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

ANNUAL REPORT

2016 年報

CONTENTS

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
Mr. Tang Minjie *(appointed on 14 February 2017)*

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

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 *(appointed on 19 February 2016)*
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

Tiang & Co.
Room 2010,
20/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

CORPORATE INFORMATION

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

23/F, WenGuang Plaza, No. 1386
Hongqiao Road, Changning District
Shanghai, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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.

FINANCIAL HIGHLIGHTS

	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000	31 December 2013 RMB'000	31 December 2012 RMB'000
Results of operation					
Revenue	851,157	663,917	515,940	401,088	303,065
Gross Profit	709,606	558,844	450,057	346,252	252,752
Profit before tax	365,885	320,647	215,616	166,467	133,432
Net profit attributable to shareholders of the parent	305,052	273,474	183,582	141,521	113,942
Profitability					
Gross profit margin	83.4%	84.2%	87.2%	86.3%	83.4%
Net profit margin	35.8%	41.2%	35.6%	35.3%	37.6%
Earnings per share (RMB)					
Basic earnings per share*	1.91	1.86	1.53	1.18	0.95
Assets					
Total assets	3,693,412	2,821,910	751,903	621,178	448,037
Total liabilities	707,552	156,476	157,743	90,600	58,980
Total equity attributable to ordinary equity holders of the parent	2,903,992	2,661,911	594,160	530,578	389,057
Gearing ratio	19.2%	5.5%	21.0%	14.6%	13.2%

* 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.

Dear Shareholders,

I herein represent the Group to present the annual performance of the Company for the year ended 31 December 2016 and the outlook summary for the work of the Group in 2017.

The year of 2016 was the opening year for China's 13th Five-Year Plan, and also a year full of challenges and accomplishments for the medical and pharmaceutical industry.

During the Reporting Period, the Group recorded revenue of approximately RMB851.16 million, representing an increase of 28.2% as compared to previous year; the profit attributable to ordinary equity holders (exclusive of exchange gains in relation to the foreign currency settlement from the Global Offering proceeds) of the parent amounted to approximately RMB305.05 million, representing an increase of approximately 22.5% as compared to 2015. The basic earnings per share were RMB1.91 (2015: RMB1.86).

The Group successfully obtained product licenses from the China Food and Drug Administration ("CFDA") for the new high concentration ophthalmic viscoelastic devices ("OVD") product "Survise" and the second generation hyaluronic acid dermal filler product ("HA dermal filler") "Janlane" in May and September 2016 respectively, both of which were successfully launched to the market. On 23 February 2017, the 2017 Revision of the National Reimbursement Drug List (NRDL) lifted the restrictions on Healin as a reimbursable medication for employment injuries insurance, and reclassified Healin as a class B medical insurance product.

During the Reporting Period, the Group has successively completed its acquisition of 60% equity interest in Shenzhen New Industries Material of Ophthalmology Co., Ltd.* (深圳市新產業眼科新技術有限公司) ("Shenzhen NIMO"), 100% equity interest in Henan Universe Intraocular Lens Research and Manufacture Company, Ltd* (河南宇宙人工晶狀體研製有限公司) ("Henan Universe"), 98% equity interest in Eyegood Medical (Zhuhai) Co. Ltd.* (珠海艾格醫療科技開發有限公司) ("Zhuhai Eyegood") and the hydrophilic and PMMA intraocular lens business of Aaren Scientific Inc. ("Aaren Business"), and intends to gradually enter into the industry of high-valued ophthalmology products to ensure the sustainable development of the Group.

As at 31 December 2016, the Group owns 36 product licenses and 26 product pipelines in different stages of R&D. In the short to medium term, the Group will focus on the development of the third generation of HA dermal filler "QST gel", fibrin sealant products, second generation of thermal-sensitive chitosan products and new intraocular lens products, and expand specification and indication of the Group's existing products in the market. The management of the Company 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.

CHAIRMAN'S STATEMENT

In 2017, the Group will continue to put the proceeds raised to effective use, extend to the upstream and downstream section of the industry chain or expand its business scale horizontally while consolidating the existing business proactively, and identify suitable target companies actively within the existing four major therapeutic segments of the Group in achieving expansionary business growth by means of acquisition, capital injection or equity investment. Meanwhile, the Group will continue to focus on the organic growth of the existing segments by the following means: upgrading the level of artificial intelligence and digitalization 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; pushing forward the upgrade of existing products, expanding investment in R&D of innovative products to fulfill 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 areas.

In conclusion, on behalf of the Board Shanghai Haohai Biological Technology Co., Ltd., I would like to express my sincere gratitude to the Shareholders of, for their trust, support and understanding and to every staff member of the Group, for their dedicated effort.

Hou Yongtai
Executive Director and Chairman of the Board

30 March 2017

BUSINESS REVIEW AND PROSPECT

The year of 2016 was the opening year for China's 13th Five-Year Plan, and also a year full of challenges and accomplishments for the medical and pharmaceutical industry. In 2016, the reform of the medical and pharmaceutical system in China upheld the momentum of 2015 with frequent industrial movements and promulgation of new policies, in particular policies promoting the tendering for drugs and medical equipment with an aim to lower retail prices and the implementation of various policies for the control of overall medical expenditures such as the "double control" policies (in terms of volume and level of fees) relating to medical insurance, posing a number of challenges of varying degrees to the medical industry in respect of the manufacturing and sales of products in mainland China. However, with a series of reform initiatives aimed at regulating the overall development trends in the medical and pharmaceutical industry, many important opportunities for industry consolidation have emerged among established industry leaders.

During the Reporting Period, the Group offered a keen response to the reforms in the pharmaceutical and healthcare system in China. In order to better adapt to the ever-changing tender policy and the highly competitive market environment, the Group took the initiative to adjust the selling prices of some of its products. Meanwhile, the Group focused on its core business of absorbable biomedical materials and enhanced budgeting, operation and management through refined marketing management to improve operational efficiency. The Group also focused on optimizing its product portfolio and facilitating service upgrade, which has enabled the continuous growth in the sales volume of various series of products to secure steady growth of the Group's principal business.

While making the greatest efforts to ensure the healthy development of its existing product lines for absorbable biomedical materials, the Group is taking steady steps to penetrate the ophthalmological consumable materials industry (which is known for its high added value) through the point of entry in the market of intraocular lens (the core medical device for cataract surgery), by means of acquisition and integration with domestic and foreign enterprises with mature products, high-end technologies and valuable marketing resources to ensure the sustainable development of the Group. During the Reporting Period, the Group completed a number of acquisitions, including that of the 60% equity interests in Shenzhen NIMO, 100% equity interests in Henan Universe, 98% equity interests in Zhuhai Eyegood and the Aaren Business.

During the Reporting Period, the Group totally recorded a turnover of approximately RMB851.16 million, representing an increase of RMB187.24 million or approximately 28.2% as compared to approximately RMB663.92 million for 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):

	2016		2015		Percentage increase
	RMB'000	%	RMB'000	%	%
Orthopedics products	**287,250**	**33.8%**	284,049	42.8%	1.1%
Medical aesthetics and wound care products	**225,104**	**26.4%**	122,343	18.4%	84.0%
Ophthalmology products	**120,068**	**14.1%**	72,403	10.9%	65.8%
Anti-adhesion and hemostasis products	**211,094**	**24.8%**	178,999	27.0%	17.9%
Other products	**7,641**	**0.9%**	6,123	0.9%	24.8%
Total	**851,157**	**100.0%**	663,917	100.0%	28.2%

During the Reporting Period, the profit attributable to ordinary equity holders (exclusive of exchange gains in relation to the foreign currency settlement from the Global Offering proceeds) of the parent amounted to approximately RMB305.05 million, representing an increase of RMB56.01 million or 22.5% as compared to RMB249.04 million for 2015. The basic earnings per share were RMB1.91 (2015: RMB1.86).

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 HA dermal filler "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 84.2% for 2015 to 83.4% 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 policies and the highly competitive market environment, which resulted in a slight decrease in gross profit margin.

Orthopedics Products

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

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

	2016		2015	
	RMB'000	%	RMB'000	%
Sodium hyaluronate injection	202,372	23.8%	227,785	34.3%
Medical chitosan "Chitogel"	84,878	10.0%	56,264	8.5%
	287,250	33.8%	284,049	42.8%

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 where our market share increased to 34.0% in 2015 from 31.7% in 2014.

Sodium hyaluronate injection

During the Reporting Period, the Group's revenue from the sales of sodium hyaluronate injection product was approximately RMB202.37 million, representing a decrease of RMB25.42 million or approximately 11.2% from RMB227.79 million for 2015.

The year of 2015 represented a great divide in policy in the 15-year history of China's centralised procurement of pharmaceutical products. In May 2015, the National Development and Reform Commission ("**NDRC**") issued the "Circular on the Printing and Distribution of Opinions on Advancing the Reform of Drug Price" ("**Circular No. 904**"). In the same year, 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 in 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 instruction of the central government. Under the further downward pressure on drug bidding price and the full implementation of double control measures in terms of the level and volume of social medical insurance expenditures, the profit margin of medical and pharmaceutical industry was diminishing. As at the date of this annual report, a new round of pharmaceutical tenders was still in progress among most of the provinces, which, from an objective perspective, hampered drug distributors' willingness to place purchase orders. During the Reporting Period, in response to the changes in national policies, the Group adjusted the selling prices in certain regions with an aim to ensure that the sodium hyaluronate injection product expands its market coverage throughout China. Although the sales revenue from the sodium hyaluronate injection product decreased in 2016, as a significantly efficacious product extensively used in the world, 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.

Medical chitosan "Chitogel"

The Group's revenue from the sales of medical chitosan "Chitogel" was approximately RMB84.88 million for the Reporting Period, representing an increase of RMB28.62 million or 50.9% from approximately RMB56.26 million for 2015.

Medical chitosan "Chitogel" is a unique product of the Group, which is the only intra-articular viscosupplement registered as a Class III medical device in the PRC. It can be used to treat degenerative osteoarthritis and is helpful in minimizing joint pains and improving 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 "Chitogel" 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.

The Group officially launched medical chitosan "Chitogel" in the second quarter of 2014, and the management of the Company 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 recognized by an increasing number of doctors and patients. During the Reporting Period, the medical chitosan "Chitogel" successfully strengthened its foothold in Beijing and Shanghai and secured a rapid growth in sales in Guangdong, Liaoning, Shandong, Jiangsu, Hubei and Heilongjiang, and in addition the markets of a number of other provinces and cities, including Hebei and Ningxia have been entered into with actual sales recorded.

Medical aesthetics and wound care products

During the Reporting Period, the Group manufactured and sold two products for medical aesthetics and wound care, including HA dermal filler “Matrifill” and rhEGF “Healin”. HA dermal filler “Matrifill” can correct moderate to severe facial wrinkles and folds, and rhEGF “Healin” can expedite the repair of skin wounds on epidermis and mucosa which can be applied topically to 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 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):

	2016		2015	
	RMB'000	%	RMB'000	%
HA dermal filler “Matrifill”	187,585	22.0%	87,255	13.1%
rhEGF “Healin”	37,519	4.4%	35,088	5.3%
	225,104	26.4%	122,343	18.4%

During the Reporting Period, the Group's revenue from the sales of medical aesthetics and wound care products was approximately RMB225.10 million, representing an increase of RMB102.76 million or approximately 84.0% from RMB122.34 million for 2015.

HA dermal filler “Matrifill”

HA dermal filler “Matrifill”, a product launched in the market by the Group in 2014, is the first mono-phase HA dermal filler for injection approved by the CFDA. It can, through injection into dermis layer, fill facial defect and folded areas to achieve wrinkle removal and facial shaping. This is a product successfully self-developed by the Group after years of research anddevelopment, and is proven by large-scale randomized clinical trial (with approximately 550 cases) to have a good shaping effect and excellent performance in durability.

In September 2016, “Dermatologic Surgery”, the core journal of American Society for Dermatologic Surgery published a professional article, which cited part of the clinical trial data of Shanghai Ninth People's Hospital, Southwest Hospital, Nanfang Hospital, Changzheng Hospital, Changhai Hospital, 304 Hospital, 301 Hospital and Peking University Third Hospital. Such trial lasted for four years and was the first dermal filler clinical trial in the largest scale in terms of sampling size so far in China. Through clinical, randomized and double-blinded comparison, experts found that the required dosage of HA dermal filler “Matrifill” was lower that an internationally renown brand for achieving the same therapeutic effects, thus the cosmetic injection effect of HA dermal filler “Matrifill” was recognized by internationally authoritative academic institutions.

The medical beauty market in China 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 would these new products and technology satisfy consumer demand, but they also attract more consumers through increasing by sufficient product supply, improving clinical efficacy and change of consumption concept of the new generation. Meanwhile, attracted by the relatively high profit margin from medical beauty products, more competitors attempted to enter the market and share the growth of the industry. In 2016, more hyaluronic acid dermal filler products were launched to the market. As of 31 December 2016, 15 products were approved by the CFDA (as of 31 December 2015: 10 products were approved). However, due to many inconsistent practices in the medical aesthetics 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.

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 HA dermal filler "Matrifill" products with a professional approach.

In addition, the Group established an independent professional marketing team for HA dermal filler "Matrifill". 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 Company believes that the traditional and one-sided 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 vitality.

During the Reporting Period, the sales revenue of the HA dermal filler "Matrifill" products increased to approximately RMB187.59 million, representing an increase of 115.0% from approximately RMB87.26 million in 2015.

Meanwhile, the Group's self-developed second generation of HA dermal filler "Janlane" has completed the registration for medical device with CFDA on 8 September 2016 and was duly launched on 24 February 2017. HA dermal filler "Janlane" is mainly promoted for its filling function, and based on its characteristics and efficacy, it will have differentiated positioning from and supplementary development with HA dermal filler "Matrifill" (which focuses on shaping), leading the trend of combined application with Hyaluronic Acids in the non-invasive medical aesthetic market in the PRC. Moreover, the third generation of HA dermal filler products ("**QST gel**") of the Group has successfully been entered into the clinical trial phase as well. The Group can accordingly sustain its leading market position in 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 in order to satisfy market needs which are being increasingly segmental and diversified.

The Group will leverage on its 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.

Recombinant Human Epidermal Growth Factor ("rhEGF") "Healin"

We also manufacture innovative biological products which utilize genetic engineering technology and are used for wound care. The Group's rhEGF "Healin" is the only product in China that has the same amino acid structure as the epidermal growth factors in human bodies, and also 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 rhEGF "Healin", 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.

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 rhEGF "Healin" continued to increase from 15.3% in 2014 to 16.2% in 2015, further narrowing down the difference with the market leading product.

On 23 February 2017, the Ministry of Human Resources and Social Security of the People's Republic of China officially issued the 2017 NRDL, rhEGF "Healin" was reclassified to "Class B" medical insurance products following expert's assessment since it was limited to work-related injury insurance products on the 2009 NRDL. The Group believes the sales of rhEGF "Healin" will soon experience a rapid growth opportunity.

Ophthalmology Products

The Group currently manufactures and sells three types of ophthalmology products, including three OVD products, five intraocular lens, one lubricant eye drops product and other ophthalmology high-valued materials.

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

	2016		2015	
	RMB'000	%	RMB'000	%
OVD products	76,632	9.0%	71,032	10.7%
Intraocular lens	39,975	4.7%	—	—
Lubricant eye drops	2,208	0.3%	1,371	0.2%
Others	1,253	0.1%	—	—
	120,068	14.1%	72,403	10.9%

During the Reporting Period, the Group's revenue from the sales of ophthalmology products was approximately RMB120.07 million, representing an increase of approximately 65.8% or RMB47.67 million from RMB72.40 million in 2015.

OVD products are the necessary devices for cataract surgery and can be used for other ophthalmic operations. Among the main brands of OVD products in the PRC, the Group's products have prominent competitive 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 and accounted over 40% market share for the past nine consecutive years, making the Group the largest OVD product manufacturer in the PRC.

In May 2016, the Group successfully obtained the CFDA product licence for the new high concentration OVD "Survisc", which was officially launched in September 2016. The launch of the new high concentration OVD "Survisc" will help to enhance the OVD products of the Group; further expand the comparative advantage against the imported overseas brands of the same type of products and increase the market share of the Group.

During the Reporting Period, the Group entered into the intraocular lens industry by gradually acquiring equity interests in companies such as Shenzhen NIMO, Henan Universe, Zhuhai Eyegood and the Aaren Business. Intraocular lens are core materials in cataract surgery, and can create significant synergy effect when integrated with the Group's existing OVD products and Eyesucom (product of lubricant eye drops), which not only extend the Group's ophthalmology products line but also expand the Group's recognition in cataract surgery market. During the Reporting Period, revenue from the sales of intraocular lens was primarily from Shenzhen NIMO and Henan Universe after they were acquired by the Group.

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 breakdown 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):

	2016 RMB'000	%	2015 RMB'000	%
Medical chitosan	**115,575**	**13.6%**	108,914	16.4%
Medical sodium hyaluronate gel	**79,725**	**9.4%**	60,303	9.1%
Medical Collagen Sponge "奇特邦"	**15,794**	**1.8%**	9,782	1.5%
	211,094	**24.8%**	178,999	27.0%

During the Reporting Period, the Group's revenue from the sales of anti-adhesion and hemostasis products was approximately RMB211.09 million, representing an increase of approximately RMB32.09 million or 17.9% as compared to RMB179.00 million in 2015.

Anti-Adhesion Products

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 eight 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粘連的中國專家共識(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)" (預防剖宮產粘連的中國專家共識(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.

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

Medical Collagen Sponge "奇特邦"

Medical collagen has good hemostatic effect, and thus become a unique biomedical material used in surgical operations for gynaecology and obstetrics, otolaryngology, brain surgery and general surgery. Our Medical Collagen Sponge "奇特邦" is the refined type I collagen extracted from bovine tendon, produced using the advanced freeze-drying technology, and enable quick hemostasis and accelerate and promote wound healing. In the meantime, our Medical Collagen Sponge "奇特邦" in various specifications can be used for hemostasis, and various tissues and organs cavity filling to eliminate the residual cavity, thereby shortening the operation time and accelerating wound and tissue healing process after surgeries.

During the Reporting Period, through strengthening marketing and promotion, the Group derived revenue of approximately RMB15.79 million from the sales of Medical Collagen Sponge "奇特邦", representing an increase of approximately RMB6.01 million or 61.5% as compared to RMB9.78 million in 2015.

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 at 31 December 2016, the Group's in-house R&D team comprised 183 staff members, of which 151 were degree holders or above, 12 were doctorate degree holders and 52 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 China.

As at 31 December 2016, the Group owns 36 product licenses and 26 product pipelines in different stages of R&D. The Group intends to lodge application for approval of production for 1 product; clinical trials for 3 product have been completed and are now at the stage of product registration; 10 products are undergoing different stages of clinical trials or type inspection; and 12 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 the third generation of HA dermal filler "QST gel", fibrin sealant products, second generation of thermal-sensitive chitosan products and new intraocular lens 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 (elected and supported by the Major Project of National Science and Technology) to further expand the Group's product offerings in the product sectors of sustained-release preparations, new compound anti-adhesion and hemostasis membrane products.

The management of the Company 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.

Sales and Product Marketing

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

As at 31 December 2016, the Group's distribution network comprised over 1,800 distributors. With such distribution network, products of the Group were sold across provinces, municipals and autonomous regions in China. 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, proving the focused beneficial resources of the Group which assist the Group's product to occupy markets fast and effectively.

