



# 上海昊海生物科技股份有限公司

## Shanghai Haohai Biological Technology Co.,Ltd.

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code : 6826



Interim Report

# 2016

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# CORPORATE INFORMATION

## THIRD SESSION OF THE BOARD OF DIRECTORS

### Executive Directors:

Dr. Hou Yongtai (*Chairman*)

Mr. Wu Jianying (*General Manager*)

Mr. Huang Ming (*Secretary of the Board*)

Ms. Chen Yiyi

### Non-executive Directors:

Ms. You Jie

Mr. Gan Renbao

### Independent Non-executive Directors:

Mr. Chen Huabin

Mr. Shen Hongbo

Mr. Li Yuanxu

Mr. Zhu Qin

Mr. Wong Kwan Kit

## THIRD SESSION OF THE SUPERVISOR COMMITTEE

### SUPERVISORS

Mr. Liu Yuanzhong

Ms. Yang Qing

Mr. Tang Yuejun

Mr. Wei Changzheng

Mr. Yang Linfeng

### AUTHORIZED REPRESENTATIVES

Mr. Huang Ming

Mr. Chiu Ming King

### JOINT COMPANY SECRETARIES

Mr. Huang Ming

Mr. Chiu Ming King (*a fellow member  
of the Hong Kong Institute of Chartered  
Secretaries*)

### COMPLIANCE ADVISER

Guotai Junan Capital Limited

27th Floor, Low Block

Grand Millennium Plaza

181 Queen's Road Central

Hong Kong

## AUDIT COMMITTEE

Mr. Shen Hongbo (*Chairman*)

Ms. You Jie

Mr. Chen Huabin

Mr. Li Yuanxu

Mr. Zhu Qin

## REMUNERATION COMMITTEE

Mr. Zhu Qin (*Chairman*)

Mr. Wu Jianying

Mr. Huang Ming

Mr. Shen Hongbo

Mr. Li Yuanxu

## NOMINATION COMMITTEE

Mr. Li Yuanxu (*Chairman*)

Dr. Hou Yongtai

Ms. You Jie

Mr. Chen Huabin

Mr. Zhu Qin

## STRATEGY COMMITTEE

Ms. You Jie (*Chairlady*)

Dr. Hou Yongtai

Mr. Wu Jianying

Mr. Huang Ming

Mr. Li Yuanxu

## LEGAL ADVISERS

O'Melveny & Myers

31st Floor, AIA Central

1 Connaught Road Central

Hong Kong

## AUDITOR

Ernst & Young

*Certified Public Accountants*

22nd Floor, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

4/F, Block 2, Alley 139  
Anshun Road, Changning District  
Shanghai, China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F,  
Lee Garden One,  
33 Hysan Avenue  
Causeway Bay, Hong Kong

## H SHARE REGISTRAR

Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wan Chai, Hong Kong

## INFORMATION OF H SHARES

Place of listing: The Main Board of The Stock  
Exchange of Hong Kong Limited

Stock code: 6826

Number of

H shares issued: 40,045,300 H shares

Nominal value: RMB1.00 per H share

Stock short name: HAOHAI BIOTEC

## REGISTERED OFFICE

No. 5 Dongjing Road  
Songjiang Industrial Zone  
Shanghai, China

## PRINCIPAL BANKERS

Industrial and Commercial Bank of  
China Ltd.  
(Xinhua Road Sub-branch, Shanghai)  
No. 506 Xinhua Road  
Changning District  
Shanghai, China

Bank of Shanghai, Co., Ltd  
(Changning Branch, Shanghai)  
No. 320 Xianxia Road  
Changning District  
Shanghai, China

## INVESTOR ENQUIRIES

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The Directors for the Third Session of the Board and the Supervisors for the Third Session of the Supervisory Committee were appointed at the 2015 annual general meeting held on 3 June 2016.

## INTERIM RESULTS HIGHLIGHTS

- The unaudited revenue was approximately RMB372,936,000, representing an increase of approximately 19.1% as compared to the corresponding period in 2015.
- The unaudited profit attributable to equity holders of the Company (exclusive of exchange gains) was approximately RMB151,468,000, representing an increase of approximately 25.1% as compared to the corresponding period in 2015.
- The Group continues to maintain its leading position in the industry: the Group's domestic market shares of intra-articular viscosupplement, anti-adhesion products and ophthalmic viscoelastic devices products further increased to 34.0%, 50.2% and 41.8% respectively in 2015, all ranking first in the market; whilst the market share of rhEGF products for external use continued to increase and reached 16.2%, consolidating its second place in the market and trailing closely behind the leading product.
- The Group successfully obtained the CFDA product license for the new high concentration OVD product in May 2016, which is expected to be launched within 2016.
- The Board does not recommend the distribution of an interim dividend for the six-month period ended 30 June 2016.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND PROSPECT

In 2016, the reforms of the pharmaceutical and medical system in the PRC has continued from the trend in 2015. Various reform policies on controlling total medical expenditures have been successively introduced through encouraging pharmaceutical tenders and retail price reduction in various provinces and cities. Therefore, pharmaceutical companies faced different challenges in their production and sales activities in Mainland China. During the Reporting Period, the Group actively responded to the reforms of the pharmaceutical and medical system called for in the PRC. In order to better adapt to the fast-changing tender policy and the highly competitive market environment, the Group actively adjusted the selling prices of some products. In addition to the price reduction or discounts, the Group focused on its core business of absorbable biomedical materials and enhancing budget and operation and management through refined marketing management to improve operating efficiency. The Group also focused to optimize its product portfolio and facilitate service upgrade, which has enabled the continuous growth in sale quantities of various series of products to secure steady growth of the Group's principal business.

During the Reporting Period, the Group recorded a turnover of approximately RMB372.94 million, representing an increase of RMB59.83 million or approximately 19.1% as compared to approximately RMB313.11 million for the corresponding period in 2015. The Group's revenue by the therapeutic areas is as follows (by amount and as a percentage of the total revenue of the Group):

	January to June 2016		January to June 2015		Increase or decrease %
	RMB'000 (unaudited)	%	RMB'000 (unaudited)	%	
Orthopedics products	135,075	36.2%	141,898	45.3%	-4.8%
Medical aesthetics and wound care products	96,003	25.8%	46,275	14.8%	107.5%
Ophthalmology products	38,367	10.3%	36,673	11.7%	4.6%
Anti-adhesion and hemostasis products	100,402	26.9%	88,265	28.2%	13.8%
Other products	3,089	0.8%	—	—	100%
	<u>372,936</u>	<u>100.0%</u>	<u>313,111</u>	<u>100.0%</u>	<u>19.1%</u>

During the Reporting Period, the profit attributable to the equity holders of the Group amounted to approximately RMB151.52 million. After excluding the amount of the exchange gains recognized (mainly the exchange gains in relation to proceeds from initial public offering), the profit attributable to the equity holders of the Group amounted to approximately RMB151.47 million, representing an increase of RMB30.36 million or 25.1% as compared to RMB121.11 million for the corresponding period in 2015. The basic earnings per share were RMB0.95 (the corresponding period in 2015: RMB1.06).

## MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the increase in revenue and cost of the Group was mainly driven by the growth of sales. While the sales volume of the recurring core products continued to grow steadily, the best-selling products newly launched in the past two years, including the medical cross-linked sodium hyaluronate gel “Matrifill” and the medical chitosan used for intra-articular viscosupplement (骨關節腔注射) “Chitogel”, have won extensive recognition for their quality and clinical efficacy. With the consistent reputations, these products rapidly gained their respective market shares and have become a new important growth driver to the Group’s revenue.

On the contrary, the overall gross profit margin of the Group decreased slightly from 85.1% for the corresponding period in 2015 to 83.3% for the Reporting Period, primarily attributable to the fact that the Group proactively adjusted the selling prices of certain products in order to better adapt to the fast-changing tender policy and the highly competitive market environment, which resulted in a slight decrease in gross profit margin.

### Orthopedics Products

The Group currently manufactures and sells two products used for intra-articular viscosupplement, one is made of medical sodium hyaluronate and the other is of medical chitosan. Intra-articular viscosupplementation has been proven to be a safe and effective treatment for degenerative osteoarthritis.

During the Reporting Period, the revenue from orthopedics products by specific products is as follows (by amount and as a percentage of the total revenue of the Group):

	January to June 2016		January to June 2015	
	RMB' 000 (unaudited)	%	RMB' 000 (unaudited)	%
Sodium hyaluronate injection	98,008	26.3%	114,932	36.7%
Chitogel	37,067	9.9%	26,966	8.6%
	<u>135,075</u>	<u>36.2%</u>	<u>141,898</u>	<u>45.3%</u>

According to the research reports of China Food and Drug Administration Southern Medicine Economic Research Institute and Guangzhou Biaodian Medicine Information Co., Ltd.\* (廣州標點醫藥信息股份有限公司), we were the largest manufacturer of intra-articular viscosupplement products in China in 2015 for the second consecutive year whereas our market share increased to 34.0% in 2015 from 31.7% in 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Sodium hyaluronate injection*

During the Reporting Period, the Group's revenue from the sales of sodium hyaluronate injection product was approximately RMB98.01 million, representing a decrease of RMB16.92 million or approximately 14.7% from RMB114.93 million for the corresponding period in 2015.

