	Patents and technology know-how RMB'000	IPR&Ds RMB'000	Others RMB'000	Total RMB'000
Cost at 1 January 2018, net of accumulated amortisation	402,013	1,346,882	341,690	124,636	38,295	2,253,516
Additions	167,374	3,460	—	13,845	1,438	186,117
Amortisation provided during the year	(39,246)	(70,362)	(40,609)	—	(11,438)	(161,655)
Exchange realignment	20,745	—	—	—	12	20,757
At 31 December 2018	550,886	1,279,980	301,081	138,481	28,307	2,298,735
At 31 December 2018:						
Cost	618,712	1,717,863	422,897	138,481	68,019	2,965,972
Accumulated amortisation	(67,826)	(437,883)	(121,816)	—	(39,712)	(667,237)
Net carrying amount	550,886	1,279,980	301,081	138,481	28,307	2,298,735

Impairment testing of IPR&Ds

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

The recoverable amounts of IPR&Ds have been determined based on a value in use calculation using cash flow projections which are based on financial forecast approved by the Company's directors. The discount rates applied to the cash flow projections are 29.0%, 26.0%, and 18.5%, which are determined by reference to the average rates for in progress research and development projects with similar business risk and after taking into account the risk premium in connection with the related research and development efforts.

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31 December 2019

17. Other intangible assets (continued)

Impairment testing of IPR&Ds (continued)

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

Assumptions were used in the value in use calculation of IPR&Ds as at 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of IPR&Ds:

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

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

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

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

18. Investment in a joint venture

	2019 RMB'000	2018 RMB'000
Share of net assets	7,470	2,500

Notes to Financial Statements

31 December 2019

18. Investment in a joint venture (continued)

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

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

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

	2019 RMB'000	2018 RMB'000
Share of the joint venture's profit for the year	4,970	—
Aggregate carrying amount of the Group's investment in a joint venture	7,470	2,500

19. Investments in associates

	2019 RMB'000	2018 RMB'000
Share of net assets	593,414	385,850

Notes to Financial Statements

31 December 2019

19. Investments in associates (continued)

Particulars of the Group's associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group %	Principal activities
Refuge Biotechnologies, Inc. (a) (b) ("Refuge")	Preferred shares	United States	10.21	Research and development
Shanghai Companion Diagnostics Technology Ltd. (a) (c) ("Shanghai Companion")	Ordinary shares	PRC/ Mainland China	14.00	Research and development
Liaoning Sunshine Medical Industry Investment Fund Partnership LLP (a) (d) ("Sunshine Medical Industry Fund")	Limited partner	PRC/ Mainland China	66.01	Investment holding
Verseau Therapeutics, Inc. (a) (e) ("Verseau")	Preferred shares	United States	11.75	Research and development
Shanghai Corinline Diagnostics Technology Ltd. (a) (f) ("Corinline")	Ordinary shares	PRC/ Mainland China	8.00	Research and development
Numab Therapeutics AG, Inc. (a) (g) ("Numab")	Preferred shares	Switzerland	16.53	Research and development

19. Investments in associates (continued)

Notes:

- (a) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.
- (b) On 30 April 2018, the Group entered into a share subscription agreement to purchase 1,962,349 preferred shares at a consideration of USD8,000,000. The Group retained one seat in the board and can exercise significant influence over Refuge.
- (c) On 10 March 2018, the Group entered into an agreement to obtain certain equity interest in Shanghai Companion at a consideration of RMB250,000. The Group retained one seat in the board and can exercise significant influence over Shanghai Companion.
- (d) On 28 December 2018, Shenyang Sunshine paid the first instalment of the capital contribution of RMB333,333,000 to acquire certain equity shares of Sunshine Medical Industry Fund. The Group can exercise significant influence over Sunshine Medical Industry Fund.
- (e) On 2 February 2019, the Group entered into an agreement to purchase 3,750,000 preferred shares at a consideration of USD15,000,000. The Group retained one seat in the board and can exercise significant influence over Verseau.
- (f) On 19 August 2019, the Group entered into an agreement to obtain certain equity interest in Corinline at a consideration of RMB12,000,000. The Group retained one seat in the board and can exercise significant influence over Corinline.
- (g) On 27 September 2019, the Group entered into an agreement to acquire certain equity of Numab at a consideration of Swiss Franc 15,001,000. The Group retained one seat in the board and can exercise significant influence over Numab.

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

	2019 RMB'000	2018 RMB'000
Share of the associates' losses for the year	(16,001)	(8,245)
Share of the associates' total comprehensive losses	(16,001)	(8,245)
Aggregate carrying amount of the Group's investments in the associates	593,414	385,850

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

	2019 RMB'000	2018 RMB'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value	502,919	32,872
Unlisted equity investments, at fair value	174,070	313,246
	676,989	346,118

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

In August 2018, the Group sold its equity interest in a listed company as this investment no longer coincided with the Group's investment strategy. The fair value on the date of sale was RMB43,076,000 and the accumulated gain recognised in other comprehensive income of RMB5,796,000 was transferred to retained earnings.