During the Reporting Period, the Group derived revenue of approximately RMB634.97 million from the sales of its products through distributors, which accounted for 74.6% of the Group's sales revenue and approximately RMB216.19 million from direct sales, which accounted for 25.4% of the Group's sales revenue.

The management of the Company 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, expanding the market share and increasing the sales of the products.

OPERATING PROSPECTS OF 2017

Recently, the continual growth of the medical and pharmaceutical and healthcare industry in China is driven by a combination of favourable socioeconomic factors. However, following the announcement and implementation of various policies, the reform of pharmaceutical and healthcare system in China has been further deepened. Tendering reforms such as the Sunshine Procurement Platform, Beijing-Tianjin-Hebei Integration and the Zhejiang Model are propelling industry integration, transformation of operating models and price competition within the industry. The management of the Company believes that the year of 2017 will be full of challenges for the medical and pharmaceutical industry in China. Meanwhile, along with the efforts in advancing the notion of building a healthy China, the localization progress of medical and pharmaceutical industry and weeding out obsolete capacities, enterprises benefiting from the economy of scales and in possession of advanced technologies, well established brands, marketing competitive edge and industrial integration capabilities will experience invaluable development opportunities.

In 2017, the Group will continue to put the proceeds raised to effective use, extend to the upstream and downstream section of the industry chain or expand its business scale horizontally while consolidating the existing business proactively, and identify suitable target companies actively within the existing four major therapeutic segments of the Group in achieving expansionary business growth by means of acquisition, capital injection or equity investment. Meanwhile, the Group will continue to focus on the organic growth of the existing segments by the following means:

- upgrading the level of artifical intelligence and digitalization 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 areas;

Orthopedics Products

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

	Sodium hyaluronate injection	Medical chitosan
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*	RMB100~200	RMB300~700
Coverage of medical insurance	Class B product under the National Reimbursement Drug List	Mechanic medical insurance (for certain regions)

* *for 2 millilitres*

The management of the Company has well positioned the two types of orthopedics products of the Group. Sodium hyaluronate injection, which has a longer history and possessed the advantages of high clinical recognition and relatively broad application. In 2017, the Group will follow the national policy and proactively respond to the reform of bidding and tender. The Group will also adjust the selling price of sodium hyaluronate injection to a certain extent to benefit more patients and stabilize the extensive coverage of the Group's sodium hyaluronate injection product in the market of intra-articular viscosupplement products.

On the other hand, 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 China. 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. With the above characteristics taken into account, the management of the Company has (i) designated differentiated clinical applications, (ii) target market and price positioning for the medical chitosan "Chitogel", (iii) actively enhanced their marketing promotion and sales, and (iv) strived to penetrate the market where the medical chitosan "Chitogel" has not yet been included in the provincial medical insurance coverage, to secure the overall profitability of orthopedics products through the continuous growth in sales of the medical chitosan "Chitogel" which has a high profit margin. The management of the Company 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 China.

Medical Aesthetics and Wound Care Products

In 2017, 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 hyaluronic acid products, the Group will continue to provide safe, effective and high-quality products for medical institutions and consumers. With the existing HA dermal filler "Matrifill" and HA dermal filler "Janlane" as well as the product series to be launched subsequently, the increasingly refined 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.

Ophthalmology Products

The Group focuses on the investment and industrial integration of the high-valued materials and diagnosing equipment used in ophthalmology surgery in China. In 2017, 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. Acquisition and integration of desired domestic and overseas enterprises with matured products, high-end technology and market resources will lead to the domestic industrialization of overseas matured intraocular lens production technology, re-development and enhancement of the productivity, quality and market competitiveness of domestic enterprises, and finally, replacement of imported products. Meanwhile, intraocular lens products will be integrated with the Group's OVD products and "Eyesucom" (product of lubricant eye drops) to form a product mix, so as to achieve synergy and expand the competitive edge of the ophthalmology products of the Group.

Anti-Adhesion and Hemostasis Products

In respect of the current market pattern of anti-adhesion products, there are various types of products in the Chinese market and market concentration is relatively high. The top three manufacturers, in aggregate, represent nearly 80% of the market share. Recently, more challenges are posed during product renewal and new product registrations as the government continued to raise demands on product quality. Products with outdated technology or unstable quality are gradually eliminated. The market entry barrier for new competitors has been raised progressively. Meanwhile, the Group continues to put more efforts in improving the specifications and packaging of the anti-adhesion and hemostasis products. Currently, the Group can manage to provide the series of products with the most comprehensive and integrated specifications. The detailed designs render the products more user-friendly and further tailored for clinical needs, cultivating so brand preference of medical practitioners as a result. In 2017, 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 RMB851.16 million, representing an increase of 28.2% as compared to 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 RMB141.55 million, representing an increase of 34.7% as compared to 2015.

The overall gross profit margin of the Group slightly decreased from 84.2% in 2015 to 83.4%, 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 RMB242.10 million in 2015 to approximately RMB287.76 million for the Reporting Period, representing an increase of RMB45.66 million. The proportion of selling and distribution expenses to the Group's total revenue slightly decreased from 36.5% in 2015 to 33.8% for the Reporting Period, primarily due to the lower selling expenses of Shenzhen NIMO and Henan Universe acquired by the Group during the Reporting Period. Moreover, the Group had a higher amount of marketing expenses relating to medical chitosan "Chitogel" and HA dermal filler "Matrifill" etc. in 2015, which also resulted in the proportion of selling and distribution expenses to the Group's total revenue in 2015 being at a relatively high level.

Administrative Expenses

The administrative expenses of the Group increased from approximately RMB58.88 million recorded for 2015 to approximately RMB90.19 million for the Reporting Period, representing an increase of approximately RMB31.31 million, primarily due to the increase of number of administrative staff due to business expansion, the increase in service fees of professional institutions and travelling expenses with respect to the business acquisitions of the

Group. Meanwhile, the acquired subsidiaries also incurred administrative expenses of approximately RMB10.00 million in the consolidated statement of profit or loss for the Reporting Period. During the Reporting Period, the proportion of administrative expenses to the Group's total revenue was 10.6% (2015: 8.9%).

R&D Expenses

The R&D expenses of the Group increased from approximately RMB32.25 million recorded for 2015 to approximately RMB47.26 million for the Reporting Period, representing an increase of approximately RMB15.01 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% (2015: 5.3%) 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 of the Company 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 RMB47.34 million in 2015 to approximately RMB55.26 million for the Reporting Period, representing an increase of approximately RMB7.92 million.

During the Reporting Period, the effective rate of income tax for the Group was approximately 15.1% (2015: 14.8%) and remained stable.

Results of the Year

During the Reporting Period, profit attributable to ordinary equity holders of the parent (exclusive of exchange gains in relation to the foreign currency settlement from the Global Offering proceeds) was approximately RMB305.05 million (2015: RMB249.04 million), representing an increase of 22.5% as compared to 2015.

During the Reporting Period, the basic earnings per share were RMB1.91 (2015: RMB1.86). The results of the Reporting Period realized a steady growth, primarily attributable to the growth of revenue from sales and the enhanced profitability of the Group.

Liquidity and Capital Resources

The Group's primary uses of cash are to fund working capital and other recurring expenses, payment for capital expenditure and to service indebtedness. During the Reporting Period, the Group funded its cash requirements principally from cash generated from operations and funds raised from global offerings and bank borrowings.

As at 31 December 2016, the total current assets of the Group was approximately RMB2,488.16 million, representing an increase of RMB116.11 million as compared to the amount at the end of 2015, and the total current liabilities was approximately RMB536.16 million, representing an increase of RMB395.17 million as compared to the amount at the end of 2015. As at 31 December 2016, the Group's current assets to liabilities ratio was approximately 4.64 (2015: 16.82).

During the Reporting Period, the net cash inflow from operating activities of the Group was approximately RMB254.49 million, representing a slight decrease of RMB14.02 million as compared to RMB268.51 million for 2015. The net cash outflow from the investment activities of the Group was approximately RMB1,511.24 million, representing an increase of RMB1,361.99 million as compared to RMB149.25 million in 2015, primarily due to the significant equity payment in relation to business acquisition.

Employees and Remuneration Policy

The Group had 886 employees as of 31 December 2016. The breakdown of our total number of employees by function was as follows:

Production	321
Research and Development	183
Sales and Marketing	231
Supply	22
Administration	129
Total	**886**

The Group's remuneration policy for its employees is based on their working experience, daily performance, sales performance of the Company 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 RMB115.36 million. The management of the Company 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.

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 RMB, US dollar and HKD. 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 31 December 2016, the Group did not have any asset pledge.

Gearing

As at 31 December 2016, the total liabilities of the Group amounted to approximately RMB707.55 million and the gearing ratio ((total liabilities/total assets) x 100%) was 19.2% as compared to 5.55% for 2015. The increase as compared to the end of 2015 was primarily attributed to the business acquisition during the Reporting Period.

Bank Borrowing

As at 31 December 2016, the acquired subsidiary, Shenzhen NIMO, had interest-bearing bank loans approximately RMB 26.67 million.

Foreign Exchange 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 in the future. During the Reporting Period and as at 31 December 2016, the Group did not enter into any hedging transactions.

Contingent Liabilities

As at 31 December 2016, the Group did not have any material contingent liabilities.

Material Events after the Reporting Period

As at 31 December 2016, there were no significant events after the Reporting Period.

REPORT OF THE DIRECTORS

The Board of Directors (the "**Board**") presents their report and the audited consolidated financial statements of the Group for the Reporting Period.

GLOBAL OFFERING

The Company is a joint stock company incorporated in the PRC with limited liability. Its H shares were listed and traded on the Main Board of the Stock Exchange on 30 April 2015. The prospectus of the Company dated 20 April 2015 (the "**Prospectus**") has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.3healthcare.com).

PRINCIPAL BUSINESS

We focus on the research and development, manufacturing and sales of biomedical materials. We strategically target the fast-growing therapeutic areas in the biomedical material market in China, including orthopedics, medical aesthetics and wound care, ophthalmology, anti-adhesion and homostasis.

BUSINESS REVIEW

A fair review of the Group's business during the Reporting Period is provided in the Chairman's Statement on pages 5 to 6 and the Management Discussion and Analysis on pages 7 to 21 of this annual report. Description of the risks and uncertainties that the Group may face can be found in the Internal Control, Audit and Risk Management on pages 50 to 51 in this annual report. The objectives and policies on financial risk management of the Group are also set out in the note 38 to the consolidated financial statements. Particulars of important events affecting the Group that have occurred since the end of the year ended 31 December 2016 are set out in note 39 to the consolidated financial statements. Financial Highlights of the Group are set out on page 4 in this annual report, in which the Group's performance during the Reporting Period is analyzed with financial key performance indicators. In addition, an account of the Group's environmental policies, the Company's relationships with its stakeholders and compliance with relevant laws and regulations that exerts material impact on the Group are included in the Corporate Social Responsibility Report on page 59 in this annual report. The probable future business development of the Company is discussed in "Management Discussion and Analysis" on page 15 of this annual report.

RESULTS

The Company's results for the Reporting Period and the financial position of the Company as at 31 December 2016 are set out in the audited consolidated financial statements on pages 69 to 71 of this annual report.

A discussion and analysis of the Company's performance during the year and the material factors underlying its results and financial position are set out in the Management Discussion and Analysis on pages 7 to 21 of this annual report.

DIVIDENDS

On 30 March 2017, the Board recommends to declare a final dividend of RMB0.5 (inclusive of tax) per share for the year ended 31 December 2016, totaling RMB80,022,650.

Pursuant to the Corporate Income Tax Law of the People's Republic of China and its implementing regulations (hereinafter collectively referred to as the "**CIT Law**") which took effect on 1 January 2008 and the Notice on Issues relating to the Recognition of Overseas Registered PRC-invested Enterprises as Resident Enterprises based on Actual Management Organisation Standards issued by the State Administration of Taxation on 22 April 2009, the tax rate of the corporate income tax applicable to the income derived from the PRC of a non-resident enterprise is 10%. For this purpose, any H shares registered under the name of a non-individual enterprise, including those registered under the name of HKSCC Nominees Limited, other nominees or trustees such as securities firms and banks, or other organizations or entities, shall be deemed as shares held by non-resident enterprise shareholders (shall have the same meaning as defined under the CIT Law). The Company will distribute the final dividend to the non-resident enterprise shareholders subject to a deduction of 10% corporate income tax withheld and paid by the Company on their behalf.

The 10% corporate income tax will not be withheld from the final dividend payable to any natural person shareholders.

The proposed final dividend is subject to approval by shareholders of the Company at the forthcoming annual general meeting. Upon approval by shareholders of the Company at the forthcoming annual general meeting, the payment of final dividend is expected to be made on or before Friday, 18 August 2017.

For details of the resolutions to be considered and approved at the forthcoming annual general meeting, the book closure period of H share register, and the date of annual general meeting, please refer to the notice of 2016 annual general meeting to be issued by the Company in due course.

The Board is not aware of any shareholders who have waived or agreed to waive any dividends.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the past five financial years is set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out on pages 76 to 77 of this annual report.

USE OF NET PROCEEDS FROM THE LISTING

The Company issued an aggregate of 40,045,300 H shares of RMB1.00 each at a price of HK$59.00 per H share, raising a total amount of HK$2,362.67 million in its Global Offering on 30 April 2015. Netting of the paid and accrued listing expenses amounting to RMB69.42 million, the net proceeds raised was RMB1,794.28 million. The Board has resolved at its meeting held on 18 March 2016 to propose to reallocate and change the use of the remaining balance of unutilized net proceeds of approximately RMB1,424.64 million. The aforesaid proposal was duly passed at the annual general meeting held on 3 June 2016. In addition, the Board has resolved at its meeting held on 9 December 2016 to propose to reallocate and change the use of the second remaining balance of unutilized net proceeds of approximately RMB386.74 million (equivalent to approximately HK$435.91 million). The aforesaid proposal was duly passed at the extraordinary general meeting held on 14 February 2017. As at 31 December 2016, the net proceeds of the Company were applied as follows:

Use of Proceeds from the Global Offering	Approximate Percentage of Proceeds from the Global Offering	Proposed Allocation on the Use of Net Proceeds *(approximately RMB million)*	Utilized Net Proceeds up to 8 June 2016 [1] *(approximately RMB million)*	Remaining Balance of Unutilized Net Proceeds up to 8 June 2016 [1] *(approximately RMB million)*	Approximate Percentage of Remaining Balance of Unutilized Net Proceeds up to 8 June 2016 [1]	Proposed Reallocation on the Use of Remaining Balance of Unutilized Net Proceeds up to 8 June 2016 [1] *(approximately RMB million)*	Utilized Net Proceeds up to 31 December 2016 *(approximately RMB million)*	Remaining Balance of Unutilized Net Proceeds up to 31 December 2016 *(approximately RMB million)*
1. Constructing New Production Lines at Shanghai Likangrui	25%	448.57	18.71	429.86	0%	0.00	0.00	0.00
2. Acquiring Suitable Businesses	25%	448.57	321.69	126.88	55%	694.28	572.56	121.72
3. Purchasing New Production Equipment	18%	322.97	7.9	315.07	30%	378.69	20.94	357.75
4. Funding R&D Activities	13%	233.26	7.98	225.28	0%	0.00	0.00	0.00
5. Expanding Sales and Marketing Network	9%	161.49	0	161.49	0%	0.00	0.00	0.00
6. Working Capital	10%	179.42	175.68	3.74	15%	189.35	184.07	5.28
				1,262.32				484.75

Notes:

(1) The annual general meeting has passed the proposal to reallocate and change the use of net proceeds on 3 June 2016 and the subsequent related banking procedures have been completed on 8 June 2016.

SHARE CAPITAL

Share capital of the Company as at 31 December 2016 was as follows:

	Number of shares	Percentage of total 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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

PRE-EMPTIVE RIGHTS AND ARRANGEMENTS ON OPTIONS OF SHARES

There are no provisions for pre-emptive rights for the shareholders of the Company under the PRC laws and the articles of association of the company (the "**Articles**"). During the Reporting Period, the Company does not have any arrangement on options of shares.

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, the aggregate purchases attributable to the Group's five largest suppliers comprised 75.5% of the Group's total purchases for the year ended 31 December 2016, among which, the purchases attributable to the Group's largest supplier during the Reporting Period was 57.8%.

During the Reporting Period, the aggregate sales attributable to the Group's five largest distributors comprised 9.2% of the Group's total sales for the year ended 31 December 2016, among which, the sales attributable to the Group's largest distributor during the Reporting Period was 3.3%. During the Reporting Period, none of the distributors was our supplier and vice versa.

During the Reporting Period, the aggregate sales attributable to the Group's five largest customers comprised 9.2% of the Group's total sales for the year ended 31 December 2016, among which, the sales attributable to the Group's largest customer during the Reporting Period was 3.3%.

During the Reporting Period, none of the Directors or their close associates or shareholders which, to the knowledge of the Directors, owned more than 5% of the Company's registered capital had any beneficial interest in the five largest suppliers, distributors or customers of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and its subsidiaries during Reporting Period are set out in note 13 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company during the Reporting Period are set out in note 30 to the consolidated statement and details of the reserve distributable to shareholders are set out in note 30 to the consolidated statement.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

BANK LOANS AND OTHER BORROWINGS

As at 31 December 2016, the acquired subsidiary, Shenzhen NIMO, had interest-bearing bank loans of approximately RMB 26.67 million.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth the particulars of the Directors, supervisors of supervisory committee (the "**Supervisors**") and senior management during the Reporting Period and as at the date of this annual report:

Name	Age	Capacity	Date of appointment
Dr. Hou Yongtai	55	Chairman and Executive Director	23 July 2010
Mr. Wu Jianying	53	Executive Director and General Manager	23 July 2010
Mr. Ling Xihua *(passed away on 12 January 2016)*	61	Executive director and Chief Financial Officer	23 July 2010
Mr. Huang Ming	41	Executive Director, Secretary of the Board and one of our joint company secretaries	23 July 2010
Ms. Chen Yiyi	35	Executive Director	23 July 2010
Mr. Tang Minjie	41	Executive Director and Chief Financial Officer	14 February 2017
Ms. You Jie	54	Non-executive director	23 July 2010
Mr. Gan Renbao	77	Non-executive director	23 July 2010
Mr. Chen Huabin	49	Independent Non-executive director	16 October 2014
Mr. Shen Hongbo	37	Independent Non-executive director	16 October 2014
Mr. Li Yuanxu	50	Independent Non-executive director	16 December 2010
Mr. Zhu Qin	53	Independent Non-executive director	16 October 2014
Mr. Wong Kwan Kit	47	Independent Non-executive director	6 April 2015
Mr. Liu Yuanzhong	48	Chairman of the Supervisory Committee and shareholder Supervisor	23 July 2010
Ms. Yang Qing	45	Independent Supervisor	16 October 2014
Mr. Tang Yuejun	38	Independent Supervisor	16 October 2014
Mr. Wei Changzheng	37	Employee representative Supervisor	23 July 2010
Mr. Yang Linfeng	35	Employee representative Supervisor	30 September 2014
Ms. Ren Caixia	59	Deputy general manager	23 July 2010
Mr. Wang Wenbin	50	Deputy general manager	30 September 2014
Mr. Zhang Jundong	43	Deputy general manager	30 September 2014
Ms. Wei Xin	45	Deputy general manager	19 February 2016

CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from all independent non-executive Directors, namely Mr. Chen Huabin, Mr. Shen Hongbo, Mr. Li Yuanxu, Mr. Zhu Qin and Mr. Wong Kwan Kit the confirmation letters of their independence pursuant to Rule 3.13 of the Listing Rules. Based on their confirmations, the Company considers that all independent non-executive Directors are independent.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The particulars of the profiles of the Directors, Supervisors and senior management are set out on pages 57 to 62 in this annual report.

