The following table shows the revenue of these three non-consolidated joint ventures for the years indicated. The consolidated financial statements of these joint ventures are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,					
	2017		2016		2015	
	$'000	%	$'000	%	$'000	%
Revenue						
Innovation Platform:						
Nutrition Science Partners	—	—	—	—	—	—
Commercial Platform:						
Shanghai Hutchison Pharmaceuticals	244,557	51.8	222,368	49.8	181,140	46.1
Hutchison Baiyunshan	227,422	48.2	224,131	50.2	211,603	53.9
Total	471,979	100.0	446,499	100.0	392,743	100.0

The following table shows the amount of equity in earnings of equity investees (net of tax), and as a percentage of our total consolidated revenue, of our non-consolidated joint ventures for the years indicated.

	Year Ended December 31,					
	2017		2016		2015	
	$'000	%	$'000	%	$'000	%
Equity in earnings of equity investees, net of tax						
Innovation Platform:						
Nutrition Science Partners	(4,605)	(1.9)	(4,241)	(1.9)	(3,776)	(2.1)
Others	58	0.0	47	0.0	6	0.0
Commercial Platform:						
Shanghai Hutchison Pharmaceuticals	27,812	11.5	60,250	27.9	15,654	8.8
Hutchison Baiyunshan	10,388	4.3	10,188	4.7	10,688	6.0
Total	33,653	13.9	66,244	30.7	22,572	12.7

Operating Profit/(Loss)

Our operating profit/(loss) represents the sum of (i) earnings/(losses) of subsidiaries before interest income, interest expenses and income tax expenses; (ii) interest income; (iii) our equity in earnings of equity investees; and (iv) unallocated costs attributed to expenses incurred by our corporate head office. See note 25 to our consolidated financial statements in this annual report for additional information.

Taxation

Cayman Islands

Hutchison China MediTech Limited is incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on profits, income, gains or appreciation earned by individuals or corporations. In addition, our payment of dividends, if any, is not subject to withholding tax in the Cayman Islands. For more information, see Item 10.E. "Taxation—Overview of Tax Implications of Various Other Jurisdictions—Cayman Islands Taxation."

People's Republic of China

Our subsidiaries and joint ventures incorporated in the PRC are governed by the PRC EIT Law and regulations. Under the EIT Law, the standard EIT rate is 25% on taxable profits as reduced by available tax losses. Tax losses may be carried forward to offset any taxable profits for the following five years. Our subsidiary, Hutchison MediPharma, was granted the TASE status from January 1, 2010 to December 31, 2018, and has been successful in its application to renew its HNTE status from January 1, 2017 to December 31, 2019; whereas our non-consolidated joint ventures, Hutchison Baiyunshan and Shanghai Hutchison Pharmaceuticals, have been successful in their respective applications to renew their HNTE status from January 1, 2017 to December 31, 2019. Accordingly, these entities were subject to a preferential EIT rate of 15% for the years ended December 31, 2015, 2016 and 2017.

For more information, see Item 10.E. "Taxation—Taxation in the PRC." Please also see Item. 3 "Key Information—Risk Factors—Our business benefits from certain PRC government tax incentives. The expiration of, changes to, or our PRC subsidiaries/joint ventures failing to continuously meet the criteria for these incentives could have a material adverse effect on our operating results by significantly increasing our tax expenses."

Hong Kong

Hutchison China MediTech Limited and certain subsidiaries which have registered a branch in Hong Kong and are Hong Kong tax residents, as well as our subsidiaries incorporated in Hong Kong, are governed by applicable Hong Kong income tax laws and regulations. As such, they are subject to Hong Kong Profits Tax at the rate of 16.5% on their assessable profits as reduced by available tax losses for the years ended December 31, 2015, 2016 and 2017.

According to the EIT Law, dividends declared after January 1, 2008 and paid by PRC foreign-invested enterprises to their non-PRC parent companies will be subject to PRC withholding tax at 10% unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is a tax resident and which specifically exempts or reduces such withholding tax, and such tax exemption or reduction is approved by the relevant PRC tax authorities. Pursuant to the Arrangement, if the shareholder of the PRC enterprise is a Hong Kong tax resident and directly holds a 25% or more equity interest in the PRC enterprise and is considered to be the beneficial owner of dividends paid by the PRC enterprise, such withholding tax rate may be lowered to 5%, subject to approvals by the relevant PRC tax authorities. For more information, see Item 10.E. "Taxation—Taxation in the PRC" and "Taxation—Hong Kong Taxation."

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the years indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. Our operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Year Ended December 31,					
	2017		2016		2015	
	$'000	%	$'000	%	$'000	%
Revenues	241,203	100.0	216,080	100.0	178,203	100.0
Cost of sales	(175,820)	(72.9)	(156,328)	(72.4)	(110,777)	(62.2)
Research and development expenses	(75,523)	(31.3)	(66,871)	(31.0)	(47,368)	(26.6)
Selling expenses	(19,322)	(8.0)	(17,998)	(8.3)	(10,209)	(5.7)
Administrative expenses	(23,955)	(9.9)	(21,580)	(10.0)	(19,620)	(11.0)
Total other expense	(119)	(0.0)	(659)	(0.3)	(769)	(0.4)
Income tax expense	(3,080)	(1.3)	(4,331)	(2.0)	(1,605)	(0.9)
Equity in earnings of equity investees, net of tax	33,653	13.9	66,244	30.7	22,572	12.7
Net (loss)/income	(22,963)	(9.5)	14,557	6.7	10,427	5.9
Net (loss)/income attributable to our company	(26,737)	(11.1)	11,698	5.4	7,993	4.5

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenues

Our revenues increased by 11.6% from $216.1 million for the year ended December 31, 2016 to $241.2 million for the year ended December 31, 2017.

This increase was driven by a $24.4 million increase in revenue for the year ended December 31, 2017 from our Commercial Platform, representing a 13.5% increase from the revenue of $180.9 million for the year ended December 31, 2016. The consolidated revenue from our Prescription Drugs business increased by $16.6 million from $149.8 million for the year ended December 31, 2016 to $166.4 million for the year ended December 31, 2017. The increase was primarily attributable to the growth in our third-party drug distribution business. The consolidated revenue from our Consumer Health business also increased by $7.8 million from $31.0 million for the year ended December 31, 2016 to $38.8 million for the year ended December 31, 2017. The increase was primarily attributable to higher levels of infant nutrition products and personal care products sold in 2017. The consolidated revenue from our Innovation Platform increased slightly by $0.8 million from $35.2 million for the year ended December 31, 2016 to $36.0 million for the year ended December 31, 2017. The increase was attributable to a higher level of service fees that we received from our joint ventures.