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21. Long-term receivables

	2019 RMB'000	2018 RMB'000
Long-term receivables due from a related party (a)	37,816	36,853
Long-term receivables	6,849	1,845
	44,665	38,698
Provision for impairment of long-term receivables	(38,110)	(9,940)
	6,555	28,758

- (a) On 29 March 2016, Shenyang Sunshine lent to Zhejiang Sunshine Pharmaceutical Co., Ltd. ("Zhejiang Sunshine"), a related party which was under control of certain middle management personnel of the Company, a convertible loan with a principal amount of RMB75,000,000 at an annual interest rate of 8%. The convertible loan can be converted into equity interests in Zhejiang Sunshine at the discretion of Shenyang Sunshine. In 2017, Zhejiang Sunshine had repaid the principal amount of RMB50,000,000. Pursuant to supplemental agreements dated on 29 June 2018, the maturity date was extended to 29 June 2020. The accrued interest for the year ended 31 December 2019 was RMB963,000 (2018: RMB1,481,000).

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

	2019 RMB'000	2018 RMB'000
Balance at beginning of the year	9,940	1,845
Additions	28,170	8,095
Balance at end of the year	38,110	9,940

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

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21. Long-term receivables (continued)

Impairment under IFRS 9 for the year ended 31 December 2019

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

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

As at 31 December 2019

	Ageing		
	Within 1 Year	1 to 2 years	Over 2 years
Expected credit loss rate	1%	56.0%	100%
Gross carrying amount (RMB'000)	5,963	1,481	37,221
Expected credit losses (RMB'000)	60	829	37,221

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22. Deferred tax

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

Deferred tax liabilities

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

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22. Deferred tax (continued)

Deferred tax assets

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

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22. Deferred tax (continued)

Deferred tax liabilities

		2018 Fair value adjustments of equity investments designated at fair value through other comprehensive income	Total
	Fair value adjustment arising from acquisition of subsidiaries RMB'000	RMB'000	RMB'000
Gross deferred tax liabilities at 1 January 2018	280,268	—	280,268
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	(15,901)	—	(15,901)
Deferred tax credited to the consolidated statement of comprehensive income	—	6,394	6,394
Gross deferred tax liabilities at 31 December 2018	264,367	6,394	270,761

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31 December 2019

22. Deferred tax (continued)

Deferred tax assets

	2018					
	Accruals	Provision for Impairment of inventories and financial assets	Decelerated depreciation for tax purposes	Government grants	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	31,166	4,968	958	28,449	10,822	76,363
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 11)	(57)	8,742	237	(500)	(443)	7,979
Exchange realignment	—	—	—	—	60	60
Gross deferred tax assets at 31 December 2018	31,109	13,710	1,195	27,949	10,439	84,402

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

At 31 December 2019, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China (2018: Nil).

In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB4,306,848,000 (2018: RMB3,651,738,000).

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

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22. Deferred tax (continued)

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

	2019 RMB'000	2018 RMB'000
Tax losses arising in Mainland China (a)	130,199	112,452
Tax losses arising in Hong Kong and other countries (b)	585,542	291,588
	715,741	404,040

Notes:

- (a) The tax losses arising in Mainland China are available for a maximum of ten years for offsetting against future taxable profits of the companies in which the losses arose.
- (b) The tax losses arising in Hongkong and in other countries could not be utilised to offset against future profits.

23. Inventories

	2019 RMB'000	2018 RMB'000
Raw materials	154,710	87,985
Work in progress	233,235	188,270
Finished goods	117,846	81,775
Consumables and packaging materials	24,975	27,365
	530,766	385,395
Impairment	(2,293)	(786)
	528,473	384,609

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24. Trade and notes receivables

	2019 RMB'000	2018 RMB'000
Trade receivables	982,331	1,410,660
Notes receivable	87,485	136,854
	1,069,816	1,547,514
Provision for impairment of trade receivables	(51,551)	(63,629)
	1,018,265	1,483,885

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:

	2019 RMB'000	2018 RMB'000
Within 1 month	464,339	708,267
1 to 3 months	375,581	566,211
3 to 6 months	74,424	28,350
6 months to 1 year	18,682	44,203
1 to 2 years	14,981	38,939
Over 2 years	34,324	24,690
	982,331	1,410,660

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31 December 2019

24. Trade and notes receivables (continued)

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

	2019 RMB'000	2018 RMB'000
At beginning of year	63,629	27,007
Impairment losses, net	(12,078)	36,622
At end of year	51,551	63,629

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

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

As at 31 December 2019

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

As at 31 December 2018

	Ageing					
	Within 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years
Expected credit loss rate	0.83%	0.83%	0.83%	0.83%	71.29%	100%
Gross carrying amount (RMB'000)	708,267	566,211	28,350	44,203	38,939	24,690
Expected credit losses (RMB'000)	5,879	4,700	235	367	27,758	24,690

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25. Prepayments, other receivables and other assets

	2019 RMB'000	2018 RMB'000
Prepayments, other receivables and other assets — current portion:		
Interest receivables	418	75
Prepayments	25,951	27,763
Prepaid land lease payments — current portion	—	8,748
Other deposits and other receivables	138,861	85,945
Deductible input VAT	23,182	8,601
Due from related parties — current portion	334,969	321,441
Due from Wealth Honest (a)	—	266,808
	523,381	719,381
Impairment allowance	(51,101)	(23,955)
Exchange realignment	80	(1,429)
	472,360	693,997
Prepayments, other receivables and other assets — non-current portion:		
Advance payments for property, plant and equipment	121,595	65,076
Other non-current assets	42,314	16,073
	163,909	81,149

Note:

- (a) On 27 December 2017, the Group entered into an agreement with Wealth Honest Limited ("Wealth Honest"), Zhongjing Xinhua Property Management (Hong Kong) Co., Limited ("Zhongjing Xinhua") and Gao Yang, the sole director of Wealth Honest and Zhongjing Xinhua, to lend Wealth Honest an amount of EUR34,000,000 at an annual interest rate of 9% and the maturity date was six months from the date of the borrower's withdrawal. The loan is pledged with the 100% equity of Wealth Honest Cayman Holdings Company Limited ("Wealth Honest Cayman") which is held by Wealth Honest, the 100% equity of Wealth Honest Fund LP which is held by Wealth Honest Cayman and a guarantee provided by Zhongjing Xinhua and Gao Yang. On 27 December 2019, Zhongjing Xinhua repaid the loan principal on behalf of Wealth Honest fully in cash.