CHANGES OF INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The changes in the Board and Senior Management and the information of Directors and Supervisors since the date of the Company's 2016 interim 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 Healthcare Holdings (BVI) Co., Ltd., a subsidiary of the Company since August 2016, the chairman of New Industries since November 2016 and the executive director of Henan Universe and Zhuhai Eye Good, respectively, since December 2016.

2. Mr. Huang Ping (former name), an executive Director, Secretary of the Board and joint company secretary of the Company, changed his name to Huang Ming with effect from August 2016; served as the director of New Industries since November 2016.

3. Ms. Chen Yiyi, a non-executive Director of the Company, served as a supervisor of Henan Universe since November 2016, a director of New Industries since November 2016 and a supervisor of Zhuhai Eye Good since December 2016.

4. Mr. Tang Minjie served as chief financial officer of the Company since 9 December 2016; and he has been appointed as an executive Director of the Third Session of the Board of the Company on 14 February 2017.

Apart from above, there is no change in information of the Directors, Supervisors or chief executive which shall be disclosed pursuant to 13.51(2) of the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of our Directors has entered into a service contract with our Company for a term of three years subject to termination in accordance with their respective terms. Each of the Supervisors has entered into a service contract with our Company for a term of three years and in respect of, among others, compliance with relevant laws and regulations, observation of the Articles and provision on arbitration.

None of the Directors or Supervisors has or is proposed to have a service contract with any member of our Group which is not determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as disclosed in this annual report, no Director or Supervisor had a material interest, directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Company or its subsidiaries, to which the Company or any of its subsidiaries and controlling companies or any of its subsidiaries entered into during or at the end of the Reporting Period.

CONTRACT OF SIGNIFICANCE

Except as disclosed in this annual report, during the Reporting Period, no contracts of significance in respect of provision of services or otherwise were entered into between the Company or its subsidiaries and the controlling shareholders.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

In order to restrict competition activities with the Company, our controlling shareholders, Ms. You Jie (who is also a non-executive Director of the Company) and Mr. Jiang Wei (collectively, the "**Covenantors**") have entered into a deed of non-competition in favour of the Company dated 8 December 2014 (the "**Deed of Non-Competition**"). The undertakings and covenants stipulated under the Deed of Non-Competition cover any business which is or may be in competition with the Core Operations (as defined therein) or the business of any member of our Group from time to time within the territories of Hong Kong and the PRC and such other parts of the world where such businesses are carried on by any member of our Group.

In determining whether the Covenantors had fully complied with the non-competition undertakings during the year ended 31 December 2016, the Company noted that (a) the Covenantors declared that they had fully complied with the non-competition undertakings in the Non-Competition Deed as at 31 December 2016, (b) no new competing business was reported by the Covenantors as at 31 December 2016, (c) there was no particular situation rendering the full compliance of the non-competition undertakings being questionable, and (d) the independent non-executive Directors had reviewed the compliance of non-competition undertakings by the Covenantors as part of the annual review process stipulated in the Deed of Non-Competition.

During the year ended 31 December 2016 and save as disclosed in the Prospectus, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined in the Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of Directors and Supervisors of the Company are set out in note 8 to the consolidated financial statements. During the Reporting Period, there was no arrangement under which any Directors or Supervisors of the Company waived their remuneration.

Remuneration of senior management members of the Company set out in this annual report, other than Directors and Supervisors, falls within the following bands:

Band	Number
RMB0-600,000	1
RMB600,001-1,000,000	3

REMUNERATION OF EMPLOYEES AND POLICIES

As of 31 December 2016, the Group had 886 employees in total. The remuneration package for our employees generally includes salary, allowances and bonuses. Employees also receive benefits such as housing allowance and social insurance. The particulars of the employees of the Company are set out in note 6 to the consolidated financial statements.

PENSION SCHEME

Pursuant to the provisions of the relevant laws and regulations of the PRC, the Group is required to participate in contribution to retirement benefit schemes established by the relevant provincial and municipal government authorities. The Group and its employees are required to make contributions, at certain percentages of employees' total salaries, to the retirement benefit scheme in accordance with such scheme. Upon retirement, employees will receive the pension issued by the provincial and municipal government authorities on a monthly basis.

Details of the Company's pension scheme are set out in note 6 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, to the knowledge of the Directors of the Company, the interests or short positions of persons other than Directors, chief executives or supervisors of the Company in the shares and underlying shares of the Company as recorded in the register which were required to be notified to the Company and Stock Exchange under 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:

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 [(1)]	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

Note: L denotes long position

1. Mr. Jiang Wei directly holds 46,800,000 domestic shares in the Company. He is the spouse of Ms. You Jie, our non-executive Director, and therefore he is deemed under the SFO to be interested in the 28,800,000 domestic shares held by Ms. You Jie in the Company.

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
Prime Capital Management Company Limited[1]	6,044,578 (L)	15.09	3.78	Investment Manager
Prudence Investment Management (Hong Kong) Limited[1]	4,102,300 (L)	10.24	2.56	Investment Manager
UBS AG[1] [2]	3,511,122 (L)	8.77	2.19	Person having a security interest in shares
	491,300 (L)	1.23	0.31	Interest of corporation controlled by the substantial shareholder
UBS Group AG[1] [3]	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)	0.029	0.007	Interest of corporation controlled by the substantial shareholder
Morgan Stanley[1] [4]	3,003,858 (L)	7.50	1.88	Interest of corporation controlled by the substantial shareholder
	1,201,833 (S)	3.00	0.75	Interest of corporation controlled by the substantial shareholder
Templeton Investment Counsel, LLC[1]	3,634,200 (L)	9.08	2.27	Investment Manager

Notes: L denotes long position and S denotes short position

1. The disclosure is based on the information available on the website of the Stock Exchange (www.hkexnews.com.hk).

2. Among the long position of these 4,002,422 H shares, UBS AG was deemed to hold long position of 3,511,122 H shares through its security interest in those shares. In addition, UBS AG was deemed to have interest in long position of 491,300 H shares (UBS Global Asset Management (Hong Kong) Limited and UBS Fund Services (Luxembourg) S.A. were all wholly-owned by UBS AG, and were beneficially holding long position of 122,800 H shares and long position of 368,500 H shares in the Company, respectively).

3. Among the long position of these 3,927,720 H Shares, UBS Group AG was deemed to hold long position of 3,884,220 H Shares through its security interest in those shares. In addition, UBS Group AG was deemed to have interest in long position of 43,500 H Shares (UBS AG, UBS Fund-Management (Luxembourg) S.A. and UBS Fund Management (Switzerland) AG were all wholly owned by UBS AG, and were beneficially holding long position of 12,200 H Shares, long position of 30,300 H Shares and long position of 1,000 H Shares in the Company, respectively.)

4. Long position of these 3,003,858 H shares and short position of these 1,201,833 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 31 December 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 notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

As at 31 December 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 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[1]	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
Ling Xihua[2]	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 domestic 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 domestic shares held by Mr. Jiang Wei in the Company.

2. Mr. Ling passed away on 12 January 2016 and ceased to be interested in the 6,000,000 domestic shares of the Company held by him with effect from 10 April 2017, the date on which such shares have been transmitted to his successors.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2016, none of the other Directors, Supervisors 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.

CONNECTED TRANSACTIONS

The independent non-executive Directors of the Company have reviewed and confirmed that the continuing connected transactions set out below have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the terms of the agreements governing the relevant transactions, and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Details of the Group's continuing connected transactions are as follows:

Exempted continuing connected transactions

The following transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules and thus are fully exempted from the reporting, announcement and independent shareholders' approval requirements (including independent financial advice).

*Lease agreement with Shanghai Haohai Chemical Company Limited ("**Haohai Chemical**")*

Our Company has entered into a lease agreement dated 7 December 2014, with Haohai Chemical ("**Lease Agreement 1**"), pursuant to which our Company leased from Haohai Chemical the premises at Rooms 501 and 502, Block 2, Alley 139, Anshun Road, Changning District, Shanghai, China for use as our office premises. The lease is for a term of 3 years commencing from 1 January 2015 to 31 December 2017 and the rental payment is RMB25,000 per month (excluding utilities and management fees). The rental rate was determined after arm's length negotiations between our Company and Haohai Chemical and on normal commercial terms with reference to the prevailing market rent of office premises of a similar grade in the vicinity.

Haohai Chemical is owned as to 80% by our Controlling Shareholder, Mr. Jiang Wei who is the spouse of Ms. You Jie, another Controlling Shareholder and Director of the Company. Accordingly, Haohai Chemical is a connected person of the Company and the transaction under Lease Agreement 1 constitute a continuing connected transaction of the Company under the Listing Rules.

Lease agreement with Ms. You Jie

Our Company has entered into a lease agreement dated 7 December 2014, with Ms. You Jie ("**Lease Agreement 2**") pursuant to which our Company leased from Ms. You Jie the premises at Rooms 503 and 504, Block 2, Alley 139, Anshun Road, Changning District, Shanghai, China for use as our office premises. The lease is for a term of 3 years commencing from 1 January 2015 to 31 December 2017 and the rental payment is RMB25,000 per month (excluding utilities and management fees). The rental rate was determined after arm's length negotiations between our Company and Ms. You Jie and on normal commercial terms with reference of the prevailing market rent of office premises of a similar grade in the vicinity

Ms. You Jie is our Controlling Shareholder and Director and therefore is a connected person of the Company and the transaction under Lease Agreement 2 constitute a continuing connected transaction of the Company under the Listing Rules.

Under Rules 14A.81 and 14A.82(1) of the Listing Rules, as Lease Agreement 1 and Lease Agreement 2 (the "**Lease Agreements**") were entered into within a 12-month period, and Haohai Chemical and Ms. You Jie, as the lessors under the Lease Agreements, are related since Haohai Chemical is held as to 80% by Mr. Jiang Wei, our Controlling Shareholder who is the spouse of Ms. You Jie, the continuing connected transactions under the Lease Agreements shall be aggregated as if they were one transaction. For each of the three years ending 31 December 2017, the annual cap for the Lease Agreements is expected to be no more than RMB600,000. Under Rule 14A.76(1) of the Listing Rules, the maximum applicable percentage ratio for the transactions contemplated under the Lease Agreements when aggregated is less than 5% and the total annual consideration is less than HK$3,000,000. As such, the Lease Agreements constitute de minimis transactions and are fully exempted from the reporting, annual review, announcement and independent shareholders' approval requirements (including independent financial advice) under Chapter 14A of the Listing Rules.

Save as aforesaid, the Directors have confirmed that the Group does not have other connected transactions and continuing connected transactions as defined under the Listing Rules and have therefore complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

The related party transactions of the Company are set out in note 31 to the consolidated financial statements. Apart from the continuing connected transactions disclosed above, all the other related party transactions did not fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 14A of the Listing Rules which are required to comply with any of the relevant reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") set out in Appendix 10 to 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 of the Company, 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 of the Company 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.

DONATIONS

During the Reporting Period, the Group made donations of RMB771,900.

INDEMNITY OF THE DIRECTORS

Pursuant to the provisions of Articles, the Company may insure against the various possible legal risks faced by the directors, supervisors, general manager and other senior management in the ordinary course of performing their duties and the Company has arranged appropriate liability insurance for the Directors and senior management of the Group.

PUBLIC SHAREHOLDINGS

Based on the public information available to the Company and so far as the Directors are aware, up to the date of this annual report, at least 25% of the issued share capital of the Company is held by the public.

MATERIAL LITIGATION

Save as disclosed in the section headed "Business — Legal Proceedings" in the Prospectus, 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.

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 and internal control system. The 2016 annual results and financial statements of the Group for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards have been reviewed by the Audit Committee.

AUDITORS

Ernst & Young has been appointed as Auditors in respect of the financial statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards. These financial statements have been audited by Ernst & Young. Since the date of preparation for the listing, the Company has been engaging Ernst & Young for their services. Ernst & Young will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

By order of the Board
Hou Yongtai
Executive Director and Chairman of the Board

30 March 2017

The Company and its subsidiaries are committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

SUMMARY OF CORPORATE GOVERNANCE

The Company has established a corporate governance structure comprising general meeting, the Board, supervisory committee and the management in accordance with Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and the Listing Rules. Such structure gives a clear division of authority and responsibilities among the authority, decision-making and regulatory bodies and the management, and creates a balanced mechanism and mutual coordination for standard operation.

CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company has complied with all the code provisions set out in Corporate Governance Code and adopted substantially all the recommended best practices therein.

THE BOARD

The Board exercises its authority in accordance with the provisions set out in the Articles. It reports its work at general meetings, implements the resolutions passed at general meetings and is accountable to the general meetings.

Composition and Term of Office of the Board

As at the date of this annual report, the Board comprises twelve members, consisting of five executive Directors, two non-executive Directors and five independent non-executive Directors. Listed below are incumbent Directors of the Company:

Name	Position
Dr. Hou Yongtai	Chairman and Executive Director
Mr. Wu Jianying	Executive Director and General Manager
Mr. Huang Ming	Executive Director, Secretary of the Board and one of the Joint Company Secretaries
Mr. Tang Minjie (appointed on 14 February 2017)	Executive Director and Chief Financial Officer
Ms. Chen Yiyi	Executive Director
Ms. You Jie	Non-executive Director
Mr. Gan Renbao	Non-executive Director
Mr. Chen Huabin	Independent Non-executive Director
Mr. Shen Hongbo	Independent Non-executive Director
Mr. Li Yuanxu	Independent Non-executive Director
Mr. Zhu Qin	Independent Non-executive Director
Mr. Wong Kwan Kit	Independent Non-executive Director

During the Reporting Period, the Board has complied with the requirements of the Listing Rules on appointment of at least three independent non-executive Directors, representing at least one-third of members of the Board and at least one of whom shall have appropriate professional qualifications, or accounting or relevant financial management expertise. The qualifications of the five independent non-executive Directors of the Company fully comply with the requirements of Rules 3.10(1) and (2) of the Listing Rules.

None of the independent non-executive Directors of the Company has any business or financial interests in the Company and its subsidiaries, nor do they hold any executive positions in the Company, which effectively guaranteed their independence. The Company has received from each of the independent non-executive Directors an annual confirmation of their independence under Rule 3.13 of the Listing Rules. Accordingly, the Company is of the opinion that all the independent non-executive Directors are independent under Rule 3.13 of the Listing Rules.

The detailed biographies of the Directors are set out on pages 57 to 62 of this annual report. Members of the Board do not have any relationships between each other (including financial, business, family or other material or related relations). The Board is well-balanced in structure and each of its members possesses extensive knowledge, experience and talent in relation to the business operation and development of the Company. All the Directors are well aware of their joint and several responsibilities towards the shareholders of the Company.

Meetings of the Board

According to the Articles, meetings of the Board shall be held at least four times a year. Meetings shall be convened by the chairman of the Board. Notice of the meetings shall be sent to all directors and supervisors before the meeting is held under the relevant provisions.

A meeting of the Board shall be attended by more than half of all the Directors. Meetings of the Board shall be attended by the Directors in person. If a Director cannot attend a meeting for any reason, he may appoint in writing another Director as his proxy to attend the meeting on his behalf. The instrument of proxy shall specify the scope of authority.

During the Reporting Period, the Board held 9 meetings in total, with details of the attendance of Directors specified as follows:

Name	Position	Meetings attended/ Meetings eligible to attend
Dr. Hou Yongtai	Chairman and Executive Director	9/9
Mr. Wu Jianying	Executive Director and General Manager	9/9
Mr. Ling Xihua [(1)]	Executive Director and Chief Financial Officer	0/0
Mr. Huang Ming	Executive Director, Secretary of the Board and one of the Joint Company Secretaries	9/9
Ms. Chen Yiyi	Executive Director	9/9
Mr. Tang Minjie [(2)]	Executive Director and Chief Financial Officer	0/0
Ms. You Jie	Non-executive Director	8/9
Mr. Gan Renbao	Non-executive Director	9/9
Mr. Chen Huabin	Independent Non-executive Director	9/9
Mr. Shen Hongbo	Independent Non-executive Director	9/9
Mr. Li Yuanxu	Independent Non-executive Director	9/9
Mr. Zhu Qin	Independent Non-executive Director	9/9
Mr. Wong Kwan Kit	Independent Non-executive Director	9/9

Note:

1. Mr. Ling Xihua passed away on 12 January 2016.

2. Mr. Tang Minjie was appointed on 14 February 2017.

Authority Exercised by the Board and the Management

The functions and powers of the Board and the management are well defined in the Articles, aiming to provide an adequate balance and restriction mechanism for the purpose of sound corporate governance and internal control.

The management of the Company is accountable to the Board. Under the leadership of the general manager, the management is responsible for implementing the resolutions duly approved by the Board, formulating specific regulations of the Company and supervising the daily operation and management of the Company.

Directors' Continuous Training and Development

Pursuant to code provision A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the Reporting Period, the Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. All Directors have participated in continuous professional development by reading training materials and attending training courses on the topics related to corporate governance and regulations.

According to the records maintained by the Company, all Directors and Supervisors of the Company received trainings focusing on the strategy of the Company, capital market and development strategy of the Company organized by Mr. Li Yuanxu and Mr. Shen Hongbo, the independent non-executive Directors during the Reporting Period, in order to comply with the requirements of the Corporate Governance Code in relation to continuous professional development, through the training,the directors obtained more understanding about the capital market status in Hong Kong and strategy management knowledge.

Chairman and General Manager

Pursuant to code provision A.2.1 of the Corporate Governance Code, the roles of the Chairman and the chief executive officer (our general manager) should be segregated and should not be performed by the same individual. During the Reporting Period, Dr. Hou Yongtai acted as the Chairman and Mr. Wu Jianying acted as the General Manager. The Chairman and the General Manager do not have any relationships (including financial, business, family or other material or connected relationship). The Articles have defined the division of roles and duties between the Chairman and the General Manager.

Appointment and Re-election of Directors

Pursuant to the requirements of the Articles, Directors (including non-executive Directors) shall be elected at the general meeting with a term of three years. A Director shall be eligible for re-election on the expiry of each term. The Company has implemented a set of effective procedures for appointment of new Directors. The nomination of new Directors shall be first deliberated by the nomination committee of the Board (the "**Nomination Committee**") and then submitted to the Board, subject to approval by election at the general meeting.

Where vacancies on the Board exist, the Nomination Committee evaluates skills, knowledge and experience required by the Board, and identifies if there are any special requirements for the vacancy. The Nomination Committee identifies appropriate candidates and convenes Nomination Committee meeting to discuss and vote in respect of the nominated Directors, and recommends candidates for Directors to the Board.

The Nomination Committee considers candidates with individual skills, experience and professional knowledge that can best assist and facilitate the effectiveness of the Board.

The Nomination Committee takes the policy on Board diversity of the Company into consideration when it considers the balance of composition of the Board as a whole.

Emoluments of Directors, Supervisors and Senior Management and Five Highest Paid Individuals

Emoluments of Directors and Supervisors shall be proposed by the remuneration committee (the "**Remuneration Committee**") based on their educational background and working experience. Emoluments of Directors shall be determined by the Board with reference to Directors' experience, working performance and position as well as the market conditions and shall be subject to approval by the general meeting.

Emoluments of senior management shall be determined by the Board.

Details of emoluments of Directors, Supervisors, senior management and five highest paid individuals of the Company are set out in notes 8 and 9 to the consolidated financial statements.