Our Commercial Platform's results of operations are affected by seasonality. For more information, see "—Factors Affecting our Results of Operations—Commercial Platform—Seasonality."

Cost of Sales

Our cost of sales increased by 12.5% from $156.3 million for the year ended December 31, 2016 to $175.8 million for the year ended December 31, 2017. This increase was primarily driven by a $15.4 million increase in cost of sales from Hutchison Sinopharm under our Prescription Drugs business, as well as a $4.0 million increase in cost of sales from Hutchison Hain Organic under our Consumer Health business. Cost of sales as a percentage of our revenue from our Commercial Platform decreased from 86.4% to

85.7% across these periods, primarily due to product mix resulting in an increased proportion of sales of higher margin products.

Research and Development Expenses

Our research and development expenses increased by 12.9% from $66.9 million for the year ended December 31, 2016 to $75.5 million for the year ended December 31, 2017, which was primarily attributable to a $5.5 million increase in payments to CROs and other clinical trial related costs and a $3.1 million increase in employee compensation related costs. These increased costs incurred by our Innovation Platform was due to a significant expansion of clinical activities and rapid organization growth to support these clinical activities. The number of ongoing clinical studies for our drug candidates increased from studies in 30 target patient populations as of December 31, 2016 to studies in 36 target patient populations as of December 31, 2017. In particular, this increase was attributable to the expansion of the savolitinib and fruquintinib development programs. As a result, research and development expenses as a percentage of our total revenue increased from 31.0% in the year ended December 31, 2016 to 31.3% in the year ended December 31, 2017.

Selling Expenses

Our selling expenses increased by 7.4% from $18.0 million for the year ended December 31, 2016 to $19.3 million for the year ended December 31, 2017. This increase was primarily driven by a $0.9 million increase in selling expenses under our Consumer Health business and a $0.4 million increase in selling expenses under our Prescription Drugs business. Selling expenses as a percentage of our revenue from our Commercial Platform decreased from 10.0% to 9.4% across these periods, primarily due to increased sales by our third-party Prescription Drug distribution and Consumer Health businesses.

Administrative Expenses

Our administrative expenses increased by 11.0% from $21.6 million for the year ended December 31, 2016 to $24.0 million for the year ended December 31, 2017. This increase was primarily due to a $1.2 million and $0.9 million increase in administrative expenses incurred by our Innovation Platform and corporate head office, mainly related to the increased staff cost, office expenses and organization and third-party advisor costs as a result of operating as a U.S. public company for a full calendar year. Administrative expenses had remained relatively stable as a percentage of our total revenue.

Other Expenses

Total other expenses decreased from $0.7 million for the year ended December 31, 2016 to $0.1 million for the year ended December 31, 2017, primarily due to higher interest income offset by higher foreign currency translation loss.

Our interest income increased from $0.5 million for the year ended December 31, 2016 to $1.2 million for the year ended December 31, 2017. The increase was attributable to a higher level of bank deposits after receiving proceeds from our follow-on offering in October 2017. Our interest expense decreased slightly from $1.6 million for the year ended December 31, 2016 to $1.5 million for the year ended December 31, 2017. These interest expenses primarily comprised interest and guarantee fee payments on bank loans in 2016 and 2017.

Income Tax Expense

Our income tax expense decreased by 28.9% from $4.3 million for the year ended December 31, 2016 to $3.1 million for the year ended December 31, 2017 due to a decrease in withholding taxes accrued on the net income from our Commercial Platform businesses for the year ended December 31, 2017. The higher withholding tax accrued for the year ended December 31, 2016 was due to equity in earnings of

Shanghai Hutchison Pharmaceuticals including a one-time gain of $40.4 million relating to land compensation and other government subsidies.

Equity in Earnings of Equity Investees

Our equity in earnings of equity investees, net of tax, decreased by 49.2% from $66.2 million for the year ended December 31, 2016 to $33.7 million for the year ended December 31, 2017. This decrease was primarily due to a decrease in net income at our Commercial Platform's non-consolidated joint ventures as well as an increase in net loss at Nutrition Science Partners, our Innovation Platform's non-consolidated joint venture. Our equity in earnings of Shanghai Hutchison Pharmaceuticals included one-time gains, net of tax, of $40.4 million from land compensation and other government subsidies in the year ended December 31, 2016 and $2.5 million from government subsidies in the year ended December 31, 2017 in each case paid to Shanghai Hutchison Pharmaceuticals by the Shanghai government.

Shanghai Hutchison Pharmaceuticals

The following table shows a summary of the results of operations of Shanghai Hutchison Pharmaceuticals for the years indicated. The consolidated financial statements of Shanghai Hutchison Pharmaceuticals are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,			
	2017		2016	
	($'000)	%	($'000)	%
Revenue	244,557	100.0	222,368	100.0
Cost of sales	(68,592)	(28.0)	(64,237)	(28.9)
Selling expenses	(104,504)	(42.7)	(92,487)	(41.6)
Administrative expenses	(13,257)	(5.4)	(13,278)	(6.0)
Gain on disposal of assets held for sale	—	—	88,536	39.8
Taxation charge	(10,874)	(4.4)	(27,645)	(12.4)
Profit for the year	55,623	22.7	120,499	54.2
Equity in earnings of equity investee attributable to our company	27,812	11.4	60,250	27.1

Shanghai Hutchison Pharmaceuticals' revenue increased by 10.0% from $222.4 million for the year ended December 31, 2016 to $244.6 million for the year ended December 31, 2017, which was primarily due to increased sales of She Xiang Bao Xin pills, a vasodilator used in the treatment of heart conditions. Sales of She Xiang Bao Xin pills grew by 7.1% from $195.4 million for the year ended December 31, 2016 to $209.2 million for the year ended December 31, 2017, primarily due to continued price increases and geographical expansion of sales coverage.

Cost of sales increased by 6.8% from $64.2 million for the year ended December 31, 2016 to $68.6 million for the year ended December 31, 2017, primarily due to increased cost of goods sold as a result of increased sales of She Xiang Bao Xin pills.

Selling expenses during these periods increased by 13.0% from $92.5 million for the year ended December 31, 2016 to $104.5 million for the year ended December 31, 2017 as a result of increased spending on marketing and promotional activities to support the increase in sales.

Administrative expenses remained relatively stable at $13.3 million for the years ended December 31, 2016 and 2017.

Taxation charge decreased by 60.7% from $27.6 million for the year ended December 31, 2016 to $10.9 million for the year ended December 31, 2017, which was primarily due to the decrease in profit before taxation between these periods.