Notes to Financial Statements

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

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

	2019 RMB'000	2018 RMB'000
Balances at beginning of the year	(25,384)	(656)
Charge for the year	(25,717)	(23,299)
Exchange realignment	80	(1,429)
At end of the year	(51,021)	(25,384)

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

26. Financial assets at fair value through profit or loss

	2019 RMB'000	2018 RMB'000
Other unlisted investments, at fair value	472,163	35,260

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

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27. Cash and cash equivalents and pledged deposits

	2019 RMB'000	2018 RMB'000
Cash and bank balances	2,082,142	1,791,104
Restricted cash	705	1,501
Pledged deposits	22,073	14,289
	2,104,920	1,806,894
Less:		
Pledged deposits for letters of credit	(10,000)	(248)
Pledged deposits for bank acceptance bills	(12,073)	(14,041)
Cash and cash equivalents	2,082,847	1,792,605

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

The Group's cash and cash equivalents and deposits as at 31 December 2019 are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
Denominated in:		
— RMB	1,585,014	674,036
— HKD	85,380	142,063
— USD	310,954	308,185
— EUR	123,570	682,607
— Great Britain Pound ("GBP")	2	3
	2,104,920	1,806,894

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximated to their fair values as at the end of the reporting period. Deposits of approximately RMB22,073,000 (2018: RMB14,289,000) have been pledged to secure letters of credit and bank acceptance bills as at 31 December 2019.

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28. Trade and bills payables

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

	2019 RMB'000	2018 RMB'000
Within 3 months	131,436	92,046
3 to 6 months	14,790	18,721
Over 6 months	3,537	2,148
	149,763	112,915

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

29. Other payables and accruals

	2019 RMB'000	2018 RMB'000
Accrued selling and marketing expenses	294,498	308,205
Accrued salaries, bonuses and welfare expenses	157,277	173,004
Contract liabilities (a)	34,431	29,816
Due to related parties (note 41 (b))	71,855	70,691
Taxes payable (other than income tax)	41,008	50,640
Interest payables	143,666	86,203
Payable to vendors of property, plant and equipment and other intangible assets	31,828	21,434
Others	139,427	105,732
	913,990	845,725

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29. Other payables and accruals (continued)

Note:

(a) Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
<i>Short-term advances received from customers</i>			
Sale of biopharmaceuticals	34,431	29,816	76,854
Total contract liabilities	34,431	29,816	76,854

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

30. Deferred income

	2019 RMB'000	2018 RMB'000
At beginning of the year	311,224	337,081
Received during the year		
— Government grants (a)	12,743	17,434
Less: Recognition during the year		
— Government grants (a)	(44,436)	(43,291)
	279,531	311,224
Less: Deferred income — current portion		
— Government grants (a)	(37,217)	(35,887)
	242,314	275,337

Note:

(a) The grants relate to the subsidies received from the government for compensation for expenses arising from research and the improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and the final assessment of the relevant government authorities, the grants related to the expense items will be recognised as other income directly in the consolidated statement of profit or loss when such expense items have been incurred by the Group and the grants related to an asset will be released to the consolidated statement of profit or loss over the expected useful life of the relevant asset.

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31. Interest-bearing bank and other borrowings

	2019			2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — secured	1–4.35	2020	483,957	3.71	2019	52,572
Current portion of long term bank loans — secured	—	—	—	4.2	2019	517,756
			483,957			570,328
Non-current						
Other secured bank loans	2.75	2028	13,286	2.75–4.65	2021–2028	425,022
			13,286			425,022
Convertible bonds (note 32)	2.5	2017–2022	2,304,750	2.5	2017–2022	2,299,321
			2,304,750			2,299,321
			2,801,993			3,294,671

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

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	483,957	570,328
In the second year	—	—
In the third to ten years, inclusive	13,286	425,022
	497,243	995,350

Notes:

- (a) The bank borrowings bear interest at fixed interest rates ranging from 1% to 4.65% per annum.
- (b) Certain of the Group's bank loans are secured by mortgages over the Group's land and buildings, which had an aggregate carrying value at the end of the reporting period of approximately RMB2,733,000 (2018: RMB2,744,000) and RMB14,443,000 (2018: RMB14,308,000), respectively.
- (c) As at 31 December 2019, except for secured bank borrowings of RMB179,157,000 (2018: RMB692,996,000) and RMB64,086,000 (2018: RMB2,354,000) which were denominated in HKD and in EUR respectively, all the bank borrowings were denominated in RMB.
- (d) The carrying amounts of the current bank borrowings approximate to their fair values.