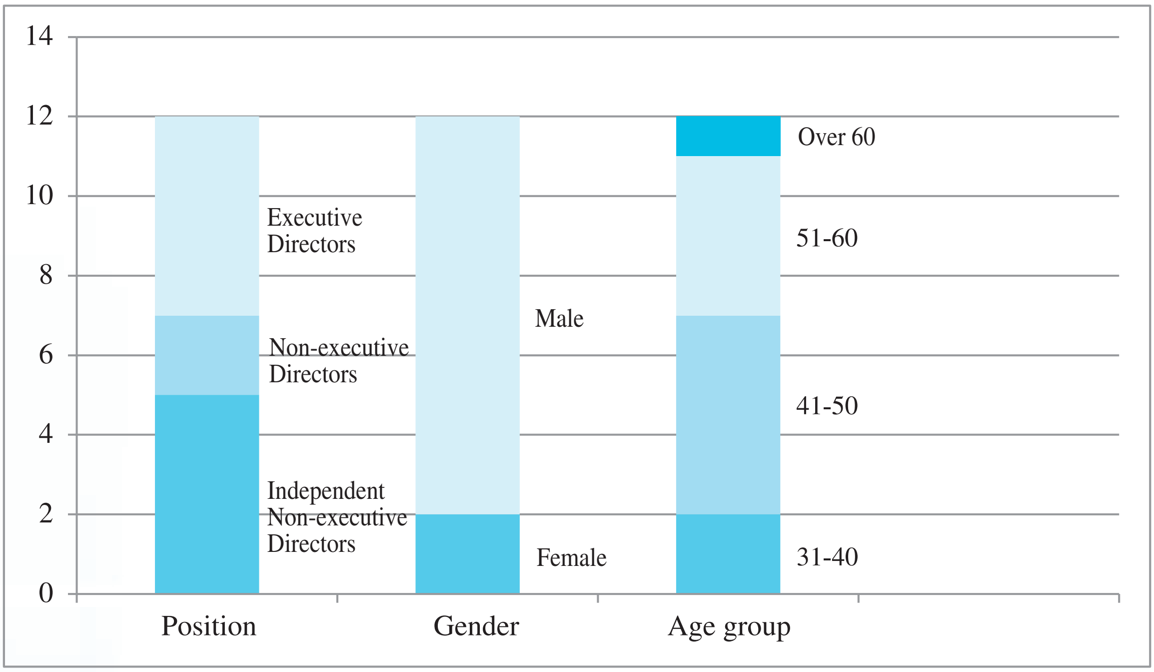
Board Diversity Policy

In accordance with the latest amendment and requirements of Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules by the Stock Exchange, the Company has adopted a board diversity policy and submitted to the Board for approval. The policy is summarized as below:

The Board has adopted a policy on board diversity (the "**Policy**"). The Policy specifies that in designing the composition the Board, Board diversity shall be considered from a number of aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. The appointment of Directors will be based on meritocracy, and candidates will be evaluated against objective criteria, having due regard for the benefits of diversity of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, culture, ethnicity and educational background, professional experience, knowledge and skills.

The Nomination Committee will disclose the composition of the Board in Corporate Governance Report every year and supervise the implementation of this Policy. The Nomination Committee will review the effectiveness of this Policy, as appropriate discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this annual report, the diversity of the Board is illustrated as below. Further details on the biographies and experience of the Directors are set out on page 57 to page 62 of this annual report.



The Nomination Committee has reviewed the membership, structure and composition of the Board, and is of the opinion that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and fields can enable the Company to maintain high standard of operation.

Directors' and Senior Management's Liability Insurance

The Company has entered into Directors' and senior management's liability insurance policy to cover any possible legal action against them.

Corporate Governance Function

The Board is collectively responsible for the duties relating to corporate governance. During the Reporting Period, the Board has performed the following duties:

(a) to develop and review the Company's policy and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

BOARD COMMITTEES

There are four committees under the Board, namely, Audit Committee, Remuneration Committee, Nomination Committee and Strategy Committee.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to maintain an appropriate relationship with the Company's auditors, review the Company's financial information, and oversee the Company's financial reporting system, risk control and internal control system. The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

The Audit Committee consists of five Directors, namely Mr. Chen Huabin (independent non-executive director), Mr. Shen Hongbo (independent non-executive Director), Mr. Li Yuanxu (independent non-executive director), Mr. Zhu Qin (independent non-executive Director) and Ms. You Jie (Non-executive Director), and one of them is an independent non-executive Director who possesses appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Mr. Shen Hongbo is the chairman of the Audit Committee.

During the Reporting Period, the Audit Committee held three meetings in total. The table below sets out the details of attendance of each member at meetings of the Audit Committee held during the Reporting Period:

Name	Position	Meetings attended/ Meetings held
Mr. Chen Huabin	Independent Non-executive Director	3/3
Mr. Shen Hongbo	Independent Non-executive Director	3/3
Mr. Li Yuanxu	Independent Non-executive Director	3/3
Mr. Zhu Qin	Independent Non-executive Director	3/3
Ms. You Jie	Non-executive Director	2/3

During the Reporting Period, the Audit Committee, through its meetings held on 18 March, 26 August and 9 December 2016 respectively, has performed, among others, the following:

- review and discussion of the audited financial statements, annual results announcement and annual report for the year ended 31 December 2015, review and discussion of the onshore and offshore audit firms' expenses in 2015, recommendation of the Board to engage onshore and offshore audit firms in 2016, as well as review and discussion of audit work of the Group and internal control self-valuation report in 2015.

- review and discussion of the financial statements and interim report and results announcement for the six months ended 30 June 2016; and

- review and discussion of effectiveness of the Risk Assessment System, Internal Audit System and Information Disclosure System of the Company and review and recommendation of the Board of the Company's Financial Monitoring Assessment Report and Risk Assessment Report.

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with the Listing Rules. The Remuneration Committee has adopted the second model described in paragraph B.1.2(c) under Appendix 14 to the Listing Rules (i.e. making recommendation to the Board on the remuneration package of individual executive Director and senior management member). The primary duties of the Remuneration Committee include: formulating job description, performance evaluation system and target, remuneration system and standards for the Company's members of the senior management; formulating share incentive scheme for the Company's Directors, supervisors and members of the senior management pursuant to relevant laws, regulations or normative documents; making recommendations to the Board on remuneration policy and structure for the Company's Directors and members of the senior management and on the establishment of a formal and transparent procedure for developing remuneration policy, and making recommendations to the Board, from time to time, on total remuneration and/or interests that have been granted to Directors and members of the senior management; making recommendations to the Board on the remuneration of non-executive Directors; and such other matters authorized by the Board. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

During the Reporting Period, the Remuneration Committee was comprised of five Directors, namely Mr. Wu Jianying (executive Director), Mr. Huang Ming (executive Director), Mr. Shen Hongbo (independent non-executive Director), Mr. Li Yuanxu (independent non-executive Director) and Mr. Zhu Qin (independent non-executive Director). Mr. Zhu Qin is the chairman of the Remuneration Committee.

During the Reporting Period, the Remuneration Committee held a meeting on 18 March 2016 to review and pass remuneration of Directors and senior management personnel in 2015 and remuneration proposal of Directors and senior management personnel in 2016. All members of the Remuneration Committee, namely Mr. Wu Jianying, Mr. Huang Ming, Mr. Shen Hongbo, Mr. Li Yuanxu and Mr. Zhu Qin, attended the meeting.

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with the Listing Rules. The primary duties of the Nomination Committee include: making recommendations to the Board on the size and composition of the Board and the management based on the Company's business operation, asset scale and shareholding structure, and reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and taking diverse factors into account when reviewing the composition of the Board; making recommendations to the Board on the appointment, re-election and succession planning of directors; assessing the independence of Independent Non-executive Directors and formulating policies relating to the diversity of members of the Board. The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Nomination Committee consists of five Directors, namely Dr. Hou Yongtai (executive director), Ms. You Jie (non-executive Director), Mr. Chen Huabin (independent non-executive Director), Mr. Li Yuanxu (independent non-executive Director) and Mr. Zhu Qin (independent non-executive Director). Mr. Li Yuanxu is the chairman of the Nomination Committee.

During the Reporting Period, the Nomination Committee held three meetings in total. The table below sets out the details of attendance of each member at meetings of the Nomination Committee held during the Reporting Period:

Name	Position	Meetings attended/ Meetings held
Mr. Chen Huabin	Independent Non-executive Director	3/3
Mr. Li Yuanxu	Independent Non-executive Director	3/3
Mr. Zhu Qin	Independent Non-executive Director	3/3
Dr. Hou Yongtai	Executive Director	3/3
Ms. You Jie	Non-executive Director	2/3

During the Reporting Period, the Nomination Committee held three meetings on 18 March, 3 June and 9 December 2016, respectively, has performed, among others, the following:

- recommend to the Board of the candidates for the Third Session of the Board, review the Board diversity, evaluate the independence of independent non-executive Directors, as well as review the Board structure and the independent non-executive Directors' duties fulfillment of to the Company;
- recommend to the Board of the candidates for the chairman of the Third Session of the Board and general manager; and
- recommend to the Board of the appointment of Mr. Tang Minjie as the Chief Financial Officer of the Company; and recommend Mr. Tang Minjie as the candidate as an executive Director.

Strategy Committee

The primary duties of the Strategy Committee are to study and provide advice on the long-term development strategy plan of the Company; study and provide advice on material matters such as external investment, acquisition and disposal of assets, assets pledge, provision of external guarantee, entrusted financial management, connected transactions, financing plan and development strategies which shall be submitted to the Board for approval in accordance with the provisions of the Articles, the Listing Rules and relevant laws and regulations; study and provide advice on other material matters affecting the development of the Company; review the implementation of above matters and other matters authorized by the Board.

The Strategy Committee consists of five Directors, namely Dr. Hou Yongtai (executive Director), Mr. Wu Jianying (executive Director), Mr. Huang Ming (executive Director), Ms. You Jie (Non-executive Director) and Mr. Li Yuanxu (independent non-executive Director). Ms. You Jie is the chairman of the Strategy Committee.

During the Reporting Period, the Strategy Committee held a meeting on 18 March 2016 to review and pass the proposal of requesting the Board to propose the resolution of granting the Board a general mandate to issue Shares at the general meeting. All members of the Strategy Committee, namely Dr. Hou Yongtai, Mr. Wu Jianying, Mr. Huang Ming, Ms. You Jie and Mr. Li Yuanxu, attended the meeting.

SUPERVISORY COMMITTEE

The Supervisory Committee is a supervisory agency of the Company which is responsible for the supervision of the Board and its members and senior management such as the general manager and deputy general manager so as to prevent them from the misuse of authority and infringement upon lawful rights of the shareholders, the Company and the Company's employees. The number of members and the composition of the Supervisory Committee are in line with the provisions and requirements of the laws, regulations and the Articles. During the Reporting Period, the Supervisory Committee was comprised of five supervisors, of whom two were employee representative supervisors democratically elected by our employees. The background and biographical details of the supervisors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this annual report.

During the Reporting Period, the Supervisory Committee held three meetings on 18 March, 3 June and 26 August 2016, respectively, has mainly performed, among others, the following:

- review of the audited financial statements for the year ended 31 December 2015,
- election of the chairman for the Third Session of the Supervisory Committee; and
- review of the financial statements for the six months ended 30 June 2016.

All members of the Supervisory Committee, namely Mr. Liu Yuanzhong, Mr. Tang Yuejun, Ms. Yang Qing, Mr. Yang Linfeng and Mr. Wei Changzheng, attended the meeting.

AUDITORS AND THEIR REMUNERATIONS

At the 2015 annual general meeting convened on 3 June 2016, the Company approved the appointment of Ernst & Young Hua Ming LLP and Ernst & Young as the Company's domestic and international auditors for 2016, respectively, and authorized the Board to fix their respective remunerations. The fee in respect of the consolidated financial statement audit service and the acquisition related audit service provided by Ernst & Young Hua Ming LLP and Ernst & Young to the Company for the Reporting Period was RMB1.86 million and RMB0.28 million, respectively.

In respect of the matters relating to the selection, appointment, resignation or dismissal of the external auditors, the Board concurs with the view of the Audit Committee.

RESPONSIBILITY OF THE DIRECTORS AND AUDITORS FOR THE FINANCIAL STATEMENTS

The Directors has acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2016 which give a true and fair view of the state of affairs of the Group as at 31 December 2016 as well as its profit and cash flows during the Reporting period. The accounts of the Company were prepared in accordance with all relevant regulations and applicable accounting principles. In preparing these consolidated financial statements, the Directors selected and applied suitable accounting policies and made accounting estimates that are reasonable in the circumstances. Moreover, the consolidated financial statement has been prepared assuming that the Company will continue as a going concern. The Directors are responsible for keeping proper financial records which disclose with reasonable accuracy the financial position of the Group at any time. The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment on the Group's financial information and status, which are submitted to the Board for approval.

Ernst & Young, the auditors of the Company, have set out their responsibility in the independent auditors' report as set out on pages 63 to 68.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code 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.

INTERNAL CONTROL, AUDIT AND RISK MANAGEMENT

The Board of the Company is responsible for the risk management and internal control system and has the responsibility of reviewing the effectiveness of these systems. On December 9, 2016, the Board convened a meeting to review the effectiveness of the risk management and internal control system during the Reporting period, concluding these systems and the internal audit function were adequate and effective, but only made reasonable protections to avoid material misstatements or losses.

The Company has established a comprehensive and cautious internal control system, which covers a variety of systems and procedures, including the structures of corporate governance, internal financial control, information disclosure and confidentiality, connected transactions, risk assessment, procurement and integrity sales, research and development, intellectual property rights management. During the reporting period, the audit committee made recommendations to the Board on the effectiveness of the risk assessment system, internal audit system and information disclosure management system; under the leadership of the audit committee, the audit department organized related departments to analyze the changes of the nature and extent of the significant risks exposed to the Company by interview and written report, as well as provided advices to the Board, for the purpose of reviewing the effectiveness of the risk management and internal control system by the Board.

The risk management of the Company targets to timely identify and systematically analyze risks relating to the operating activities and realization of the Company's strategies, objectives and goals. The risk management work of the Company involves jointly work of the Board, management and every relevant department. As the responsible departments for risk assessment management, the relevant departments of the Company are specifically responsible for identifying risks in operation, assessing risks level and formulating risks mitigating plans. The risk assessment management team, which is under the leadership of general manager of the Company, in charge of auditing the risks lists and corresponding mitigation plans submitted by each department and preparing the risk assessment report, which will be delivered by the management to the Board for considering and approval.

The Company has established an audit department as its dedicated internal audit function, which is also the executive body for the work of the audit committee under the Board and is accountable to the Board. The roles and duties of the internal audit are designated to facilitate the effective operation and management of the Company and provide support to the Board and the audit committee in discharging their duties.

In addition, the Company arranges reasonable budgets to provide regular trainings for the staff of the Company and its subsidiaries performing functions such as finance, risk management and internal audit so as to ensure that they receives sufficient trainings and are fully experienced.

By formulating internal system, the Company regulates inside information release. The Board of the Company leads the information disclose affairs, in particular, the secretary of the Board takes charge of organizing and implementing information disclosure affairs. The secretary of the Board shall report to the Board immediately upon receiving inside information, and the Board shall decide whether to release the inside information or not.

SIGNIFICANT RISKS

The significant risks and key strategies control measures of the Group are set out below:

In May 2015, NDRC issued the Circular No. 904. In the same year, the State Council promulgated the 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 No. 70, whereby the provincial and local governments introduced local policies one after another according to the instruction of the central government. Under the further downward pressure on drug bidding price and the full implementation of double control measures in terms of the level and volume of social medical insurance expenditures, the profit margin of medical and pharmaceutical industry was diminishing. A new round of pharmaceutical tenders was still in progress among most of the provinces, which, from an objective perspective, hampered drug distributors' willingness to place purchase orders. In 2016, the sales revenue from the sodium hyaluronate injection product decreased.

In response to the changes in national policies, the Group adjusted the selling prices in certain regions with an aim to ensure that the sodium hyaluronate injection product expands its market coverage throughout China. Meanwhile, the Group will continue to push forward the construction of the Group's information technology-based system comprehensively, focus on and strengthening digital intelligence management of the GMP system, bidding and tender as well as distributors' network, push forward the upgrade of existing products, and take a series of marketing measures to intensify market penetration of original competitive products and expand the coverage of the new products on key hospitals and areas through a refined multi-dimensional marketing strategy.

ARTICLES OF ASSOCIATION

During the Reporting Period, there is no material change in the Company's Articles.

The Articles of the Company is available on the websites of the Stock Exchange and of the Company.

JOINT COMPANY SECRETARIES

Mr. Chiu Ming King, an executive director of corporate services of Vistra Corporate Services (HK) Limited (an external service provider), has been appointed as a joint company secretary of the Company, effective from 17 November 2014. Mr. Huang Ming, secretary of the Board and Executive Director, is another joint company secretary of the Company, who acts as the main contact person of Mr. Chiu Ming King and the internal departments of the Company.

In compliance with Rule 3.29 of the Listing Rules, Mr. Huang Ming and Mr. Chiu Ming King both undertook not less than 15 hours of relevant professional training to update their skills and knowledge during the year ended 31 December 2016.

SHAREHOLDERS' RIGHTS

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. A general meeting shall be convened by the Board. Annual general meeting shall be convened once a year and shall be held within six (6) months from the end of the preceding accouting year.

According to the provisions of the Articles, whenever the Company convenes a general meeting, written notice of the meeting shall be given forty-five (45) days before the date of the meeting to notify all shareholders whose names appear in the share register of the matters to be considered and the date and venue of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty (20) days before the date of the meeting.

To safeguard shareholders' interests and rights, a separate resolution is proposed for each separate issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Procedures for Shareholders to Convene an Extraordinary General Meeting

According to the provisions of the Articles, the Board shall convene an extraordinary general meeting within two (2) months upon written request of shareholders who hold more than 10% of the outstanding shares with voting rights of the Company for an extraordinary general meeting to be convened.

Shareholders requesting the convening of an extraordinary general meeting or a meeting of shareholders of different classes ("**class meeting**") shall proceed in accordance with the procedures set forth below:

Two or more shareholders holding a total of 10% or more of the shares carrying the right to vote at the meeting sought to be held may sign one or more written requests of identical form and substance requesting the Board to convene an extraordinary general meeting or a class meeting and stating the subject of the meeting. The Board shall convene the extraordinary general meeting or the class meeting as soon as possible upon receipt of the above-mentioned written request. The shareholding referred to above shall be calculated as of the date on which the written request is made by shareholders.

If the Board fails to issue a notice of such meeting within 30 days upon receipt of the above-mentioned written notice, the shareholders who made such request may convene the meeting by themselves within four (4) months after the Board received the request. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which general meetings are to be convened by the Board.

Any reasonable expenses incurred by shareholders' convening and presiding over a meeting by reason of failure of the Board to duly convene a meeting as requested above shall be borne by the Company and shall be set off against sums owed by the Company to the Directors in default.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders are welcomed to make enquiries directly to the Board at the Company's principal place of business in Shanghai at 23/F, WenGuang Plaza, No. 1386 Hongqiao Road, Changning District, Shanghai, China or via email (info@3healthcare.com). The Company will respond to all enquiries in a timely and appropriate manner.

Procedures to Propose Motions at General Meetings

According to the provisions of the Articles, whenever the Company convenes a general meeting, the Board, the Supervisory Committee and shareholder(s) individually or together holding more than 3% of the Company's shares shall have the right to propose motions in writing to the Company. The Company shall include such proposed motions in the agenda of such meeting if they are matters falling within the functions and powers of general meetings.