In February 2015, the State Council promulgated the Guiding Opinions of the General Office of the State Council on Enhancing Centralised Procurement of Pharmaceutical Products by Public Hospitals 《國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見》 (“Circular No. 7”). In order to further facilitate the implementation of Circular No. 7, the National Health and Family Planning Commission thereafter issued the Circular on Implementation of the Guiding Opinions on Enhancing Centralised Procurement of Pharmaceutical Products by Public Hospitals 《關於落實完善公立醫院藥品集中採購工作指導意見的通知》 (Circular No. 70), whereby the provincial and local governments introduced local policies one after another according to the rationale of the central government. Under the further downward pressure on drug procurement price and the full implementation of control measures on medical and insurance, the profit of pharmaceutical industry was compressed. As at the date of this report, pharmaceutical tenders were still in progress among most of the provinces, which, from an objective perspective, hampered drug distributors' willingness to purchase. During the Reporting Period, in response to the changes in national policies, the Group proactively adjusted the selling prices in certain regions with an aim to ensure that the sodium hyaluronate injection product expands its market coverage throughout China and the price system remains relatively stable in general. Although the sales revenue from this product decreased in the first half of 2016, as a significantly efficacious product extensively used in the world, comparatively, the sodium hyaluronate injection product still has an extremely low penetration rate in the Chinese market. We believe that, with the increasing popularity and acceptance among patient groups in China, the sodium hyaluronate injection product has a future sales growth potential which cannot be overlooked. During the Reporting Period, the sodium hyaluronate injection product remained the largest contributor to the Group's revenue.

## *Chitogel*

The Group's revenue from the sales of Chitogel was approximately RMB37.07 million for the Reporting Period, representing an increase of RMB10.10 million or 37.5% from approximately RMB26.97 million for the corresponding period in 2015.

Chitogel, which is used for intra-articular viscosupplement, is the Group's exclusive product and is the only Class III medical device which has obtained the registration certificate in the PRC. It can be used for treating degenerative osteoarthritis; help minimizing joint pains; and improve joint mobility. Medical chitosan has effective antimicrobial and hemostatic functions, a longer in vivo retention time and long-lasting therapeutic effect. The Group's medical chitosan product is characterized by the Group's exclusive water-soluble technology which significantly reduces the rate of allergy and thus fundamentally tackling the safety concerns in relation to the internal use of the product.

In the second quarter of 2014, the Group officially launched Chitogel. The management has established a professional marketing team for the product. After two years of market development and professional promotion, its stable quality and significant efficacy are now increasingly recognized by more and more doctors and patients. During the Reporting Period, Chitogel strengthened its foothold in Beijing and Shanghai and was successfully promoted and marketed to other provinces including Guangdong, Liaoning, Shandong, Jiangsu, Hubei and Heilongjiang.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Medical aesthetics and wound care products

The Group currently manufactures and sells two products used for medical aesthetics and wound care, including Matrifill and the recombinant human epidermal growth factor (“rhEGF” or “Healin”) product with wound care effect. Matrifill can correct moderate to severe facial wrinkles and folds. rhEGH product can safely and substantially expedite the repair of skin wounds on epidermis and mucosa. It is applicable for various acute or chronic wounds, and can be used for epidermis wound repair and care subsequent to laser cosmetology surgery.

During the Reporting Period, the revenue from the sales of medical aesthetics and wound care products by specific products is as follows (by amount and as a percentage of the total revenue of the Group):

	January to June 2016		January to June 2015	
	RMB' 000 (unaudited)	%	RMB' 000 (unaudited)	%
Matrifill	80,010	21.5%	32,174	10.3%
Healin	15,993	4.3%	14,101	4.5%
	<u>96,003</u>	<u>25.8%</u>	<u>46,275</u>	<u>14.8%</u>

During the Reporting Period, the Group’s revenue from the sales of medical aesthetics and wound care products was RMB96.00 million, representing an increase of RMB49.72 million or 107.4% as compared to RMB46.28 million for the corresponding period in 2015.

### *Matrifill*

Matrifill, an innovative product launched in the market by the Group in 2014, is the first monoface cross-linked sodium hyaluronate gel for injection approved by the China Food and Drug Administration (the “CFDA”). It can, through injection into dermis layer, fill facial defect and folded portion to achieve wrinkle removal and facial shaping. This is a product successfully developed by the Group after years of research and development, and which is confirmed to have a good shaping effect and excellent performance in duration by a large-sample randomized (more than 550 cases) controlled clinical trial.

The medical beauty market in the PRC is experiencing rapid growth. Along with the growth of social wealth, a new consumption pattern evolves. Under the strong demand in the profit-driven market, the speed of upgrade of medical beauty products and related technology is accelerating. Not only do these new products and technology fulfill consumer demand, but they also attract more consumers along with the increasing sufficient supply, improving clinical efficacy and transition of consumption concept of the new generation. Meanwhile, attracted by the relatively high profit margin from medical beauty products, increasingly more competitors attempted to enter the market and share the growth of the industry. In 2016, more cross-linked sodium hyaluronate gel products were launched to the market. As of 30 June 2016, 13 products of the Group were approved by the CFDA (as of 31 December 2015: 10 products were approved). However, due to many inconsistent practices in the medical beauty industry, the government regulation is getting more stringent to enhance industry compliance. As such, the industry will undergo a market selection process under the principle of “survival of the fittest”. This could be a challenge to the industry peers with higher demand in terms of strength in research and development, technology innovation, product quality control and marketing innovation.

## MANAGEMENT DISCUSSION AND ANALYSIS

Leveraging on its highly competitive research and development in biomedical materials, manufacturing and marketing platforms and technology in the production and quality control of sodium hyaluronate products, the Group fostered the market recognition of domestic high-end Matrifiill products with a professional approach.

In addition, the Group established an independent professional marketing team for the Matrifiill products. With the integrated mode of direct sales to hospitals and marketing through distributors, the Group achieved penetration into core regions and model hospitals as well as rapid expansion of sales channels and extensive coverage in target markets. The management of the Group believes that the traditional and single marketing approach will no longer satisfy the increasingly personalized demands of medical and aesthetic consumer groups. Therefore, the marketing team of the Group strived to enhance the consumer experience through multi-dimensional services for medical institutions, practitioners and consumers; build brand attributes and dominate the life-style of consumer groups so as to improve the product adhesiveness and life span.

During the first half of 2016, Matrifiill stood out from the fierce competition with further enhanced market coverage and brand recognition. During the Reporting Period, the sales revenue of Matrifiill products increased to approximately RMB80.01 million, representing an increase of 148.7% from approximately RMB32.17 million for the corresponding period in 2015, which approximated the revenue of RMB87.26 million for the year of 2015.

As of the date of this report, the clinical trial of the Group's self-developed second generation of cross-linked sodium hyaluronate gel was completed and the registration for medical device with CFDA is underway. In terms of product characteristics and efficacy, this product will have differentiated positioning from the Matrifiill product, which has been launched to market. Moreover, the clinical trial of the third generation of cross-linked sodium hyaluronate gel ("QST gel") of the Group has been started as well. The Group can accordingly sustain its leading market position in terms of research and development, production and sales, and will achieve the combined effects of serialization and differentiation for products in the medical aesthetic and wound care sector, so as to satisfy market needs which are being increasingly segmental and diversified.

The Group will leverage on the increasingly intensive merger and acquisition and integration in the industry, continuous innovation in research and development, stable product quality, sound clinical efficacy and effective market management to build a professional leading domestic brand in the area of non-invasive medical aesthetic in the PRC.

### *Healin*

The Group also manufacture innovative biological drugs which utilize genetic engineering technology and are used for wound care. The Group's Healin-branded rhEGF products is the only product in China that has the same amino acid structure as the epidermal growth factors in human bodies, and is the first registered rhEGF product in the world. It was approved as Class I new drug by the CFDA in 2001 and was awarded the Second Prize of National Science and Technology Progress Award in 2002. The Group's exclusive patented technology is adopted in the production of Healin products, which is relatively more active biologically with significant efficacy in the treatment of wound care. The sales volume of Healin products in the recent years showed a constantly increasing trend with outstanding market performance.

# MANAGEMENT DISCUSSION AND ANALYSIS

According to the research reports of China Food and Drug Administration Southern Medicine Economic Research Institute and Guangzhou Biaodian Medical Information Co., Ltd., the Group strengthened its market position as the second largest manufacturer of rhEGF products in China in 2015 whereas the market share of Healin products continued to increase from 15.3% in 2014 to 16.2% in 2015, narrowing down the difference with the market leading product.

## Ophthalmology Products

The Group currently manufactures and sells four ophthalmology products, including three ophthalmic viscoelastic devices, commonly known as “OVD” products, and one lubricant eye drops product. OVD products are the necessary devices for cataract surgery and can be used for other ophthalmic operations.

During the Reporting Period, the revenue from the sales of ophthalmology products by specific products is as follows (by amount and as a percentage of the total revenue of the Group):

	January to June 2016		January to June 2015	
	RMB' 000 (Unaudited)	%	RMB' 000 (Unaudited)	%
Ophthalmic viscoelastic device	37,192	10.0%	35,463	11.3%
Lubricant eye drops	1,175	0.3%	1,210	0.4%
	<u>38,367</u>	<u>10.3%</u>	<u>36,673</u>	<u>11.7%</u>

During the Reporting Period, the Group's revenue from the sales of ophthalmology products was RMB38.37 million, representing an increase of approximately 4.6% or RMB1.70 million from RMB36.67 million for the corresponding period in 2015.