32. Convertible bonds

On 21 July 2017, Strategic International, a directly wholly-owned subsidiary of the Company, issued Euro-denominated zero-coupon convertible bonds with a nominal value of EUR300,000,000. There was no repayment in the number of these convertible bonds during the year. The bonds are guaranteed by the Company and convertible at the option of the bondholders into ordinary shares with the initial conversion price of HKD14.28 per share at any time on and after 31 August 2017 and up to the close of business on the date falling seven days prior to 21 July 2022. The bonds are redeemable at the option of the bondholders at a 2.5% gross yield upon early redemption.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during the year have been split into the liability and equity components as follows:

	RMB'000
Nominal value of convertible bonds issued at 21 July 2017	2,351,970
Equity component	(47,133)
Direct transaction costs attributable to the liability component	(28,224)
Liability component at the issuance date	2,276,613
Interest accrual	5,472
Exchange realignment	(10,211)
Liability component at 31 December 2017	2,271,874
Liability component at 1 January 2018	2,271,874
Interest accrual	13,918
Exchange realignment	13,529
Liability component at 31 December 2018	2,299,321
Liability component at 1 January 2019	2,299,321
Interest accrual	13,902
Exchange realignment	(8,473)
Liability component at 31 December 2019 (note 31)	2,304,750

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33. Retirement benefit obligations

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

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

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

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

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

	2019
Discount rate (%)	1.5
Expected rate of future pension cost increases (%) — 2020	2.0
Expected rate of future pension cost increases (%) — 2021	2.3
Expected rate of future pension cost increases (%) — 2022	2.5
Expected rate of future pension cost increases (%) — from 2023	2.9
	2018
Discount rate (%)	1.5
Expected rate of future pension cost increases (%)	2.5

33. Retirement benefit obligations (continued)

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

	Increase in rate %	Net decrease in defined benefit obligations RMB'000	Decrease in rate %	Net increase in defined benefit obligations RMB'000
2019				
Discount rate	0.5	258	0.5	282
2018				
Discount rate	0.5	257	0.5	280

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis above is based on a change in an assumption while holding all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

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

	2019 RMB'000	2018 RMB'000
Current service cost	219	227
Interest cost	86	79
Net benefit expenses	305	306
Recognised in finance costs	305	306

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33. Retirement benefit obligations (continued)

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

	2019 RMB'000	2018 RMB'000
At 1 January	6,303	5,823
Current service cost	219	227
Interest cost	86	79
Benefit paid	(649)	(50)
Actuarial loss	(24)	188
Exchange realignment	(69)	36
At 31 December	5,866	6,303

The plan has no defined benefit plan assets.

The Group does not expect to make further contributions to the defined benefit plan in future years.

The average duration of the defined benefit obligations at the end of the reporting period was 15 years (2018: 15 years).

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34. Share capital

Shares

	2019 RMB'000	2018 RMB'000
Issued and fully paid:		
2,535,048,051 (2018: 2,543,714,551) ordinary shares	155	156

	Number of shares in issue	Share capital RMB'000	Share premium RMB'000	Total RMB'000
Ordinary shares of USD0.00001 each at 31 December 2018 and 1 January 2019	2,543,714,551	156	4,376,056	4,376,212
Share options exercised (a)	1,063,500	—	10,504	10,504
Shares cancelled (b)	(9,730,000)	(1)	(78,765)	(78,766)
Ordinary shares of USD0.00001 each at 31 December 2019	2,535,048,051	155	4,307,795	4,307,950
Issued but not fully paid:				
4,926,081 (2018: Nil) ordinary shares (c)	4,926,081	—	—	—

	Number of shares	Treasury shares RMB'000
At 1 January 2018	—	—
Repurchased	4,370,000	40,586
At 31 December 2018	4,370,000	40,586
Repurchased	5,000,000	38,180
Cancelled	(9,370,000)	(78,766)
At 31 December 2019	—	—

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31 December 2019

34. Share capital (continued)

Shares (continued)

Note:

- (a) The subscription rights attaching to 1,063,500 share options were exercised at the subscription price of HK\$7.62 per share (note 35), resulting in the issue of 1,063,500 shares for a total cash consideration, before expenses, of RMB7,135,000. An amount of RMB3,369,000 was transferred from the contributed surplus to share premium upon the exercise of the share options.
- (b) The Group repurchased a total of 5,000,000 ordinary shares at an aggregate cash consideration of RMB38,180,000. All the repurchased shares have been cancelled during the year.
- (c) The Group issued 4,926,081 shares as new awarded shares to further grant to selected participants.

35. Share incentive scheme

Share option scheme adopted by the Company

On 26 September 2016, a total of 20,000,000 share options, each of which entitles the holders to subscribe for one ordinary share of the Company at an exercise price of HKD9.10, under the post-IPO share option scheme of the Company adopted on 23 May 2015 and 28 June 2016 (the “**Share Option Scheme**”), were granted to TMF (Cayman) Ltd. (“**TMF**”), as the trustee of The Empire Trust (the “**Grantee**”), a trust established by the Company for the beneficiaries who are executive directors and employees of the Group and its holding companies, and any other persons as nominated from time to time by the advisory committee of the Grantee that is established with the authority of the board of the directors of the Company. The share options will vest and become exercisable upon meeting certain vesting conditions. If the vesting conditions are not met, the share options will lapse.