Shareholder(s) individually or together holding more than 3% of the Company's shares shall have the right to propose an extempore motion ten (10) days prior to the general meeting by submitting the same to the convener in writing. The convener shall serve a supplemental notice of general meeting to other shareholders within two (2) days upon receipt of the proposed motion, and shall include such proposed motions in the agenda of such general meeting if they are matters falling within the functions and powers of general meetings and submit to the general meeting for consideration. Where required otherwise by the listing rules of the stock exchange where the Company's shares are listed, such requirements shall be satisfied. Shareholders shall propose motions which meet the following requirements:

(1) The content does not infringe the law, regulations and falls within the scope of the Company's business and the functions and powers of general meetings;

(2) With definite issues to discuss and specific matters to resolve; and

(3) Is made in writing submitted or delivered to the Board.

For matters in relation to nominating a person for election as a Director, please refer to the relevant procedures published on the Company's website.

GENERAL MEETINGS

For the year ended 31 December 2016 and as at the date of this annual report, one extraordinary general meeting, one domestic shareholders' class meeting, one H shareholders' class meeting and one annual general meeting of the Company were held. Details are as follows:

Date	Venue	Meeting
3 June 2016	Rose Hall, Rainbow Hotel, 2000 Yan'an West Road, Shanghai, PRC	2016 First Domestic Shareholders' Class Meeting
3 June 2016	Rose Hall, Rainbow Hotel, 2000 Yan'an West Road, Shanghai, PRC	2016 First H Shareholders' Class Meeting
3 June 2016	Rose Hall, Rainbow Hotel, 2000 Yan'an West Road, Shanghai, PRC	2015 Annual General Meeting
14 February 2017	23/F, WenGuang Plaza, No. 1386 Hongqiao Road, Changning District, Shanghai, PRC	2017 First Extraordinary General Meeting

Statistics on Directors' attendance at meetings:

Name	Position	Meetings attended/ Meetings held
Dr. Hou Yongtai	Chairman and Executive Director	4/4
Mr. Wu Jianying	Executive Director and General Manager	4/4
Mr. Ling Xihua[(1)]	Executive Director and Chief Financial Officer	0/0
Mr. Huang Ming	Executive Director, Secretary of the Board and one of the Joint Company Secretaries	4/4
Ms. Chen Yiyi	Executive Director	4/4
Mr. Tang Minjie [(2)]	Executive Director and Chief Financial Officer	0/0
Ms. You Jie	Non-executive Director	4/4
Mr. Gan Renbao	Non-executive Director	4/4
Mr. Chen Huabin	Independent Non-executive Director	4/4
Mr. Shen Hongbo	Independent Non-executive Director	4/4
Mr. Li Yuanxu	Independent Non-executive Director	4/4
Mr. Zhu Qin	Independent Non-executive Director	4/4
Mr. Wong Kwan Kit	Independent Non-executive Director	4/4

Note:

1. Mr. Ling Xihua passed away on 12 January 2016.

2. The date of appointment of Mr. Tang Minjie was 14 February 2017. Since his appointment, no general meetings were convened during the Reporting Period.

COMMUNICATIONS WITH SHAREHOLDERS

The Company continuously attaches great importance to maintaining and developing investor relations for a long time, enhances transparency of the corporate information by promptly and effectively releasing the corporate information to the public, which has established effective channels for the Company to communicate with investors.

The Company publishes its announcements, financial information and other relevant information on the website at www.3healthcare.com, as a channel to facilitate effective communication.

The Board welcomes shareholders' views and encourages them to attend general meetings to convey any concerns they might have to the Board or the management. Chairman of the Board and the chairmen of all committees (or their proxy) will attend the annual general meeting and other general meetings. At the general meeting, all shareholders attending the meeting may make enquires to the Directors and other management in respect of matters relevant to the resolutions. The Company has published detailed contact methods through its website, notices of the general meeting, circulars to the shareholders and annual reports for shareholders to express their views or make enquiries.

INVESTOR RELATIONS

The Company considers it crucial to provide investors with accurate information in a timely manner and maintains communication with investors through effective communication channels, with an aim to enhance mutual understanding between investors and the Company and to improve the transparency of the Company's information disclosure.

In accordance with the Listing Rules, the Company shall duly disseminate its corporate information via various channels, including regular reports, announcements and company website.

CORPORATE SOCIAL RESPONSIBILITY

OUTLINE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORT

Maintaining its leading position in research and development ability and sales ability in the industry, the Group has established an ESG committee corresponding to its business development, to enhance the integration of the Company's development strategy and products responsibility, safety and healthy, environmental conservation and social responsibility. The Company adheres to the sustainable development concept, proactively focusing on ESG risks in R&D and production, committing to achieve the sustainable growth of the Company and provide better public health services.

ENVIRONMENTAL POLICY PERFORMANCE AND CORPORATE SOCIAL RESPONSIBILITY

The Group actively practises clean production, constantly reducing its impacts on environment and adjacent communities in production process by improving manufacture techniques, reusing of waste and updating of environmental supporting facilities. In 2016, in order to better fulfill corporate social responsibility, on the basis of meeting discharge standard, the Group additionally implemented capping structures for waste water processing facilities at Songjiang Plant for the purpose of reducing impact on surroundings. The Group also installed ethanol recycling fixtures in production process, hence achieved the goal of decreasing waste water production and pollutants density.

The Group always adheres to the operation concept of being at service to public health, by cooperating with various colleges and universities, research institutes and sizable hospitals, adding new R&D bases, continuously enhancing its competitiveness in products innovation and R&D; actively holding and participating in academic conferences, keeping its leading position and market presence in the industry; guaranteeing its products quality and on-going increases customer satisfaction by establishing customer feed-back system and regular customer satisfaction investigation; and actively conducts various charity events, including cataract program and carries out its corporate social responsibility.

RELATIONSHIP WITH STAKEHOLDERS

Targeting to the environmental and social regulatory risks, in order to establish a set of effective sustainable development strategy and make corresponding disclosure, the Group actively conducts multidimensional risks assessment and analysis, including stakeholders' study, regulatory requirement analysis, quantitative information collection, analyzing the material ESG issues in connection with our own development and stakeholders concerned, as well as prepares and publishes independent ESG report. We consider our customers, shareholders and potential investors, government body, media, employee, etc. as our important stakeholders, and the Group values the ESG expectations and views from each stakeholder. In respect of the ESG issues in this year, we carried out investigation to over 100 stakeholders, and treated such analysis result as the basis for preparing of independent ESG report, and also provided important reference in formulating sustainable development strategy in future. For more information about the ESG performance of the Group during the Reporting Period, please refer to the first independent ESG report to be published by the Company which will be available for viewing or downloading at the website of the Stock Exchange headlined "Financial Statement/Environmental, Social and Governance information" and the website of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group strictly compliances with the relevant laws and regulation in its operating regions and observes with Hong Kong Listing rules. For the purpose of minimizing ESG risks, the Group has been complying with various regulations relating to labor welfare, safety and healthy, environment etc. During the Reporting Period, there was no material breach of or non-compliance of relevant laws and regulations occurred within the Group.

EXECUTIVE DIRECTORS

Dr. Hou Yongtai (侯永泰), aged 55, is the chairman and executive Director of the Company. Dr. Hou engaged in postdoctoral research at the pharmacology department of University of Pennsylvania in the U.S. from July 1992 to October 1995. Thereafter, he served as a research investigator at the department of cell and developmental biology of the University of Michigan in the U.S. from 1998 to 2000. From August 2000 to August 2003, he served as a researcher and doctoral degree supervisor at Shanghai Institute of Materia Medica, Chinese Academy of Sciences (中國科學院上海藥物研究所), where he was mainly responsible for establishing screening models for cancer drugs and the application of new biotechnologies (such as RNA interference) on new drugs development. He also served as the overseas manager of the strategy and investment committee at Shanghai Pharmaceutical (Group) Co., Ltd, a company principally engaged in investments, research in pharmaceutical products, medical devices, as well as manufacturing and sale of medical devices from July 2003 to June 2004 and was mainly responsible for assisting its formulation of overseas strategies and implementing its external relations and coordination. During July 2000 to June 2004 and April 2005 to March 2008 at Shanghai Huayuan Life Sciences Research and Development Company Limited (上海華源生命科學研究開發有限公司), he served various positions such as the deputy general manager and the director of the research and development division. He was mainly responsible for formulating product development strategies, establishing its development team and development base as well as implementing its product research and development plans. He has also served as the chairman of Shanghai Qisheng from December 2007 to August 2010. He served as the chairman of Haohai Limited, the predecessor of the Company, from September 2009 to July 2010, the date of conversion of the Company. He has been appointed as the chairman and Director of the Company since July 2010, and was redesignated as an executive Director on 7 December 2014. Dr. Hou obtained a master's degree and a Ph.D. degree from Ohio University in the U.S. in March 1987 and August 1992, respectively.

Mr. Wu Jianying (吳劍英), aged 53, is an executive Director and general manager of the Company. Mr. Wu worked as a surgeon at the General Surgery Department of the Second Affiliated Hospital of the Second Military Medical University (第二軍醫大學第二附屬醫院普外科) from 1991 to 1999. He thereafter worked at Shanghai Huayuan Life Sciences Research and Development Company Limited (上海華源生命科學研究開發有限公司) ("Shanghai Huayuan") from March 2003 to February 2004, at the Shanghai branch of China Huayuan Life Industry Limited (中國華源生命產業有限公司上海分公司) from February 2004 to May 2005 and at Cinkate Pharmaceutical and Chemical Intermediates (Shanghai) Company Limited (欣凱醫藥化工中間體(上海)有限公司), a company principally engaged in development and production of pharmaceutical and chemical intermediates, as well as selling its own products and providing relevant technical advisory services from May 2005 to July 2007. He served as the general manager at Haohai Limited from July 2007 to June 2010. He has been acting as the general manager at Shanghai Qisheng since August 2010, the general manager and executive director at Shanghai Likangrui since December 2010, and also the chairman of Shanghai Baiyue since January 2015. He served as the director of Haohai Healthcare since July 2015,the vice chairman of Henan Universe since August 2015 and then the executive director, the executive director of Haohai Development since February 2016, the director of Haohai Healthcare Holdings (Cayman) Co., Ltd., a subsidiary of our Company since May 2016, the director of Haohai Healthcare Holdings (BVI) Co., Ltd. since August 2016, a subsidiary of our Company since May 2016, the Chairman of New Industries since November 2016 and the executive director of Zhuhai Eye Good in December 2016. He has been appointed as the Director and general manager since July 2010, and was redesignated as an executive Director on 7 December 2014. Mr. Wu obtained a master's degree in clinical medicine from the Second Military Medical University in June 1997 and the practicing doctor qualification in the PRC in May 1999.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Huang Ming (黃 明), aged 41, is an executive Director, Secretary of the Board and one of the joint company secretaries of the Company. He worked as a manager in Haoyang Investments from September 2008 to June 2010, a director of Haohai Changxing Company Limited, a company principally engaged in the sale of agricultural byproducts since September 2010 and an executive director of Changxing Haoersi Biotechnology Company Limited (長興昊爾斯生物科技有限公司), a company principally engaged in the research and development of biological and plant products from May 2011 to December 2011. He has been serving as a supervisor of Shanghai Jianhua since November 2007, a supervisor of Shanghai Qisheng since December 2007, a supervisor of Shanghai Likangrui since December 2010, and a supervisor of Shanghai Baiyue since December 2014. He served as the director of Haohai Healthcare since July 2015 and the director of New Industries since December 2016. He has been appointed as the Director and Secretary of the Board since July 2010 and October 2010 respectively, and has been appointed as one of our joint company secretaries since 17 November 2014. He was redesignated as an executive Director on 7 December 2014. Mr. Huang obtained a bachelor of laws in July 1998 and a master of laws in June 2005 from East China University of Political Science and Law (華東政法大學), and a doctoral degree in corporate management from Fudan University in June 2011. He obtained his lawyer qualification in May 1999.

Ms. Chen Yiyi (陳奕奕), aged 35, is an executive Director of the Company. Ms. Chen joined the marketing department of Haohai Chemical, a company principally engaged in the production and sale of polyurethane composite duct in July 2006 and worked as the marketing manager and assistant to general manager from January 2007 to December 2009, the supervisor of Henan Universe since November 2016, the director of New Industries since November 2016 and the supervisor of Zhuhai Eye Good since December 2016. She has been appointed as the Director since July 2010, and was redesignated as an executive Director on 7 December 2014. Ms. Chen obtained a bachelor of arts in June 2004 and a Master of Arts (communications) in June 2006 from Huazhong University of Science and Technology (華中科技大學) respectively.

Mr. Tang Minjie (唐敏捷), aged 41, is an executive Director of the Company joined the Company in August 2016 as an employee, became a director of New Industries since November, 2016, was appointed as the chief financial officer of the Company on 9 December 2016 and as an executive Director in 14 February 2017. Prior to joining the Company, he worked at Ernst and Young during the period from August 1998 to July 2016 and most recently served as an audit partner from July 2010 to July 2016. Mr. Tang obtained a bachelor degree in economics from the former international business school of the University of Shanghai in July 1998, and was qualified as a certified public accountant ("CPA") in the PRC in June 2000 and CPA in the United States in June 2006.

NON-EXECUTIVE DIRECTORS

Ms. You Jie (游 捷), aged 54, is a non-executive Director of the Company. Ms. You worked as a clinician at the Department of Oncology, Longhua Hospital, Shanghai University of Traditional Chinese Medicine (上海中醫藥大學附屬龍華醫院腫瘤科) from July 2004 to July 2014. She also worked as a clinician at the Department of Chinese Medicine, Shanghai Ninth People's Hospital, Shanghai Jiaotong University School of Medicine (上海交通大學醫學院附屬第九人民醫院中醫科) for August 2014 until present. She has been appointed as the Director since July 2010, and was redesignated as a non-executive Director on 7 December 2014. Ms. You obtained a clinical doctorate degree from Shanghai University of Traditional Chinese Medicine (上海中醫藥大學) in July 2004 and the practicing doctor qualification in the PRC in May 1999. Ms. You is the spouse of Mr. Jiang Wei.

Mr. Gan Renbao (甘人寶), aged 77, is a non-executive Director of the Company. Mr. Gan has engaged in molecular biology and genetic engineering research for many years. He worked at Shanghai Institute for Biological Sciences, Chinese Academy of Sciences (中國科學院上海生命科學研究院生物化學與細胞生物學研究) since October 1960 as a researcher and an officer and retired in June 2004. He was our deputy general manager from July 2010 to September 2014. He has been appointed as the Director since July 2010, and was redesignated as a non-executive Director on 7 December 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Huabin (陳華彬), aged 49, is an independent non-executive Director of the Company. He has been working as a researcher and professor of the School of Law, the Central University of Finance and Economics (中央財經大學法學院) from September 2008 until present. He has been appointed as our independent Director since October 2014 and was designated as an independent non-executive director on 7 December 2014. Mr. Chen obtained a master's degree in law from the Southwest University of Political Science and Law (西南政法大學) in March 1991 and a doctor's degree in law from the graduate school, the Chinese Academy of Social Sciences in June 1994.

Mr. Shen Hongbo (沈紅波), aged 37, is an independent non-executive Director of the Company. He engaged in post-doctoral research at the Department of Finance of Tsinghua University from March 2007 to March 2009 and worked as a visiting scholar at Harvard Business School from January 2009 to February 2009. He also acted as an independent director of China Executive Education Corp., a company formerly trading on the Over-the-Counter Bulletin Board in the U.S., from October 2010 to December 2012. He has been working as an independent director in Zhejiang Xinguang Pharmaceutical Co., Ltd (浙江新光藥業股份有限公司) from September 2012 until present, an investment consultant in China Science & Merchants Capital Management Limited (中科招商集團投資管理集團有限公司) from July 2013 to June 2014 during which he was responsible for execution of its district network, setting up of funds and making referrals of equity investment projects. He has also served as an independent director at InfoTM Micro-Electronics Co., Ltd (盈方微電子股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000670), from November 2014 until present. He is currently an associate professor at the Institute of Finance, School of Economics, Fudan University. He has been appointed as our independent Director since October 2014 and was designated as an independent non-executive director on 7 December 2014. Mr. Shen obtained a doctor's degree in accounting from Shanghai University of Finance and Economics in January 2007 and he has been a member of the Association of Chartered Certified Accountants (ACCA) since January 2015.

Mr. Li Yuanxu (李元旭), aged 50, is an independent non-executive Director of the Company. Mr. Li is a professor at the School of Management, Fudan University. He has been appointed as our independent Director since December 2010 and was designated as independent non-executive Director on 7 December 2014. He obtained a doctorate degree in economics from Fudan University in July 1995.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhu Qin (朱勤), aged 53, is an independent non-executive Director of the Company. During his time working at Shanghai Huatuo Pharmaceutical Technology Development Company Limited (上海華拓醫藥科技發展股份有限公司), he served as a deputy general manager from 2000 to 2003, the general manager and director from 2003 to 2010 and the chairman of its science and technology committee of the board, chief scientist and director from 2011 to 2014. He has been a deputy general manager in Shanghai Liuhe Capital (上海六禾投資) from March 2014 until present, where he is mainly responsible for the area of pharmaceutical and healthcare. He has been appointed as our independent Director since October 2014 and was designated as an independent non-executive Director on 7 December 2014. He obtained a bachelor's degree in medicine from the Second Military Medical University in July 1984 and a master's degree in medicine in December 1990. Thereafter, he obtained a doctor of science degree from Chinese Academy of Sciences in October 2000.

Mr. Wong Kwan Kit (王君傑), aged 47, is an independent non-executive Director of the Company. He joined Prudential Hong Kong Limited as an insurance agent in July 1991 and was promoted to be a regional director since May 2006. He was elected as the president of the General Agents and Managers Association of Hong Kong from 2003 to 2004 and the president of the Life Underwriters Association of Hong Kong in 2013. He has been a member of the insurance agents registration board of the Hong Kong Federation of Insurers since 2010 until present and a member of the Mandatory Provident Fund Schemes Appeal Board since 2012 until present. He has been appointed as our independent non-executive Director since April 2015. Mr. Wong obtained a bachelor's degree in business administration from the Chinese University of Hong Kong in December 1991 and a master's degree in business administration from the Macau University of Science and Technology in August 2010.

SUPERVISORS

Mr. Liu Yuanzhong (劉遠中), aged 48, is the chairman of the Supervisory Committee of the Company and a shareholder Supervisor. Mr. Liu joined Liming Research Institute of Chemical Industry (黎明化工研究院) in 1992 and served as an engineer from November 1997 to October 2001. He has been working as an engineer and was responsible for research and development of insulation and car high polymer material at Haohai Chemical from December 2001 until now. He has been appointed as the Supervisor since July 2010. Mr. Liu obtained a bachelor's degree in industrial analysis from the Department of Applied Chemistry, Beijing Institute of Chemical Technology (北京化工學院) in July 1992 and a master's degree in engineering from East China University of Science and Technology (華東理工大學) in June 2009.

Ms. Yang Qing (楊青), aged 45, is an independent Supervisor of the Company. Ms. Yang engaged in post-doctoral research at the Department of Economics of the University of Vienna in Austria from March 2005 to August 2005 and acted as a visiting scholar at the School of Economics, University of Cambridge in England from September 2006 to September 2007, and participated in the Freeman Fellows Program of the University of Illinois at Urbana-Champaign in the U.S. from August 2011 to May 2012. She joined Fudan University since July 2001 and was responsible for research and teaching work, and she is currently a professor in the School of Economics. She has been appointed as the Supervisor since October 2014. Ms. Yang obtained a bachelor's degree in management information system from Kunming University of Science and Technology (昆明理工大學) in July 1995 and a doctor's degree in management from Fudan University in July 2001.