As a result of the foregoing and the one-time gain of $40.4 million from land compensation and other government subsidies received from the Shanghai government in 2016 which did not occur in 2017, profit decreased by 53.8% from $120.5 million for the year ended December 31, 2016 to $55.6 million for the year ended December 31, 2017. Our equity in earnings of equity investees contributed by this joint venture was $60.3 million and $27.8 million for the years ended December 31, 2016 and 2017, respectively.

Hutchison Baiyunshan

The following table shows a summary of the results of operations of Hutchison Baiyunshan for the years indicated. The consolidated financial statements of Hutchison Baiyunshan are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,			
	2017		2016	
	($'000)	%	($'000)	%
Revenue	227,422	100.0	224,131	100.0
Cost of sales	(135,964)	(59.8)	(134,776)	(60.1)
Selling expenses	(45,262)	(19.9)	(46,873)	(20.9)
Administrative expenses	(24,541)	(10.8)	(21,716)	(9.7)
Taxation charge	(3,629)	(1.6)	(3,631)	(1.6)
Profit attributable to equity holders of Hutchison Baiyunshan	20,776	9.1	20,376	9.1
Equity in earnings of equity investee attributable to our company	10,388	4.6	10,188	4.5

Hutchison Baiyunshan's revenue increased slightly by 1.5% from $224.1 million for the year ended December 31, 2016 to $227.4 million for the year ended December 31, 2017, which was primarily due to increased sales of certain of its drug products.

Cost of sales increased by 0.9% from $134.8 million for the year ended December 31, 2016 to $136.0 million for the year ended December 31, 2017, primarily due to increased sales. The increase in cost of sales was smaller than the increase in revenues due to a change in product mix resulting in a higher proportion of sales of higher margin products.

Selling expenses during these periods decreased by 3.4% from $46.9 million for the year ended December 31, 2016 to $45.3 million for the year ended December 31, 2017 due to less sales and marketing activities.

Administrative expenses increased by 13.0% from $21.7 million for the year ended December 31, 2016 to $24.5 million for the year ended December 31, 2017 due to an increase in general overhead costs incurred.

Taxation charge remained relatively stable at $3.6 million for the years ended December 31, 2016 and 2017 due to relatively stable profit before taxation across these periods.

As a result of the foregoing, profit attributable to equity holders of Hutchison Baiyunshan increased by 2.0% from $20.4 million for the year ended December 31, 2016 to $20.8 million for the year ended December 31, 2017. Our equity in earnings of equity investees contributed by this joint venture was $10.2 million and $10.4 million for the years ended December 31, 2016 and 2017, respectively.

Nutrition Science Partners

The following table shows a summary of the results of operations of Nutrition Science Partners for the years indicated. The consolidated financial statements of Nutrition Science Partners are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,			
	2017		2016	
	($'000)	%	($'000)	%
Revenue	—	—	—	—
Loss for the year	(9,210)	100.0	(8,482)	100.0
Equity in earnings of equity investee attributable to our company	(4,605)	50.0	(4,241)	50.0

Nutrition Science Partners had losses of $8.5 million and $9.2 million for the years ended December 31, 2016 and 2017, respectively. Nutrition Science Partners had no revenue during these periods. The increase in net loss across these periods was primarily attributable to higher expenditures on personnel costs related to the development of drug candidates from Nutrition Science Partners' botanical library. Our equity in earnings of equity investees contributed by this joint venture was losses of $4.2 million and $4.6 million for the years ended December 31, 2016 and 2017, respectively.

For more information on the financial results of our non-consolidated joint ventures, see "—Key Components of Results of Operations—Equity in Earnings of Equity Investees."

Net (Loss)/Income

As a result of the foregoing, our net income decreased from a net income of $14.6 million for the year ended December 31, 2016 to a net loss of $23.0 million for the year ended December 31, 2017. Net income attributable to our company decreased from a net income of $11.7 million for the year ended December 31, 2016 to a net loss of $26.7 million for the year ended December 31, 2017.

Operating Profit/(Loss)

Our operating profit decreased from an operating profit of $20.5 million for the year ended December 31, 2016 to an operating loss of $18.4 million for the year ended December 31, 2017 as a result of a significant decrease in operating profit of our Commercial Platform from $74.3 million for the year ended December 31, 2016 to $45.1 million for the year ended December 31, 2017 as well as an increase in operating loss of our Innovative Platform from $40.8 million for the year ended December 31, 2016 to $52.0 million for the year ended December 31, 2017. The decrease in operating profit of our Commercial Platform across these periods was primarily due to equity in earnings of Shanghai Hutchison Pharmaceuticals including a one-time gain of $40.4 million relating to land compensation and other government subsidies in 2016 which did not occur in 2017. The increase in operating loss of our Innovation Platform was due to a significant expansion of clinical activities, rapid organization growth to support these clinical activities and investment in the expansion of small molecule manufacturing operations.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenues

Our revenues increased by 21.3% from $178.2 million for the year ended December 31, 2015 to $216.1 million for the year ended December 31, 2016.

This increase was driven by a $54.7 million increase in revenue for the year ended December 31, 2016 from our Commercial Platform, representing a 43.3% increase from the revenue of $126.2 million for the year ended December 31, 2015. The increase was partially offset by a 32.3% decrease in revenue from our

Innovation Platform for the year ended December 31, 2016 to $35.2 million from $52.0 million in the year ended December 31, 2015. The growth in revenue from our Commercial Platform was driven by the inclusion of a full 12-month period of Seroquel sales in China for the year ended December 31, 2016, which our consolidated joint venture Hutchison Sinopharm began marketing under an exclusive license from AstraZeneca in the second quarter of 2015. The decrease in the revenue from our Innovation Platform for the year ended December 31, 2016 was attributable to a lower level of milestone payments, services fees and clinical cost reimbursements that we received from our collaboration partners including AstraZeneca and Eli Lilly.

The consolidated revenue from our Consumer Health business also increased by $10.3 million from $20.7 million for the year ended December 31, 2015 to $31.0 million for the year ended December 31, 2016. The increase was primarily attributable to higher levels of infant nutrition products and personal care products sold in 2016.

Our Commercial Platform's results of operations are affected by seasonality. For more information, see "—Factors Affecting our Results of Operations—Commercial Platform—Seasonality."

Cost of Sales

Our cost of sales increased by 41.1% from $110.8 million for the year ended December 31, 2015 to $156.3 million for the year ended December 31, 2016. This increase was primarily driven by a $39.2 million increase in cost of sales from Hutchison Sinopharm under our Prescription Drugs business, as well as a $4.0 million increase in cost of sales from Hutchison Hain Organic under our Consumer Health business. Cost of sales as a percentage of our revenue from our Commercial Platform decreased from 87.8% to 86.4% across these periods, primarily due to increased sales of Seroquel, which has a relatively higher margin than the other products sold by our Commercial Platform.