Among the main brands of OVD products in the PRC, the Group's products have significant advantages such as advanced technology, high quality, high price-performance ratio and diversified specifications and densities. According to the research reports of China Food and Drug Administration Southern Medicine Economic Research Institute and Guangzhou Biaodian Medical Information Co., Ltd., the market share of the Group's OVD products was 41.8% in 2015, making the Group the largest OVD product manufacturer in the PRC for the past nine consecutive years.

During the Reporting Period, the Group successfully obtained the CFDA product license for the new high concentration OVD product, which is expected to be launched within 2016. The launch of the new high concentration OVD product will enhance the ophthalmology products of the Group; further extend the comparative advantage against the imported overseas brands of the same type of products and increase the market share of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Anti-Adhesion and Hemostasis Products

The Group currently manufactures and sells five post-operative anti-adhesion and hemostasis products, including medical hyaluronate-based and medical chitosan-based anti-adhesion products, as well as medical collagen sponge for hemostasis and tissue filling. These products are widely used in various surgeries to enable quick hemostasis, shorten the operation time and prevent a wide range of tissue and organ adhesion resulting from trauma and injuries in surgical operations.

During the Reporting Period, the revenue from the sales of anti-adhesion and hemostasis products by specific products is as follows (by amount and as a percentage of the total revenue of the Group):

	January to June 2016		January to June 2015	
	RMB' 000 (unaudited)	%	RMB' 000 (unaudited)	%
Medical chitosan	57,543	15.4%	56,434	18.0%
Medical sodium hyaluronate gel	34,041	9.1%	26,800	8.6%
Medical collagen sponge	8,818	2.4%	5,031	1.6%
	<u>100,402</u>	<u>26.9%</u>	<u>88,265</u>	<u>28.2%</u>

During the Reporting Period, the Group's revenue from the sales of anti-adhesion and hemostasis products was RMB100.40 million, representing an increase of RMB12.13 million or approximately 13.7% as compared to RMB88.27 million for the corresponding period in 2015.

According to the research reports of China Food and Drug Administration Southern Medicine Economic Research Institute and Guangzhou Biaodian Medical Information Co., Ltd., the market share of the anti-adhesion products further increased from 48.0% in 2014 to 50.2% in 2015, making the Group the largest anti-adhesion product manufacturer in the PRC for the past nine consecutive years.

In June 2015, the Society of Gynecology and Obstetrics of the Chinese Medical Association (中華醫學會婦產科學分會, the "Society") published the "Consensus of Chinese Experts on the Prevention of Abdominal Adhesions after Gynecologic Surgery (2015)" (預防婦產科手術後盆腹腔黏連的中國專家共識(2015)), which clearly indicated the risks of post-operative adhesions and the necessity of preventing adhesions. The Society thereafter adopted anti-adhesion materials based on the recommendation suggested by evidence-based medicine. In July 2016, a panel consisting 13 gynecologic experts jointly published the "Consensus of Chinese Experts on the Prevention of Caesarian Section Adhesions (2016)" (預防剖宮產黏連的中國專家共識(2016)) (the "Consensus") in Chinese Journal of Practical Gynecology and Obstetrics in connection with the current situation of caesarian section in China. The Consensus indicated that caesarian section adhesions may lead to various complications such as pain, infertility and obstipation. In order to prevent and reduce caesarian section adhesions, pregnant women with high risks of adhesion are recommended to use anti-adhesion materials, among which medical sodium hyaluronate gel and the Group's exclusively-owned carboxyl-methylated chitosan (medical chitosan) have once again been listed as recommended materials according to the expert consensus.

## MANAGEMENT DISCUSSION AND ANALYSIS

The management believes that with the promotion by the above Consensus, such products will be increasingly emphasized by both doctors and patients. It will help implement the provincial and national cost catalog and medical insurance, and further facilitate the usage of post-operative anti-adhesion products in abdominal surgery and surgical oncology, hence radically increasing clinical usage and further promoting the growth of the sales of anti-adhesion and hemostasis products of the Group.

### Research and Development (“R&D”)

The Group owns three R&D bases which are named as Shanghai municipal R&D institutions, one national postdoctoral R&D workstation and one Shanghai municipal academician expert workstation. As of 30 June 2016, the Group’s in-house R&D team comprised 129 staff members, of which 107 were degree holders or above, 9 were doctorate degree holders and 37 were master’s degree holders. All core products of the Group were primarily developed by its in-house R&D team with the support of various colleges and universities, research institutes and sizable Grade III hospitals across the PRC.

As at 30 June 2016, the Group owns 20 product licenses and 17 product pipelines in different stages of R&D. The Group intends to lodge application for approval of production for 1 product; clinical trials for 1 product have been completed and are now at the stage of product registration; 5 products are undergoing different stages of clinical trials or type inspection; and 10 products are undergoing the stages of preclinical study or technology study.

In the short to medium term, the Group will focus on the development of dermal filler product series (the second generation of cross-linked sodium hyaluronate gel and third generation of QST gel), fibrin sealant products, second generation of thermal-sensitive chitosan products and expand specification and indication of the Group’s existing products in the market.

In the long term, the Group intends to expand its R&D capabilities to further develop the medical chitosan technology platform, which is elected and supported by the National High-Tech R&D Program (863 Program) and the Major Project of National Science and Technology under the Twelfth Five-Year Plan, as well as the electrospinning technology platform, which is elected and supported by the Major Project of National Science and Technology, to further expand the Group’s product offerings to sustained-release preparations, new compound anti-adhesion and hemostasis membrane products.

The management believes that the Group’s proven strong competence in R&D will become one of the long-standing core competitive edges of the Group and serves as a promise of the stable growth and development of our core business in the future.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Sales and Product Marketing

The Group operates the marketing model of combining distribution and direct sales, and owns extensive and effective sales network in the PRC.

As at 30 June 2016, the Group's distribution network comprised over 1,300 distributors. With such distribution network, products of the Group were sold across provinces, municipalities and autonomous regions in the PRC. In addition to the distribution network, the Group also had four professional teams, namely, specific markets, medical, commercial and sales teams who are responsible for formulating standardized marketing and sales policies, providing product training, academic promotion, clinical services, selecting and managing distributors, maintaining direct sales to certain core regions and key hospitals to ensure professional promotion and brand building of the Group's products and keeping abreast of market changes. The four teams work independently yet complementing each other, focusing the beneficial resources of the Group to assist the Group's products to expand market share rapidly and effectively.

During the Reporting Period, the Group derived revenue of approximately RMB276.11 million from the sales of its products through distributors, which accounted for 74.0% of the Group's revenue and approximately RMB96.83 million from direct sales, which accounted for 26.0% of the Group's revenue.

The management believes that the Group's broad coverage of hospitals and other medical institutions and its capabilities of identifying and monitoring distributors are serving as the major competitive strengths. Accordingly, the Group is able to acquire adequate market information for accurate positioning of newly developed products, and to effectively promote them to the target market by means of its outstanding distributors and sales network with broad coverage. As a result, this lays a solid foundation for continuously enhancing the reputation of the Group's offerings and brand, increasing the market share and increasing the sales of the products.

## OPERATING PROSPECT IN THE SECOND HALF OF 2016

Recently, the continual growth of the pharmaceutical and healthcare industry in the PRC is driven by a combination of favorable socioeconomic factors. However, following the announcement and implementation of various policies in 2015, the reform of pharmaceutical and healthcare industry system in the PRC has been started. Industry integration, change of operation and keener competition are inevitable. The management believes that the year of 2016 is marked by challenges for pharmaceutical and healthcare industry in the PRC. Meanwhile, the management believes that along with the reform for weeding out obsolete capacities, corporates in possession of economy of scales, advanced technologies, well established brand and excellent marketing will stand out in the opportunities given.

# MANAGEMENT DISCUSSION AND ANALYSIS

In the second half of 2016, other than the use of the proceeds raised effectively and identifying strategic merger and acquisition targets actively for expansionary business growth, the Group will continue to focus on the organic growth of products for the existing four major therapeutic segments by the following means:

- upgrading the intelligence and digitalizing level of manufacturing facilities to improve the quality of products and production efficiency;
- pushing forward the construction of the Group's information technology-based system comprehensively, focusing on and strengthening digital intelligence management of the good manufacturing practices (the "GMP") system, bidding and tender as well as distributors' network;
- pushing forward the upgrade of existing products, expanding investment in R&D of innovative products to fulfil market demands and promoting the clinical applications of products;
- taking a series of marketing measures to intensify market penetration of original competitive products and through a refined multi-dimensional marketing strategy, expanding the coverage of the new products on key hospitals and related areas.