On 2 February 2017, the Company and the Grantee had agreed that the grant of 20,000,000 share options which was approved by the board on 22 September 2016 was cancelled at nil consideration. By the date of cancellation, no beneficiary had been nominated by the advisory committee of the Grantee and no options had been designated to any beneficiary, and thus the Group did not recognise any share-based payment expenses in relation to the cancelled 20,000,000 share options. On the same date, a total of 20,000,000 share options, each of which entitles the holders to subscribe for one ordinary share of the Company at an exercise price of HKD7.62 (which is the highest of the closing price of HKD7.30 per share and the average closing price of HKD7.62 per share) were granted to TMF, as the trustee of the Grantee under the Share Option Scheme for the benefits of the designated beneficiaries. The share options will vest and become exercisable upon meeting certain vesting conditions. If the vesting conditions are not met, the share options will lapse.

35. Share incentive scheme (continued)

Share option scheme adopted by the Company (continued)

The following share options were outstanding under the Scheme during the year:

	2019		2018	
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000
At 1 January	7.62	20,000	7.62	20,000
Granted during the year	—	—	—	—
Forfeited during the year	—	(660)	—	—
Exercised during the year	7.62	(1,064)	—	—
Expired during the year	—	—	—	—
At 31 December	7.62	18,276	7.62	20,000

The weighted average share price at the date of exercise for share options exercised during the year was HK\$11.44 per share (2018: No share options were exercised).

The fair value of the share options at the grant date is estimated using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The contractual life of each option granted is ten years. There is no cash settlement of the share options. The fair value of share options granted on 2 February 2017 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	—
Expected volatility (%)	39.63
Risk-free interest rate (%)	1.91
Expected contractual life of share options (years)	10.00
Underlying share price (RMB)	6.45
Exercise price of each share option (RMB)	6.73

At the date of approval of the consolidated financial statements, the Company had 18,276,500 share options outstanding under the Share Option Scheme, which represented approximately 0.7% of the Company's shares in issue as at that date.

There were no share options granted during the year (2018: Nil). The Group had recorded share-based payment expenses of RMB11,001,000 in the statement of profit or loss during the year ended 31 December 2019 (2018: RMB17,487,000).

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35. Share incentive scheme (continued)

Employee share ownership plan adopted by Sunshine Guojian

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

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

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

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

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

Warrants granted by the Company

On 1 January 2015, the Company issued warrants to Shanghai Junling Investment Partnership (Limited Partnership), which is beneficially owned by certain management members of Sunshine Guojian (the "Sunshine Guojian Warrants"), in which the Group held an approximately 6.96% equity interest. The Sunshine Guojian Warrants entitle the holders to purchase 1,128,820,033 ordinary shares of the Company at an exercise price of USD1.00 for each warrant. Pursuant to the subdivision of the par value of the Company's authorised shares from USD1.00 per share to USD0.00001 per share on 4 February 2015, the number of shares of the Company exercisable by the Sunshine Guojian Warrants has been changed to 112,882,033 and the exercise price has been changed from USD1.00 per share to USD0.00001 per share.

35. Share incentive scheme (continued)

Warrants granted by the Company (continued)

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

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

As at 31 December 2018, the Sunshine Guojian Warrants expired, and the remainder of the vested Sunshine Guojian Warrants, exercisable for 28,040,036 shares, had been forfeited.

36. Reserves

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

Statutory surplus reserves

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

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37. Notes to the consolidated statement of cash flows

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB5,780,000 and RMB5,780,000, respectively, in respect of lease arrangements for certain buildings (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

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

2018

	Bank and other borrowings RMB'000	Convertible bonds RMB'000
At 1 January 2018	2,134,257	2,271,874
Changes from financing cash flows	(1,188,852)	—
Interest accrual	—	13,918
Exchange realignment	49,945	13,529
At 31 December 2018	995,350	2,299,321

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

(c) Total cash outflow for leases

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

	2019 RMB'000
Within operating activities	7,193
Within financing activities	4,592
	11,785

38. Contingent liabilities

As at 31 December 2019, neither the Group nor the Company had any significant contingent liabilities (2018: Nil).

39. Pledge of assets

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

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40. Commitments

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

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Plant and machinery	1,064,452	149,549
Capital contribution payable to funds	757,499	746,667
Initial payment on collaboration	—	56,632
	1,821,951	952,848

(b) Operating lease commitments at 31 December 2018

The Group leased certain buildings under operating lease arrangements. Leases for buildings were negotiated of terms ranging from one to five years.

At 31 December 2018, the Group had future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	4,406
In the second to fifth years, inclusive	7,445
	11,851

(c) The Group has one lease contract that has not yet commenced as at 31 December 2019. The future lease payments for this non-cancellable lease contract are RMB398,000 due within one year, and RMB815,000 due in the second to fifth years.