Mr. Tang Yuejun (唐躍軍), aged 38, is an independent Supervisor of the Company. He has been an associate professor at the School of Management, Fudan University from September 2011 until present. He has also been acting as a master's degree supervisor of MBA and EMBA from January 2011 until present, a master's degree supervisor of corporate management from September 2012 until present. He has been appointed as our Supervisor since October 2014. Mr. Tang obtained a bachelor's degree in economics from Nankai University (南開大學) in June 2001, and a doctor's degree in management at the School of Business, Nankai University in June 2006.

Mr. Wei Changzheng (魏長徵), aged 37, is the employee representative Supervisor of the Company. Mr. Wei has been acting as the deputy manager of the research and development department at Haohai Limited, the predecessor of the Company since October 2009, and he has continued to serve this position after the conversion of Haohai Limited into the Company. He has been working as the manager at the department of research and development in Shanghai Qisheng from October 2009 until present. He has been appointed as the Supervisor since July 2010. Mr. Wei obtained a doctor of science from Ocean University of China (中國海洋大學) in June 2007.

Mr. Yang Linfeng (楊林鋒), aged 35, is an employee representative Supervisor of the Company. He has been an associate of the chief human resource officer of the Company from July 2011 to November 2015, and he has been a Performance & Development manager of Human Resource since November 2015. He has been appointed as the Supervisor since September 2014. Mr. Yang obtained a doctor's degree in management at Fudan University in June 2011.

SENIOR MANAGEMENT

Ms. Ren Caixia (任彩霞), aged 59, is the deputy general manager of the Company. She served various positions at Shanghai Huayuan from April 2002 to May 2007. She served as the deputy general manager of Haohai Limited from July 2007 to August 2010. She acted as the general manager of Shanghai Jianhua since November 2007 and thereafter an executive director since November 2010. She has been appointed as our deputy general manager since July 2010. Ms. Ren obtained a bachelor's degree in inorganic chemicals from the Department of Chemicals, Hefei University of Technology (合肥工業大學) in September 1982.

Mr. Wang Wenbin (王文斌), aged 50, is a deputy general manager of the Company. He has served as the executive deputy general manager in Shanghai Qisheng from May 1995 until present. He has been appointed as the deputy general manager of the Company since September 2014. Mr. Wang obtained a bachelor's degree in medicine from the Second Military Medical University in July 1991 and the practicing doctor qualification in the PRC in May 1999.

Mr. Zhang Jundong (張軍東), aged 43, is a deputy general manager of the Company. He engaged in postdoctoral research in clinical medicine at the Second Military Medical University from November 2006 to October 2010. Between June 2009 to December 2013, he served at the prescription medicine business division of Xinyi Institute of Materia Medica in Shanghai Pharmaceuticals (Group) Co. Ltd. (上海醫藥(集團)有限公司處方藥事業部信誼藥物研究所) as a director of the institute, and he served as the research and development director of Shanghai Xinyi Pharmaceutical Co., Ltd. (上海信誼藥廠有限公司). He has been appointed as our deputy general manager since September 2014. Mr. Zhang obtained a bachelor's degree in pharmacy in July 1994 and a doctor's degree in medicine in June 2006 from the Second Military Medical University.

Ms. Wei Xin (魏　欣), aged 45, is a deputy general manager of the Company. She joined the Company in March 2008 as the manager of the medical marketing department. She was promoted to act as the director of the medical marketing department of the Company since January 2011 and the assistant to the general manager of the Company since March 2012. Prior to joining the Company, she was an obstetrician-gynecologist in Shanghai Sixth Renmin Hospital* (上海第六人民醫院) from July 1995 to November 2002. From December 2002 to January 2007, she was the manager of the medical marketing department at Cinkate Pharmaceutical and Chemical Intermediates (Shanghai) Company Limited* (欣凱醫藥化工中間體(上海)有限公司), a company principally engaged in the development and production of pharmaceutical and chemical intermediates. Ms. Wei obtained a bachelor degree in clinical medicine from the then Shanghai Tiedao University* (上海鐵道大學) in June 1995, the practicing doctor qualification in the People's Republic of China in May 1999 and the attending physician qualification in December 2001.

JOINT COMPANY SECRETARIES

Mr. Huang Ming (黃明), aged 41, was appointed as a joint company secretary of the Company on 17 November 2014. He is also the secretary of the Board of the Company. Please refer to "Executive Directors" above for the biography of Mr. Huang.

Mr. Chiu Ming King (趙明璟), aged 39, was appointed as a joint company secretary of the Company on 17 November 2014. He currently serves as an executive director of corporate services of Vistra Corporate Services (HK) Limited since June 2012. Prior to joining Vistra Corporate Services (HK) Limited, he was an associate director of corporate services of TMF Hong Kong Limited from October 2009 to May 2012. Mr. Chiu has over 11 years of experience in the company secretarial field. He is currently (1) the company secretary of Christine International Holdings Limited, a company listed on the main board in Hong Kong (stock code: 1210); (2) the company secretary of Nan Hai Corporation Limited, a company listed on the main board in Hong Kong (stock code: 680); (3) the company secretary of Sino-i Technology Limited, a company listed on the main board in Hong Kong (stock code: 250); (4) the company secretary of Hosa International Limited, a company listed on the main board in Hong Kong (stock code: 2200); (5) Hailan Holdings Limited, a company listed on the main board in Hong Kong (stock code: 2278); and (6) Kunming Dianchi Water Treatment Co., Ltd., a company listed on the main board in Hong Kong (stock code: 3768).

Mr. Chiu has been an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries ("**HKICS**") since 2003, and a fellow member of HKICS since September 2015. He is currently a member of the Membership Committee and Professional Services Panel of HKICS. He has also been the HKICS' representative in the Young Coalition Professional Group of The Hong Kong Coalition of Professional Services since 2013.

Mr. Chiu obtained a bachelor of arts from University of Toronto in Canada in June 1999 and received a master of arts in professional accounting and information systems from City University of Hong Kong in November 2003.

To the shareholders of Shanghai Haohai Biological Technology Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Shanghai Haohai Biological Technology Co., Ltd. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 69 to 137, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Group recorded revenue of sales of goods amounted to approximately RMB851,157,000 in its consolidated statement of profit or loss and comprehensive income for the year end 31 December 2016. Revenue is recognised when the risks and rewards of the underlying products have been transferred to the customer. We focus on this area because revenue recognition contains higher assessed risks of material misstatement, including significant risks, due to its large transaction volume. We also focused on cut-off around the year end because material revenue transactions can occur close to that date. The Group's specific disclosures about revenue recognition are included in note 2.4 Summary of Significant Accounting Policies and note 5 Revenue and Other Income and Gains to the financial statements.	We performed test of control on revenue recognition, and we also performed test of details by checking the occurrence and accuracy of selected revenue records based on threshold. We obtained the sales contracts with customers, and reviewed key terms of revenue recognition and sales return. We sent and received revenue and trade receivables confirmations to main customers and reviewed the reconciliation of any material difference provided by the management by checking related supporting documents. We performed alternative procedures for non-replied confirmations by checking to original supporting documents and subsequent review. We performed substantive analytical review by comparing revenue and gross margin to previous years among the same product. We also tested the recognition of revenue transactions close to the period end to establish whether they were recorded in the correct period.

Key audit matter	How our audit addressed the key audit matter
Business combination	
In November 2016, the Group completed the acquisition of a 60% equity interest of Shenzhen New Industries Material of Ophthalmology Co., Ltd. at a total cost of RMB360,000,000 and recognised goodwill of approximately RMB252,308,000 and other intangible assets of approximately RMB197,358,000. We focused on this area because the accounting for the acquisition relied on a significant amount of management estimation and judgments in respect of fair value assessments of assets acquired and liabilities assumed, and the review of these estimations required high level of professional judgment. The Group's specific disclosures about business combination are included in note 2.4 Summary of Significant Accounting Policies and note 32 Business Combination to the financial statements.	We evaluated the competence, capabilities and objectivity of the external appraiser engaged by the Group to perform the valuation and involved our internal valuation specialists in review the valuation methodologies adopted, and the assumptions used in valuation of the long-term assets by reference to the historical experience, estimation of the Group and the market practices. Furthermore, we also checked the adequacy and appropriateness of the related disclosures.

Key audit matter	How our audit addressed the key audit matter
Assessment of the carrying value of goodwill	
The carrying value of goodwill arising from business combination amounted to approximately RMB292,084,000 as at 31 December 2016. The Group is required to perform impairment test for goodwill annually. The impairment test for goodwill is based on the recoverable value of the respective cash-generating units ("CGU"). We focused on this area because management's impairment assessment process on goodwill was complex and involved significant judgments, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the appropriateness of the discount rate applied. The Group's specific disclosures on goodwill are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgements and Estimates and note 16 Goodwill to the financial statements.	Our audit procedures included, among others, involving our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group in the impairment test of goodwill arising from business combination. We evaluated the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historical performance of the respective CGU and the business development plan.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Certified Public Accountants
Hong Kong
30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**851,157**	663,917
Cost of sales		**(141,551)**	(105,073)
Gross profit		**709,606**	558,844
Other income and gains, net	5	**88,500**	98,744
Selling and distribution expenses		**(287,757)**	(242,100)
Administrative expenses		**(90,190)**	(58,878)
Research and development costs		**(47,255)**	(35,254)
Other expenses		**(7,964)**	(979)
Finance costs	7	**(216)**	—
Share of profits and losses of:			
An associate		**1,161**	270
PROFIT BEFORE TAX	6	**365,885**	320,647
Income tax expense	10	**(55,258)**	(47,341)
PROFIT FOR THE YEAR		**310,627**	273,306
Attributable to:			
Ordinary equity holders of the parent		**305,052**	273,474
Non-controlling interests		**5,575**	(168)
		310,627	273,306
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments:			
Changes in fair value		**(1,587)**	—
Exchange differences on translation of foreign operations		**2,634**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1,047**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**311,674**	273,306
Attributable to:			
Ordinary equity holders of the parent		**306,099**	273,474
Non-controlling interests		**5,575**	(168)
		311,674	273,306
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
– For profit for the year	12	**1.91**	1.86

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	474,754	396,595
Prepaid land lease payments	14	30,888	31,626
Other intangible assets	15	295,406	3,262
Goodwill	16	292,084	—
Investment in an associate	17	—	11,202
Available-for-sale investments	18	64,226	—
Deferred tax assets	27	8,813	4,359
Other non-current assets	19	39,078	2,812
Total non-current assets		1,205,249	449,856
CURRENT ASSETS			
Inventories	20	117,953	78,063
Trade receivables	21	235,153	91,287
Prepayments, deposits and other receivables	22	124,802	24,917
Cash and bank balances	23	2,010,255	2,177,787
Total current assets		2,488,163	2,372,054
CURRENT LIABILITIES			
Trade payables	24	19,686	4,794
Other payables and accruals	25	442,451	112,272
Interest-bearing bank borrowings	26	26,666	—
Tax payable		47,352	23,927
Total current liabilities		536,155	140,993
NET CURRENT ASSETS		1,952,008	2,231,061
TOTAL ASSETS LESS CURRENT LIABILITIES		3,157,257	2,680,917
NON-CURRENT LIABILITIES			
Other payables and accruals	25	75,600	—
Deferred tax liabilities	27	83,787	620
Deferred income	28	12,010	14,863
Total non-current liabilities		171,397	15,483
NET ASSETS		2,985,860	2,665,434

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Share capital	29	**160,045**	160,045
Reserves	30	**2,743,947**	2,501,866
		2,903,992	2,661,911
Non-controlling interests		**81,868**	3,523
Total equity		**2,985,860**	2,665,434

Hou Yongtai
Director

Tang Minjie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to ordinary equity holders of the parent						
	Share capital RMB'000	Share premium account* RMB'000	Statutory reserve funds* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 31 December 2014 and 1 January 2015	120,000	16,154	40,197	417,809	594,160	—	594,160
Profit for the year	—	—	—	273,474	273,474	(168)	273,306
Total comprehensive income for the year	—	—	—	273,474	273,474	(168)	273,306
Issue of shares	40,045	1,754,232	—	—	1,794,277	—	1,794,277
Acquisition of a subsidiary	—	—	—	—	—	3,691	3,691
Transfer from retained profits	—	—	19,782	(19,782)	—	—	—
As at 31 December 2015	160,045	1,770,386	59,979	671,501	2,661,911	3,523	2,665,434

	Attributable to ordinary equity holders of the parent								
	Share capital RMB'000	Share premium account* RMB'000	Available-for-sale investment revaluation reserve* RMB'000	Statutory reserve funds* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
As at 31 December 2015 and 1 January 2016	160,045	1,770,386	—	59,979	—	671,501	2,661,911	3,523	2,665,434
Profit for the year	—	—	—	—	—	305,052	305,052	5,575	310,627
Other comprehensive income for the year:									
Change in fair value of available-for-sale investments	—	—	(1,587)	—	—	—	(1,587)	—	(1,587)
Exchange differences related to foreign operations	—	—	—	—	2,634	—	2,634	—	2,634
Total comprehensive income for the year	—	—	(1,587)	—	2,634	305,052	306,099	5,575	311,674
Non-controlling interests arising from business combination	—	—	—	—	—	—	—	72,770	72,770
Dividends declared	—	—	—	—	—	(64,018)	(64,018)	—	(64,018)
Transfer from retained profits	—	—	—	17,701	—	(17,701)	—	—	—
As at 31 December 2016	160,045	1,770,386	(1,587)	77,680	2,634	894,834	2,903,992	81,868	2,985,860

* These reserve accounts comprise the consolidated reserves of approximately RMB2,743,947,000 (2015: RMB2,501,866,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**365,885**	320,647
Adjustments for:			
Finance costs	7	**216**	—
Share of profits and losses of an associate	17	**(1,161)**	(270)
Interest income from bank deposits	5	**(58,443)**	(38,319)
Interest income from available-for-sale investments	5	**(35)**	—
Net loss on disposal of items of property, plant and equipment	6	**122**	93
Depreciation	6	**31,352**	32,521
Amortisation of prepaid land lease payments	6	**738**	738
Amortisation of other intangible assets	6	**3,717**	788
Impairment of trade and other receivables	6	**7,046**	268
Impairment of goodwill	6	**—**	463
Recognition of government grants related to assets	28	**(2,853)**	(2,880)
Unrealised gains from changes in foreign currency exchange		**(720)**	(3,959)
		345,864	310,090
Decrease/(increase) in inventories		**9,726**	(1,699)
Increase in trade receivables		**(85,444)**	(30,288)
Decrease in pledged deposits		**—**	5,846
Decrease/(increase) in prepayments, deposits and other receivables		**12,991**	(15,016)
Increase/(decrease) in trade payables		**4,522**	(3,996)
Increase in other payables and accruals		**59**	28,249
Cash generated from operations		**287,718**	293,186
Income tax paid		**(33,233)**	(24,675)
Net cash flows generated from operating activities		**254,485**	268,511

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received from bank deposits		47,043	38,319
Interest income received from available-for-sale investments		35	—
Purchases of items of property, plant and equipment		(75,667)	(70,107)
Proceeds from disposal of items of property, plant and equipment		64	—
Receipt of government grants		—	8,936
Acquisition of subsidiaries		(242,151)	(10,932)
Purchase of a shareholding in an associate		(4,250)	3,191
Proceeds from disposal of available-for-sale investments		4,500	—
Purchase of available-for-sale investments		(65,813)	—
Refundable deposit for business acquisition		(30,000)	—
Increase in time deposits with original maturity of more than three months		(1,145,000)	(118,658)
Net cash flows used in investing activities		(1,511,239)	(149,251)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		—	1,863,701
Share issue expenses		—	(59,452)
New from bank borrowings		5,204	—
Repayment of bank borrowings		(4,844)	—
Interest paid		(216)	—
Dividends paid		(58,564)	(49,680)
Net cash flows generated from/(used in) financing activities		(58,420)	1,754,569
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,315,174)	1,873,829
Cash and cash equivalents at beginning of year		2,037,787	159,999
Effect of foreign exchange rate changes, net		2,642	3,959
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	725,255	2,037,787
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the statement of financial position	23	2,010,255	2,177,787
Time deposits with original maturity of more than three months when acquired	23	(1,285,000)	(140,000)
Cash and cash equivalents as stated in the statement of cash flows		725,255	2,037,787

1. CORPORATE AND GROUP 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 transformed into a joint stock company with limited liability on 2 August 2010. The registered office of the Company is located at No. 5 Tongjing Road, Songjiang Industrial Zone, Shanghai, PRC. The Company issued 40,000,000 H shares and 45,300 H shares on 30 April 2015 and 28 May 2015, respectively. The H shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 30 April 2015.

During the year, the Group was principally engaged in the manufacture and sale of biologicals, medical hyaluronate, ophthalmology products research and development of biological engineering, pharmaceutical and ophthalmology products and the provision of related services.

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

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of business	Paid-up capital/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
			%	%	
上海其勝生物製劑有限公司 Shanghai Qisheng Biologicals Co., Ltd.* ("**Shanghai Qisheng**")	PRC 27 May 1992	RMB160,000,000	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 Fin Biological Products Co., Ltd. *(1) ("**Shanghai Jianhua**")	PRC 20 October 1993	RMB30,000,000	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	RMB150,000,000	100	—	Research and development of biological engineering and pharmaceutical products and related technology transfer, consultation and services
上海柏越醫療設備有限公司 Shanghai Baiyue Medical Equipment Co., Ltd.* ("**Shanghai Baiyue**")	PRC 25 September 2014	RMB10,000,000	60	—	Sale of medical equipment

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Name	Place and date of incorporation/ registration and place of business	Paid-up capital/ registered share capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Haohai Healthcare Holdings Co., Ltd. ("**Haohai Holdings**")	Hong Kong 17 July 2015	HKD123,286,075/ HKD153,000,000	100	—	Investment and trading business
上海昊海醫藥科技發展有限公司 Shanghai Haohai Medical Technology Development Co., Ltd.*(2) ("**Haohai Development**")	PRC 19 February 2016	RMB510,000,000	100	—	Pharmaceutical technology development and investment holding
河南宇宙人工晶狀體研製有限公司 Henan Universe Intraocular Lens Research and Manufacture Co., Ltd. *(3) ("**Henan Universe**") *	PRC 23 April 1991	RMB9,923,200	—	100	Manufacture and sale of intraocular lens and and related products
深圳市新產業眼科新技術有限公司 Shenzhen New Industries Material of Ophthalmology Co., Ltd. *(4) ("**Shenzhen NIMO**")	PRC 27 April 2006	RMB11,000,000	—	60	Sale of ophthalmology product
珠海艾格醫療科技開發有限公司 Eyegood Medical (Zhuhai) Co., Ltd. *(5) ("**Zhuhai Eyegood**")	PRC 24 November 2000	RMB22,639,954	—	98	Manufacture and sale ophthalmology products
Aaren Laboratories, LLC (6) ("**Aaren Laboratories**")	USA 23 May 2016	USD1,000,000	—	100	Manufacture and sale of ophthalmology products

* English translations of names for identification purposes only.

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Notes:

(1) During the year, Shanghai Jianhua increased its paid-up capital from RMB15,000,000 to RMB30,000,000.

(2) Haohai Development was newly established in PRC on 19 February 2016 with a paid-up capital of RMB510,000,000.

(3) During the year, the Group acquired a total 61.983% of equity shares of Henan Universe with a cash contribution of approximately RMB20,912,000. Further details of this acquisition are included in note 32 to the financial statements.

