三生制药
3SBIO INC.

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue increased by RMB1,124.2 million or 67.2% to RMB2,797.3 million.
- Gross profit increased by RMB963.8 million or 67.3% to RMB2,395.0 million, with gross profit margin at 85.6%.
- EBITDA increased by RMB480.6 million or 72.7% to RMB1,141.3 million. Normalized EBITDA[1] increased by RMB414.6 million or 56.5% to RMB1,148.7 million.
- Net profit increased by RMB188.0 million or 35.7% to RMB714.3 million. Normalized net profit[2] increased by RMB122.0 million or 20.3% to RMB721.7 million.

Notes:

1 The normalized EBITDA is defined as the EBITDA for the period excluding: (a) the expenses incurred in relation to the acquisition of the then Shanghai CP Guojian Pharmaceutical Co., Ltd. (now Sunshine Guojian Pharmaceutical (Shanghai) Co., Ltd. (三生國健藥業 (上海) 股份有限公司 , "**Guojian**") and the exclusive license agreement with certain subsidiaries of AstraZeneca PLC ("**AstraZeneca**"); (b) the warrant expenses associated with the warrants (the "**Guojian Warrants**") granted to the management of Guojian on 1 January 2015; (c) the expenses incurred in relation to the listing (the "**Listing**") of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"); (d) the income associated with the fair value gain of the approximately 28.8% equity interest in Guojian previously acquired by the Group in 2014 and 2015; and (e) the income associated with the gain on deemed disposal of investments in an associate (namely Ascentage Jiangsu Pharmaceutical Group Co., Ltd. ("**Ascentage Jiangsu**")).

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

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of 3SBio Inc. ("**3SBio**" or the "**Company**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2016, together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	**2016** ***RMB'000***	2015 *RMB'000*
REVENUE	5	**2,797,289**	1,673,126
Cost of sales	6	**(402,268)**	(241,911)
Gross profit		**2,395,021**	1,431,215
Other income and gains	5	**215,594**	208,618
Selling and distribution expenses		**(1,017,196)**	(585,585)
Administrative expenses		**(301,236)**	(301,044)
Other expenses	6	**(282,223)**	(142,651)
Finance costs	7	**(147,710)**	(26,545)
Share of profits/(losses) of associates		**(12,182)**	3,848
PROFIT BEFORE TAX		**850,068**	587,856
Income tax expense	8	**(135,814)**	(61,626)
PROFIT FOR THE YEAR		**714,254**	526,230
Attributable to:			
Owners of the parent		**712,564**	526,280
Non-controlling interests		**1,690**	(50)
		714,254	526,230
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic (RMB)	10	**0.28**	0.23
— Diluted (RMB)	10	**0.28**	0.23

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**714,254**	526,230
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value, net of tax	**(1,646)**	(4,829)
Exchange differences:		
Exchange differences on translation of foreign operations	**192,597**	134,898
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**190,951**	130,069
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**190,951**	130,069
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**905,205**	656,299
Attributable to:		
Owners of the parent	**903,515**	656,349
Non-controlling interests	**1,690**	(50)
	905,205	656,299