41. Related party transactions

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

Company	Relationship
Century Sunshine Limited ("Century Sunshine")	Ultimate shareholder of the Company
Sunshine Bio-Pharmaceutical Fund	Joint venture
Beijing Huansheng Medical Investment Co., Ltd. ("Beijing Huansheng")	Under control of certain middle management personnel of the Company
Liaoning Sunshine Technology Development Co., Ltd. ("Liaoning Sunshine Technology")	A subsidiary of Beijing Huansheng
Zhejiang Sunshine Pharmaceutical Co., Ltd. ("Zhejiang Sunshine")	Under control of certain middle management personnel of the Company
Medical Recovery Limited ("Medical Recovery")	Under control of directors of the Company
Achieve Well International (Hong Kong) Limited ("Achieve HK")	Under control of a director of the Company

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

	Notes	2019 RMB'000	2018 RMB'000
Convertible loan including interest to Zhejiang Sunshine	21(a)	37,816	36,853
Loans to Liaoning Sunshine Technology	(i)	32,853	32,170
Loans to Beijing Huansheng	(ii)	10,653	10,695
Loans to Zhejiang Sunshine	(iii)	61,685	61,308
Loans to Medical Recovery	(iv)	221,121	209,329
Loans to Sunshine Bio-Pharmaceutical Fund	(v)	—	100
Loan from Century Sunshine	(vi)	71,855	70,691
Loans to Zhejiang Sunshine	(vii)	1,100	1,100

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41. Related party transactions (continued)

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

Notes:

- (i) On 7 December 2016 and 23 December 2016, Sunshine Guojian extended loans, the principal amounts of which being RMB20,000,000 and RMB10,000,000, to Liaoning Sunshine Technology at an annual interest rate of 3.85%. Pursuant to a supplemental agreements dated on 7 March 2018, 23 March 2018 and 27 March 2019, the maturity dates were extended to 6 March 2019, 22 March 2019 and 26 March 2020, respectively and the annual interest rate was changed to 4.35%. During the year ended 31 December 2019, Liaoning Sunshine Technology repaid RMB32,677,000, including loan principal and interest, to Sunshine Guojian. On 20 June 2019, Shenzhen Sciprogen provided a loan, the principal amount of which being RMB32,200,000, to Liaoning Sunshine Technology at an interest rate of 3.92% per annum with the maturity date on 20 June 2020. The accrued interest for the year of 2019 was RMB653,000 (2018: Nil).
- (ii) On 26 May 2017, Zhejiang Wansheng provided a loan, the principal amount of which being RMB10,000,000, to Beijing Huansheng at an interest rate of 4.35% per annum with the maturity date on 26 May 2018. Pursuant to a supplemental agreements dated on 27 May 2018 and 27 May 2019, the maturity dates were extended to 26 May 2019 and 27 May 2020, respectively. During the year ended 31 December 2019, Beijing Huansheng repaid interest of RMB410,000 to Zhejiang Wansheng. The accrued interest for the year of 2019 was RMB435,000 (2018: RMB435,000).
- (iii) On 11 August 2017 and 18 September 2017, Shenyang Sunshine provided entrusted loans, the principal amounts of which being RMB20,000,000 and RMB10,000,000, to Zhejiang Sunshine at an annual interest rate of 3.48% with the maturity dates on 11 August 2018 and 18 September 2018, respectively. Pursuant to a supplemental agreements dated on 9 August 2018, the maturity dates were extended to 8 August 2019. On 8 August 2019, Zhejiang Sunshine repaid RMB31,016,000, including loan principal and interest, to Shenyang Sunshine.

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

On 8 August 2019, Shenyang Sunshine provided an entrusted loan, the principal amounts of which being RMB30,000,000, to Zhejiang Sunshine at an annual interest rate of 3.48% per annum with the maturity date on 7 August 2020. The accrued interest for the year of 2019 was RMB962,000 (2018: RMB936,000).
- (iv) On 17 July 2018, Strategic International entered into a loan agreement with Medical Recovery to provide a loan of USD30,000,000 at an interest rate of 4% per annum with the maturity date on 16 July 2019. Pursuant to a supplemental agreement dated on 16 July 2019, the maturity date was extended to 17 July 2020. The accrued interest for the year of 2019 was RMB11,835,000 (2018: RMB3,432,000).
- (v) On 24 December 2018, Shenyang Sunshine provided a loan of RMB100,000, to Sunshine Bio-Pharmaceutical Fund. On 15 March 2019, Sunshine Bio-Pharmaceutical Fund repaid the loan principal entirely.
- (vi) On 29 December 2014 and 9 January 2015, Century Sunshine provided a loan of USD12,700,000 and USD3,100,000, respectively, to Hongkong Sansheng. Hongkong Sansheng repaid Century Sunshine a loan of USD5,500,000 partially during 2017, which was equivalent to RMB37,135,000. As at 31 December 2019, the balance was approximately RMB71,855,000.
- (vii) On 8 August 2018, Xing Sheng provided a loan of RMB1,100,000 to Zhejiang Sunshine with no maturity date and non-interest-earning.

41. Related party transactions (continued)

(b) Outstanding balances with related parties:

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

	2019 RMB'000	2018 RMB'000
Due from related parties		
Current portion		
Medical Recovery	218,910	207,236
Zhejiang Sunshine	44,955	44,216
Liaoning Sunshine Technology	32,524	31,222
Beijing Huansheng	4,875	10,115
Directors and senior management	6,496	7,336
Sunshine Bio-Pharmaceutical Fund	—	100
	307,760	300,225
Non-current portion		
Zhejiang Sunshine	1,605	28,758
	2019 RMB'000	2018 RMB'000
Due to related parties		
Current portion		
Century Sunshine	71,855	70,691

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

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

(d) Disposal of a subsidiary

On 7 May 2019, Shenyang Sunshine entered into an agreement with a middle management employee of the Group to dispose of 100% equity interests of Shanghai Aoxi Technology Information Consulting Co., Ltd. with a cash consideration of RMB5,000,000.