## Orthopedics Products

The comparison of certain major aspects of the Group's two types of orthopedics products is as follows:

	<b>Sodium hyaluronate injection</b>	<b>Medical chitosan (Chitogel)</b>
Classification of registration	Medicine	Class III medical device
Specification	2ml · 3ml	1ml · 2ml · 3ml
Indications	Degenerative osteoarthritis of the knee	As the joint lubricant, suitable for taking precaution of traumatic or degenerative osteoarthritis.
Treatment	Once a week, 4-5 weeks as one treatment	Once in two weeks, 2-3 times as one treatment
Range of retail prices	RMB 100~200	RMB 300~700
Coverage of medical insurance	Class B product under the National Reimbursement Drug List	Mechanic medical insurance (for certain regions)

## MANAGEMENT DISCUSSION AND ANALYSIS

The management has well positioned the two types of orthopedics products of the Group. Sodium hyaluronate injection, which has a longer history, possessed the advantages of high clinical recognition and relatively broad application. In the second half of 2016, the Group will follow the national policy, proactively respond to the reform of bidding and tender. The Group will also adjust the selling price of sodium hyaluronate injection in a certain extent to benefit more patients and stabilize the broad coverage of the Group's sodium hyaluronate injection product in the market of intra-articular viscosupplement products. Meanwhile, Chitogel, the Group's exclusively-owned medical chitosan product used for intra-articular viscosupplement, is the only Class III medical device product with the registration certificate in the PRC. The product is characterized by its antimicrobial and hemostatic functions and it has the significant advantages of minimized injection dosage and long-lasting therapeutic effect because of a longer in vivo retention time.

According to the above characteristics, the management has designated differentiated clinical applications, target market and price positioning for the Chitogel-branded medical chitosan products and actively enhanced their marketing promotion and sales to secure the overall profitability of orthopedics products based on the continuous growth of sales of products with high profit margin. The management believes that, by the effective implementation of the above strategies, the synergic growth of these two types of orthopedics products can be achieved, securing the leading position of the Group in the market of intra-articular viscosupplement products in the PRC.

### Medical aesthetics and wound care products

In the second half of 2016, leveraging on its highly competitive R&D, manufacture and sales platforms in medical biological materials, the comprehensive superiority in the processing technology and quality control of medical sodium hyaluronate products, the Group continues to provide safe, effective and high-quality products for medical institutions and consumers. By introducing the new generation of cross-linked sodium hyaluronate gel, the increasingly segmental and diversified market demands can be satisfied. With regards to marketing, the Group will be proactive in expanding the coverage in medical institutions while exploring the market of its key commercial partners. The marketing team of the Group strived to enhance the consumer experience through multi-dimensional services for medical institutions, medical practitioners and consumers; building brand concepts and dominating the life-style of consumer groups so as to improve the product adhesiveness and life span.

### Ophthalmology Products

The Group focuses on the investment and industrial integration of the high-valued materials and diagnosing equipment used in ophthalmology surgery in the PRC. In the second half of 2016, leveraging on its management team's brilliant track record, resource advantages and rich experiences in identifying, acquiring and integrating strategic assets, the Group will continue to seek strategic domestic and overseas merger and acquisition targets with reasonable valuation. The Group intends to gradually enter the high value-added industry of intraocular lens product, the core consumables for cataract surgery, by acquisition and integration of desired domestic and overseas corporates with matured products, high-end technology and market resources. This will lead to the domestic industrialization of oversea matured intraocular lens production technology, re-development and enhancement of the productivity, quality and market competitiveness of domestic corporates, and finally, replacement of imported products. Meanwhile, intraocular lens products will be integrated with the Group's existing ophthalmic viscoelastic device (exclusively for cataract surgery) and Eyesucom (product of lubricant eye drops) to form an enriched ophthalmology product mix, expanding the competitive edges of the ophthalmology products of the Group.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Anti-Adhesion and Hemostasis Products

In respect of the current market pattern of anti-adhesion products, there are various types of products in the PRC market and the market concentration is relatively high. The top three manufacturers, in aggregate, represent nearly 80% of the market share. Recently, more challenges are posed during renewal of and new registrations as the government continued to raise demands for the quality of products. Products with outdated technology or unstable quality are gradually eliminated. The market barrier of the industry is further lifted for new competitors. Meanwhile, the Group continues to put more efforts in improving the specifications and packaging of the anti-adhesion and hemostasis products. Currently, the Group manages to provide the series of products with the most comprehensive and integrated specifications. The detailed designs render the products more user-friendly and more suitable for clinical needs so as to cultivate brand preference of medical practitioners. In the second half of 2016, the Group will enhance the market recognition and acceptance of products among clinical surgery by putting more efforts in professional promotion, preparing for the rapid growth of the products.

## FINANCIAL REVIEW

### Revenue, cost and gross profit margin

During the Reporting Period, the Group recorded aggregate operating revenue of approximately RMB372.94 million, representing an increase of 19.1% as compared to the corresponding period in 2015, which was primarily attributable to the increased sales volumes of the Group's major products. Following the growth in revenue, the cost of sales of the Group amounted to approximately RMB62.27 million, representing an increase of 33.0% as compared to the corresponding period in 2015.

The overall gross profit margin of the Group slightly decreased from 85.1% for the corresponding period in 2015 to 83.3% in the Reporting Period, primarily due to the fact that selling prices of certain products were adjusted by the Group to adapt to the fast changing tender policy and the highly competitive market environment, which led to a slight decrease in gross profit margin. In general, the gross profit margin of the Group was still at a relatively high level.

### Selling and Distribution Expenses

The selling and distribution expenses of the Group increased from approximately RMB97.53 million for the corresponding period in 2015 to approximately RMB 129.84 million for the Reporting Period, representing an increase of RMB32.31 million. The proportion of selling and distribution expenses to the Group's total revenue increased from 31.1% for the corresponding period in 2015 to 34.8% for the Reporting Period, which was primarily due to the increase in the marketing expenses of orthopedics products and Matrifill products.

### Administrative Expenses

The administrative expenses of the Group increased from approximately RMB21.22 million for the corresponding period in 2015 to approximately RMB25.20 million for the Reporting Period, representing an increase of RMB3.98 million, primarily due to the increase of number of administrative staff since business expansion and the increase in service fees of professional institutions. The proportion of administrative expenses to the Group's total revenue for the Reporting Period was 6.8%, remaining the same as the corresponding period in 2015.

# MANAGEMENT DISCUSSION AND ANALYSIS

## R&D Expenses

The R&D expenses of the Group increased from approximately RMB15.77 million for the corresponding period in 2015 to approximately RMB20.73 million for the Reporting Period, representing an increase of RMB4.96 million, primarily due to the increase in the number of the R&D team members and pipeline products of the Group. During the Reporting Period, the proportion of R&D expenses accounted for 5.6% (the corresponding period in 2015: 5.0%) of the total revenue of the Group. With the Group's deep product pipeline reserve and its continued investment in R&D activities, the management believes that the Group has built a solid foundation for the sustainable growth of the Group in the future.

## Income Tax Expense

The income tax expense of the Group increased from approximately RMB24.89 million for the corresponding period in 2015 to approximately RMB26.61 million for the Reporting Period, representing an increase of RMB1.72 million.

The effective rate of income tax for the Group was approximately 14.9% (the corresponding period in 2015: 15.1%) and remained stable.

## Interim Results

During the Reporting Period, the profit attributable to the equity holders of the Group amounted to approximately RMB151.52 million; excluding the amount of foreign exchange gains (mainly the exchange gains in relation to proceeds from initial public offering), the profit attributable to the equity holders of the Group amounted to approximately RMB151.47 million, representing an increase of RMB30.36 million or approximately 25.1% as compared to approximately RMB121.11 million for the corresponding period in 2015. The basic earnings per share were RMB0.95 (the corresponding period in 2015: RMB1.06). A steady growth has been realized during the Reporting Period, primarily attributable to the growth of revenue and the enhanced profitability of the Group.

## Liquidity and Capital Resources

As at 30 June 2016, the total current assets of the Group was approximately RMB2,419.95 million, representing an increase of RMB47.89 million as compared to the balance as at 31 December 2015, and the total current liabilities was approximately RMB184.80 million, representing an increase of RMB43.80 million as compared to the balance as at 31 December 2015. As at 30 June 2016, the Group's current assets to liabilities ratio was approximately 13.10 as compared to 16.82 as at 31 December 2015, the decrease in current assets to liabilities ratio was primarily attributable to the fact that during the Reporting Period, the Company provided dividend payables of approximately RMB64.02 million pursuant to the distribution of 2015 cash dividend of RMB0.40 per share approved at the 2015 annual general meeting held on 3 June 2016. The above dividend was not paid as at 30 June 2016.

During the Reporting Period, the net cash inflow from operating activities of the Group was approximately RMB97.29 million, representing a decrease of RMB33.63 million as compared to approximately RMB130.92 million for the corresponding period in 2015. The net cash outflow from the investment activities of the Group was approximately RMB454.16 million for the Reporting Period, representing a decrease of RMB1,066.50 million as compared to RMB1,520.66 million for the corresponding period in 2015, which was primarily due to the fact that the Group tentatively applied the proceeds as short-term investments during the corresponding period in 2015.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Capital Structure

There has been no change in the capital structure of the Company since 31 December 2015. The capital structure of the Company comprises cash and bank balances as well as equity attributable to ordinary equity holders of the parent (including share capital and reserves).

## Capital Expenditures

Our capital expenditures comprised expenditures on property, plant and equipment, other intangible assets and prepaid land lease payments. During the six months ended 30 June 2016, the Company's total capital expenditures were approximately RMB35.59 million.