Research and Development Expenses

Our research and development expenses increased by 41.2% from $47.4 million for the year ended December 31, 2015 to $66.9 million for the year ended December 31, 2016, which was primarily attributable to a $15.1 million increase in payments to CROs and other clinical trial related costs and a $4.4 million increase in employee compensation related costs. These increased costs incurred by our Innovation Platform was due to a significant expansion of clinical activities and rapid organization growth to support these clinical activities. The number of ongoing clinical studies for our drug candidates increased from 19 studies as of December 31, 2015 to 30 studies as of December 31, 2016. In particular, this increase was attributable to our share of the cost of the savolitinib development program as well as the increased cost associated with the expansion of the sulfatinib and HMPL-523 development programs. As a result, research and development expenses as a percentage of our total revenue increased from 26.6% in the year ended December 31, 2015 to 31.0% in the year ended December 31, 2016.

Selling Expenses

Our selling expenses increased by 76.3% from $10.2 million for the year ended December 31, 2015 to $18.0 million for the year ended December 31, 2016. This increase was primarily driven by a $4.8 million increase in selling expenses under our Consumer Health business and a $3.0 million increase in selling expenses under our Prescription Drugs business. Selling expenses as a percentage of our revenue from our Commercial Platform increased from 8.1% to 10.0% across these periods, primarily due to increased selling expenses incurred by Hutchison Sinopharm for expanding its third-party distribution and commercialization business as well as increased marketing expenses related to the development of the Zhi Ling Tong infant nutrition business after Hutchison Sinopharm took over such business from a third-party distributor.

Administrative Expenses

Our administrative expenses increased by 10.0% from $19.6 million for the year ended December 31, 2015 to $21.6 million for the year ended December 31, 2016. This increase was primarily due to a $2.2 million increase in administrative expenses incurred by our corporate head office, mainly related to the increased organization and third-party advisor costs as a result of us becoming a U.S. public company in March 2016. Administrative expenses as a percentage of our total revenue decreased from 11.0% to 10.0% across these periods, primarily due to the increase in revenue from our Hutchison Sinopharm business, which has relatively lower administrative expenses in proportion to revenue compared to our other businesses, partially offset by the increased administrative expenses at our corporate head office.

Other Expenses

Total other expenses decreased from $0.8 million for the year ended December 31, 2015 to $0.7 million for the year ended December 31, 2016, primarily due to an increase in other income resulting from payments to us by the depositary bank which administers our ADS program in 2016.

Our interest expense increased from $1.4 million for the year ended December 31, 2015 to $1.6 million for the year ended December 31, 2016, while our interest income remained relatively stable at $0.5 million for the years ended December 31, 2015 and 2016. These interest expenses primarily comprised interest and guarantee fee payments on bank loans in 2015 and 2016.

Income Tax Expense

Our income tax expense increased by 169.8% from $1.6 million for the year ended December 31, 2015 to $4.3 million for the year ended December 31, 2016 due to the increase in the net income of our Commercial Platform businesses and the 5% withholding taxes accrued on the net income from our Commercial Platform businesses for the year ended December 31, 2016.

Equity in Earnings of Equity Investees

Our equity in earnings of equity investees (net of tax) increased by 193.5% from $22.6 million for the year ended December 31, 2015 to $66.2 million for the year ended December 31, 2016. This increase was primarily due to an increase in net income at our Commercial Platform's non-consolidated joint ventures, Shanghai Hutchison Pharmaceuticals and Hutchison Baiyunshan, including a one-time gain of $40.4 million, net of tax, relating to land compensation and other subsidies paid to Shanghai Hutchison Pharmaceuticals by the Shanghai government and an increase in net loss at Nutrition Science Partners, our Innovation Platform's non-consolidated joint venture.

Shanghai Hutchison Pharmaceuticals

The following table shows a summary of the results of operations of Shanghai Hutchison Pharmaceuticals for the years indicated. The consolidated financial statements of Shanghai Hutchison

Pharmaceuticals are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,			
	2016		2015	
	($'000)	%	($'000)	%
Revenue	222,368	100.0	181,140	100.0
Cost of sales	(64,237)	(28.9)	(53,532)	(29.6)
Selling expenses	(92,487)	(41.6)	(78,429)	(43.3)
Administrative expenses	(13,278)	(6.0)	(12,317)	(6.8)
Gain on disposal of assets held for sale	88,536	39.8	—	—
Taxation charge	(27,645)	(12.4)	(6,094)	(3.4)
Profit for the year	120,499	54.2	31,307	17.3
Equity in earnings of equity investee attributable to our company	60,250	27.1	15,654	8.6

Shanghai Hutchison Pharmaceuticals' revenue increased by 22.8% from $181.1 million for the year ended December 31, 2015 to $222.4 million for the year ended December 31, 2016, which was primarily due to increased sales of She Xiang Bao Xin pills, a vasodilator used in the treatment of heart conditions. Sales of She Xiang Bao Xin pills grew by 22.6% from $159.3 million for the year ended December 31, 2015 to $195.4 million for the year ended December 31, 2016, primarily due to continued geographical expansion of sales coverage.

Cost of sales increased by 20.0% from $53.5 million for the year ended December 31, 2015 to $64.2 million for the year ended December 31, 2016, primarily due to increased cost of goods sold as a result of increased sales of She Xiang Bao Xin pills.

Selling expenses during these periods increased by 17.9% from $78.4 million for the year ended December 31, 2015 to $92.5 million for the year ended December 31, 2016 as a result of increased spending on marketing and promotional activities to support the increase in sales.

Administrative expenses increased by 7.8% from $12.3 million for the year ended December 31, 2015 to $13.3 million for the year ended December 31, 2016, primarily as a result of compensation expenses due to salary increases.

Taxation charge increased by 353.6% from $6.1 million for the year ended December 31, 2015 to $27.6 million for the year ended December 31, 2016, which was primarily due to the increase in profit before taxation between these periods.

As a result of the foregoing and the one-time gain on disposal of assets held for sale of $88.5 million related to land compensation received from the Shanghai government, profit increased by 284.9% from $31.3 million for the year ended December 31, 2015 to $120.5 million for the year ended December 31, 2016. Our equity in earnings of equity investees contributed by this joint venture was $15.7 million and $60.3 million for the years ended December 31, 2015 and 2016, respectively.