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42. Financial instruments by category

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

2019

Financial assets

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

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42. Financial instruments by category (continued)

2019 (continued)

Financial liabilities

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

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42. Financial instruments by category (continued)

2018

Financial assets

	Financial assets at fair value through profit or loss (Designated as such upon initial recognition) RMB'000	Financial assets at fair value through other comprehensive income (Equity investment) RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	—	346,118	—	346,118
Financial assets at fair value through profit or loss	35,260	—	—	35,260
Derivative financial instrument	16	—	—	16
Financial assets included in prepayments, other receivables and other assets	—	—	590,428	590,428
Trade and notes receivables	—	—	1,483,885	1,483,885
Long-term receivables	—	—	28,758	28,758
Cash and cash equivalents	—	—	1,792,605	1,792,605
Pledged deposits	—	—	14,289	14,289
	35,276	346,118	3,909,965	4,291,359

42. Financial instruments by category (continued)

2018 (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	112,915
Financial liabilities included in other payables and accruals	284,060
Interest-bearing bank and other borrowings	995,350
Convertible bonds	2,299,321
	3,691,646

43. Transfers of financial assets

As at 31 December 2019, the Group endorsed certain notes receivable (the “**Derecognised Bills**”) accepted by major banks in Mainland China (the “**PRC banks**”) to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount totalling approximately RMB30,603,000 (2018: RMB9,362,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “**Continuing Involvement**”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2019, the Group had not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsements had been made evenly throughout the year.

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44. Fair value and fair value hierarchy of financial instruments

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

	Carrying amounts		Fair values	
	31 December 2019 RMB'000	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2018 RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	676,989	346,118	676,989	346,118
Financial assets at fair value through profit or loss	472,163	35,260	472,163	35,260
Derivative financial instrument	—	16	—	16
Long-term receivables	6,555	28,758	6,555	28,758
	1,155,707	410,152	1,155,707	410,152
Financial liabilities				
Interest-bearing bank borrowings:				
Non-current	13,286	425,022	13,642	429,965
Lease liabilities: non-current	3,964	—	3,964	—
Convertible bonds	2,304,750	2,299,321	2,304,750	2,299,321
	2,322,000	2,724,343	2,322,356	2,729,286

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

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

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

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

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

The fair values of the non-current portion of interest-bearing bank and other borrowings, lease liabilities and convertible bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 were assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

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

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

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

For the fair value of the unlisted equity investments at fair value through other comprehensive income, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

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

Below is a summary of significant unobservable input to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Market approach	Discount for lack of marketability	2019: -10% to 10% (2018: -10% to 10%)	10% (2018: 10%) increase/decrease in discount would result in decrease/increase in fair value of RMB370,000 and RMB392,000 respectively (2018: RMB809,000 and RMB798,000)

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

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

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income:				
Listed equity investments	502,919	—	—	502,919
Unlisted equity investments	—	—	174,070	174,070
Financial assets at fair value through profit or loss: Treasure or cash management products	—	472,163	—	472,163
	502,919	472,163	174,070	1,149,152

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income:				
Listed equity investments	32,872	—	—	32,872
Unlisted equity investments	—	—	313,246	313,246
Financial assets at fair value through profit or loss: Treasure or cash management products	—	35,260	—	35,260
Derivative financial instrument	—	16	—	16
	32,872	35,276	313,246	381,394

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

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

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

	2019 RMB'000	2018 RMB'000
Equity investments at fair value through other comprehensive income:		
At 1 January	313,246	48,333
Purchases	74,036	32,738
Reclassification from investment in an associate		221,982
Reclassification to equity investments designated at fair value through other comprehensive income — listed equity investment	(272,512)	—
Total gains recognised in other comprehensive income	58,722	10,084
Exchange realignment	578	109
At 31 December	174,070	313,246

The Group did not have any financial liabilities measured at fair value as at 31 December 2019 and 31 December 2018.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2018: Nil) and there was a transfer from Level 3 into Level 1 amounting to RMB272,512,000 (2018: Nil) due to the change of valuation technique following the successful listing of certain investee in current year.

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

Fair value hierarchy (continued)

Assets for which fair values are disclosed:

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Long-term receivables	—	6,555	—	6,555

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Long-term receivables	—	28,758	—	28,758

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

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings:				
non-current	—	13,642	—	13,642
Lease liabilities: non-current	—	3,964	—	3,964
Convertible bonds	—	2,304,750	—	2,304,750
	—	2,322,356	—	2,322,356

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings:				
Non-current	—	429,965	—	429,965
Convertible bonds	—	2,299,321	—	2,299,321
	—	2,729,286	—	2,729,286

45. Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits, interest-bearing bank and other borrowings, lease liabilities and convertible bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors and senior management meet periodically to analyse and formulate measures to manage the Group's exposure to these risks.

Interest rate risk

The Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on cash and cash equivalents, and pledged and non-pledged deposits. Management considers that these bank balances are not sensitive to fluctuations in interest rates.

The Group's interest rate risk relates primarily to bank borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's interest rate profile as monitored by management is set out in note 31 to the financial statements.

Foreign currency risk

The Group's business is mainly located in Mainland China and most transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in USD, HKD, GBP and EUR as disclosed in note 27 and Euro-denominated convertible bonds as disclosed in note 32 to the financial statements.