## Employees and remuneration policy

As of 30 June 2016, the Group had 593 employees. The total number of employees by function is as follows:

Production	227
R&D	129
Sales and Marketing	156
Supply	11
Administration	70
	<hr/>
	593
	<hr/> <hr/>

The Group's remuneration policy for its employees is based on their working experience, daily performance, sales performance of the Group and external market competition. The Group provided various and thematic training programs for its employees regularly, such as training in relation to the knowledge of the product and sales of the Group, the applicable laws and regulations for operations, the requirements of GMP certificate, quality control, workplace safety and corporate culture. During the Reporting Period, the remuneration policy and training programs had no material changes and the total remuneration of the Group's employees amounted to approximately RMB42.26 million (the corresponding period in 2015: RMB34.25 million). The management will continue to combine the human resources management and enterprise strategies to recruit professionals according to the changes of the internal and external conditions so as to realize the Group's strategic goal through its strong and reasonable human resources structure.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Treasury Policies

The Group adopts centralized financing and treasury policies designed to strengthen the control on bank deposits and to ensure the security and efficient use of the Group's capital. Surplus cash of the Group is generally placed in short term deposits denominated in HKD and RMB. It is the Group's policy to enter into principal guaranteed and conservative deposits transactions only and the Group is restricted from investing in high-risk financial products.

## Asset Pledge

As at 30 June 2016, the Group did not have any asset pledge.

## Gearing Ratio

As at 30 June 2016, the total liabilities of the Group amounted to approximately RMB198.76 million and the debt to assets ratio ((Total Liabilities/Total Assets) x 100%) was 6.8% as compared to 5.6% as at 31 December 2015. The slight increase as compared to 31 December 2015 was primarily attributed to the increase in current liabilities resulted from the unpaid dividend payables of approximately RMB64.02 million as at 30 June 2016.

## Bank borrowing

During the Reporting Period and as at 30 June 2016, the Group did not have any bank borrowing.

## Material Acquisitions and Disposals of Subsidiaries and Associates

During the Reporting Period, the Group did not have any material acquisitions and disposals related to subsidiaries and affiliated companies.

## Foreign Exchange Fluctuation Risk

The sales, costs and expenses of the Group were principally and mostly denominated in RMB. Despite the fact that the Group might be exposed to foreign exchange risk, the Board expects that exchange rate fluctuation of the foreign currencies held by the Group will not have any material adverse impact on the Group. During the Reporting Period and as at 30 June 2016, the Group did not enter into any hedging transactions.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Notes	For the six-month period ended 30 June	
		2016 RMB' 000 (unaudited)	2015 RMB' 000 (unaudited)
<b>REVENUE</b>	4	372,936	313,111
Cost of sales		(62,266)	(46,812)
Gross profit		310,670	266,299
Other income and gains	4	46,459	34,973
Selling and distribution expenses		(129,838)	(97,530)
Administrative expenses		(25,204)	(21,217)
Research and development expenses		(20,726)	(15,773)
Other expenses		(3,501)	(1,420)
Share of profits and losses of:			
An associates		190	—
<b>PROFIT BEFORE TAX</b>		178,050	165,332
Income tax expense	5	(26,607)	(24,890)
<b>PROFIT FOR THE PERIOD</b>		151,443	140,442
Attributable to:			
Ordinary equity holders of the parent		151,523	140,890
Non-controlling interests		(80)	(448)
		151,443	140,442
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
– Basic and diluted (RMB)	8	0.95	1.06

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

		For the six-month period ended 30 June	
		2016	2015
		RMB' 000	RMB' 000
		(unaudited)	(unaudited)
Notes			
	<b>PROFIT FOR THE PERIOD</b>	<b>151,443</b>	<b>140,442</b>
	<b>OTHER COMPREHENSIVE INCOME</b>		
	Net loss on available-for-sale investments	(21,238)	—
	Net other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax	(21,238)	—
	<b>TOTAL COMPREHENSIVE INCOME, NET OF TAX</b>	<b>130,205</b>	<b>140,442</b>
	Attributable to:		
	Ordinary equity holders of the parent	130,285	140,890
	Non-controlling interests	(80)	(448)
		<b>130,205</b>	<b>140,442</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	416,135	396,595
Prepaid land lease payments		31,257	31,626
Other intangible assets		2,868	3,262
Investments in an associate		11,392	11,202
Available-for-sale investments	10	44,492	—
Deferred tax assets		4,030	4,359
Other non-current assets		258	2,812
Total non-current assets		<u>510,432</u>	<u>449,856</u>
<b>CURRENT ASSETS</b>			
Inventories	11	66,203	78,063
Trade and bills receivables	12	124,460	91,287
Prepayments, deposits and other receivables	13	68,306	24,917
Cash and bank balances	14	2,160,976	2,177,787
Total current assets		<u>2,419,945</u>	<u>2,372,054</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	15	4,071	4,794
Other payables and accruals	16	157,690	112,272
Tax payable		23,034	23,927
Total current liabilities		<u>184,795</u>	<u>140,993</u>
<b>NET CURRENT ASSETS</b>		<u>2,235,150</u>	<u>2,231,061</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,745,582</u>	<u>2,680,917</u>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2016

	Notes	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		549	620
Deferred income		13,412	14,863
		<hr/>	<hr/>
Total non-current liabilities		13,961	15,483
		<hr/>	<hr/>
<b>Net assets</b>		<b>2,731,621</b>	<b>2,665,434</b>
		<hr/>	<hr/>
<b>EQUITY</b>			
<b>Equity attributable to ordinary equity holders of the parent</b>			
Share capital		160,045	160,045
Reserves		2,568,133	2,501,866
		<hr/>	<hr/>
		2,728,178	2,661,911
		<hr/>	<hr/>
<b>Non-controlling interests</b>		<b>3,443</b>	<b>3,523</b>
		<hr/>	<hr/>
<b>Total equity</b>		<b>2,731,621</b>	<b>2,665,434</b>
		<hr/>	<hr/>



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2016 AND 30 JUNE 2015

	Attributed to ordinary equity holders of the parent								
	Issued capital	Share Premium account*	Available-	Foreign	Statutory reserve funds*	Retained profits*	Non-controlling interests	Total equity	
			for-sale	currency					
			investment revaluation reserve*	translation reserve*					
RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000		
As at 1 January									
2016 (audited)	160,045	1,770,386	—	—	59,979	671,501	2,661,911	3,523	2,665,434
Profit for the period	—	—	—	—	—	151,523	151,523	(80)	151,443
Other comprehensive income for the period	—	—	(22,586)	1,348	—	—	(21,238)	—	(21,238)
Total comprehensive income for the period	—	—	(22,586)	1,348	—	151,523	130,285	(80)	130,205
Final 2015 dividend	—	—	—	—	—	(64,018)	(64,018)	—	(64,018)
As at 30 June									
2016 (unaudited)	<u>160,045</u>	<u>1,770,386</u>	<u>(22,586)</u>	<u>1,348</u>	<u>59,979</u>	<u>759,006</u>	<u>2,728,178</u>	<u>3,443</u>	<u>2,731,621</u>

	Attributed to ordinary equity holders of the parent						
	Issued capital	Share	Statutory	Retained profits*	Total	Non-controlling interests	Total equity
		premium	reserve				
		account*	funds*				
RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	
As at 1 January 2015 (audited)	120,000	16,154	40,197	417,809	594,160	—	594,160
Profit for the period	—	—	—	140,890	140,890	(448)	140,442
Total comprehensive income for the period	—	—	—	140,890	140,890	(448)	140,442
Acquisition of a subsidiary	—	—	—	—	—	3,691	3,691
Issue of shares**	40,045	1,823,656	—	—	1,863,701	—	1,863,701
Share issue expenses	—	(71,736)	—	—	(71,736)	—	(71,736)
As at 30 June 2015 (unaudited)	<u>160,045</u>	<u>1,768,074</u>	<u>40,197</u>	<u>558,699</u>	<u>2,527,015</u>	<u>3,243</u>	<u>2,530,258</u>

\* These reserve accounts comprise the consolidated reserves of RMB2,568,133,000 (unaudited) and RMB2,366,970,000 (audited) as at 30 June 2016 and 2015, respectively, in the consolidated statement of the financial position.

\*\* The Company issued 40,000,000 H shares and 45,300 H shares on 30 April 2015 and 28 May 2015, respectively.

# INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	For the six-month period ended 30 June	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>CASH GENERATED FROM OPERATIONS</b>	<b>124,534</b>	<b>140,351</b>
Income tax paid	(27,242)	(9,427)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>97,292</b>	<b>130,924</b>
Interest received	21,015	1,234
Purchases of items of property, plant and equipment, prepaid land lease payments, other intangible assets and other non-current assets	(40,041)	(50,391)
Proceeds from disposal of items of property, plant and equipment	38	—
Receipt of government grants	560	7,160
Purchases of available-for-sale investments	(65,730)	—
Receipt of time deposits with original maturity of more than three months	120,000	21,342
Purchases of time deposits with original maturity of more than three months	(460,000)	—
Purchases of term deposits	—	(1,500,000)
Refundable deposit for business acquisition	(30,000)	—
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(454,158)</b>	<b>(1,520,655)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	—	(49,680)
Proceeds from issue of shares	—	1,863,701
Share issue expenses	—	(40,918)
Capital injection from minority shareholders of a subsidiary	—	3,000
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>—</b>	<b>1,776,103</b>
Net increase/(decrease) in cash and cash equivalents	(356,866)	386,372
Cash and cash equivalents at beginning of the period	2,037,787	159,999
Effect of foreign exchange rate changes, net	55	32
Cash and cash equivalents at end of the period	<b>1,680,976</b>	<b>546,403</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:</b>		
Cash and bank balances at end of the period	2,160,976	546,403
Time deposits with original maturity of more than three months when acquired	(480,000)	—
Cash and cash equivalents at end of the period	<b>1,680,976</b>	<b>546,403</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 1. CORPORATE INFORMATION

The Company was established as a limited liability company on 24 January 2007 in the People's Republic of China (the "PRC"), and the Company was converted into a joint stock company with limited liability on 2 August 2010. The registered office of the Company is located at No. 5 Dongjing Road, Songjiang Industrial Zone, Shanghai, PRC.