Hutchison Baiyunshan

The following table shows a summary of the results of operations of Hutchison Baiyunshan for the years indicated. The consolidated financial statements of Hutchison Baiyunshan are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,			
	2016		2015	
	($'000)	%	($'000)	%
Revenue	224,131	100.0	211,603	100.0
Cost of sales	(134,776)	(60.1)	(120,142)	(56.8)
Selling expenses	(46,873)	(20.9)	(45,325)	(21.4)
Administrative expenses	(21,716)	(9.7)	(23,722)	(11.2)
Taxation charge	(3,631)	(1.6)	(3,948)	(1.9)
Profit attributable to equity holders of Hutchison Baiyunshan	20,376	9.1	21,376	10.1
Equity in earnings of equity investee attributable to our company	10,188	4.5	10,688	5.1

Hutchison Baiyunshan's revenue increased by 5.9% from $211.6 million for the year ended December 31, 2015 to $224.1 million for the year ended December 31, 2016, which was primarily due to increased sales of certain of its drug products, for which revenue increased by 7.8% from $144.5 million for the year ended December 31, 2015 to $155.8 million for the year ended December 31, 2016.

Cost of sales increased by 12.2% from $120.1 million for the year ended December 31, 2015 to $134.8 million for the year ended December 31, 2016, primarily due to increased sales. The increase in cost of sales was larger than the increase in revenues due to a change in product mix resulting in a higher proportion of sales of lower margin products.

Selling expenses during these periods increased by 3.4% from $45.3 million for the year ended December 31, 2015 to $46.9 million for the year ended December 31, 2016 to support the growth in sales across these periods.

Administrative expenses decreased from $23.7 million for the year ended December 31, 2015 to $21.7 million for the year ended December 31, 2016 due to a decrease in general overhead costs incurred.

Taxation charge decreased from $3.9 million for the year ended December 31, 2015 to $3.6 million for the year ended December 31, 2016 due to decreased profit before taxation across these periods.

As a result of the foregoing, profit attributable to equity holders of Hutchison Baiyunshan decreased by 4.7% from $21.4 million for the year ended December 31, 2015 to $20.4 million for the year ended December 31, 2016. Our equity in earnings of equity investees contributed by this joint venture was $10.7 million and $10.2 million for the years ended December 31, 2015 and 2016, respectively.

Nutrition Science Partners

The following table shows a summary of the results of operations of Nutrition Science Partners for the years indicated. The consolidated financial statements of Nutrition Science Partners are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,			
	2016		2015	
	($'000)	%	($'000)	%
Revenue	—	—	—	—
Loss for the year	(8,482)	100.0	(7,552)	100.0
Equity in earnings of equity investee attributable to our company	(4,241)	50.0	(3,776)	50.0

Nutrition Science Partners had losses of $7.6 million and $8.5 million for the years ended December 31, 2015 and 2016, respectively. Nutrition Science Partners had no revenue during these periods. The increase in net loss across these periods was primarily attributable to higher expenditures on personnel costs related to the development of drug candidates from Nutrition Science Partners' botanical library. Our equity in earnings of equity investees contributed by this joint venture was losses of $3.8 million and $4.2 million for the years ended December 31, 2015 and 2016, respectively.

For more information on the financial results of our non-consolidated joint ventures, see "—Key Components of Results of Operations—Equity in Earnings of Equity Investees."

Net Income

As a result of the foregoing, our net income improved from a net income of $10.4 million for the year ended December 31, 2015 to a net income of $14.6 million for the year ended December 31, 2016. Net income attributable to our company improved from a net income of $8.0 million for the year ended December 31, 2015 to a net income of $11.7 million for the year ended December 31, 2016.

Operating Profit

Our operating profit increased by 52.7% from $13.4 million for the year ended December 31, 2015 to $20.5 million for the year ended December 31, 2016 as a result of a significant increase in operating profit of our Commercial Platform from $28.2 million for the year ended December 31, 2015 to $74.3 million for the year ended December 31, 2016, partially offset by an increase in operating loss of our Innovative Platform from $3.8 million for the year ended December 31, 2015 to $40.8 million for the year ended December 31, 2016. The increase in operating profit of our Commercial Platform across these periods was attributable to an increase in equity in earnings of Shanghai Hutchison Pharmaceuticals of $44.6 million from $15.7 million for the year ended December 31, 2015 to $60.3 million for the year ended December 31, 2016. The increase in operating loss of our Innovation Platform was due to a significant expansion of clinical activities, rapid organization growth to support these clinical activities and a decrease in revenue from license and collaboration agreements due to timing of milestone achievements.

B. Liquidity and Capital Resources

To date, we have taken a multi-source approach to funding through cash flows generated from and dividend payments from our Commercial Platform, service and milestone and upfront payments from our Innovation Platform's collaboration partners, and bank borrowings. We have also received various financial support from Hutchison Whampoa Limited, an affiliate of our majority shareholder, in the form of guarantees and undertakings for bank borrowings as well as investments from other parties since our founding, proceeds from our listings on the AIM market of the London Stock Exchange in 2006 and the Nasdaq Global Select Market in 2016 and follow-on offering in 2017.

Our Innovation Platform has historically not generated significant profits or has operated at a net loss, as creating potential global first-in-class or best-in-class drug candidates requires a significant investment of resources over a prolonged period of time. As a result, we anticipate that we may need additional financing for our Innovation Platform in future periods. See Item 3.D. "Risk Factors—Risks Related to Our Innovation Platform—Historically, our Innovation Platform has not generated significant profits or has operated at a net loss."

As of December 31, 2017, we had cash and cash equivalents and short-term investments of $358.3 million and unutilized bank facilities of $121.3 million. Substantially all of our bank deposits are at major financial institutions, which we believe are of high credit quality. As of December 31, 2017, we had $30.0 million in bank loans, including (i) a $20.0 million term loan from Bank of America N.A. and a $10.0 million term loan from Deutsche Bank AG, Hong Kong Branch, both of which will expire in August 2018. Our total weighted average cost of bank borrowings, including all interest and guarantee fees payable with respect to our prior loan with Scotiabank, was 2.7% as of December 31, 2017. In February 2017, we entered into new credit facility agreements with each of Bank of America N.A. and Deutsche Bank AG, Hong Kong Branch of $45.0 million and $25.0 million, respectively, which replaced the previous combined $60.0 million credit facility agreement we had entered into with these two banks in February 2016. In November 2017, we entered into a new credit facility agreement with Scotiabank for the provision of unsecured credit facilities in the aggregate amount of $51.3 million. The credit facility includes (i) a $26.9 million 3-year term loan facility; and (ii) a $24.4 million 18-month revolving loan facility, which replaced the previous four-year Scotiabank loan entered in December 2011 and subsequently renewed in June 2014.