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	**2016** ***RMB'000***	2015 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,762,813**	450,254
Prepaid land lease payments		**298,632**	91,908
Goodwill		**4,126,180**	560,883
Other intangible assets		**2,288,500**	497,753
Advance payments for property, plant and equipment		**37,971**	13,326
Investments in a joint venture		**134**	130
Advance payments for acquisitons		**—**	505,883
Investments in associates		**85,575**	1,729,219
Long-term receivables		**79,517**	—
Available-for-sale investments		**50,000**	—
Deferred tax assets		**65,794**	15,411
Other non-current assets		**2,955**	2,698
Total non-current assets		**8,798,071**	3,867,465
CURRENT ASSETS			
Inventories		**262,438**	134,391
Trade and notes receivables	11	**785,543**	549,596
Prepaid expenses and other receivables		**140,981**	147,025
Available-for-sale investments		**362,172**	81,585
Derivative financial instruments		**2,613**	—
Cash and cash equivalents	12	**677,598**	1,299,398
Deposits	12	**—**	519,488
Pledged deposits	12	**9,386**	31,484
Total current assets		**2,240,731**	2,762,967
CURRENT LIABILITIES			
Trade payables	13	**58,792**	34,444
Other payables and accruals		**502,070**	309,992
Deferred income		**25,020**	12,959
Interest-bearing bank borrowings	14	**518,461**	405,000
Tax payable		**39,276**	10,215
Total current liabilities		**1,143,619**	772,610
NET CURRENT ASSETS		**1,097,112**	1,990,357
TOTAL ASSETS LESS CURRENTT LIABILITIES		**9,895,183**	5,857,822

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2016

	Notes	**2016**	2015
		RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,895,183**	5,857,822
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	14	**2,540,682**	—
Deferred income		**269,980**	122,567
Deferred tax liabilities		**294,396**	81,790
Other liabilities		**23,783**	18,000
Total non-current liabilities		**3,128,841**	222,357
Net assets		**6,766,342**	5,635,465
EQUITY			
Equity attributable to owners of the parent			
Share capital		**155**	154
Share premium		**4,367,719**	4,355,287
Reserves		**2,154,625**	1,268,849
		6,522,499	5,624,290
Non-controlling interests		**243,843**	11,175
Total equity		**6,766,342**	5,635,465

NOTES:

1. CORPORATE AND GROUP INFORMATION

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 Stock Exchange on 11 June 2015.

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

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

3 CHANGES IN ACCOUNTING POLICES AND DISCLOSURES

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

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

The adoption of the above new and revised standards has had no significant financial effect on the Group's financial statements.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

6. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories sold	**402,268**	241,911
Depreciation of items of property, plant and equipment	**102,338**	49,863
Amortisation of other intangible assets	**58,662**	27,500
Recognition of prepaid land lease payments	**6,503**	2,466
Amortisation of long-term deferred expenditures	**3,059**	367
Operating lease expenses	**9,586**	6,744
Auditors' remuneration	**9,130**	7,211
Employee benefit expenses (excluding Directors' and chief executive's remuneration):		
Wages, salaries and staff welfare	**439,712**	236,986
Equity-settled compensation expenses	**(5,307)**	46,581
Pension scheme contributions	**40,017**	15,082
Social welfare and other costs	**53,831**	28,701
	528,253	327,350
Other expenses and losses:		
Research and development costs	**243,006**	111,324
Reversal of provision for impairment of other receivables	**(869)**	—
Provision for impairment of investment in an associate	**1,355**	—
Loss on disposal of items of property, plant and equipment	**1,273**	2,019
Reversal of provision for impairment of trade receivables	**(3,022)**	(437)
Foreign exchange differences	**23,091**	23,022
Fair value loss on derivative financial instruments	**2,935**	—
Others	**14,454**	6,723
	282,223	142,651

7. FINANCE COSTS

An analysis of finance costs is as follows:

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

8. INCOME TAX

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

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

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

Under the relevant PRC income tax law, except for Shenyang Sunshine Pharmaceutical Company Limited ("**Shenyang Sunshine**"), Shenzhen Sciprogen Bio-pharmaceutical Co., Ltd. ("**Sciprogen**"), Zhejiang Wansheng Pharmaceutical Co., Ltd. ("**Zhejiang Wansheng**") and Guojian which enjoy certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% on their respective taxable income.

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

In accordance with relevant Italian tax regulations, Sirton Pharmaceuticals S.p.A. ("**Sirton**") is subject to an income tax rate of 31.4%.