During the six-month period ended 30 June 2016, the Group was principally engaged in the research and development, manufacture and sale of biologicals and medical hyaluronate, biological engineering products, pharmaceutical products, medical devices and equipment, and the provision of related services.

In the opinion of the Directors, the ultimate controlling shareholders of the Company are Mr. Jiang Wei and his spouse, Ms. You Jie.

As at 30 June 2016, the Company has direct interests in the following subsidiaries, all of which are limited liability companies established in the PRC except for Haohai Healthcare Holdings Co., Limited, which is a limited company established in Hong Kong. The particulars of the subsidiaries are set out below:

Company name	Place and date of incorporation/ registration and place of operations	Paid-up capital/ registered ordinary share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct %	Indirect %	
上海其勝生物製劑有限公司 Shanghai Qisheng Biologicals Co., Ltd.* ("Shanghai Qisheng")	PRC 27 May 1992	RMB 160,000,000	100	—	Manufacture and sale of biological reagents, biologicals and biological materials
上海建華精細生物製品有限公司 Shanghai Jianhua Fine Biological Products Co., Ltd.* ("Shanghai Jianhua")	PRC 20 October 1993	RMB 15,000,000	100	—	Manufacture and sale of medical sodium hyaluronate, biologicals, biochemical and HA series skin care products
上海利康瑞生物工程有限公司 Shanghai Likangrui Bioengineering Co., Ltd.* ("Shanghai Likangrui")	PRC 3 September 2001	RMB 150,000,000	100	—	Research and development of biological engineering and pharmaceutical products and related technology transfer, consultation and services

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 1. CORPORATE INFORMATION (Continued)

Company name	Place and date of incorporation/ registration and place of operations	Paid-up capital/ registered ordinary share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
上海柏越醫療設備有限公司 Shanghai Baiyue Medical Equipment Co., Ltd.* ("Shanghai Baiyue")	PRC 25 September 2014	RMB 10,000,000	60	—	Sale of medical devices and equipment
昊海生物科技控股有限公司 Haohai Healthcare Holdings Co., Limited ("Haohai Holdings")	Hong Kong 17 July 2015	HKD 100	100	—	Investment holding and trading business
上海昊海醫藥科技發展有限公司 Shanghai Haohai Medical Technology Development Co., Ltd.* ("Haohai Development")	PRC 19 February 2016	RMB 510,000,000	100	—	Pharmaceutical technology development and investment holding

## 2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

### 2.1 Basis of presentation

These interim condensed consolidated financial statements for the six-month period ended 30 June 2016 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016 as follows:

International Financial Reporting Standard ("IFRS") 14	<i>Regulatory Deferral Accounts</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
Amendments to IFRS 10 IFRS 12 and IAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Annual Improvements 2012-2014 Cycle	<i>Amendments to a number of IFRSs</i>

The adoption of these new and revised standards had no significant financial effect on these financial statements.

### 2.3 Issued but not yet effective IFRSs

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

IFRS 9	<i>Financial Instruments</i> <sup>2</sup>
IFRS 15	<i>Revenue from contracts with customers</i> <sup>2</sup>
Amendments to IFRS 15	<i>Revenue from contracts with customers</i> <sup>2</sup>
IFRS 16	<i>Leases</i> <sup>3</sup>
Amendments to IAS 12	<i>Recognition of Deferred tax assets for Unrealised losses</i> <sup>1</sup>
Amendments to IAS 7	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to IFRS 2	<i>Share-based payment: Classification and Measurement</i> <sup>2</sup>
Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> No specific effective date but early adoption is permitted

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are related to a single operating segment, i.e. the research and development, manufacture and sale of biologicals, medical hyaluronate, biological engineering products, pharmaceutical products, medical devices and equipment, and the provision of related services. Therefore, no analysis by operating segment is presented.

### Geographical information

Since the Group solely operates in the PRC and all of the assets of the Group are located in the PRC, geographical segment information as required by IFRS 8 Operating Segments is not presented.

### Information about major customers

There was no customer, the revenue from which amounted to 5% or more of the Group's revenue during the six-month period ended 30 June 2016 (for the corresponding period in 2015: nil).

## 4. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, net of sales taxes and surcharges during the six-month period ended 30 June 2016.

An analysis of the Group's revenue is as follows:

	For the six-month period ended 30 June	
	2016 RMB' 000 (unaudited)	2015 RMB' 000 (unaudited)
<b>Revenue</b>		
Sale of goods	372,936	313,111
<b>Other income and gains</b>		
Interest income	29,061	6,067
Government grants (note (i))	16,241	5,131
Exchange gains	55	23,274
Others	1,102	501
	46,459	34,973

*Note (i):* Various government grants have been received from local government authorities in various regions in Shanghai, the PRC, for setting up research activities. The government grants released have been recorded in other income and gains. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statements of financial position. There were no unfulfilled conditions or contingencies relating to these government grants.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 5. INCOME TAX

	For the six-month period ended 30 June	
	2016 RMB' 000 (unaudited)	2015 RMB' 000 (unaudited)
Current	26,349	24,449
Deferred	258	441
	<u>26,607</u>	<u>24,890</u>

The Company and its subsidiaries, except for Haohai Holdings, are registered in the PRC and only have operations in the PRC. They are subject to PRC corporate income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws.

The applicable corporate income tax rates are shown as follows:

	For the six-month period ended 30 June	
	2016 RMB' 000 (unaudited)	2015 RMB' 000 (unaudited)
The Company	15%	15%
Shanghai Qisheng	15%	15%
Shanghai Jianhua	15%	15%
Shanghai Likangrui	25%	25%
Shanghai Baiyue	25%	25%
Haohai Holdings	16.5%	N/A
Haohai Development	25%	N/A

In 2015, the Company and its subsidiaries, Shanghai Qisheng and Shanghai Jianhua, were accredited as high and new-tech enterprises respectively, effective for three years from 2014 to 2016, by the relevant authorities. Therefore, the preferential corporate income tax rate of 15% was applied during the period from 2014 to 2016.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 6. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	For the six-month period ended 30 June	
	2016 RMB' 000 (unaudited)	2015 RMB' 000 (unaudited)
Available-for-sale investments:		
Losses arising during the period	21,238	—

## 7. DIVIDENDS

The proposed final dividend of RMB0.40 (tax included) per ordinary share for the year ended 31 December 2015 was declared payable by the shareholders at the annual general meeting of the Company on 3 June 2016.

The Board does not recommend the distribution of an interim dividend in respect of six-month period ended 30 June 2016 (for the corresponding period in 2015: nil).

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

The calculation of basic earnings per share amounts is based on the profit for the six-month period ended 30 June 2016 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 160,045,300 (for the corresponding period in 2015: 133,340,883) in issue during the six-month period ended 30 June 2016, as adjusted to reflect the rights issue during the periods.

	For the six-month period ended 30 June	
	2016 RMB' 000 (unaudited)	2015 RMB' 000 (unaudited)
Profit attributable to equity holders of the Company	151,523	140,890
Weighted average number of shares in issue (in thousands)	160,045	133,341
Basic earnings per share (RMB per share) #	0.95	1.06

# Diluted earnings per share is the same as basic earnings per share as the Group had no potential dilutive ordinary shares in issue during the periods.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 9. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2016, the Group acquired assets with total costs of approximately RMB2,357,000 (unaudited) (for the corresponding period in 2015: approximately RMB229,000 (unaudited)), excluding property under construction.

The Group continued the upgrading of existing production facilities of the Company, and its carrying amount as at 30 June 2016 was approximately RMB22,611,000 (unaudited) (31 December 2015: approximately RMB15,064,000 (audited)). The Group also continued the construction of infrastructure at Shanghai Likangrui production facility, and its carrying amount as at 30 June 2016 was approximately RMB168,672,000 (unaudited) (31 December 2015: approximately RMB147,057,000 (audited)).

Assets with a net book value of approximately RMB173,000 (unaudited) were disposed of by the Group during the six-month period ended 30 June 2016 (for the corresponding period in 2015: RMB12,000 (unaudited)), resulting in a net loss on disposal of approximately RMB135,000 (unaudited) (for the corresponding period in 2015: net loss of approximately RMB12,000 (unaudited)).

In the meantime, the Group recognised depreciation expenses of approximately RMB15,877,000 (unaudited) during the six-month period ended 30 June 2016 (for the corresponding period in 2015: RMB15,767,000 (unaudited)).