Certain of our subsidiaries and non-consolidated joint ventures, including those registered as wholly foreign-owned enterprises in China, are required to set aside at least 10.0% of their after-tax profits to their general reserves until such reserves reach 50.0% of their registered capital. There is no fixed percentage of after-tax profit required to set aside for the general reserves for our PRC joint ventures. Profit appropriated to the reserve funds for our subsidiaries and non-consolidated joint ventures incorporated in the PRC was approximately $24,000, $15,000 and $10,000 for the years ended December 31, 2015, 2016 and 2017, respectively. In addition, as a result of PRC regulations restricting dividend distributions from such reserve funds and from a company's registered capital, our PRC subsidiaries are restricted in their ability to transfer a certain amount of their net assets to us as cash dividends, loans or advances. This restricted portion amounted to $7.3 million as of December 31, 2017. Although we do not currently require any such dividends, loans or advances from our PRC subsidiaries to fund our operations, should we require additional sources of liquidity in the future, such restrictions may have a material adverse effect on our liquidity and capital resources. For more information, see Item 4.B. "Business Overview—Regulation—PRC Regulation of Foreign Currency Exchange, Offshore Investment and State-Owned Assets—Regulation on Dividend Distribution."

In addition, our non-consolidated joint ventures held an aggregate of $67.0 million in cash and cash equivalents and bank deposits maturing over three months and no bank borrowings as of December 31, 2017. These cash and cash equivalents are only accessible by us through dividend payments from these joint ventures. The level of dividends declared by these joint ventures is subject to agreement each year between us and our joint venture partners based on the profitability and working capital needs of the joint ventures. As a result, we cannot guarantee that these joint ventures will continue to pay dividends to us in the future at the same rate we have enjoyed in the past, or at all, which may have a material adverse effect on our liquidity and capital resources. As of December 31, 2017, our Innovation Platform joint venture, Nutrition Science Partners, has not paid any dividends. For more information, see Item 3.D. "Risk Factors—Risks Related to Our Commercial Platform—As a significant portion of our Commercial Platform business is conducted through joint ventures, we are largely dependent on the success of our joint ventures and our receipt of dividends or other payments from our joint ventures for cash to fund our operations."

We believe that our current levels of cash and cash equivalents, short-term investments, along with cash flows from operations, dividend payments and bank borrowings, will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, we may require additional financing in order to fund all of the clinical development efforts at our Innovation Platform that we plan to undertake to accelerate the development of our clinical-stage drug candidates. For more information, see Item 3.D. "Risk Factors—Risks Related to Our Financial Position and Need for Additional Capital."

	Year Ended December 31,		
	2017	2016	2015
	($'000)		
Cash Flow Data:			
Net cash used in operating activities	(8,943)	(9,569)	(9,385)
Net cash (used in)/generated from investing activities	(260,780)	(33,597)	8,855
Net cash generated from/(used in) financing activities	273,196	92,435	(5,471)
Net increase/(decrease) in cash and cash equivalents	3,473	49,269	(6,001)
Effect of exchange rate changes	2,361	(1,779)	(1,004)
Cash and cash equivalents at beginning of the year	79,431	31,941	38,946
Cash and cash equivalents at end of the year	85,265	79,431	31,941

Net Cash used in Operating Activities

Net cash used in operating activities was $9.6 million for the year ended December 31, 2016 compared to net cash used in operating activities of $8.9 million for the year ended December 31, 2017. The net change was primarily attributable to a $25.1 million increase in dividends received from our equity investees from $30.5 million for the year ended December 31, 2016 to $55.6 million for the year ended December 31, 2017 which was the result of increased revenue and funds available from land compensation paid to our equity investees in 2016. This increase was partially offset by an increase in research and development spending in our Innovation Platform as well as the effects of changes in working capital, namely an aggregate decrease of $14.5 million in the year ended December 31, 2017 primarily due to delayed payments from 2016 which were settled in 2017, as compared to an aggregate increase of $3.4 million in the year ended December 31, 2016.

Net cash used in operating activities was $9.4 million for the year ended December 31, 2015 compared to net cash used in operating activities of $9.6 million for the year ended December 31, 2016. The net change was primarily attributable to a $24.1 million increase in dividends received from our equity investees from $6.4 million for the year ended December 31, 2015 to $30.5 million for the year ended December 31, 2016 resulting from increased revenue and gain from land compensation paid to our equity investees and the effects of changes in working capital due to an increase of $19.0 million in accounts payable and other payables, accruals and advance receipts due to delays in payments to suppliers in the year ended December 31, 2016, as compared to an increase of $8.3 million in the year ended December 31, 2015, offset by increases in research and development spending in our Innovation Platform.

Net Cash (used in)/generated from Investing Activities

Net cash used in investing activities was $33.6 million for the year ended December 31, 2016, compared to net cash used in investing activities of $260.8 million for the year ended December 31, 2017. This change was primarily attributable to net deposits in short-term investments of $248.8 million for the year ended December 31, 2017 compared to $24.3 million for the year ended December 31, 2016. This change was also attributable to an additional $7.0 million share capital contribution to Nutrition Science Partners in 2017 compared to $5.0 million in 2016.

Net cash generated from investing activities was $8.9 million for the year ended December 31, 2015, compared to net cash used in investing activities of $33.6 million for the year ended December 31, 2016. This change was primarily attributable to net deposits in short-term investments of $24.3 million for the year ended December 31, 2016 compared to a net withdrawal of deposits in short-term investments of

$12.2 million for the year ended December 31, 2015. This change was also attributable to an additional $5.0 million share capital contribution to Nutrition Science Partners in 2016 by us.

Net Cash generated from/(used in) Financing Activities

Net cash generated from financing activities was $92.4 million for the year ended December 31, 2016, compared to net cash generated from financing activities of $273.2 million for the year ended December 31, 2017. This change was primarily attributable to net proceeds of $292.7 million from the issuance of ordinary shares in the form of ADS upon our follow-on offering in the United States in October 2017 as compared to net proceeds of $97.3 million from the issuance of ordinary shares in the form of ADS upon our initial public offering in the United States in 2016. The change was also attributable to a net decrease in bank borrowings of $16.9 million for the year ended December 31, 2017 as compared to a net decrease of $3.1 million for the year ended December 31, 2016.

Net cash used in financing activities was $5.5 million for the year ended December 31, 2015, compared to net cash generated from financing activities of $92.4 million for the year ended December 31, 2016. This change was primarily attributable to net proceeds of $97.3 million from the issuance of ordinary shares in the form of ADS upon our initial public offering in the United States in 2016.