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

Notes to Financial Statements

31 December 2019

45. Financial risk management objectives and policies (continued)

Credit risk

As at 31 December 2019, all pledged deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

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

Maximum exposure and year-end staging

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

As at 31 December 2019

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

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31 December 2019

45. Financial risk management objectives and policies (continued)

Credit risk (continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and notes receivables*	—	—	—	1,483,885	1,483,885
Financial assets included in prepayments, other receivables and other assets*	—	—	—	590,428	590,428
Long-term receivables*	—	—	—	28,758	28,758
Pledged deposits					
— Not yet past due	14,289	—	—	—	14,289
Cash and cash equivalents					
— Not yet past due	1,792,605	—	—	—	1,792,605
	1,806,894	—	—	2,103,071	3,909,965

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

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

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31 December 2019

45. Financial risk management objectives and policies (continued)

Liquidity risk

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

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

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

Group

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

45. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Group (continued)

	2018			Total RMB'000
	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 10 years RMB'000	
Financial liabilities:				
Trade and bills payables	92,046	20,028	841	112,915
Financial liabilities included in other payables and accruals	120,635	96,014	67,411	284,060
Interest-bearing bank and other borrowings	—	570,328	425,022	995,350
Convertible bonds	—	—	2,299,321	2,299,321
	212,681	686,370	2,792,595	3,691,646

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments included in equity investments designated at fair value through other comprehensive income (note 20) as at 31 December 2019 and 31 December 2018. The Group's major listed equity investments during the year ended 31 December 2019 were listed on the NASDAQ Stock Market ("NASDAQ"), the Euronext Stock Market ("Euronext"), Hong Kong Exchanges and Clearing Market ("HKEX") and were valued at quoted market prices at the end of the reporting period.

At 31 December 2019, if the quoted market price of these financial assets held by the Group had increased/decreased by 10%, with all other variables held constant, other comprehensive income and equity would have been RMB50,258,000 (2018: RMB3,254,000) and RMB50,258,000 (2018: RMB3,254,000) higher/lower respectively as a result of the changes in fair value of these financial assets.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares or debt instruments. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2019.

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31 December 2019

45. Financial risk management objectives and policies (continued)

Capital management (continued)

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

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

	31 December 2019 RMB'000	1 January 2019 RMB'000 (note)	31 December 2018 RMB'000
Interest-bearing bank and other borrowings (note 31)	497,243	995,350	995,350
Lease liabilities	9,431	8,243	—
Convertible bonds	2,304,750	2,299,321	2,299,321
	2,811,424	3,302,914	3,294,671
Total equity	10,359,319	8,907,370	8,907,370
Gearing ratio	27.1%	37.1%	37.0%

Note: The Group has adopted IFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase in the Group's net debt and hence the Group's gearing ratio increased from 37.0% to 37.1% on 1 January 2019 when compared with the position as at 31 December 2018.

46. Events after the reporting period

The outbreak of novel coronavirus ("COVID-19") in January 2020 continues to spread throughout China and to countries across the world. The COVID-19 has unfathomable uncertainties to the business operations of the Group, and the degree of the impact depends on the situation of the pandemic preventive measures and the duration of the pandemic. The Group will monitor the developments of COVID-19 closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of this report, the assessment is still in progress. Given the dynamic nature of these circumstances, the related impacts on the Group's consolidated results of operations, cash flows and financial position could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

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47. Statement of financial position of the company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	1,619	1,619
Investments in subsidiaries	3,178,495	3,033,570
Equity investments designated at fair value through other comprehensive income	244,486	76,115
Total non-current assets	3,424,600	3,111,304
CURRENT ASSETS		
Equity investments designated at fair value through other comprehensive income	—	32,541
Due from subsidiaries	1,736,131	1,831,739
Cash and cash equivalents	423,700	152,166
Total current assets	2,159,831	2,016,446
CURRENT LIABILITIES		
Trade payables	7	7
Other payables and accruals	940,613	479,047
Total current liabilities	940,620	479,054
NET CURRENT ASSETS	1,219,211	1,537,392
TOTAL ASSETS LESS CURRENT LIABILITIES	4,643,811	4,648,696
NON-CURRENT LIABILITIES	—	—
Total non-current liabilities	—	—
Net assets	4,643,811	4,648,696
EQUITY		
Share capital	155	156
Treasury shares	—	(40,586)
Share premium (note)	4,233,138	4,304,768
Other reserves (note)	410,518	384,358
Total equity	4,643,811	4,648,696

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31 December 2019

47. Statement of financial position of the company (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Contributed surplus RMB'000	Fair value reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2018	4,301,172	45,213	(2,687)	68,101	147,813	4,559,612
Total comprehensive loss for the year	—	—	6,708	215,911	29,716	252,335
Equity-settled share option arrangement (note 35)	—	17,487	—	—	—	17,487
Dividends paid	—	—	—	—	(140,308)	(140,308)
Transfer to retained profits	—	—	(5,796)	—	5,796	—
Shares issued upon exercise of warrants	3,596	(3,596)	—	—	—	—
At 31 December 2018	4,304,768	59,104	(1,775)	284,012	43,017	4,689,126
Total comprehensive income for the year	—	—	(48,068)	72,363	(9,136)	15,169
Equity-settled share option arrangements (note 35)	—	11,001	—	—	—	11,001
Shares cancelled	(78,765)	—	—	—	—	(78,765)
Shares issued upon exercise of share option (note 35)	7,135	—	—	—	—	7,135
At 31 December 2019	4,233,138	70,105	(49,843)	356,375	33,881	4,643,656

48. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

THE ISSUER

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