## 10. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
Listed equity investments, at fair value	<u>44,492</u>	<u>—</u>

## 11. INVENTORIES

	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
Raw materials	29,720	30,887
Work in progress	9,628	10,173
Finished goods	23,443	34,522
Merchandises	<u>3,411</u>	<u>2,481</u>
	<u>66,202</u>	<u>78,063</u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 12. TRADE AND BILLS RECEIVABLES

	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
Trade receivables	131,172	96,007
Bills receivable	88	—
Impairment for trade receivables	(6,800)	(4,720)
	<u>124,460</u>	<u>91,287</u>

Customers are usually required to make payment in advance before the Group delivers goods to them. However, the Group's trading terms with certain major customers with good repayment history and high reputations are on credit. The credit period is generally one to six months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. 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 trade and bills receivables as at the end of each period, based on the invoice date and net of provisions, is as follows:

	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
Outstanding balances with ages:		
Within 3 months	129,798	77,609
3 to 6 months	1,258	13,535
6 months to 1 year	116	4,590
1 to 2 years	—	265
2 to 3 years	—	8
	<u>131,172</u>	<u>96,007</u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
Deposits and other receivables	53,545	12,574
Prepayments	16,805	13,154
Impairment	(2,045)	(81)
	<u>68,305</u>	<u>24,917</u>

## 14. CASH AND CASH EQUIVALENTS

	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
Cash and bank balances	2,160,976	2,177,787
Time deposits with original maturity of more than three months when acquired	(480,000)	(140,000)
Cash and cash equivalents	<u>1,680,976</u>	<u>2,037,787</u>

## 15. TRADE AND BILLS PAYABLES

	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
Trade payables	<u>4,071</u>	<u>4,794</u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 15. TRADE AND BILLS PAYABLES (Continued)

An aged analysis of trade payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
Outstanding balances with ages:		
Within 3 months	4,021	4,745
3 months to 1 year	9	49
Over 1 year	41	—
	<u>4,071</u>	<u>4,794</u>

The trade payables are non-interest-bearing and normally settled on 30 to 90 day terms.

## 16. OTHER PAYABLES AND ACCRUALS

	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
Other taxes payable	17,425	14,572
Payroll and welfare payable	7,411	18,134
Advances from customers	6,167	4,041
Accrued expenses	4,400	8,030
Payables related to:		
Government grants received	31,195	26,635
Purchases of property, plant and equipment	11,169	18,173
Deposits received	7,323	10,026
Others	8,582	12,661
Dividends payable (inclusive of tax)	64,018	—
	<u>157,690</u>	<u>112,272</u>

The above balances were non-interest-bearing and repayable on demand.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 17. FAIR VALUE AND FAIR VALUE HIERARCHY

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

	30 June 2016		31 December 2015	
	Carrying amount (unaudited) RMB' 000	Fair value (unaudited) RMB' 000	Carrying amount (audited) RMB' 000	Fair value (audited) RMB' 000
Available-for-sale investments	44,492	44,492	—	—

The management of the Group has assessed that the fair values of cash and bank balances, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of the Reporting Period, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

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

### Fair value hierarchy

The following table provides the fair value measurement hierarchy of the Group's financial assets as at 30 June 2016 (unaudited) (31 December 2015: nil):

	Total RMB' 000	Fair value measurement using		
		Quoted prices in active markets (Level 1) RMB' 000	Significant observable inputs (Level 2) RMB' 000	Significant unobservable inputs (Level 3) RMB' 000
Available-for-sale investments:				
Listed equity investments	44,492	44,492	—	—

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 18. OPERATING LEASE ARRANGEMENTS

### As lessee

The Group leases certain of its property, plant and equipment under operating lease arrangements. Leases for property, plant and equipment are negotiated for terms of one to five years.

As at 30 June 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
Within one year	3,466	3,453
In the second to fifth years, inclusive	<u>2,557</u>	<u>4,177</u>
	<u><u>6,023</u></u>	<u><u>7,630</u></u>

## 19. COMMITMENTS

In addition to the operating lease commitments detailed in note 18 above, the Group had the following capital commitments at the end of the Reporting Period:

	30 June 2016 RMB' 000 (unaudited)	31 December 2015 RMB' 000 (audited)
Contracted, but not provided for:		
In respect of:		
Plant and machinery	<u><u>23,132</u></u>	<u><u>33,472</u></u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

## 20. RELATED PARTY TRANSACTIONS

	For the six-month period ended 30 June	
	2016 RMB' 000 (unaudited)	2015 RMB' 000 (unaudited)
Rental fee		
Ms. You Jie	150	150
Shanghai Haohai Chemical Company Limited ("Haohai Chemical")	150	150
	<u>300</u>	<u>300</u>

Pursuant to the leasing contract, the Company rented offices from Ms. You Jie and Haohai Chemical with a monthly rental fee of RMB25,000 respectively.

## 21. CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any contingent liabilities (31 December 2015: nil).

## 22. EVENTS AFTER THE REPORTING PERIOD

There were no significant event after the Reporting Period up to the date of this report which would have material effect to the Group.

## 23. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 26 August 2016.

### INTERIM RESULTS

The interim results of the Group for the six months ended 30 June 2016 were published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.3healthcare.com](http://www.3healthcare.com)) on 26 August 2016 for information disclosure.

### INTERIM DIVIDEND

The Board of the Company does not recommend the distribution of an interim dividend for the six months ended 30 June 2016.

### SHARE CAPITAL

Share capital of the Company as at 30 June 2016 was as follows:

Nature of shares	Number of shares	Percentage of issued share capital
Domestic shares	120,000,000	74.98%
H shares	40,045,300	25.02%

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### SUBSTANTIAL SHAREHOLDERS

On 30 June 2016, to the best knowledge of the Directors, the interests or short positions of the following persons (which are not Directors, chief executives or supervisors of the Company) in the shares or underlying shares of the Company, which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:



## OTHER INFORMATION

### Substantial Shareholders Holding Domestic Shares of the Company

Name	Number of domestic shares (shares)	Approximate percentage of total issued domestic share capital (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
Jiang Wei <sup>(1)</sup>	46,800,000 (L)	39.00	29.24	Beneficial owner
	28,800,000 (L)	24.00	17.99	Interest of spouse
Lou Guoliang	10,000,000 (L)	8.33	6.25	Beneficial owner
Ling Xihua <sup>(2)</sup>	6,000,000 (L)	5.00	3.75	Beneficial owner

Note: L denotes long position

1. Mr. Jiang Wei directly holds 46,800,000 shares in the Company. He is the spouse of Ms. You Jie, a non-executive director of the Company, and therefore he is deemed under the SFO to be interested in the 28,800,000 shares held by Ms. You Jie in the Company.
2. Mr. Ling Xihua passed away on 12 January 2016.

### Substantial Shareholders Holding H Shares of the Company

Name	Number of H shares (shares)	Approximate percentage of total issued H share capital (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
Schroders Plc <sup>(1) (2)</sup>	6,748,100 (L)	16.85	4.22	Investment manager
Prime Capital Management Company Limited <sup>(1)</sup>	6,044,578 (L)	15.09	3.78	Investment manager
Prudence Investment Management (Hong Kong) Limited <sup>(1)</sup>	4,102,300 (L)	10.24	2.56	Investment manager

## OTHER INFORMATION

Name	Number of H shares (shares)	Approximate percentage of total issued H share capital (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
UBS Group AG <sup>(1) (3)</sup>	3,884,220 (L)	9.70	2.43	Person having a security interest in shares
	43,500 (L)	0.11	0.03	Interest of corporation controlled by the substantial shareholder
	11,600 (S)	0.03	0.01	Interest of corporation controlled by the substantial shareholder
Morgan Stanley <sup>(1) (4)</sup>	4,418,153 (L)	11.03	2.76	Interest of corporation controlled by the substantial shareholder
	2,617,127 (S)	6.54	1.64	Interest of corporation controlled by the substantial shareholder

Notes: L denotes long position and S denotes short position

- The disclosure is based on the information available on the website of the Stock Exchange ([www.hkexnews.com.hk](http://www.hkexnews.com.hk)).
- Long position of these 6,748,100 H shares are held by Schroders Plc through its interest in a series of controlled corporations and in its capacity as an investment manager.
- Among the long position of these 3,927,720 H shares and the short position of these 11,600 H shares, UBS Group AG was deemed to hold long position of 3,884,220 H shares through its security interest in those 3,884,220 shares. In addition, UBS Group AG was deemed to hold long position of 43,500 H shares and short position of 11,600 H shares. UBS AG, UBS Fund Management (Luxembourg) S.A. and UBS Fund Management (Switzerland) AG were all wholly owned by UBS Group AG and held long position of 12,200 H shares and short position of 11,600 H shares, long position of 30,300 H shares and long position of 1,000 H shares in the Company, respectively.
- Long position of these 4,418,153 H shares and short position of these 2,617,127 H shares are held by Morgan Stanley through its interest in a series of controlled corporations and in its capacity as interest of corporation controlled by the substantial shareholder.