Loan Facilities

In November 2015, we renewed a three-year revolving loan facility with HSBC with an annual interest rate of 1.25% over the Hong Kong Inter-bank Offered Rate, or HIBOR. This facility will expire in November 2018. The credit limit of this loan is HK$234.0 million ($30.0 million). In February 2017, $2.5 million was drawn from this facility, and the amount was fully repaid in March 2017. As of December 31, 2017, there were no amounts due under this loan. The proceeds from previous drawdowns of this loan facility were used for working capital purposes prior to repayment. Interest expenses accrued and paid for this loan were approximately $295,000, $243,000 and $3,000 for the years ended December 31, 2015, 2016 and 2017, respectively.

In February 2016, our Hong Kong subsidiary, Hutchison China MediTech (HK) Limited, entered into a facility agreement with Bank of America N.A. and Deutsche Bank AG, Hong Kong Branch for the provision of unsecured credit facilities in the aggregate amount of HK$468.0 million ($60.0 million). These credit facilities included (i) a HK$156.0 million ($20.0 million) term loan facility with a term of 18 months and an annual interest rate of 1.35% over HIBOR; and (ii) a HK$312.0 million ($40.0 million) revolving loan facility with a term of 12 months and an annual interest rate of 1.30% over HIBOR. In March 2017, the term loan facility of HK$156.0 million ($20.0 million) as part of the unsecured credit facilities was fully repaid and the unsecured credit facilities were terminated.

In February 2017, our subsidiary Hutchison China MediTech (HK) Limited entered into new credit facility agreements with each of Bank of America N.A. and Deutsche Bank AG, Hong Kong Branch for the provision of unsecured credit facilities in the aggregate amount of HK$546.0 million ($70.0 million). The credit facility with Bank of America N.A. includes (i) a HK$156.0 million ($20.0 million) term loan facility and (ii) a HK$195.0 million ($25.0 million) revolving loan facility, both with a term of 18 months and an annual interest rate of 1.25% over HIBOR. The term loan was drawn from this credit facility in March 2017 and is due in August 2018. The credit facility with Deutsche Bank AG, Hong Kong Branch includes (i) a HK$78.0 million ($10.0 million) term loan facility and (ii) a HK$117.0 million ($15.0 million) revolving loan facility, both with a term of 18 months and an annual interest rate of 1.25% over HIBOR. The term loan was drawn from this credit facility in August 2017 and is due in August 2018. The two new credit facility agreements replaced the previous credit facility agreement with these two banks. As of December 31, 2017, no amounts were drawn from the revolving loan facilities and HK$156.0 million ($20.0 million) and HK$78.0 million ($10.0 million) was outstanding on the term loan facilities, respectively. These credit facilities are guaranteed by Chi-Med and include certain financial covenant requirements.

In November 2017, our subsidiary Hutchison China MediTech Finance Holdings Limited entered into a HK$210.0 million ($26.9 million) three-year term loan and HK$190.0 million ($24.4 million) 18-month revolving loan facility with Scotiabank. The new term loan facility bears an annual interest rate of 1.50% over HIBOR and the new revolving loan facility bears an annual interest rate of 1.25% over HIBOR. The new term loan and revolving loan facility will expire in November 2020 and May 2019, respectively. As of December 31, 2017, no amounts have been drawn from the term loan or the revolving loan facilities. Our previous four-year term loan with Scotiabank entered in June 2014 was fully repaid in November 2017. The previous term loan was guaranteed by Hutchison Whampoa Limited for an annual guarantee fee of 1.75%. Interest expenses accrued and paid for this loan were $0.4 million, $0.4 million and $0.3 million for the years ended December 31, 2015, 2016 and 2017, respectively. Guarantee fees accrued and paid for these loans with Scotiabank were $0.5 million, $0.5 million and $0.3 million for the years ended December 31, 2015, 2016 and 2017, respectively.

In addition, our non-consolidated joint ventures Shanghai Hutchison Pharmaceuticals, Hutchison Baiyunshan and Nutrition Science partners had no bank borrowings outstanding as of December 31, 2017.

Capital Expenditures

We had capital expenditures of $3.3 million, $4.3 million and $5.0 million for the years ended December 31, 2015, 2016 and 2017, respectively. Our capital expenditures during these periods were primarily used for the purchases of property, plant and equipment to expand the Hutchison MediPharma research facilities and the new manufacturing facility in Suzhou, China, which produces Phase III clinical supplies and will be used to produce fruquintinib and other drug candidates. Our capital expenditures have been primarily funded by cash flows from operations and financing from bank borrowings.

As of December 31, 2017, we had commitments for capital expenditures of approximately $0.2 million, primarily for purchases of property, plant and equipment to expand the Hutchison MediPharma research facilities and the new Suzhou manufacturing facility. We expect to fund these capital expenditures through cash flows from operations and financing from bank borrowings.

Our non-consolidated joint venture Shanghai Hutchison Pharmaceuticals had capital expenditures (net of government subsidies) of $42.1 million, $11.0 million and $6.2 million for the years ended December 31, 2015, 2016 and 2017, respectively. These capital expenditures were primarily related to the construction of the new production facilities in Feng Pu district in Shanghai. These capital expenditures were primarily funded through cash flows from operations of Shanghai Hutchison Pharmaceuticals and bank borrowings.

Our non-consolidated joint venture Hutchison Baiyunshan had capital expenditures of $21.7 million, $13.2 million and $7.2 million for the years ended December 31, 2015, 2016 and 2017, respectively. These capital expenditures were primarily related to the acquisition of leasehold land in Guangzhou and Bozhou as well as the construction of the new production facilities in Bozhou and an office building in Guangzhou. These capital expenditures were primarily funded through cash flows from operations of Hutchison Baiyunshan.

C. Research and Development, Patents and Licenses, etc.

Full details of our research and development activities and expenditures are given in the "Business" and "Operating and Financial Review and Prospects" sections of this annual report above.

D. Trend Information.

Other than as described elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material adverse effect on our revenue, income from continuing operations, profitability, liquidity or capital resources, or that would cause our reported financial information not necessarily to be indicative of future operation results or financial condition.

E. Off-balance Sheet Arrangements.

Other than some of the operating lease obligations set forth in the table above, we did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements as defined under the rules of the SEC.

F. Tabular Disclosure of Contractual Obligations.

The following table sets forth our contractual obligations as of December 31, 2017. Our purchase obligations relate to property, plant and equipment that are contracted for but not yet paid. Our operating lease obligations primarily comprise future aggregate minimum lease payments in respect of various factories and offices under non-cancellable operating lease agreements.