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

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

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

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

9. DIVIDENDS

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

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

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

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 2,524,049,681 (2015: 2,255,271,762) in issue during the year, as adjusted to reflect the issue of ordinary shares during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, the weighted average number of ordinary shares used in the calculation of the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have issued at the exercise price on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

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

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

11. TRADE AND NOTES RECEIVABLES

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

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

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

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

12. CASH AND CASH EQUIVALENTS AND DEPOSITS

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

13. TRADE PAYABLES

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

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

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

14. INTEREST-BEARING BANK BORROWINGS

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

	2016	2015
	RMB'000	*RMB'000*
Interest-bearing bank borrowings denominated in:		
— RMB	**1,192,000**	405,000
— Hong Kong Dollar ("**HKD**")	**1,867,143**	—
Total	**3,059,143**	405,000

Notes:

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

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

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

(iii) 31.76% of the equity interests in Guojian held by Shanghai Xingsheng Pharmaceutical Company Limited, 100% of the equity interests in Shenyang Sunshine held by Hongkong Sansheng Medical Limited, and 43.42% of the equity interests in Guojian held by Full Gain Limited.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview and Key Events

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

In January 2016, the Group further acquired (1) approximately 38.5% equity interest in the then Shanghai Lansheng Guojian Pharmaceutical Company Limited (now Shanghai Xingsheng Pharmaceutical Company Limited (上海興生藥業有限公司), "**Xing Sheng**"), which held approximately 41.69% equity interest in Guojian and (2) approximately 0.73% equity interest in Guojian for an aggregate consideration of approximately RMB1,033.3 million. In March 2016, the Group acquired (1) an additional approximate 43.42% equity interest in Guojian for an aggregate consideration comprising of approximately RMB2,713.8 million and options to subscribe for up to a total of 125,765,500 ordinary shares of the Company, subject to certain exercise conditions; and (2) an additional approximate 12.04% equity interest in Guojian for an aggregate consideration of approximately RMB1,218.0 million. After the completion of these acquisitions, the Group in aggregate controls approximately 97.78% equity interest in Guojian. The integration of Guojian has been orderly, effective, well-implemented and synergistic. Guojian has built China's leading monoclonal antibody (mAb) research, manufacturing and sales platform. The acquisition significantly enhanced the Group's status as a leading Chinese biotechnology company and provided a strong foundation for the Group's development in China and international markets.

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

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

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

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

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

Key Products

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

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

EPIAO is still the only rhEPO product approved by the CFDA for three indications: the treatment of anemia associated with chronic kidney disease ("**CKD**"), the treatment of chemotherapy-induced anemia ("**CIA**") and the reduction of allogeneic blood transfusion in surgery patients. EPIAO has consistently been the dominant market leader in the PRC rhEPO market since 2002. EPIAO is the only rhEPO product in China available at 36,000 IU (international unit per vial) dosage, and together with SEPO, claims the majority of the PRC rhEPO market share at 10,000 IU dosage. Future growth for EPIAO may be driven by: (1) the enhancement of the dialysis penetration rate

among stages IV and V CKD patients, which the Group believes is substantially lower in China as compared with other countries; and (2) the increase in the applications of EPIAO in reducing allogeneic blood transfusion and in CIA oncology indication in China, which the Group believes is at a very early stage of growth. In December 2014, the Group acquired another rhEPO product, SEPO, which helped broaden the Group's market coverage, especially in Grade II and Grade I hospitals, where rhEPO has been experiencing significant growth. During 2016, while EPIAO faced pricing pressure in certain provincial tenders, SEPO performed strongly in the lower-tier cities. The Group's combined rhEPO products franchise continued to be the market leader in the rhEPO segment. According to IMS, the two rhEPO brands of the Group grew by 15.9% in 2016 while the China rhEPO market grew by 13.5% in 2016, as compared to 2015. The Group expects that SEPO will achieve further growth in lower-tier cities. The multi-center biosimilar clinical trials for EPIAO in Russia and Thailand have made good progress, with patients recruitment for the maintenance period to be completed in 2017. The trials are expected to be completed by 2018.