Saved as disclosed above, as at 30 June 2016, to the best knowledge of the Directors, there were no other persons who had interests or short positions in the shares or underlying shares of the Company, which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## OTHER INFORMATION

### DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, the interests or short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Name	Number of domestic shares of the Company (shares)	Approximate percentage of total issued domestic share capital (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
You Jie <sup>(1)</sup>	28,800,000 (L)	24.00	17.99	Beneficial owner
	46,800,000 (L)	39.00	29.24	Interest of spouse
Hou Yongtai	6,000,000 (L)	5.00	3.75	Beneficial owner
Wu Jianying	6,000,000 (L)	5.00	3.75	Beneficial owner
Huang Ming	2,000,000 (L)	1.67	1.25	Beneficial owner
Gan Renbao	500,000 (L)	0.42	0.31	Beneficial owner
Chen Yiyi	400,000 (L)	0.33	0.25	Beneficial owner
Liu Yuanzhong	2,000,000 (L)	1.67	1.25	Beneficial owner

Note: L denotes long position

1. Ms. You Jie directly holds 28,800,000 shares in the Company. She is the spouse of Mr. Jiang Wei and therefore she is deemed under the SFO to be interested in the 46,800,000 shares held by Mr. Jiang Wei in the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2016, none of the other Directors, supervisors or chief executives of the Company or any of their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

### CORPORATE GOVERNANCE CODE

The Company has complied with all applicable code provisions under the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the Reporting Period. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

### AUDIT COMMITTEE

The Company has established an audit committee, which is comprised of five Directors, namely Mr. Shen Hongbo (chairman), Ms. You Jie, Mr. Chen Huabin, Mr. Li Yuanxu and Mr. Zhu Qin. The primary duties of the audit committee of the Company (the “Audit Committee”) are to review and supervise the Company’s financial reporting procedures, risk management and internal control systems. The Audit Committee held meetings on 18 March 2016 and 26 August 2016 to consider the Group’s audited consolidated financial statements for the year ended 31 December 2015 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2016. The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group and the interim report for the six months ended 30 June 2016 and agreed with the accounting treatment adopted by the Company.

### CHANGE OF SESSION OF THE BOARD

The Second Session of the Board of the Company was established on 23 July 2013 and held office until the annual general meeting for the year 2015 (“AGM”) which took place on 3 June 2016.

The Directors of the Third Session of the Board were appointed at the AGM. The Third Session of the Board comprises 11 Directors, including four executive Directors, namely Dr. Hou Yongtai, Mr. Wu Jianying, Mr. Huang Ming (former name: Huang Ping) and Ms. Chen Yiyi; two non-executive Directors, namely Ms. You Jie and Mr. Gan Renbao; and five independent non-executive Directors, namely Mr. Chen Huabin, Mr. Shen Hongbo, Mr. Li Yuanxu, Mr. Zhu Qin and Mr. Wong Kwan Kit, for a term of 3 years from the date of the AGM.

### CHANGE OF SESSION OF THE SUPERVISORY COMMITTEE

The Second Session of the Supervisory Committee of the Company was established on 23 July 2013 and held office until the AGM.

The Supervisors of the Third Session of the Supervisory Committee were appointed at the AGM and the employee representative meeting of the Company convened on 3 June 2016. The Third Session of the Supervisory Committee comprises five Supervisors, including one shareholder representative Supervisor, namely Mr. Liu Yuanzhong; two employee representative Supervisors, namely Mr. Wei Changzheng and Mr. Yang Linfeng; and two independent Supervisors, namely Ms. Yang Qing and Mr. Tang Yuejun.

## OTHER INFORMATION

### CHANGES OF INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The changes in the information of Directors and supervisors since the date of the Company's 2015 annual report are set out below:

1. Mr. Wu Jianying, an executive Director and the General Manager of the Company, served as a director of Haohai Development since February 2016; served as a director of Haohai Healthcare Holdings (Cayman) Co., Ltd., an indirectly wholly-owned subsidiary of the Company incorporated in the Cayman Islands in May 2016, since May 2016; served as a director of Haohai Healthcare Holdings (BVI) Co., Ltd., an indirectly wholly-owned subsidiary of the Company incorporated in the British Virgin Islands in August 2016, since August 2016.
2. Mr. Huang Ming (former name: Huang Ping), an executive Director, Secretary of the Board and joint company secretary of the Company, served as a supervisor of Haohai Development since February 2016.
3. Ms. Chen Yiyi, a non-executive Director of the Company, served as a director of Henan Universe since July 2016.
4. Mr. Huang Ping (former name) changed his name to Huang Ming with effect from 24 August 2016.

Apart from above, there is no change in information of the Directors, Supervisors or chief executive which shall be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors and supervisors of the Company. Having made specific enquiries to all Directors and supervisors, all of them confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period.

### DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or supervisors or their respective associates (as defined in the Listing Rules) was granted by the Company or its subsidiaries any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights during the Reporting Period.

### MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the Reporting Period. So far as the Directors are aware, there is no material litigation or claims which are pending or threatened against the Company.

By order of the Board

**Hou Yongtai**

*Chairman*

Shanghai, the PRC, 26 August 2016

## DEFINITIONS

In this interim report, unless the context otherwise requires, the following expressions have the following meanings.

“Board”	board of Directors of the Company
“CFDA”	the China Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理總局)
“Company”, “our Company” or “Haohai Biological”	Shanghai Haohai Biological Technology Co., Ltd. (上海昊海生物科技股份有限公司), a joint stock company incorporated in the PRC with limited liability and converted from its predecessor, Shanghai Haohai Bio Technology Company Limited (上海昊海生物科技有限公司) on 2 August 2010
“Director(s)”	director(s) of the Company
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
“Haohai Holdings”	Haohai Healthcare Holdings Co., Ltd. (昊海生物科技控股有限公司), a limited liability company established in Hong Kong, the PRC on 17 July 2015, which is a direct wholly-owned subsidiary of our Company
“Henan Universe”	Henan Universe Intraocular Lens Research and Manufacture Company, Ltd (河南宇宙人工晶狀體研製有限公司), a company established in the PRC on 30 April 1991. Since 11 September 2015, Haohai Holdings, a wholly-owned subsidiary of the Company, holds 38.017% of its equity interest. It is owned by Hebi Coal Industry (Group) Company Limited, Haohai Holdings and China Ocean Group Company Limited as to 48.103%, 38.017% and 13.88% respectively
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“PRC”, “China” or “People’s Republic of China”	the People’s Republic of China excluding, for the purpose of this interim report, Hong Kong, Macau and Taiwan, unless otherwise specified

## DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Reporting Period”	the 6-month period from 1 January 2016 to 30 June 2016
“Shanghai Likangrui”	Shanghai Likangrui Biological Engineering Company Limited (上海利康瑞生物工程 有限公司), a limited liability company established in the PRC on 3 September 2001, which is a direct wholly-owned subsidiary of our Company
“Shanghai Qisheng”	Shanghai Qisheng Biologics Company Limited (上海其勝生物製劑有限公司), a company established in the PRC on 27 May 1992, converted into a joint-stock cooperative enterprise on 10 July 1995 and further converted into a limited liability company on 28 March 2001, which is a direct wholly-owned subsidiary of our Company
“Shanghai Baiyue”	Shanghai Baiyue Medical Equipment Co., Ltd. (上海柏越醫療設備有限公司), a company established in the PRC on 25 September 2014, a non-wholly owned subsidiary of our Company since 3 February 2015, the equity interest of which is owned by our Company, Gu Lingzhi and Li Xudong, who are independent third parties, as to 60%, 36% and 4%, respectively
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

## GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains explanations and definitions of certain terms used in this interim report in connection with us and our business. The terms and their meanings may not correspond to meanings or usage of these terms as used by others.

“anti-adhesion”	prevention of fibrous bands formed between tissues and adjacent tissues or organs resulted from injuries during a surgery
“chitosan” (幾丁糖)	a class of polysaccharide without acetyl group or with partial acetyl group, dissolvable in acidic conditions
“Class III medical device” (三類醫療器械)	a class of medical devices with high risks which shall be strictly controlled and administered through special measures to ensure their safety and effectiveness
“clinical trial”	a research study for validating or finding the therapeutic effects and side-effects of test drugs in order to determine the therapeutic value and safety of such drugs
“EGF”	epidermal growth factor, is a polypeptide growth factor that stimulates epidermal and epithelial growth. It can promote growth of a wide of variety of cells <i>in vivo</i> and <i>in vitro</i>
“GMP”	Good Manufacturing Practice, guidelines and regulations from time to time issued pursuant to the PRC Law on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法》) as part of quality assurance which ensures that pharmaceutical products subject to these guidelines and regulations are consistently produced and controlled in conformity to the quality and standards appropriate for their intended use
“hemostasis”	the arrest of bleeding
“medical chitosan” (醫用幾丁糖)	normally carboxyl-methylated chitosan which can be dissolved in water, regulated by CFDA as a Class III medical device
“medical collagen sponge”	spongy material manufactured from bovine tendon by biological purification. It is used to fill operational cavity, wound hemostasis and wound healing
“medical sodium hyaluronate gel” (醫用透明質酸鈉凝膠)	sodium hyaluronate gel solution used for the ophthalmic surgery or anti-adhesive surgery, regulated by CFDA as a Class III medical device
“sodium hyaluronate injection” (玻璃酸鈉注射液)	sodium hyaluronate gel solution used for the intra-articular injection, regulated by CFDA as a prescription drug
“ophthalmic viscoelastic device” or “OVD”	viscoelastic sodium hyaluronate solution used in ophthalmic surgery. It can play the role of cushion to deepen the anterior chamber, which makes the operation convenient. It can also protect intraocular tissue and endothelial cell with improved success rate and reduced surgical complications. It is widely used in microsurgeries such as artificial contact lens implantation, penetrating keratoplasty surgery as well as ocular trauma



## GLOSSARY OF TECHNICAL TERMS

“recombinant human epidermal growth factor” or “rhEGF”	EGF manufactured specifically by the technology of recombinant genetic engineering in Escherichia coli fermentation
“tissue filling”	a process to inject biomaterials under the skin and fill in the area
“type inspection”	in the healthcare context, type inspection is a type of quality inspection for judging whether the quality of a product conforms to all characteristics given by design which does not involve clinical trials