	Payment Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			($'000)		
Bank borrowings	30,000	30,000	—	—	—
Loan from a non-controlling shareholder of a subsidiary	1,550	1,550	—	—	—
Interest on bank borrowings	480	480	—	—	—
Interest on loan from a non-controlling shareholder of a subsidiary	55	55	—	—	—
Purchase obligations	161	161	—	—	—
Operating lease obligations	8,860	3,330	5,007	506	17
Total	41,106	35,576	5,007	506	17

Shanghai Hutchison Pharmaceuticals

The following table sets forth the contractual obligations of our non-consolidated joint venture Shanghai Hutchison Pharmaceuticals as of December 31, 2017. Shanghai Hutchison Pharmaceuticals' operating lease obligations primarily comprise future aggregate minimum lease payments in respect of various factories and offices under non-cancellable operating lease agreements.

	Payment Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			($'000)		
Purchase obligations	574	574	—	—	—
Operating lease obligations	314	283	31	—	—
Total	888	857	31	—	—

Hutchison Baiyunshan

The following table sets forth the contractual obligations of our non-consolidated joint venture Hutchison Baiyunshan as of December 31, 2017. Hutchison Baiyunshan's purchase obligations comprise capital commitments for property, plant and equipment contracted for but not yet paid, which mainly relate to the construction in progress of the new production facilities at Bozhou in Anhui province. Hutchison Baiyunshan's finance and operating lease obligations primarily comprise future aggregate minimum lease payments in respect of various factories, warehouses and equipment under non-cancellable lease agreements.

	Payment Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			($'000)		
Purchase obligations	460	460	—	—	—
Finance lease obligations	543	125	250	168	—
Operating lease obligations	1,707	999	520	188	—
Total	2,710	1,584	770	356	—

Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Risk

Substantially all of our revenue and expenses are denominated in renminbi, and our financial statements are presented in U.S. dollars. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk. Although, in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the exchange rate between the U.S. dollar and the renminbi because the value of our business is effectively denominated in renminbi, while the ADSs will be traded in U.S. dollars.

The value of the renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the renminbi to the U.S. dollar. Under the revised policy, the renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in a more than 20% appreciation of the renminbi against the U.S. dollar in the following three years. Between July 2008 and June 2010, this appreciation halted, and the exchange rate between the renminbi and U.S. dollar remained within a narrow band. In June 2010, the PBOC announced that the PRC government would increase the flexibility of the exchange rate, and thereafter allowed the renminbi to appreciate slowly against the U.S. dollar within the narrow band fixed by the PBOC. However, more recently, the PBOC has significantly devalued the renminbi against the U.S. dollar. If we decide to convert renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the renminbi would have a negative effect on the U.S. dollar amounts available to us.

Credit Risk

Substantially all of our bank deposits are in major financial institutions, which we believe are of high credit quality. We limit the amount of credit exposure to any financial institution. We make periodic assessments of the recoverability of trade and other receivables and amounts due from related parties. Our historical experience in collection of receivables falls within the recorded allowances, and we believe that we have made adequate provision for uncollectible receivables.

Interest Rate Risk

We have no significant interest-bearing assets except for bank deposits. Our exposure to changes in interest rates is mainly attributable to our bank borrowings, which bear interest at floating interest rates and expose us to cash flow interest rate risk. We have not used any interest rate swaps to hedge our exposure to interest rate risk. We have performed sensitivity analysis for the effects on our results for the year from changes in interest rates on floating rate borrowings. The sensitivity to interest rates used is based on the market forecasts available at the end of the reporting period and under the economic environments in which we operate, with other variables held constant. According to the analysis, the impact on our net loss of a 1.0% interest rate shift would be a maximum increase/decrease of $0.4 million for the year ended December 31, 2017.

Inflation

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the Consumer Price Index in China increased by 1.4%, 2.0% and 1.8% in 2015, 2016 and 2017, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 2014-09, to clarify the principles of recognizing revenue and create common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. An entity has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. ASU 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, and early adoption is permitted but not earlier than the original effective date of December 15, 2016. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates, judgments and additional disclosures.

We adopted the new standard using the modified retrospective method on January 1, 2018 and have assessed the impact on revenue from customers. Our revenue from contracts with customers comprises of research and development projects in our Innovation Platform and sales of goods and services in our Commercial Platform operating segments. We expect the changes from applying the new guidance will primarily impact the Innovation Platform.

Innovation Platform—We have reviewed our research and development contracts and identified two contracts related to our license and collaboration arrangements that will be impacted by the application of ASU 2014-09. The license and collaboration arrangements contain multiple performance obligations: (1) the license to the drug compound; and (2) the research and development services for each specified treatment indication. The transaction price includes fixed and variable consideration in the form of upfront payment, research and development costs reimbursements, contingent milestone payments and sales-based royalties. The allocation of the transaction price to each performance obligation is based on the relative standalone selling price of each performance obligation. We have determined that control of the license to the drug compound was transferred as of the inception date of the collaboration agreements and consequently, amounts allocated to this performance obligation are recognized at a point in time. Conversely, control of the research and development services for each specified indication is transferred over time and amounts allocated to these performance obligations are recognized over time using cost inputs as a measure of progress. In addition, royalty revenues will be recognized as future sales occur as they meet the requirements for the sales-usage based royalty exception. We expect US$1.1 million deferral of revenue as a cumulative adjustment to opening accumulated loss upon adoption.

Commercial Platform—For sales of goods and services, we have applied a portfolio approach to aggregate contracts into portfolios whose performance obligations do not differ materially from each other. In our assessment of each portfolio, we have assessed the contracts under the new five-step model and do not expect a significant impact to the timing or amount of revenue recognition under the new guidance. Control of the goods passes to the customer when the goods are delivered, which matches the timing of revenue recognition under the our existing accounting policy.

We have applied updates to the new guidance in our assessment including ASU 2016-08, Principal versus Agent Considerations, ASU 2016-10, Identifying Performance Obligations and Licensing.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), or ASU 2016-02. The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018. We expect to adopt the new standard using the modified retrospective method on January 1, 2019 with a retrospective adjustment to comparable periods presented starting from January 1, 2017. We are currently determining the potential impact ASU 2016-02 will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, or ASU 2017-01, which revises the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. To be a business without outputs, there will now need to be an organized workforce. ASU 2017-01 is effective for fiscal years and interim periods within those years beginning after December 15, 2018. We currently do not expect ASU 2017-01 to have a material impact on our consolidated financial statements, but will apply the guidance upon adoption to business acquisitions, disposals and segment changes, if any.

In May 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting (Topic 718), or ASU 2017-09, which provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under share-based payment accounting. The guidance clarifies that no new measurement date will be required if there is no change to the fair value, vesting conditions, and classification, and in effect simplifies the accounting for non-substantive changes to share-based payment awards. ASU 2017-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2017. We shall apply the guidance upon adoption to share-based payment modifications, if any.

Other amendments that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.