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

Product Pipeline

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

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

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

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

Sales, Marketing and Distribution

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

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

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

R&D

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Outlook

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

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

Financial Review

Revenue

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

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

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

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

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

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

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

Cost of Sales

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

Gross Profit

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

Other Income and Gains

The Group's other income and gains mainly comprised government grants, interest income, gain on deemed disposal of investment in an associate (namely Ascentage Jiangsu), gain on disposal of available-for-sale investments and other miscellaneous income. For the year ended 31 December 2016, the Group's other income and gains increased to approximately RMB215.6 million, as compared to approximately RMB208.6 million for the year ended 31 December 2015, representing an increase of approximately RMB7.0 million, or 3.3%. The increase was mainly attributable to: (1)

the increase of gain on deemed disposal of investment in an associate (namely Ascentage Jiangsu); (2) the consolidation of Guojian's government grants since 1 April 2016; and (3) the gain on disposal of available-for-sale investments, which was partially offset by the decrease in fair value gain on available-for-sale investments upon reclassification to investments in associates.

Selling and Distribution Expenses

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

Administrative Expenses

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

Other Expenses and Losses

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

Finance Costs

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

Income Tax Expense

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

EBITDA and Net Profit

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

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

Prepaid Land Lease Payments

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

Goodwill

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

Long Term Receivables

As at 31 December 2016, long term receivables represented the convertible loan provided to Zhejiang Sunshine Pharmaceutical Company Limited in a principle amount of RMB75.0 million.

Available-for-sale Investments

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

Liquidity, Financial and Capital Resources

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

Net Current Assets

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

Funding and Treasury Policies, Borrowings and the Pledge of Assets

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

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

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

Gearing Ratio

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

Contingent Liabilities

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

Contractual Obligations

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

Foreign Exchange and Exchange Rate Risk

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

HKD43.1 million (equivalent to approximately RMB38.6 million) denominated in HK dollars. The Group expects that the fluctuation of the Renminbi exchange rate will not have a material adverse effect on the operations of the Group for the foreseeable period.

Future Plans for Material Investments or Capital Assets

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

EMPLOYEES AND EMOLUMENTS POLICY

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

FINAL DIVIDEND

The Board does not recommend any dividend for the year ended 31 December 2016.

CLOSURE OF REGISTER OF SHAREHOLDERS

The annual general meeting of the Company is scheduled to be held on 28 June 2017. For determining the entitlement to attend and vote at the annual general meeting, the register of shareholders of the Company will be closed from 23 June 2017 to 28 June 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 22 June 2017.

CORPORATE GOVERNANCE PRACTICES

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

Except as expressly described below, the Company complied with all applicable code provisions set out in the CG Code during the year ended 31 December 2016.

Separation of the Roles of Board Chairman and Chief Executive Officer

Pursuant to code provision A.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from, the requirement that the responsibilities between the chairman of the Board and the chief executive officer should be segregated and should not be performed by the same individual. The Company does not have separate chairman and chief executive officer. Mr. LOU Jing currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of the chairman of the Board and the chief executive officer of the Company at an appropriate time, taking into account the circumstances of the Group as a whole.

The Company will periodically review and improve its corporate governance practices with reference to the latest development of corporate governance requirements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with the Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

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

The Audit Committee has, together with the Board, reviewed and approved the accounting standards and practices adopted by the Group and the annual results for the year ended 31 December 2016. The Audit Committee has also reviewed the effectiveness of the risk management internal control systems of the Company and considers them to be effective and adequate.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the preliminary results announcement of the Group for the year ended 31 December 2016 have been agreed to by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS AND 2016 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

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

The Company's 2016 annual report containing all the information required under the Listing Rules will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
3SBio Inc.
Mr. LOU Jing
Chairman

Hong Kong, 17 March 2017

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