(4) During the year, the Group acquired a total 60% of equity shares of Shenzhen NIMO with a cash contribution of RMB360,000,000. Further details of this acquisition are included in note 32 to the financial statements.

(5) During the year, the Group acquired a total 98% of equity shares of Zhuhai Eyegood with a cash contribution of approximately RMB68,599,000. Further details of this acquisition are included in note 32 to the financial statements.

(6) Aaren Laboratories was newly established in USA on 23 May 2016 with a paid-up capital of USD1,000,000.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRSs**"), which comprise all standards and interpretations approved by the International Accounting Standards Board ("**IASB**"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost conversion. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PRESENTATION (Continued)

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10 IFRS 12 and IAS 28 (2011)	*Investment entities: applying the consolidation exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Amendments from *Annual Improvements to IFRSs 2012-2014 Cycle*	Amendments to a number of IFRSs

The adoption of the above new and revised IFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 No mandatory effective date yet determined but available for adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the statement of profit or loss. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value either recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

  (vi) the entity is controlled or jointly controlled by a person identified in (a);

  (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

  (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over the estimated useful life. The principal annual rates used for this purpose are as follows:

Items	Principal annual rate
Buildings	3.8%
Plant and machinery	9.5%-19.0%
Motor vehicles	19.0%-23.8%
Office equipment and others	9.5%-31.7%
Leasehold improvements	20.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings or plant under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and non-patent technology

Purchased patents and non-patent technology are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 15 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Research and development costs which does not meet these criteria is expensed when incurred.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 158 to 180 months.

Customer relationship

Customer relationship is acquired in business combinations and stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 15 years.

Brand

Brand is acquired in a business combination. The useful life of the brand is estimated to be indefinite because based on the current market share of the brand, management believes there is no foreseeable limit to the period over which the brand is expected to generate net cash flows for the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investments: changes in fair value until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investments: changes in fair value to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset - using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group has no financial liabilities at fair value through profit or loss and derivatives designated as hedging instruments in an effective hedge.

The Group's financial liabilities include trade payables and other payables and accruals.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labours and an appropriate proportion of overheads based on normal operating capacity. Net realisable value is based on estimated selling prices less estimated costs to be incurred to completion and disposal. Provision for reversal of provision for impairment of inventories is recognised within “cost of sales” in the statement of profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end years between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Pension scheme

The employees of the Group which operate in the mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Renminbi at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives of intangible assets

The Group's management determines the estimated useful lives and the related amortisation charge for the Group's intangible assets. This estimate is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions. Management will increase the amortisation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in amortisable lives and therefore amortisation charge in the future periods.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets other than indefinite life intangible assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was approximately RMB292,084,000 (2015: Nil). Further details are given in note 16.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that tax profit will be available against which the unused tax losses and the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 27 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

Since the Group generates over 99% revenue through its operation in the mainland China and over 99% of the assets of the Group are located in the mainland China, 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 reporting period.

5. 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 year.

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

	Note	2016 RMB'000	2015 RMB'000
Revenue			
Sale of goods		851,157	663,917
Other income and gains			
Interest income from bank deposits		58,443	38,319
Interest income from available-for-sale investments		35	—
Government grants	i)	25,643	30,062
Exchange gains		1,855	28,747
Others		2,524	1,616
		88,500	98,744

Note:

i) Various government grants have been received from local government authorities in various regions in 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 statement of financial position. There were no unfulfilled conditions or contingencies relating to these government grants.

6. PROFIT BEFORE TAX

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

	2016 RMB'000	2015 RMB'000
Cost of inventories sold	141,551	105,073
Depreciation (note 13)	31,352	32,521
Amortisation of prepaid land lease payments (note 14)	738	738
Amortisation of other intangible assets (note 15)	3,717	788
Auditor's remuneration	1,860	1,800
Impairment of goodwill* (note 16)	—	463
Minimum lease payments under operating leases:		
Land and buildings	3,737	2,687
Research and development costs:		
Current year expenditure	47,255	35,254
Employee benefit expense		
(excluding directors' remuneration as set out in note 8)		
– Wages and salaries	97,701	73,752
– Pension scheme contributions	12,855	7,383
	110,556	81,135
Foreign exchange differences, net	(1,855)	(28,747)
Impairment of trade and other receivables	7,046	268
Interest income from bank deposits	(58,443)	(38,319)
Interest income from available-for-sale investments	(35)	—
Net loss on disposal of items of property, plant and equipment	122	93

* The impairment of goodwill is included in "Other expenses" in the statement of profit or loss.

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest expense on interest-bearing bank borrowings	216	—

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	688	580
Other emoluments:		
Salaries, allowances and benefits in kind	1,989	2,190
Performance related bonuses	1,909	1,756
Pension scheme contributions	218	229
	4,116	4,175
	4,804	4,755

(a) Independent non-executive Directors

The fees paid to independent non-executive Directors during the year were as follows:

	2016 RMB'000	2015 RMB'000
Mr. Li Yuanxu	84	67
Mr. Chen Huabin	84	67
Mr. Zhu Qin	84	67
Mr. Shen Hongbo	84	67
Mr. Wong Kwan Kit	84	67
	420	335

There were no other emoluments payable to the independent non-executive Director during the year (2015: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive Directors, non-executive Directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
Executive Directors:					
Dr. Hou Yongtai	—	494	449	42	985
Mr. Wu Jianying*	—	494	449	42	985
Mr. Huang Ming	—	295	315	10	620
Ms. Chen Yiyi	—	272	315	42	629
Non-executive Directors:					
Ms. You Jie	—	—	—	—	—
Mr. Gan Renbao	100	—	—	—	100
Supervisors:					
Mr. Liu Yuanzhong	—	—	—	—	—
Mr. Wei Changzheng	—	251	210	42	503
Mr. Yang Qing	84	—	—	—	84
Mr. Tang Yuejun	84	—	—	—	84
Mr. Yang Linfeng	—	183	171	40	394
	268	1,989	1,909	218	4,384

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive Directors, non-executive Directors and the chief executive (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015					
Executive Directors:					
Dr. Hou Yongtai	—	478	394	40	912
Mr. Wu Jianying*	—	478	431	40	949
Mr. Ling Xihua	—	297	69	—	366
Mr. Huang Ming	—	313	266	40	619
Ms. Chen Yiyi	—	238	252	40	530
Non-executive Directors:					
Ms. You Jie	—	—	—	—	—
Mr. Gan Renbao	111	—	—	—	111
Supervisors:					
Mr. Liu Yuanzhong	—	—	—	—	—
Mr. Wei Changzheng	—	229	172	40	441
Mr. Yang Qing	67	—	—	—	67
Mr. Tang Yuejun	67	—	—	—	67
Mr. Yang Linfeng	—	157	172	29	358
	245	2,190	1,756	229	4,420

* Mr. Wu Jianying was the chief executive of the Group during the year.

There was no arrangement under which a Director or the chief executive waived or agreed to waive any remuneration during the year (2015: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three Directors (2015: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2015: two) highest paid employees who are neither a Director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	733	661
Performance related bonuses	688	466
Pension scheme contributions	85	81
	1,506	1,208

The number of non-Director and non-chief executive, highest paid individuals whose remuneration fell within the following band is as follows:

	Number of employees	
	2016	2015
Nil to HKD1,000,000	2	2

10. INCOME TAX

The Company and its principal subsidiaries, except Haohai Holdings and Aaren Laboratories, are registered in the PRC and only have operations in the mainland China. They are subject to PRC corporate income tax ("CIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws.

In 2016, the Company and its subsidiaries, Shanghai Qisheng and Shanghai Jianhua were accredited as high and new-tech enterprises (the "**HNTE Status**") respectively, effective for the three years from 2014 to 2016 by the relevant authorities. Therefore, the preferential income tax rate of 15% was applied during the years from 2014 to 2016 for the Company, Shanghai Qisheng and Shanghai Jianhua. Shenzhen NIMO was accredited as HNTE Status, effective for the three years from 2015 to 2017 by the relevant authorities. Therefore, the preferential income tax rate of 15% was applied during the years from 2015 to 2017.

The applicable tax rate of other subsidiaries registered in the PRC (Shanghai Likangrui, Shanghai Baiyue, Haohai Development, Henan Universe and Zhuhai Eyegood) was 25% during the year.

Haohai Holdings' profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

10. INCOME TAX (Continued)

Aaren Laboratories' profits tax has been provided at the rate of 15% on the estimated assessable profits arising in the USA during the year.

	2016 RMB'000	2015 RMB'000
Current		
Charge for the year	56,251	46,051
Underprovision in prior years	407	337
Deferred (note 27)	(1,400)	953
Total tax charge for the year	55,258	47,341

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

2016

	The Mainland China		Hong Kong		USA		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	372,036		(2,540)		(3,611)		365,885	
Tax at the statutory tax rate	93,009	25.0	(419)	16.5	(542)	15.0	92,048	25.2
Adjustments in respect of current tax of previous years	407	0.1	—	—	—	—	407	0.1
Profits and losses attributable to an associate	(335)	(0.1)	45	(1.8)	—	—	(290)	(0.1)
Additional deductible allowance for research and development expenses	(5,103)	(1.4)	—	—	—	—	(5,103)	(1.4)
Expenses not deductible for tax	1,149	0.3	—	—	—	—	1,149	0.3
Tax losses not recognised	3,708	1.0	374	(14.7)	542	(15.0)	4,624	1.3
Tax saving from preferential tax rate due to HNTE status	(37,577)	(10.1)	—	—	—	—	(37,577)	(10.3)
Tax charge at the Group's effective rate	55,258	14.9	—	—	—	—	55,258	15.1

10. INCOME TAX (Continued)

2015

	The Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	320,536		111		320,647	
Tax at the statutory tax rate	80,134	25.0	19	16.5	80,162	25.0
Adjustments in respect of current tax of previous years	561	0.2	—	—	561	0.2
Profits and losses attributable to an associate	—	—	(45)	(40.5)	(45)	—
Additional deductible allowance for research and development expenses	(4,169)	(1.3)	—	—	(4,169)	(1.3)
Expenses not deductible for tax	981	0.3	—	—	981	0.3
Tax losses not recognised	1,469	0.5	26	23.0	1,495	0.5
Tax saving from preferential tax rate due to HNTE status	(31,635)	(9.9)	—	—	(31,635)	(9.9)
Tax charge at the Group's effective rate	47,341	14.8	—	—	47,341	14.8

The effective tax rate of the Group was 15.1% in the year ended 31 December 2016 (2015: 14.8%).

11. DIVIDENDS

	2016	2015
	RMB'000	RMB'000
Proposed final – RMB0.50 (2015: RMB0.40) per ordinary share	80,023	64,018

The Directors proposed to declare a final dividend of RMB0.50 (inclusive of tax) per ordinary share (2015: RMB0.40), totally amounting to RMB80,022,650 (2015: RMB64,018,120) for the year ended 31 December 2016. The proposed final dividend for 2016 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 160,045,300 (2015: 146,985,960) in issue during the year, as adjusted to reflect the rights issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

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

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**305,052**	273,474
Shares		
Weighted average number of ordinary shares in issue used in the basic and diluted earnings per share calculation	**160,045,300**	146,985,960

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2016							
At 1 January 2016:							
Cost	55,019	211,439	9,273	32,231	163,657	40,570	512,189
Accumulated depreciation and impairment	(8,920)	(59,350)	(6,262)	(22,629)	—	(18,433)	(115,594)
Net carrying amount	46,099	152,089	3,011	9,602	163,657	22,137	396,595
At 1 January 2016, net of accumulated depreciation and impairment	46,099	152,089	3,011	9,602	163,657	22,137	396,595
Additions	—	2,190	915	1,463	54,724	4,536	63,828
Acquisition of subsidiaries (note 32)	20,851	21,064	108	3,604	—	46	45,673
Disposals	—	—	(186)	—	—	—	(186)
Depreciation provided during the year	(2,303)	(19,136)	(759)	(2,785)	—	(6,369)	(31,352)
Transfers	—	8,824	—	345	(9,169)	—	—
Exchange realignment	—	196	—	—	—	—	196
At 31 December 2016, net of accumulated depreciation and impairment	64,647	165,227	3,089	12,229	209,212	20,350	474,754
At 31 December 2016:							
Cost	75,870	243,725	9,378	37,643	209,212	45,152	620,980
Accumulated depreciation and impairment	(11,223)	(78,498)	(6,289)	(25,414)	—	(24,802)	(146,226)
Net carrying amount	64,647	165,227	3,089	12,229	209,212	20,350	474,754

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2015							
At 1 January 2015:							
Cost	55,019	205,313	9,275	30,739	95,177	39,750	435,273
Accumulated depreciation and impairment	(6,547)	(41,124)	(3,686)	(19,581)	—	(12,332)	(83,270)
Net carrying amount	48,472	164,189	5,589	11,158	95,177	27,418	352,003
At 1 January 2015, net of accumulated depreciation and impairment	48,472	164,189	5,589	11,158	95,177	27,418	352,003
Additions	—	123	129	554	76,386	—	77,192
Acquisition of a subsidiary	—	—	—	14	—	—	14
Disposals	—	(8)	(80)	(5)	—	—	(93)
Depreciation provided during the year	(2,373)	(18,306)	(2,627)	(3,114)	—	(6,101)	(32,521)
Transfers	—	6,091	—	995	(7,906)	820	—
At 31 December 2015, net of accumulated depreciation and impairment	46,099	152,089	3,011	9,602	163,657	22,137	396,595
At 31 December 2015:							
Cost	55,019	211,439	9,273	32,231	163,657	40,570	512,189
Accumulated depreciation and impairment	(8,920)	(59,350)	(6,262)	(22,629)	—	(18,433)	(115,594)
Net carrying amount	46,099	152,089	3,011	9,602	163,657	22,137	396,595

14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	32,364	33,102
Recognised during the year	(738)	(738)
Carrying amount at 31 December	31,626	32,364
Current portion included in prepayments, deposits and other receivables	(738)	(738)
Non-current portion	30,888	31,626

15. OTHER INTANGIBLE ASSETS

	Patents RMB'000	Non-patent technology RMB'000	Software RMB'000	Customer relationship RMB'000	Brand* RMB'000	Total RMB'000
31 December 2016						
Cost at 1 January 2016, net of accumulated amortisation	3,235	—	27	—	—	3,262
Acquisition of subsidiaries (note 32)	—	39,519	—	220,401	35,107	295,027
Amortisation provided during the year	(762)	(430)	(27)	(2,498)	—	(3,717)
Exchange realignment	—	435	—	—	399	834
At 31 December 2016	2,473	39,524	—	217,903	35,506	295,406
31 December 2016						
Cost	11,588	40,503	143	220,401	35,506	308,141
Accumulated amortisation	(9,115)	(979)	(143)	(2,498)	—	(12,735)
Net carrying amount	2,473	39,524	—	217,903	35,506	295,406

* The brand was acquired from the business combination of the hydrophilic intraocular lenses and PMMA products business from Aaren Scientific Inc., a legal entity registered in USA, with indefinite useful life ("Aaren Business").

15. OTHER INTANGIBLE ASSETS (Continued)

	Patents RMB'000	Non-patent technology RMB'000	Software RMB'000	Total RMB'000
31 December 2015				
Cost at 1 January 2015, net of accumulated amortisation	3,994	—	56	4,050
Amortisation provided during the year	(759)	—	(29)	(788)
At 31 December 2015	3,235	—	27	3,262
31 December 2015				
Cost	11,588	535	143	12,266
Accumulated amortisation	(8,353)	(535)	(116)	(9,004)
Net carrying amount	3,235	—	27	3,262

16. GOODWILL

	2016 **RMB'000**	2015 RMB'000
At the beginning of the year	—	—
Acquisition of subsidiaries (note 32)	**291,872**	463
Impairment during the year	—	(463)
Exchange realignment	**212**	—
At the end of the year	**292,084**	—

16. GOODWILL (Continued)

Impairment testing of goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

Cash-generating unit named Shenzhen NIMO;
Cash-generating unit named Aaren Business; and
Cash-generating unit named Zhuhai Eyegood

Cash-generating unit named Shenzhen NIMO

The recoverable amounts of cash-generating unit named Shenzhen NIMO was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17%. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%.

Cash-generating unit named Aaren Business

The recoverable amounts of cash-generating unit named Aaren Business was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 16%. The growth rate used to extrapolate the cash flows beyond the five-year period is 2%.

Cash-generating unit named Zhuhai Eyegood

The recoverable amounts of cash-generating unit named Zhuhai Eyegood was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18%. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%.

The carrying amount of goodwill allocated to each of the cash-generating unit is as follows:

	Shenzhen NIMO		Aaren Business		Zhuhai Eyegood		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of goodwill	252,308	—	18,943	—	20,833	—	292,084	—

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Assumptions were used in the value in use calculation of cash-generating units for 31 December 2016. The following describes each key assumption on which the management has based its cash flow projections to undertake impairment testing of goodwill:

- Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.
- Growth rates – The growth rates are based on industry growth forecasts.
- Changes in selling prices and direct costs – These are based on past practices and expectations of future changes in the market.

The values assigned to the key assumptions on discount rates, growth rates and changes in selling prices and direct costs are consistent with external information sources.

17. INVESTMENT IN AN ASSOCIATE

	2016	2015
	RMB'000	RMB'000
Share of net assets	—	11,202

On 19 August 2015, Haohai Holdings signed an equity transfer agreement with a third party to acquire a 38.017% equity interest of Henan Universe with a cash consideration of approximately RMB10,932,000, which was fully paid on 31 August 2015. Approved by the Zhengzhou High-tech Industrial Development Zone Management Committee and the People's Government of Henan Province, the equity transfer was completed on 11 September 2015.

On 14 July 2016, Haohai Holding signed an equity transfer agreement with a third party to acquire another 13.88% equity interest of Henan Universe with a cash consideration of approximately RMB4,250,000, which was fully paid in August 2016. Approved by the Zhengzhou High-tech Industrial Development Zone Management Committee and the People's Government of Henan Province, the equity transfer was completed on 25 July 2016.

17. INVESTMENT IN AN ASSOCIATE (Continued)

On 28 October 2016, Haohai Holding signed an equity transfer agreement with a third party to acquire the remaining 48.10% equity interest of Henan Universe with a cash consideration of approximately RMB16,662,000, with RMB16,170,000 was paid in November 2016. The equity transfer was completed on 29 November 2016, and the remaining RMB492,000 would be paid in 2017. Upon the completion of this acquisition, Henan Universe became a wholly-owned subsidiary of the Group.

The following table illustrates the financial information of the Group's associate, Henan Universe, that is not individually material for the year ended 31 December 2016:

	2016 RMB'000	2015 RMB'000
Share of the associate's profit for the year	**1,161**	270
Share of the associate's total comprehensive income	**1,161**	270
Aggregate carrying amount of the Group's investment in the associate	**—**	11,202

18. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Listed equity investments, at fair value	**64,226**	—

During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB1,587,000 (2015: Nil).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

19. OTHER NON-CURRENT ASSETS

	2016 RMB'000	2015 RMB'000
Prepayments for property, plant and equipment	**9,078**	2,812
Refundable deposits for business acquisition	**30,000**	—
	39,078	2,812

20. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	44,213	30,887
Work in progress	12,605	10,173
Finished goods	57,404	34,522
Merchandise	4,150	2,481
	118,372	78,063
Less: provision for inventories	419	—
	117,953	78,063

None of the Group's inventories were pledged during the years ended 31 December 2016 and 2015.

21. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	257,307	96,007
Impairment	(22,154)	(4,720)
	235,153	91,287

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 good reputation 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 receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	171,333	71,776
3 to 6 months	45,723	12,857
6 months to 1 year	16,001	6,438
1 to 2 years	2,024	212
2 to 3 years	72	4
	235,153	91,287

21. TRADE RECEIVABLES (Continued)

The movements in provision for impairment of trade receivables are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	4,720	3,276
Arising from acquisition of subsidiaries	12,643	—
Impairment losses recognised	4,791	1,478
Impairment losses reversed	—	(34)
	22,154	4,720

Included in the above provision for impairment of trade receivables are provisions for individually impaired trade receivables of RMB10,006,000 (2015: RMB57,000), mainly from acquired subsidiaries with carrying amounts before provisions of RMB12,101,000 (2015: RMB273,000), based on aged analysis. The others are for collectively impaired trade receivables at the end of the reporting period.

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables is expected to be recovered.

At the end of the reporting period, the Group did not have any trade receivables which were neither individually nor collectively considered to be impaired.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments	22,169	12,574
Deposits and other receivables	111,286	13,154
Impairment	(8,653)	(811)
	124,802	24,917

The movements in provision for impairment of deposits and other receivables are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	811	1,987
Arising from acquisition of subsidiaries	5,587	—
Impairment losses recognised	3,407	51
Impairment losses reversed	(1,152)	(1,227)
	8,653	811

23. CASH AND BANK BALANCES

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**2,010,255**	2,177,787
Time deposits with original maturity of more than three months when acquired	**(1,285,000)**	(140,000)
Cash and cash equivalents	**725,255**	2,037,787

At the end of the reporting period, nearly 99% (2015: 97%) of the cash and bank balances of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under the mainland China's prevailing rules and regulations over foreign exchange, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between three months and one year, depending on the immediate cash requirements of the Group. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**19,686**	4,794

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**14,180**	4,745
3 months to 1 year	**2,994**	49
Over 1 year	**2,512**	—
	19,686	4,794

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

25. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Current:		
Payroll and welfare payable	24,763	18,134
Other taxes payable	38,924	14,572
Accrued expenses	14,210	8,030
Advances from customers	21,646	4,041
Payables related to:		
Government grants received	31,845	26,635
Purchases of property, plant and equipment	19,093	18,173
Deposits received	19,697	10,026
Others	24,981	12,661
Payables for purchase of equity interests of the subsidiaries	180,092	—
Dividends payable to shareholders of the Company	5,752	—
Dividends payable to non-controlling shareholders of subsidiaries	61,431	—
Interest payable	17	—
	442,451	112,272
Non-current:		
Payables for purchase of equity interests of the subsidiaries	75,600	—
	518,051	112,272

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

26. INTEREST-BEARING BANK BORROWINGS

	2016			2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
– secured	4.32-6.55	2017	26,666	—	—	—

The apartments of the non-controlling shareholders of Shenzhen NIMO were pledged for the bank loans, which were also guaranteed by these shareholders.

27. DEFERRED TAX

The movements in deferred tax liabilities and assets during the years are as follows:

Deferred tax liabilities

2016

	Fair value adjustments arising from acquisition of subsidiaries RMB'000
At 1 January 2016	620
Deferred tax arising from acquisition of subsidiaries	83,857
Deferred tax credited	(978)
Exchange realignment	288
Gross deferred tax liabilities at 31 December 2016	83,787

2015

	Fair value adjustments arising from acquisition of subsidiaries RMB'000
At 1 January 2015	761
Deferred tax credited	(141)
Gross deferred tax liabilities at 31 December 2015	620

27. DEFERRED TAX (Continued)

The movements in deferred tax liabilities and assets during the years are as follows: (continued)

Deferred tax assets

2016

	Accruals RMB'000	Impairment of receivables RMB'000	Deferred income RMB'000	Unrealised profit from intragroup transactions RMB'000	Deductible loss RMB'000	Total RMB'000
At 1 January 2016	1,204	817	2,230	108	—	4,359
Deferred tax credited/(charged)	326	751	(429)	(91)	(135)	422
Deferred tax arising from acquisition of subsidiaries	—	3,730	—	—	302	4,032
Gross deferred tax assets at 31 December 2016	1,530	5,298	1,801	17	167	8,813

2015

	Accruals RMB'000	Impairment of receivables RMB'000	Deferred income RMB'000	Unrealised profit from intragroup transactions RMB'000	Deductible loss RMB'000	Total RMB'000
At 1 January 2015	1,899	785	2,661	108	—	5,453
Deferred tax credited/(charged)	(695)	32	(431)	—	—	(1,094)
Gross deferred tax assets at 31 December 2015	1,204	817	2,230	108	—	4,359

The Group has tax losses of RMB31,925,000 (2015: RMB19,045,000) arising in the mainland China that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in the subsidiaries that has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

28. DEFERRED INCOME

	2016 Government grants RMB'000	2015 Government grants RMB'000
At 1 January	**14,863**	17,743
Released during the year	**(2,853)**	(2,880)
At 31 December	**12,010**	14,863

29. SHARE CAPITAL

	2016 RMB'000	2015 RMB'000
Issued and fully paid:		
160,045,300 (2015: 160,045,300) ordinary shares of RMB1.00 each	**160,045**	160,045

A summary of the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000	Total RMB'000
At 1 January 2016 and 31 December 2016	160,045,300	160,045	160,045

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the statement of changes in equity.

Pursuant to the relevant laws and regulations in the mainland China, a portion of the profits of the Company has been transferred to statutory reserve funds which are restricted as to use.

31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING-INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2016
Percentage of equity interest held by non-controlling interests:	
Shenzhen NIMO	60%
Accumulated balances of non-controlling interests:	RMB'000
Shenzhen NIMO	77,458
	For the period from acquisition date to 31 December 2016 RMB'000
Profit allocated to non-controlling interests:	
Shenzhen NIMO	5,663

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	Shenzhen NIMO RMB'000
For the period from acquisition date to 31 December 2016	
Revenue	34,733
Total expenses	(9,618)
Profit for the period	16,031
Total comprehensive income for the period	16,031
Current assets	187,002
Non-current assets	2,038
Current liabilities	(141,540)
Net cash flows from operating activities	13,037
Net cash flows from investing activities	3,620
Net cash flows from financing activities	175
Net increase in cash and cash equivalents	16,832

32. BUSINESS COMBINATION

(a) On 15 November 2016, the Group acquired a 60% interest in Shenzhen NIMO from the third parties. The acquisition was made as part of the Group's strategy to expand its market share of ophthalmology products in the mainland China. The purchase consideration for the acquisition was in the form of cash, with RMB124,800,000 paid at or near the acquisition date and RMB127,200,000 to be paid in 2017, and the remaining RMB108,000,000 to be paid and kept by Shenzhen NIMO as the profit guarantee bonus, which would be paid to the sellers when the profit guarantee is completed.

The fair values of the identifiable assets and liabilities of Shenzhen NIMO on the acquisition date are as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	17
Other intangible assets	15	197,358
Deferred tax assets	27	1,248
Cash and bank balances		3,039
Available-for-sale investments		4,500
Trade receivables		50,120
Inventories		33,619
Prepayments, deposits and other receivables		98,987
Interest-bearing bank borrowings		(26,068)
Trade payables		(751)
Deferred tax liabilities	27	(49,340)
Other payables and accruals		(133,242)
Total identifiable net assets at fair value		179,487
Non-controlling interests		(71,795)
		107,692
Goodwill on acquisition	16	252,308
Total purchase consideration		360,000

The fair values of the trade receivables and other receivables on the acquisition date amounted to approximately RMB50,120,000 and RMB96,278,000, respectively. The gross contractual amounts of trade receivables and other receivables were approximately RMB52,859,000 and RMB101,858,000, respectively, of which trade receivables of RMB2,739,000 and other receivables of RMB5,580,000 are expected to be uncollectible.

None of the goodwill recognised is expected to be deductible for income tax purposes.

32. BUSINESS COMBINATION (Continued)

(a) (Continued)

An analysis of the cash flows in respect of the acquisition of Shenzhen NIMO is as follows:

	RMB'000
Cash consideration paid	124,800
Cash and bank balances acquired	(3,039)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	121,761

Since the acquisition, Shenzhen NIMO contributed RMB34,733,000 to the Group's revenue and RMB14,158,000 to the profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB988,545,000 and RMB329,272,000, respectively.

(b) As mentioned in note 17, Henan Universe became a wholly-owned subsidiary of the Group through the Group's various step acquisitions. The acquisition was made as part of the Group's strategy to expand its market share of ophthalmology products in the mainland China.

The fair values of the identifiable assets and liabilities of Henan Universe on the acquisition date are as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	24,684
Other intangible assets	15	3,052
Deferred tax assets	27	434
Cash and bank balances		6,384
Trade receivables		5,912
Inventories		5,162
Prepayments, deposits and other receivables		661
Trade payables		(570)
Deferred tax liabilities	27	(4,561)
Other payables and accruals		(7,883)
Total identifiable net assets at fair value		33,275
Termination of investment in an associate at fair value		16,613
Satisfied by cash		16,662
Total purchase consideration		33,275

32. BUSINESS COMBINATION (Continued)

(b) (Continued)

The fair values of the trade receivables and other receivables on the acquisition date amounted to approximately RMB5,912,000 and RMB216,000, respectively. The gross contractual amounts of trade receivables and other receivables were approximately RMB6,020,000 and RMB223,000, respectively, of which trade receivables of RMB108,000 and other receivables of RMB7,000 are expected to be uncollectible.

An analysis of the cash flows in respect of the acquisition of Henan Universe is as follows:

	RMB'000
Cash consideration paid	16,170
Cash and bank balances acquired	(6,384)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	9,786

Since the acquisition, Henan Universe contributed RMB3,694,000 to the Group's revenue and RMB1,068,000 to the profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB873,784,000 and RMB313,264,000, respectively.

(c) On 25 December 2016 and 29 December 2016, the Group acquired 60.002% and 37.998% equity interest in Zhuhai Eyegood from the two third parties, respectively. The acquisition was made as part of the Group's strategy to expand its market share of ophthalmology products in the mainland China. The total purchase considerations for the acquisition were in the form of cash, with RMB22,000,000 and approximately RMB26,599,000 paid to the sellers on the acquisition dates respectively, and the remaining RMB20,000,000 would be paid in 2017.

32. BUSINESS COMBINATION (Continued)

(c) (Continued)

The fair values of the identifiable assets and liabilities of Zhuhai Eyegood on the acquisition date are as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	6,215
Other intangible assets	15	19,991
Deferred tax assets	27	2,350
Cash and bank balances		27,165
Trade receivables		7,181
Inventories		4,406
Prepayments, deposits and other receivables		50
Trade payables		(9,049)
Deferred tax liabilities	27	(4,583)
Other payables and accruals		(4,985)
Total identifiable net assets at fair value		48,741
Non-controlling interests		(975)
		47,766
Goodwill on acquisition	16	20,833
Total purchase consideration		68,599

The fair values of the trade receivables on the acquisition date amounted to approximately RMB7,181,000. The gross contractual amount of trade receivables was approximately RMB16,977,000, of which trade receivables of RMB9,796,000 are expected to be uncollectible.

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of Zhuhai Eyegood is as follows:

	RMB'000
Cash consideration paid	48,599
Cash and bank balances acquired	(27,165)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	21,434

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB878,417,000 and RMB311,961,000, respectively.

32. BUSINESS COMBINATION (Continued)

(d) On 3 November 2016, the Group acquired the Aaren Business. The acquisition was made as part of the Group's strategy to expand its market share of ophthalmology products in the mainland China. The purchase consideration for the acquisition was in the form of cash, with USD10,000,000 paid on the acquisition date and the remaining USD3,000,000 deposited to an escrow account set up in JPMorgan Chase Bank, N.A. on the same date, which would be paid to the seller subsequently.

The fair values of the identifiable assets and liabilities on the acquisition date are as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	14,757
Other intangible assets	15	74,626
Inventories		6,429
Deferred tax liabilities	27	(25,373)
Total identifiable net assets at fair value		70,439
Goodwill on acquisition	16	18,731
Total purchase consideration		89,170

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'000
Cash consideration paid and net outflow of cash and cash equivalents included in cash flows used in investing activities	89,170

Since the acquisition, the business acquired contributed RMB1,769,000 to the Group's revenue and a loss of RMB4,571,000 to the profit for the year ended 31 December 2016.

33. 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.

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	3,711	3,453
In the second to fifth years, inclusive	899	4,177
	4,610	7,630

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	2016	2015
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	49,262	33,472

35. RELATED PARTY TRANSACTIONS

(a) Other transactions with related parties:

During the year, the Company rented Rooms 501 and 502, Building 2, No. 139 Anshun Road with a total building area of 329.77 square metres at a monthly rental fee of RMB25,000, (2015: RMB25,000) and Rooms 503 and 504, Building 2, No. 139 Anshun Road with the same total building area at a monthly rental fee of RMB25,000 (2015: RMB25,000) with a lease period from 1 January 2015 to 31 December 2017, respectively, from Ms. You Jie and Shanghai Haohai Chemical Company Limited.

(b) Compensation of key management personnel of the Group:

	2016 RMB'000	2015 RMB'000
Short term employee benefits	6,807	5,602
Pension scheme contributions	365	312
Total compensation paid to key management personnel	7,172	5,914

Further details of Directors' and the chief executive's emoluments are included in note 8 to the financial statements.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2016

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	64,226	64,226
Trade receivables	235,153	—	235,153
Financial assets included in prepayments, deposits and other receivables	92,594	—	92,594
Cash and bank balances	2,010,255	—	2,010,255
	2,338,002	64,226	2,402,228

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	19,686
Financial liabilities included in other payables and accruals	386,663
Interest-bearing bank borrowings	26,666
	433,015

36. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2015

Financial assets

	Loans and receivables RMB'000
Trade receivables	91,287
Financial assets included in prepayments, deposits and other receivables	5,599
Cash and bank balances	2,177,787
	2,274,673

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	4,794
Financial liabilities included in other payables and accruals	40,860
	45,654

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

	Carrying amounts		Fair values	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Available-for-sale investments	**64,226**	—	**64,226**	—

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments:				
Equity investments	64,226	—	—	64,226

The Group did not have any financial liabilities measured at fair value as at 31 December 2016 and 2015, respectively.

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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

As at 31 December 2016, no trade receivable derived from a single customer exceeded 5% of the Group's total trade receivables except for Beijing Tongren Hospital, CMU (首都醫科大學附屬北京同仁醫院), which is a governmental hospital with good reputation. The trade receivables derived from Beijing Tongren Hospital, CMU were 10.8% of the Group's total trade receivables as at 31 December 2016 (2015: 5.9% of the Group's total trade receivable derived from China National Medicines Corporation Ltd.). The directors of the Company are of the opinion that the Group was not exposed to any significant concentration of credit risk during the reporting period.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2016

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade payables	11,729	7,957	—	—	19,686
Financial liabilities included in other payables and accruals	190,971	20,017	100,075	75,600	386,663
Interest-bearing bank borrowings	—	3,869	23,395	—	27,264
	202,700	31,843	123,470	75,600	433,613

31 December 2015

	On demand RMB'000	Less than 3 months RMB'000	Over 3 months RMB'000	Total RMB'000
Trade payables	4,794	—	—	4,794
Financial liabilities included in other payables and accruals	40,860	—	—	40,860
	45,654	—	—	45,654

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a debt to assets ratio, which is debt divided by the total assets. Debt includes total current liabilities and total non-current liabilities.

During the year, the Group's strategy was to maintain the debt to assets ratio at a healthy level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable debt to assets ratio to support its business. The debt to assets ratios at the end of the reporting periods are as follows:

	2016 RMB'000	2015 RMB'000
Total current liabilities	536,155	140,993
Total non-current liabilities	171,397	15,483
Debt	707,552	156,476
Total assets	3,693,412	2,821,910
Debt to assets ratio	19.2%	5.5%

39. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Group after 31 December 2016.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	141,496	132,921
Prepaid land lease payments	13,834	14,185
Other intangible assets	484	632
Investments in subsidiaries	987,284	358,249
Deferred tax assets	2,194	1,674
Other non-current assets	30,000	—
Total non-current assets	1,175,292	507,661
CURRENT ASSETS		
Due from subsidiaries	247,296	29,098
Inventories	28,506	32,176
Trade receivables	71,485	37,759
Prepayments, deposits and other receivables	22,099	46,649
Cash and bank balances	1,921,245	2,127,250
Total current assets	2,290,631	2,272,932
CURRENT LIABILITIES		
Due to subsidiaries	608,660	75,620
Trade payables	6,121	3,425
Other payables and accruals	253,330	288,517
Tax payable	7,166	10,145
Total current liabilities	875,277	377,707
NET CURRENT ASSETS	1,415,354	1,895,225
TOTAL ASSETS LESS CURRENT LIABILITIES	2,590,646	2,402,886

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES		
Other payables and accruals	75,600	3,605
Deferred income	2,771	3,605
Total non-current liabilities	78,371	3,605
NET ASSETS	2,512,275	2,399,281
EQUITY		
Share capital	160,045	160,045
Reserves (note)	2,352,230	2,239,236
TOTAL EQUITY	2,512,275	2,399,281

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2015	5,217	40,197	241,770	287,184
Total comprehensive income for the year	—	—	197,820	197,820
Issue of shares	1,754,232	—	—	1,754,232
Transfer from retained profits	—	19,782	(19,782)	—
At 31 December 2015	1,759,449	59,979	419,808	2,239,236
Total comprehensive income for the year	—	—	177,012	177,012
Dividends declared	—	—	(64,018)	(64,018)
Transfer from retained profits	—	17,701	(17,701)	—
As at 31 December 2016	1,759,449	77,680	515,101	2,352,230

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 30 March 2017.

DEFINITIONS

In this annual 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
"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)
"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 Jianhua"	Shanghai Jianhua Fine Biological Products Company Limited (上海建華精細生物製品有限公司), a company established in the PRC on October 20, 1993 and converted into a limited liability company on August 14, 1995, which is a direct wholly-owned subsidiary of our Company
"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 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

"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
"Haohai Development"	Shanghai Haohai Medical Technology Development Co., Ltd. (上海昊海醫藥科技發展有限公司), a limited liability company established in the PRC on 19 February 2016, 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 November 2016, Haohai Holdings, a wholly-owned subsidiary of the Company, holds 100% of its equity interest
"Zhuhai Eyegood"	Eyegood Medical (Zhuhai) Co. Ltd. (珠海艾格醫療科技開發有限公司), a company established in the PRC on 24 November 2000. Since December 2016, Haohai Development, a wholly-owned subsidiary of the Company, holds 98% of its equity interest
"Shenzhen NIMO"	Shenzhen New Industries Material of Ophthalmology Co., Ltd. (深圳市新產業眼科新技術有限公司), a company established in the PRC on 27 April 2006. Since November 2016, the Company, holds 60% of its equity interest
"Aaren Laboratories"	Aaren Laboratories, LLC, established in USA on 23 May 2016, which is a direct wholly-owned subsidiary of Haohai Development
"Aaren Business"	The hydrophilic and PMMA intraocular lens business purchased by Haohai Development from Aaren Scientific Inc.
"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
"RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the 12-month period from 1 January 2016 to 31 December 2016
"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 annual report in connection with us and our business. The terms and their meaning 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
"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 *in vivo* and *in vitro*
"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
"intraocular lens" or "IOL"	an artificial lens inplanted in the eyes used to replace natural Lens and to treat cataracts or myopia
"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 amber, 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
"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